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ON TARIFFS AND TRADE**

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TRADE POLICY REVIEW MECHANISM

REPUBLIC OF TURKEY

MINUTES OF MEETING

Chairman: Mr. A. Szepesi (Hungary)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Trade Policy Review of Turkey was held on 20 and 21 January 1994. The Chairman introduced the review, welcomed members of the Council, the Turkish delegation headed by Ambassador Gundüz Aktan, and the discussants, Mr. Finn Theilgaard of Denmark and Mr. Abdelkader Lecheheb of Morocco.

2. The Chairman recalled that the purpose of the Trade Policy Review Mechanism was "to contribute to improved adherence by all contracting parties to GATT rules, disciplines and commitments, and hence to the smoother functioning of the multilateral trading system, by achieving greater transparency in, and understanding of, the trade policies and practices of contracting parties" (BISD 36S/403).

3. According to the Decision taken on 12 April 1989, the Council was to base its work on two reports. The report by the Government of Turkey for this review was contained in document C/RM/G/42 and the report by the Secretariat, drawn up on its own responsibility, in document C/RM/S/42. Outlines of the main issues the discussants intended to address were contained in document C/RM/W/12. Copies of written questions submitted by the delegations of Australia, Canada and Hong Kong were available.

4. The Chairman then offered the floor to the representative of Turkey.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF TURKEY

5. The representative of Turkey said it was his great pleasure to introduce the examination of the trade policy of Turkey as part of the Trade Policy Review Mechanism to which his delegation attached considerable importance. He considered that this exercise played a very important rôle in lending transparency to the trade policies of contracting parties and enhanced the capacity of the GATT to evaluate the policies and practices of individual countries. He, therefore, took particular satisfaction in the fact that the review of Turkey's trade policies was the first since the Mechanism had become a permanent feature of the GATT's activities with the adoption of the Final Act in December 1993.

6. The representative of Turkey thanked the Secretariat for the comprehensive report which it had produced. The report was on the whole quite accurate in its description of Turkey's policies and practices and reflected the high quality of the work carried out by the Secretariat. He added that he would be transmitting to the Secretariat a number of purely factual corrections which he hoped could be drawn to the attention of contracting parties in an appropriate manner. He also thanked Mr. Abdelkader Lecheheb and Mr. Finn Theilgaard for agreeing to act as discussants in this exercise.

7. He took the opportunity to update some facts and figures contained in the two reports. Since their publication, there had been a number of important developments which could help Council members in evaluating the present situation of the Turkish economy and assessing trade policy trends. The main economic developments in 1993 could be summarized as follows: strong real growth; a sharp widening in the trade deficit; an increase in the public deficit; a relatively high but stable inflation rate; an improvement in the balance sheet of the Central Bank and a deceleration of monetary expansion.

8. The real rate of economic growth was expected to exceed 7 per cent in 1993. In contrast to almost zero growth in agricultural production, industrial production was estimated to have risen by more than 8 per cent in real terms. The driving force behind this impressive performance had been the growth in private consumption and private fixed investment which were estimated to have increased by 14 and 12 per cent, respectively, due to favourable conditions for imports and expansion in the consumer credit schemes run by the banking sector. The growing influence of the private sector in boosting economic growth was a healthy development.

9. On the price front, inflation remained at a high but stable level and continued to be one of the economy's major problems since it had hovered within a band of 60-70 per cent in recent years. The annual average rise in the wholesale price index had fallen from 62 per cent in 1992 to 58 per cent in 1993; the annual average change in the consumer price index from 70 per cent in 1992 to 66 per cent in 1993.

10. Another major problem of the economy, closely related to the high rate of inflation, was undoubtedly the public sector deficit. This deficit, as measured by the ratio of the Public Sector Borrowing Requirement (PSBR) to GNP, had increased from 14.9 per cent in 1992 to 16.3 per cent in 1993. In 1993, however, an improvement had been observed in the non-interest balance and the primary deficit had fallen from 9.8 per cent in 1992 to 7.5 per cent in 1993. In 1994 the PSBR/GNP ratio was projected to decline to 14.1 per cent as a result of growth in tax revenue from the recently adopted tax law, and privatization. He drew attention to the basic components of the new tax law:

- (a) the introduction of a unitary tax system for the taxation of dividend earnings above TL 225 million (equivalent to approximately \$15,000);
- (b) limitation of corporate tax exemption accompanied by a reduction in the tax rate; and

(c) the introduction of a 5 per cent tax on the interest earned by Treasury papers.

11. Privatization constituted the second major component of the expected improvement in the public sector deficit since the losses of the State-owned enterprises accounted for one quarter of the PSBR. The representative wished to stress the firm intention of the Turkish Government to disengage itself rapidly from the production activities for which the private sector was much better equipped. Since the 1980s, Turkey had aimed to create a liberal economic environment through a sustained restructuring process. Within this framework, State-owned enterprises exhibiting financial problems due to over-employment and low productivity were to be privatized. The main objective pursued in minimizing State involvement in the economy was to strengthen market forces and limit the rôle of the State to areas such as public health, education, social security, defence and large-scale infrastructural investments.

12. Turkey was negotiating terms with the World Bank for a "Privatization Implementation Assistance Project" aimed at strengthening the legal framework for privatization as well as the institutional capacity of implementing agencies, the creation of a social safety net and related labour adjustment programmes for employees of privatized enterprises.

13. The Turkish representative then turned to developments concerning the external economy. The trade deficit had widened sharply rising from \$6.4 billion in the first ten months of 1992 to \$11.6 billion in the same period in 1993. While exports had stagnated, mainly due to the recession in the OECD countries which absorbed more than 60 per cent of Turkey's exports, imports had increased by 30 per cent. Imports of investment goods had increased by 40 per cent in 1993 indicating the growth and investment related nature of the recent surge in imports.

14. He enumerated the main reasons for this import surge: a high growth rate; a high rate of capacity utilization in manufacturing industry; reduction in customs duties and taxes; improved terms of trade; favourable terms for import credits; the real appreciation of the Turkish lira in the second half of 1992 and the first half of 1993; and the need felt by domestic industry for investments in preparation for the forthcoming customs union with the European Union.

15. No substantial increase in the trade deficit was expected in 1994. The favourable business climate fostered by the conclusion of the Uruguay Round and the recovery which was likely to occur in the OECD countries would contribute to increasing Turkey's exports. At the same time, a reduction in the rate of import growth was expected because of the projected decline in the rate of economic growth and the completion of the current stock building. Other factors included the effect on imports and exports of currency depreciation.

