

GATT/1611
27 January 1994

**TRADE POLICY REVIEW OF TURKEY
20-21 JANUARY 1994**

GATT Council's Evaluation

The GATT Council conducted its first review of Turkey under the trade policy review mechanism (TPRM) on 20/21 January 1994. The text of the Chairman's concluding remarks is attached as a summary of the salient points which emerged during the two-day discussion of the Council.

The TPRM enables the Council to conduct a collective review of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

The review is based on two reports which are prepared respectively by the GATT Secretariat and the government under review and which cover all aspects of the country's trade policies, including its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment.

A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published later as the complete trade policy review of Turkey and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada (1990 and 1992), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991 and 1993), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), India (1993), Indonesia (1991), Japan (1990 and 1992), Kenya (1993), Korea, Rep. of (1992), Malaysia (1993), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), the Philippines (1993), Poland (1993), Romania (1992), Singapore (1992), South Africa (1993), Sweden (1990), Switzerland (1991), Thailand (1991), Turkey (1994), the United States (1989 and 1992), and Uruguay (1992).

REVIEW OF TURKEY 20-21 JANUARY 1994

Concluding Remarks by the Chairman of the Council

These closing remarks, made, as is customary, on my own responsibility, aim to give my assessment of the discussion that has taken place at this Trade Policy Review of Turkey and of Council members' views on Turkey's trade policies and practices. The full debate, including the statements made by the representative of Turkey and by the discussants, will be reflected in the Minutes.

Council members welcomed the substantial trade liberalization measures taken by Turkey in recent years and the economic progress that had resulted. At the same time, they raised questions concerning aspects of Turkey's macroeconomic balance and policies pursued to rectify it; trade liberalization, particularly with respect to the customs union with the European Union; and Turkey's broader participation in the international trading system.

The following main themes were raised during the review:-

Macroeconomic and structural aspects

Several members remarked that trade liberalization and the removal of investment and exchange controls since the early 1980s had contributed to rapid growth in the Turkish economy, with strong increases in imports and exports. Concern was expressed about the effects of the persistent public sector deficit, high inflation and the significant internal debt. The new initiatives, including tax reforms and privatization, taken in 1993 towards reducing the public deficit were commended.

In reply, the representative of Turkey noted that economic growth in the last two years had been substantial. In addressing the macroeconomic problems confronting the Turkish economy, the public deficit, a main cause of inflation, would be reduced through tax reform and privatization, revenue-raising measures which would offset the loss of revenue from lower levies and duties. He stated that incentives, such as duty exemptions, were intended to encourage social and economic development. The existing trade-related incentives would be phased out in line with Turkey's commitments to integration with the European Union.

General trade policy orientation

Members recognized that the achievement of a customs union with the European Union by 1995 was the key objective of Turkey's trade policies. Turkey's experience had illustrated the positive interaction between liberalization at the regional and multilateral level. The fulfilment of obligations undertaken by Turkey in the context of establishing the customs union had been an important spur to the global liberalization of its trade régime. Adoption of the common external tariff of the EU by Turkey would also contribute to stabilizing and simplifying Turkey's tariff system.

Some participants expressed concern about the adverse effects on third countries of the differential treatment granted by Turkey in favour of the EU and EFTA countries. The share of preferential trade represented some 50 per cent of Turkey's total imports; this global trend, also evident in other countries, should not be at the expense of m.f.n. trade. Trade liberalization had encouraged diversification towards

MORE

non-preferential trade partners; it was hoped that this trend would continue further. Participants noted that Turkey had also developed cooperation arrangements with countries in the Black Sea region and with the Turkic Republics.

In reply, the representative of Turkey noted that the increase in preferential trade was a global phenomenon. Turkey's preferential arrangements were fully consistent with Article XXIV, and were not exceptional in a world where half of trade was subject to preferential régimes.

Turkey's offer in the Uruguay Round represented an average 24 per cent reduction in tariffs on agricultural products and 29 per cent on bound rates for industrial products. Supplementary offers on tropical industrial products and textiles had been made. Like other contracting parties, Turkey had begun to examine the implications of the texts annexed to the Agreement on the WTO and would undertake the necessary adjustments in the national legislation for their implementation.

Measures affecting imports

Council members welcomed the significant reduction in the use of import licensing in the last decade, and the reduction of Turkey's tariffs in line with moves towards customs union with the EU. However, they noted that tariffs, combined with the Mass Housing Fund (MHF) charge, provided significant levels of protection against imports, and detracted from the transparency and predictability of the import regime. The recent announcement of a substantial reduction in the coverage and rates of the MHF charge was welcomed. Several members asked whether the MHF would be abolished in line with customs union with the EU, and noted that alternative revenue-raising measures would be required to replace the charge.

Several participants remarked that Turkey's level of bindings, including its Uruguay Round offer, was relatively low. Members asked whether the establishment of the customs union would result in full bindings. Frequent modifications in trade policy and selective use of duty exemptions under specified conditions created uncertainty for traders. Anti-dumping investigations had multiplied since Turkey's new legislation came into effect; in certain cases, such duties added substantially to the import charges. In this connection, some participants requested further information on Turkey's regulations in this field.

Members sought clarification on the administrative procedures for entry of imports. Questions were raised concerning continued state control in certain sectors, and some participants asked that the state import monopoly on alcohol be notified to GATT. Details were requested of the changes in laws and regulations which had enabled Turkey fully to adopt the provisions of the Customs Valuation Code. Some participants noted that domestic preferences were available for public procurement contracts and encouraged Turkey to join the Code, to which it was an observer. Questions were raised about Turkey's use of technical barriers to trade.