16. Before turning to trade policy changes, the representative of Turkey drew attention to positive developments in the monetary sector. The composition of the Central Bank's credits had changed sharply in favour of the private sector at the expense of the public sector, and the upward trend in monetary expansion had flattened.

17. Compared to régimes in previous years, the 1993 Import Régime had introduced important changes towards further liberalization and greater transparency. Turkey's objectives of completion of the customs union with the European Union and the free-trade area with the EFTA States had been the main motivation behind the changes introduced in that régime.

18. Further important steps in that direction had been taken with the recent adoption of the 1994 Import Régime. In conformity with Turkey's commitments to the European Union, customs duties on industrial imports from the Union and from EFTA countries had been reduced by a further

10 per cent; duties applicable to similar goods originating in third countries were also lowered for the purpose of harmonization with the Common Customs Tariff of the Union. Mass Housing Fund levies had been abolished on imports of 2,600 products and reduced considerably for many others. As a result, the 1994 trade-weighted protection rate had been reduced from 18.3 per cent to 12.8 per cent for goods originating in EU and EFTA countries, and from 22.2 per cent to 17.2 per cent for imports from third countries.

19. Similar liberalization measures could be expected in the foreseeable future in order to bring Turkey closer to the final goal of full adoption of the Union's Common Customs Tariff. The customs union, to be achieved in 1995, would be of considerable value not just for the European Union and EFTA States, which would enjoy unhampered access to the Turkish market, but also for third countries whose exports would enter Turkey at much lower rates of duty than presently applied. These courageous steps were being taken at a time when the trade deficit was growing largely because of buoyancy in the Turkish economy and sluggish growth in the economies of its principal trading partners. However, the difficulties Turkey faced would not deter it from pursuing integration with the European Union, its largest single trading partner, nor from adopting a liberal trading system as the logical outcome of the policies followed in the past decade. Turkey was confident that the successful conclusion of the Uruguay Round would help this process since it would provide new access opportunities for Turkish exports, a predictable and stable trading environment and generally act as a spur for all countries which, like Turkey, had embarked on the difficult but ultimately rewarding path of reform and integration with the world economy.

III. STATEMENT BY THE FIRST DISCUSSANT

20. The first discussant (Mr. A. Lecheheb) noted that the Council Review was taking place at an optimal moment between the end of the Sixth Five-year Plan (1990-1994) and the beginning of the Seventh Plan (1995 to 1999), enabling Turkey to take qualitative steps forward in terms of competitiveness, productivity and job creation.

21. On the macroeconomic front, Turkey had adopted stabilization and reform measures in 1980, in the face of a serious economic crisis. These measures had reduced the rôle of the public sector in economic activities, compressed internal demand and promoted exports, replacing the earlier import substitution strategy. These vast reforms had produced significant results: exports had been stimulated via preferential credits enabling Turkey to reduce its external deficit; and inflation, having peaked at 100 per cent in 1980, had been reduced to 35 per cent in 1985. The rate of economic growth had been among the highest of the OECD countries although, since 1990, growth had slowed. Other indicators of internal economic performance portrayed a less rosy picture: the public-sector borrowing requirement had swollen to 13 per cent (according to the Crédit Lyonnais) mainly because of salary increases in excess of projections (66 per cent compared to a projected 35 per cent), agricultural subsidies and major losses by the public enterprises.

22. Other negative elements of Turkey's policy included an increase in the level of domestic debt from 20 to 22 per cent of GDP and an inflation rate of 62.6 per cent, which discouraged investments and decreased purchasing power. Efforts at privatization, which raised revenue of US\$2 billion between 1986 and 1991, were commendable; however, he thought the authorities might clarify the contrast between the Government's expressed wish to proceed with privatization and public statements urging prudence. Before turning to specific elements of trade policy, he observed that switching from an import-substitution to an export-promotion policy required scale economies; adjustment policy should be continued to consolidate already impressive results; and imagination and innovation would be needed in future to reconcile objectives such as controlling inflation, increasing salaries and creating jobs.

23. It was clear from the two reports that Turkish trade policy was dictated largely by its commitment to attaining a customs union with the European Union. Turkey had taken an important step in this direction by reducing duties by 10 to 20 per cent on some 6,000 imported goods, an appreciable effort as tariffs were the principal obstacle to imports. As the Secretariat had noted, the customs union and the adoption of the Common Customs Tariff would simplify and stabilize the tariff. He asked if the Turkish authorities could confirm that bindings would reach 100 per cent once customs union had been achieved. While tariff levels were quite reasonable, border protection was increased by the Mass Housing Fund import charge. If this tax was applied for budgetary reasons, he said, the Council would be interested in knowing precisely when it would be abolished: within five years (para. 71 of the Secretariat report) or at an earlier date as stated in BOP/314/Add.2 of 18 January 1994, and whether on an m.f.n. basis? Although import restrictions had been abolished in 1990, he hoped the authorities could clarify this issue; while paragraph 146 of the Secretariat report stated that no import authorizations were required, paragraph 263 of the report, as well as paragraphs 17 and 78 of the Government report, noted that imports of sensitive agricultural goods required authorization.

24. Due to time constraints, the discussant wished to end his intervention at this point. However, he hoped that Council members would bring up questions on such subjects as competition law, export incentives, anti-dumping, public procurement, preferential trade and measures to implement Uruguay Round results. In conclusion, he congratulated the Turkish authorities on both the quality of their report and the efforts they continued to make towards a market economy and free trade, a challenge which Turkey had all the potential to meet.

IV. STATEMENT BY THE SECOND DISCUSSANT

25. The second discussant (Mr. F. Theilgaard) noted that key indicators in Turkey had improved dramatically since the 1980 policy reforms. These changes had been marked by a switch from import substitution and self-sufficiency to outward orientation, a liberal foreign trade régime and reduced State intervention.

26. He then addressed three problems in the trade régime. First, although tariffs had been reduced considerably since 1983, the Mass Housing Fund levy multiplied import charges and detracted from transparency and predictability. He asked when precisely the levy would be eliminated and how the Government would make up for the loss of income in a trade-neutral way. Secondly, he recalled that public intervention continues to affect tradeables through duty and tax exemptions on specific imports and export incentives for certain sectors and wondered to what extent the Government intended to guide economic decision makers. Thirdly, he asked if the representative of Turkey wished to comment on the large preferential share in Turkey's trade, which, while reflecting global trends, could potentially erode the benefits of m.f.n. treatment. Other notable aspects of Turkish trade policy were the low level of tariff bindings, the State import monopoly for alcohol and the use of VERs, motivated by trading partners, import restrictions, in areas where Turkey enjoyed a comparative advantage.