In reply, the representative of Turkey noted that the difference between m.f.n. and preferential rates had in fact widened in 1993, as tariffs on some products had to be raised to the level of the Common Customs Tariff of the EU. The adoption of the CCT to imports from third countries would provide increased, predictable market access opportunities. The introduction of the Mass Housing Fund charge had assisted Turkey to eliminate non-tariff barriers and move away from import-substitution. The 1994 import régime had eliminated the MHF charge on more than 2,600 commodities and reduced rates on others, reducing the protection provided by the levy by nearly one-third; phasing out would continue until final elimination by 1998 as mentioned in Turkey's Free Trade Agreement with EFTA,

MORE

if not before. The loss of revenue from the levy was expected to be compensated through the tax reform, including consumption taxes, yet to be introduced, which would be applied to domestic and imported goods alike.

No import licensing requirements were now in force, and the import certificate system was not an administrative obstacle. Certificates were issued within two days and remained valid for three years. Permission was required for sanitary, phytosanitary and security reasons in conformity with the GATT.

With respect to anti-dumping legislation, no specific definition of "national interest" existed but the interest of domestic industries was of prime importance. To date, no provisional measures had been applied immediately after the initiation of investigations. The legislation required a prior preliminary determination of dumping and injury, but stipulated no minimum period between the initiation of the investigation and the imposition of such a measure. While no sunset clause was included, a review procedure could be initiated one year after the conclusion of an investigation, at the request of one of the parties concerned or on the initiative of the Administration; four cases had occurred so far. Turkey would adhere to the Anti-Dumping Code in ratifying the Final Act. Modifications to the Customs Law were before Parliament and it was expected that Turkey would be able to adopt the Customs Valuation Code, after its five-year reservation period, in February 1994. The implications of new Agreement on Government Procurement were under examination in Turkey.

Measures affecting exports

Participants noted the significant progress made in reducing export subsidies, since Turkey had signed the Tokyo Round Subsidies Code. However, export incentives, possibly inconsistent with the GATT, still existed and a timetable for the phaseout was requested. It appeared that export incentives often included a sectoral bias.

In reply, the representative of Turkey confirmed that since joining the Subsidies Code, Turkey had phased out a number of subsidy programmes. Presently, export credits and energy incentives were the only remaining export incentives. In the context of export credits, Turkey had applied to join the OECD Arrangement Regarding Officially Supported Export Credits. All export taxes would be phased out by the end of 1995.

Sectoral aspects

A number of participants made reference to potentially trade-distortive policies affecting specific sectors. These included subsidies and import taxes affecting coal, and high tariffs and low levels of bindings on textiles and clothing.

In respect of agriculture, questions were asked about plans to increase output and yields; the economic and environmental costs of fertilizer subsidies; the relationship between apparent increases in support to farm production and Uruguay Round commitments; import levies, particularly on meat and dairy products; exemptions from import charges on wheat for the Turkish Grain Board; export taxes on agricultural products; and Turkey's aim to achieve a "satisfactory increase" in agricultural imports from the EU. Information was also sought on Turkey's plans in relation to adoption of the Common Agricultural Policy of the EU.

MORE

In reply, the representative of Turkey said that research, training and other services were designed to improve livestock yields. Farm support had fallen in real terms between 1991 and 1992 and there was no export subsidy programme for wheat. A forthcoming report by the OECD estimated PSE and CSE levels at well below the OECD average. Support payments for wheat met the "de minimis" provision and therefore were exempt from Uruguay Round commitments. Fertilizer subsidy, which was not commodity-specific, had been exempted from reduction obligations for special and differential treatment. Agricultural support policy was moving towards greater market-orientation; new programmes had been established for cotton, tobacco and tea and would be extended to other major crops. The Grain Board was exempt from the MHF levy due to its strategic stockpiling role. While Turkey's objective was to adopt CAP provisions, a definitive date had not yet been established.

The state-owned hard coal company generated substantial operating losses due to excess employment; in this case, budget transfers were regarded as a form of social welfare. The MHF levy on coal imports had been abolished in the 1994 import regime; a 2.5 per cent charge for the Mining Fund remained. Imports of high quality coal were encouraged.

Other questions

Some members noted that improved protection of intellectual property rights would assist economic development, investment and trade in Turkey and urged that Turkey's patent and copyright legislation be aligned with the requirements in the Uruguay Round Agreement on TRIPS. While welcoming the marked opening of Turkey's foreign investment régime, a participant expressed concern about criteria for investment screening and the use of trade-related investment measures and hoped that liberalization would continue. Turkey was also encouraged to take further steps to liberalize trade in services.

In reply, the representative of Turkey stated that a draft patent law was presently before the Parliament and should shortly be approved. With the ratification of the Final Act, the Agreement on TRIPS would be fully incorporated in national legislation. Regarding foreign investment, there was no discrimination between domestic and foreign investments as far as incentives and criteria for eligibility were concerned. Turkey had presented substantial initial commitments on services in the Uruguay Round.

Finally, it is my strong impression that the Council has welcomed the recent steps taken by Turkey to liberalize and inject more transparency into its trade régime. The Council has also recognized the revenue implications of the Mass Housing Fund charge in Turkey's overall fiscal balance; however, it has urged Turkey to eliminate this import charge as soon as possible in favour of more neutral revenue measures. Turkey's regional trading initiatives will assist in creating greater stability and predictability for traders; this would, however, be further enhanced by a higher level of tariff bindings. Turkey is therefore strongly encouraged to continue with determination on the path of multilateral liberalization. This will enable Turkey both to benefit from, and to make a strong contribution to, the evolution of the international trading system.

END