V. STATEMENTS BY MEMBERS OF THE COUNCIL

27. The representative of Canada said that trade had played a key rôle in the income and productivity gains registered by Turkey in the last decade. Exports had grown at a rate of 25 per cent, their share in total GDP rising from 5 to 25 per cent in just ten years. Import licensing had been almost entirely eliminated and tariffs steadily reduced since 1983. He also acknowledged that other policies of economic liberalization had been important to growth, in particular the lifting of foreign exchange controls and the liberalization of the foreign investment régime, which now compared favourably with that of other countries. At the same time, he agreed with the Secretariat analysis that both monetary and fiscal policy had been too expansionary in recent years eroding some of the gains in productivity.

28. Concerning trade policy, he noted that the number and scope of other charges on imports had grown. Of most concern was the Mass Housing Fund levy, whose stated objective was to provide revenue to finance low-cost housing for poor and middle class families. While no one could argue with such an objective, using trade policy instruments to achieve fiscal policy goals was contradictory to GATT rules. Article VIII:1 of the GATT clearly set out that "All fees and charges of whatever character... shall not represent...a taxation of imports or exports for fiscal purposes". In certain instances, the Mass Housing Fund also favoured government enterprises over private firms, as in the case of the exemption from the levy by the Turkish Grain Board. His delegation urged the Turkish authorities to abandon the levy as soon as possible and provide a timetable for its phase-out. He further suggested that the present tariff rate structure, containing 18,000 tariff lines, could be simplified.

29. With respect to regional trade arrangements, rates applied to imports from sources other than European Union or EFTA countries were still relatively high. He expressed concern about the possibility of trade diversion remarking that the agreements did not cover substantially all trade. In addition, he requested further information on trade-related activity with the Turkic republics of the former Soviet Union and within the Black Sea Economic Cooperation framework. Lastly, he queried the status of draft laws on the protection of intellectual property and patents, key to attracting foreign investment in high-technology sectors, as well as the status of privatization plans. Such laws and plans would contribute both to increasing foreign investor confidence and, in the longer term, reducing the public sector borrowing requirement.

30. The representative of Korea said that Turkey had clearly been continuing to pursue liberalization; it was equally clear that significant work remained to be completed. Import taxes, a lack of competition and the slow pace of privatization appeared to be hurting Turkey's economic efficiency. However, the progress Turkey had made in reducing tariffs, eliminating non-tariff barriers to trade and reforming exchange and investment régimes should not be underestimated. As the gateway between Europe and Asia, Turkey was well positioned to enjoy strong economic growth, provided trade liberalization continued. Addressing some specific cases of discriminatory treatment for non-EU and non-EFTA imports, he pointed out that the m.f.n. duty for cathode ray tube imports was 15 per cent, but they were duty free when imported from EU and EFTA; for automobiles, the duty had been raised to 10 per cent on m.f.n imports, while remaining at 5 per cent for EU and EFTA vehicles. Such differential treatment, while arguably allowed in the GATT, was of serious concern. In conclusion, he hoped that economic relations between Korea and Turkey would flourish and that the economic environment in Turkey would continue to improve.

31. The representative of the European Communities noted that the Association Agreement of 1963 had long since been reviewed by the GATT and that the Trade Policy Review Mechanism was not the occasion for further consideration of the pending customs union. Changes in the management of the Turkish economy and external trade policy, since 1980, were striking; the liberalization of investment

and exchange controls and the removal of quantitative restrictions were particularly welcome. He paid tribute to the improvements evident in the 1993 Import Régime in terms of simplification and greater transparency; in previous years it had been difficult to assess the actual charges on imports. He informed participants that the Community had repeatedly pressed Turkey to remove the Mass Housing Fund levy, which was also incompatible with the provisions of the 1970 Additional Protocol. He welcomed the steps taken in the 1994 Import Régime to reduce and eliminate the levy on numerous products as well as the recent adoption of tax-raising measures compatible with the GATT. Lastly, the adoption of the Common Customs Tariff in line with customs union would further lower m.f.n. tariffs and constitute a positive development for the rest of the world.

32. The representative of Australia joined others in encouraging Turkey to continue along the path of trade liberalization which, as the Turkish authorities had acknowledged, had had no adverse impact on their economy but had enabled Turkey to increase its exports in spite of barriers to trade in importing countries. She urged Turkey to ensure that export incentives did not disturb resource allocation and that trade policy was not used to offset the effects of domestic inflation and the high cost of financing, problems best dealt with through macro- and microeconomic policies. Her Government would appreciate clarification of the proposed timing for the elimination of remaining export subsidies. The high level of subsidization on wheat and on coal could be damaging to other countries' trade. Like other participants, she sought confirmation from the Turkish delegation on the termination of the levy by 1998.

33. The representative of New Zealand said that positive and significant progress had been made by Turkey to liberalize its foreign trade, investment and exchange régimes. New Zealand's exports to Turkey had grown very quickly in the past four years: 1993 exports of primarily agricultural goods such as raw hides and skins, wool and dairy products were valued at NZ\$84.4 million and there was a growing market for forestry products. He welcomed the liberalization measures undertaken, the transparency provided by the use of the tariff as the main instrument of protection, the acceleration of the process of tariff reduction and eventual simplification and potential binding of Turkish tariffs under the Association Agreement. As noted by others, the gains made from tariff reduction were somewhat offset by the Mass Housing Fund levy which, on agricultural imports, raised the rate of protection by an average of 18 per cent from a relatively low 7 per cent tariff average: the ad valorem level of the levy on imports of meat products was over 100 per cent and on dairy products 67.9 per cent. His Government was pleased that Turkey had pledged to phase out the levy over the next five years and would be studying the details of the initial steps taken. He also welcomed the progress made in eliminating export subsidies and looked forward to a continuation of this process. To conclude, he considered that there was a clear desire on Turkey's part to adhere to the principles of GATT but urged Turkey to give greater attention to those areas where policy interventions were trade-distortive. In an increasingly interdependent economic environment, Turkey should be an integral part of a fully functioning multilateral trading system.

34. The representative of Mexico complimented the Turkish authorities on the stabilization policies adopted fourteen years ago and the progressive liberalization of trade and the financial system. Nevertheless, certain structural problems remained, such as the reduced contribution of the agricultural sector and high industrial concentration; the fragility of the fiscal system; the oligopolistic rôle of the State-owned industries; and lack of international competitiveness. Inflation, which had remained at roughly 60 per cent in the last few years as a result of the public deficit, was the most serious macroeconomic problem faced by the Government of Turkey. In the long term, this could affect economic growth and living standards. He said that he would be interested in hearing the opinion of the Turkish delegation on measures contemplated to reduce inflation and resolve other structural problems. In spite of important liberalization measures, primarily the reduction of duties and the

elimination of import permits, the high level of dispersion and the instability of tariff rates was of some concern. The large number of specific rates applied under the Mass Housing Fund also reduced transparency and obscured the real costs of sectoral protection. In conclusion, Turkey should continue to make efforts, with the help of the international community, towards correcting the disequilibria created by its earlier industrialization policies.

35. The representative of Sweden, speaking for the Nordic countries, reminded the Council that relations between Turkey and the Nordics had been strengthened with the adoption of the free trade agreement between Turkey and the EFTA States in 1992. While tariffs had been reduced, the number of tariff lines made the tariff structure complex; meanwhile, the majority of tariffs remained unbound creating uncertainty for traders. In light of the forthcoming customs union with the EC, it would be valuable to hear to what extent this would simplify and bind tariffs, and when, in fact, the customs union would enter into force. The combination of the Mass Housing Fund levy and tariffs seemed to exceed the level of GATT bindings in several cases; while welcoming the recent reduction in the product coverage of the levy he, too, wished to know when and how the levy would be abolished. Although Turkey had agreed to eliminate all export subsidies by 1989, he noted that subsidies (including direct payments and tax exemptions) amounted to 6 per cent of merchandise exports in 1991. He asked that the Council be informed as to when these would finally be eliminated. In addition, he hoped that the Turkish delegation could confirm that export taxes would be eliminated by 1995. The rationale for the system of mandatory quality control, whereby Turkey applied mandatory testing to products not subject to such testing in other countries, appeared questionable and he welcomed a response from the Turkish delegation on this issue. On government procurement, permission was required to entertain international bids and there was a price preference for domestic suppliers. As Turkey was an observer to the Government Procurement Code, he asked what plans the Government had regarding adherence to the Code. In conclusion, he joined Canada in requesting further information on the new patent law in Turkey.

36. The representative of the United States applauded the impressive results achieved through the adoption of outward-looking economic policies and, in particular, welcomed the move away from quantitative restrictions to the use of more transparent measures as well as the reduction in tariffs. However, he commented that Turkey maintained relatively high average tariffs that, in conjunction with the Mass Housing Fund charge, added significantly to protection of domestic industries. In the past, frequent changes to trade policy had led to uncertainty for traders and he hoped that fewer such changes would occur in future. He noted that while Turkey was a member of several preferential trading arrangements, it had rarely provided information on these and he encouraged Turkey to comply with normal GATT procedures for review of these arrangements.

37. The simplification of import charges introduced in the 1993 Import Régime was a positive step but tariffs remained quite high. The level of tariff bindings was also low and there had been little improvement as a result of the Uruguay Round. He sought an explanation as to how the "special consumption taxes" under the new tax law would be applied to imports. While supportive of Turkey's commitment to a customs union with the European Union, which would result in lower m.f.n. tariffs, he called on Turkey, prior to 31 March, to bind its tariffs within GATT at levels commensurate with the Common External Tariff of the European Union. He asked if the timetable of 1 January 1995 for the complete elimination of duties on EU/EFTA imports was valid. Although the system of import licensing had been relaxed in 1990, importers were still required to obtain an import certificate and pay a fee in respect of imports under each product category, imposing an administrative and financial burden on importers. Furthermore, he asked if there were there any plans to reduce the number of goods (including telecommunications equipment, agricultural products, chemicals, pharmaceuticals and certain vehicles) subject to special import permission from relevant Ministries or to eliminate the

requirement to set up repair networks for certain imports. On government procurement, he mentioned that it would be helpful if requirements and deadlines for international tenders could be made less ambiguous and thus less prone to potential abuse. With respect to the build-operate-transfer model, he asked when clearer and more streamlined guidelines would be issued and implemented. He wondered if Turkey was considering joining the Code on Government Procurement which would give it access to substantial procurement opportunities.

38. Several export subsidy programmes still existed. In this context, he asked what were the plans for phasing these out and how the recent tax reform, eliminating most exemptions, would affect the tax deduction for exporters. On intellectual property protection, patent and copyright protection appeared inadequate and a prospective cinema-video law might contain GATT-inconsistent elements. On the investment régime, he asked to what extent investment incentives were linked to performance requirements. In services, he encouraged Turkey to go beyond its current commitments and to further liberalize the service sector, to encourage investment and support established industries. Protection for the textiles and clothing sector was increased through surcharges and taxes; in this sector, Turkey had made no significant bindings or reductions. In conclusion, he hoped that Turkey would continue to liberalize its trade and investment régimes.

39. The representative of Singapore said that, while Turkey's trade and investment relations were concentrated with the European Communities, he had noticed a change in direction towards the Asia-Pacific region, including Singapore in the last two years. The new Government, in office since June 1993, had adopted new initiatives: reducing the public deficit in order to lower inflation, undertaking tax reforms and increasing privatization. Focus would be on reforming the educational system, strengthening regional administration and reducing central Government control, eliminating disparities between regions and seeking customs union with the European Union. In his view, the chief problem faced by Turkey was the persistently high rate of inflation, a disincentive to foreign investment, and the level of external debt which had increased to US\$54.2 billion in 1992. He was convinced that the new Government would tackle these problems in their Seventh Plan (1995-1999) whose strategic aims were: increasing Turkey's share in world trade, further integration with the global economy, raising productivity and promoting environmentally sustainable industrialization and development.

40. The representative of Romania stated that relations between Turkey and Romania were excellent and improving thanks to changes in both economies; Turkey was one of Romania's main trading partners. Joining other speakers, he noted the dramatic changes in trade and economic policies and the impressive results achieved. A lot remained to be done, particularly in the area of anti-dumping where investigations had multiplied in the last few years; in the case of imports from Romania, he believed that provisions appropriate to market economies should be used as in the case of the EU. Like other Council members, he mentioned the negative effect of the Mass Housing Fund levy on access to the Turkish market and concluded with the hope that the Turkish delegation could provide information on how these problems would be resolved.

41. The representative of Hong Kong commended Turkey on the absence of import prohibitions and quotas following its trade reforms. While the focus of Turkey's trade relations were on Europe, he hoped that regional co-operation would not adversely affect third countries. Turning to specific policies, he noted that Turkey maintained measures which could be inconsistent with the GATT Subsidies Code and urged the Turkish Government to take the necessary action to ensure conformity of these measures. He informed the Council that specific questions on the anti-dumping legislation had been submitted in writing. He concluded by expressing the hope that the potential for mutual benefit in expanded trade between Hong Kong and Turkey would be realized.

42. The representative of Japan recognized the major trade policy objective of Turkey as the achievement of customs union with the EC by 1995. As such, if bound rates were to rise, he presumed that Article XXVIII action would be required. He asked for an explanation for the rise of m.f.n. tariffs from 6.4 per cent in 1990-1992 to 9.5 per cent in 1993 indicated in the Secretariat's report. Secondly, according to his own sources, formalities to obtain import certificates involved lengthy administrative procedures and customs clearance, and he looked forward to hearing from the Turkish delegation what steps might be taken to improve this situation. Like others, he said he would appreciate a detailed time schedule regarding the abolition of the Mass Housing Fund. His final point concerned the implementation of the Customs Valuation Code and the details of the adjustments that had been made to domestic legislation in order to ensure adherence by 12 February 1994. In conclusion, he recognized that Turkey had been able to benefit from an open and strong multilateral trading system and hoped that it would continue to make further efforts to reinforce trade liberalization.

43. The representative of Hungary welcomed the abolition of multiple import charges with the introduction of the 1993 Import Régime, which had increased transparency and contributed to a better trading environment. She asked the Turkish delegation to provide some details regarding tariff changes in the 1994 Import Régime. She also asked whether any fiscal duties were applied by Turkey and, if so, which products might be affected.

44. The representative of Poland noted the serious economic problems which the authorities would have to tackle including the rising trade deficit, in spite of increased exports, the high rate of inflation and the level of external debt. He noted that Turkey had developing-country status, and had signed the Protocol Relating to Trade Negotiations Amongst Developing Countries. However, since Turkey was interested in joining the European Union, he asked whether Turkey would change its status or whether the EU would accept a member with developing-country status. He further wondered if 1995 was, in fact, the valid date for the creation of a customs union or whether certain changes would first have to be made. He also asked how Turkey viewed its longer-term relations with the European Union. Turning to privatization issues, he noted that, if only 3 per cent of the non-agricultural labour force was employed in State enterprises which at the same time generated 35 per cent of manufacturing value added, this testified to high productivity which would appear inimical to the financial losses of these enterprises; he also asked for information on future privatization plans. He noted that certain State monopolies had been eliminated, leaving only the alcohol monopoly; however, an anomaly seemed to exist in that prices of imported and exported tobacco products continued to be set by the State monopoly. Finally, he referred to a number of Turkish anti-dumping actions concluded with the imposition of definitive duties ranging up to 100 per cent, and asked if Turkey would be joining the Anti-Dumping Code.

VI. REPLIES BY THE REPRESENTATIVE OF TURKEY AND ADDITIONAL COMMENTS

45. The representative of Turkey thanked the delegations which had taken part in the debate for their constructive comments on developments in the Turkish economy and its trade policy. He appreciated the recognition received for his Government's sustained efforts towards integration with the world economy and liberalization of the trade régime.

(1) Macroeconomic and Structural Aspects

46. It appeared that there had been a certain instability in the performance of the economy in the last four years. However, the fact that the economy which had grown by 9.2 per cent in 1990 only recorded a 0.5 per cent growth rate in 1991 was entirely attributable to the effects of the Gulf War. Since then, rates of 5.9 per cent and 7.5 per cent had been reached in 1992 and 1993, respectively. As had been noted by a number of participants, this was quite a remarkable performance, unmatched by any other OECD country. In 1994, a lower but still relatively high rate of 4.5 per cent was expected.

47. He agreed with the comments made with respect to the PSBR and the public sector deficit as well as the high rate of inflation suffered by the economy. The main objectives pursued in the ongoing process of tax reform and privatization was to lower the PSBR/GDP ratio targeted to come down to 14.1 per cent in 1994 from the 1993 figure of 16.3 per cent. One positive outcome of the reform would be to make up for the revenue lost as a result of the gradual abolition of Mass Housing Fund levies and the reduction in customs duties necessary for the alignment of Turkey's customs tariff with that of the European Union.

48. He also wished to refer to some incentives which were interpreted as politically-motivated interventions in the economy. He wondered whether it was really possible to fully depoliticize economic management and whether there was much difference between picking the winner and bailing out the loser. However, he agreed that the tools of direct intervention in the economy should be replaced by indirect ones as far as possible and that incentives were being reviewed to bring them into line with Turkey's commitments.

49. The second discussant expressed some doubt whether the reduction in the public deficit would be sufficient to compensate for the revenue lost from the Mass Housing Fund levy and asked what other measures might be contemplated should the need arise. He pointed out, too, that incentives policy should be reviewed not just to bring it into line with international commitments. Also the desirability of maximizing the use of resources favoured a reduction. The first discussant, noting that there was often no direct correlation between growth and employment (growth had been 7 per cent but unemployment was 16 per cent in Turkey), asked what policies might be adopted to meet social objectives. He added that in order for Turkey to consolidate the gains from liberalization, the external environment should co-operate through financial support, bilateral and multilateral capital flows, direct investment flows and improved market access.

50. In response, the representative of Turkey expressed the view that since all governments intervened it was necessary to guide development in order to encourage, for example, employment and high technology; in any event, incentives would be phased out. As to economic policy goals, the order of priority was to narrow the budget deficit through tax reform and privatization, then reduce inflation which, in turn, would make domestic debt more manageable. Social objectives had in the past been addressed through investment in education and health. He believed that redistribution, regional development, modernization and the high rate of urbanization were further aspects of socio-economic

development in Turkey, but the current forum was perhaps not the appropriate place for a discussion of these issues.

(2) Trade Policy

51. The representative of Turkey confirmed that, with the establishment of the customs union, the complete elimination of duties between Turkey and the European Union would be achieved in 1995.

52. With respect to reporting to GATT members on preferential trade arrangements, he recalled that the GATT Council had adopted the report of the Working Party on the EFTA - Turkey Free Trade Agreement on 17 December 1993. Concerning ECO, the other preferential arrangement to which Turkey was a party, the necessary notification had been made in due time in accordance with the decision by the CONTRACTING PARTIES on 28 November 1979 and had been circulated in GATT document L/7047 on 22 July 1992. Information concerning the Black Sea Economic Cooperation, which was not a preferential trade arrangement, could be found on pages 28-29 of the Government report.

53. Article 17 of Annex 6 of the Additional Protocol to the Ankara Agreement stipulated the following:

"With respect to its commercial imports, Turkey shall grant to the Community preferential treatment such as to ensure a satisfactory increase in imports of agricultural products originating in the Community". Preferential treatment for certain EU agricultural exports in the Turkish market stemmed from this obligation.

54. Growing preferential trade was a global phenomenon. Roughly half of world trade was conducted under some sort of preferential régime; thus, Turkey's trade régime was not unusual. In 1992, 56 per cent of Turkey's exports and 50 per cent of imports occurred within the framework of preferential arrangements. He believed that Turkey's preferential arrangements with EU and EFTA were fully consistent with Article XXIV of GATT, but added that the effects of preferential arrangements on others would only cease to be a problem when all barriers to trade had been eliminated.

55. Within the framework of the Uruguay Round market access negotiations, Turkey had submitted its comprehensive and line-by-line offer on 22 May 1992. Turkey had offered to reduce customs duties on agricultural products by an average 24 per cent with a minimum rate of reduction of 15 per cent for each six-digit tariff line. Furthermore, the Turkish proposal for non-agricultural products represented a 29 per cent average reduction of bound rates on items in Turkey's Schedule XXXVII and included a supplementary offer on some tropical industrial products which did not appear in the original Schedule XXXVII. In addition, Turkey had submitted an improved offer on textiles and clothing on 7 January 1994.

56. The second discussant, referring to the views expressed earlier on the general issue of growing preferential trade noted that, on the one hand, customs union would lead to greater stability and market access for all countries, while on the other there was the potential for discrimination against m.f.n. suppliers. The first discussant noted that m.f.n. duties had, in fact, been cut substantially. He asked (i) if customs union included the adoption of the Common Agricultural Policy, (ii) since, according to the EFTA-Turkey Free Trade Agreement, all tariffs and taxes of equivalent effect would be eliminated by 1995, whether this applied to the Mass Housing Fund, and (iii) if the adoption of the Common External Tariff of the European Union would imply the binding of the entire tariff. In addition, he requested the Turkish delegation to discuss whether any assessment had been made of the impact on trade policy of the Uruguay Round Agreements and, in particular, whether tariffication for agricultural

products represented a problem for sensitive imports. The United States representative reminded the Council that his authorities were disappointed with the low level of bindings and urged Turkey to raise its share of bound duties in line with the general trend amongst contracting parties. The representative of Canada invited the Turkish delegation to elaborate on regional co-operation initiatives, especially with the republics of the former USSR and within the Black Sea Cooperation Zone, recognizing that these would be beneficial to the world at large. The representative of New Zealand asked whether duties on all products from the EU would be eliminated by 1995.

57. In reply, the representative of Turkey agreed that the balance between m.f.n. and preferential trade was crucial. However, geographic location often dictated trade relations. Turkey's neighbours were underdeveloped economies without proper trade régimes and, as yet, with one exception, not GATT members. Turkey engaged in economic co-operation with its Islamic neighbours, the Turkic Republics and Black Sea countries, with whom it had historical and cultural ties. Turkey viewed co-operation with these countries as assisting in the development of their incipient market economies and paving the way for these countries' adherence to GATT, at which time relations could be further developed. On the subject of the adoption of the Common External Tariff, the process of integration was akin to navigating in uncharted waters. The aim of achieving customs union was to harmonize the trade régime and the adoption of the CET of the European Union was a first step. This would provide stable and predictable access, and he hoped GATT members would be patient with regard to bindings. The aim was to harmonize agricultural policies with the Common Agricultural Policy by 1995, although this was not a strict deadline and would be difficult to achieve; nevertheless, some harmonization had begun for cereals and fresh fruits and vegetables. With respect to tariffication, he stated that as Turkey did not apply any non-tariff barriers to agricultural imports, they had not yet calculated tariff equivalents. With respect to the free trade agreement with EFTA, the commitment for elimination of all import taxes was 1998 not 1995; in the context of the customs union, duties on imports from the European Union would be phased out on all industrial products, with the exception of iron and steel and EURATOM products. Studies are undertaken to assess what would be the effects of the Uruguay Round agreements on Turkish foreign trade.

(3) Measures Affecting Imports

58. The representative of Turkey explained that in the 1993 Import Régime, in order to indicate preferential margins given to the EU and EFTA countries within the framework of the Additional Protocol to the Ankara Agreement and the EFTA - Turkey Free Trade Agreement, customs duties in the national tariff were arranged in two columns; the first showed the duties applicable to imports from the EU and EFTA countries and the second showed m.f.n. rates. Duties for some products which had been lower than the level of the Common Customs Tariff before 1993 had been raised, in conformity with Turkey's obligations towards the EU; thus, the average tariff rate for imports from other countries rose to 9.5 per cent in 1993 from the 1992 average of 6.4 per cent. With the realization of customs union, Turkey's tariff would be identical with the Common Customs Tariff of the EU which would increase the market access opportunities for other countries on a stable and predictable basis.

59. The Mass Housing Fund levies would be phased out as a result of the establishment of the customs union with the EU. Meanwhile, the import régime for 1994 had eliminated the Mass Housing Fund levy on over 2,600 commodities and reduced the levy by 3 to 94 per cent on other commodities. As a result, the rate of protection provided by the Mass Housing Fund levy fell by 31.05 per cent between 1993 and 1994. The protective effect of the MHF levy which was 23.93 per cent in 1993 on imports originating from the EU and EFTA shrank to 16.32 per cent in 1994; with respect to other countries it fell from 23.6 per cent to 16.47 per cent in the same period. With the new régime, the combined incidence of the applied customs duties and the Mass Housing Fund levies, on an import

weighted basis, had been lowered to 12.8 per cent for EU and EFTA exports and 17.2 per cent for the exports of other countries, a decrease of 29.9 per cent and 22.7 per cent, respectively, compared with the levels in 1993.

60. While correctly considered an undesirable element in its trade régime, paradoxically, the levy had helped the process of trade liberalization as the protection provided by the Fund levies had permitted Turkey to eliminate a vast array of non-tariff barriers.

61. He agreed with the observation that the abolition of Fund levies would cause an important loss of revenue and that the question of compensation was pertinent. The newly introduced taxes would partly meet this loss. In addition, it was expected that the establishment of the customs union with the EU would be accompanied by direct or indirect resource inflows as well as income-generating productivity increases which would ultimately result in a rise in tax and other revenues.

62. The draft law on the special consumption taxes was before Parliament. Once it was passed, it would be applied without discrimination to both imported and domestic goods in conformity with the principle of national treatment.

63. The formalities to obtain import certificates did not require heavy administrative procedures; they were made available within two days after the application had been lodged and these certificates were valid for three years. As stated in the Government report, there was no import licensing system in Turkey. Special permissions were issued by relevant ministries on sanitary, phytosanitary and security reasons, in conformity with the general security exceptions of the GATT. Import control for telecommunications equipment was based on technical requirements; for certain goods, importers were required to establish repair networks for after sales services.

64. There was no definition of "national interest" in Turkish anti-dumping laws but the concept could cover a wide range of factors, such as the interests of consumers and domestic industries, employment and trade relations; however, the interest of domestic industries affected by dumping was of primary importance. According to the Law on the Prevention of Unfair Competition in Importation, if a preliminary determination showed that there were dumped imports causing injury and that the national interest called for immediate intervention, a security deposit could be demanded upon Ministerial approval as a provisional measure. No minimum period between the initiation of the investigation and the imposition of provisional measures existed. To adopt a provisional measure, a preliminary determination on the existence of dumping and injury caused by the dumped import was required. To date, Turkey had not adopted any provisional measures immediately following the initiation of anti-dumping investigations. Article 10 embodied the provision on the causal link which should be established in an investigation between dumped or subsidized imports on the one hand and the material injury suffered by domestic producers on the other. According to this provision, in cases where there was sufficient evidence indicating the existence of injury caused by dumped or subsidized importation, an investigation could be initiated.

65. The absence of a general sunset clause for anti-dumping duties did not mean that existing anti-dumping duties would remain in force forever. Article 6 of the Ministerial Decree on the Prevention of Unfair Competition in Importation provided for a review procedure at the request of one of the parties concerned, or at the initiative of the administration, at least one year after the conclusion of the investigation. To date, the review procedure had been applied in four cases; in one case the anti-dumping duty had been abolished roughly one year after implementation and in the other cases after three years. With the ratification of the Final Act, Turkey would adhere to the Anti-Dumping Code of the GATT.

66. Turkey had not applied any countervailing duties since the promulgation of the relevant legislation in 1989. Anti-dumping and countervailing duty investigation procedures were very similar and both the procedures and their application conformed fully to the relevant GATT rules.

67. The second discussant congratulated Turkey for what he considered a transparent import policy, characterized by the absence of import quotas, licenses and safeguard measures, low tariffs, standards harmonized with international norms, and cuts in the Mass Housing Fund charges in spite of budgetary difficulties. The representative of Canada pursued the issue of when the Mass Housing Fund levy would be phased out. He asked whether the abolition of the Fund would immediately succeed customs union with the European Union or whether its elimination would be gradual until 1998. He wondered if the approach used would be similar to that applied in the 1994 Import Régime and on what basis the products had been, and would be, chosen for the removal or reduction of levies.

68. The representative of Turkey expressed gratitude for the encouragement and praise offered by the discussant. With respect to the MHF levy, he clarified that its phasing out would be a two to three year process, a short time span considering all the changes that would take place; he volunteered to provide in writing the information on the methodology used to select products subject to the levy.

(4) Measures Affecting Exports

69. The representative of Turkey said that, as a signatory to the GATT Subsidies Code since 1985, Turkey had taken important steps towards revising its incentive system down to generally accepted levels in line with its commitments; it had abolished the Resource Utilization Support Premium Payments in 1986, Tax Rebates in 1988, Support and Price Stabilization Fund Payments in 1992, and the Corporate Tax Exemption in 1993.

70. In accordance with the 1987 decision on the encouragement of exports through export credit, insurance and guarantee schemes, some export credit programmes had been established, taking international rules into consideration. In this respect, Turkey had applied to become party to the "OECD Arrangement Regarding Officially Supported Export Credits" in 1993. At present, export credits and energy incentives constituted the only export incentives. He added that Turkey was preparing to adopt legislation on competition consistent with that of the EU.

71. Tariff and surcharge exemptions for imported inputs (which were applied by almost all countries) were not considered an export subsidy according to the Code and, thus, this practice was GATT consistent.

72. The Turkish Government was determined to eliminate all export taxes. For instance, the export taxes on magnesite and dried figs were abolished in 1993 and the phasing out of remaining export taxes would be completed in 1995.

(5) Sectoral Issues

(a) Agriculture

73. Agriculture was the largest sector in Turkey in terms of employment and constituted a major component of the country's GNP. Due to rapid growth in other sectors, agriculture's weight in the economy had declined over time in relative terms.

74. Yield improvement in the livestock sector was a crucial issue and Turkey employed a wide range of measures intended to improve production. These measures concerned mainly research, training and extension services, inspection, pest and disease control and land improvement. Some technical assistance and agricultural extension work had also been financed with loans from the World Bank and the International Fund for Agricultural Development.

75. In response to questions on import charges, support prices and export subsidies applied to wheat, the representative stated that the Turkish Grain Board (TMO) had bought 4.5 million tons of wheat in 1993, importing 913,000 tons and exporting 2.4 million tons. For 1994, it was projected that total wheat purchases by the Turkish Grain Board would again be 4.5 million tons, imports 160,000 tons and exports 1,665,000 tons. He stated that there was no export subsidy for wheat sales.

76. Support prices had increased 50 and 54 per cent in 1991 and 1992, respectively, while the rate of inflation had been 66 and 70 per cent in the same years; therefore, support prices had declined in real terms.

77. He confirmed that the MHF charge had been changed on 1 May 1993; it currently stood at \$100 per ton for wheat and \$150 per ton for wheat flour; there were no further taxes on wheat imports.

78. The Mass Housing Fund levy on wheat was not collected from the Turkish Grain Board under a special law which compelled it to hold a strategic wheat stock for the needs of the country.

79. He announced to members of the Council that a special report entitled "Review of Agricultural Policies in Turkey" had been prepared by the OECD Secretariat, with the collaboration of the relevant Turkish authorities, and would be published within the next two months. According to this report, producer and consumer subsidy equivalents (PSE and CSE) were substantially below the OECD average, although Turkey was a developing country and almost 40 per cent of the population earned their living in the agricultural sector. The PSE was 24 per cent in 1990, while the OECD average was 45 per cent; the CSE was -22 per cent for Turkey, while the OECD average was -36 per cent.

80. The Turkish authorities were reviewing domestic agricultural support policy in line with the requirements of the Uruguay Round Agreement on Agriculture and had started to implement a new support policy in order to improve market orientation and to lower the cost of support payments. The new programme had been applied to cotton and extended to tobacco and tea and would be implemented for other major crops in the near future.

81. Since the share of the domestic support for wheat did not exceed 10 per cent of the total value of wheat production, this measure had been exempted from the reduction commitment in accordance with the "de minimis" rule for developing countries. The fertilizer subsidy, applied on a non-product-specific basis, had been exempted from the reduction commitment under the special and differential treatment for developing countries, in accordance with the provisions of the Uruguay Round Agreement on Agriculture. He wished to emphasize that Turkey's commitments on domestic support, as well as the other commitments included in their Schedule, fully met the requirements of the Final Act.

(b) Coal

82. Like most State-owned enterprises, the Turkish Hard Coal Company incurred substantial operating losses. Since the main reason for these losses was excess labour, budgetary transfers were for wages and salaries and could not be considered as direct subsidies for coal. He added that the MHF charges for hard coal and lignite had been completely abolished in the 1994 Import Régime.

83. The representative of Australia asked if there were any other charges on coal imports and whether Turkey was considering moving to consumption of high-quality coals for environmental reasons. The Turkish representative responded that there was a 2.5 per cent charge on coal imports for the Mining Fund, and there was increasing use of high-quality coals for residential heating purposes.

(6) Other Issues

84. The representative of Turkey said that, having held a number of bilateral negotiations with interested countries, Turkey had submitted its draft schedule of initial commitments on trade in services on 9 December 1993 (GATT Document MTN.TNC/W/72/Rev.2/Corr.1 of 15 December 1993). This draft schedule covered nine of the eleven sectors and the main sub-sectors or activities within each of the nine. The representative of Turkey emphasized that the offer on services was very comprehensive and quite comparable to offers made by some developed countries. However, Turkey would pursue further liberalization in this sector. Preparations for domestic legislation conforming to its international commitments were under way.

85. As investment was key to the promotion of economic activity by increasing productivity and creating jobs, all foreign investment was welcome in Turkey. There was no discrimination between domestic and foreign investments as far as incentives and criteria for eligibility were concerned. Nor had any foreign investment application been turned down under the criterion that foreign investment must be "beneficial to the economic development of the country" since a project which was not beneficial to the economic development of the recipient country could not be feasible or profitable for the investor either.

86. A draft patent law had been submitted to the Turkish Parliament. The draft aimed to provide an appropriate framework for the protection of inventions and establish a procedure for the granting of patents and utility models, in short, ensure adequate protection for intellectual property rights. Debate on the draft law was still continuing in the relevant Parliamentary Commission and it was expected to be approved shortly. Furthermore, with the ratification of the Final Act, the Agreement on TRIPs would be fully incorporated in the national legislation.

87. The first discussant noted that, in Turkey's offer on trade in services, the right of establishment was often not granted, while, in his view, this would encourage direct investment. With respect to adjustment measures to be taken following the Uruguay Round, he asked, in particular what would be required in the area of intellectual property protection. On privatization, he repeated his request for information regarding future plans.

88. The representative of Japan reiterated his question regarding the new laws and regulations enabling Turkey to adhere to the Customs Valuation Code. In response, the Council was informed that the draft legislation was currently in front of the plenary session of Parliament. It was fully expected that the Customs Valuation Code would be applied at the end of the five-year reservation period on 12 February 1994.

89. The representative of Argentina identified similarities between the situation in Turkey and in other parts of the world, including Latin American countries, which in the last twenty years had broken out of the vicious circle of import-substitution, low levels of industrialization and lack of competitiveness and had adopted policies of liberalization and privatization. He also wondered what measures were envisaged to reconcile the objectives of economic growth and social goals. As noted by the Turkish delegation, these went beyond concerns such as health and education to encompass such issues as the future of the agricultural sector and job creation; meanwhile, Turkey's competitive advantage might

not lie in labour-intensive sectors. Paragraph 38 of the Secretariat report discussed the need for greater fiscal stability as well as the enhanced competitiveness which would result from reducing the monopolistic hold of State-owned enterprises and increasing market access for foreign suppliers. Both greater foreign investment and the implementation of the services agreement might help Turkey make better use of available resources. Lastly, he noted that, as flagged in paragraph 168 of the Secretariat report, there was no data available on government procurement.

90. The representative of the United States asked about the possibility of Turkey joining the Agreement on Government Procurement. The representative of Turkey responded that this was still under discussion.

91. The representative of Poland asked if Turkey's status as a developing country would expire once it had formed a customs union with the European Union and how this would affect Turkey's obligations with respect to the implementation of the Uruguay Round package. In reply, the Turkish representative said that Turkey was not a developed country, and nominal GDP, more relevant to trade than purchasing power parity, was US\$2,500 per capita. Development was a gradual process and customs union would not automatically make Turkey a developed country.

92. The representative of Turkey noted the suggestion by the first discussant that investment approval be more automatic. He said that all foreign investments were considered beneficial to Turkey's development and approval was straightforward. As to privatization, between 1986 and 1992 US\$1,863 billion income had been generated by privatization; in 1993, US\$509 million for a total income of US\$2,372,800. Privatized companies included those in the cement, telecommunications, airport catering, dairy products and animal feed industries. Potential companies for privatization, under the 1994 preliminary program, included PETKIM, the petrochemicals company, TUPRAS, the oil refinery, oil distribution, a tyre factory, an operator of hotel chains and marinas, SUMERBANK, and maritime, shipbuilding and cargo lines. A technical assistance loan for privatization, negotiated with the World Bank, would hopefully give the process momentum. On social aims, the rising expectations of the Turkish population, the rights demanded by trade unions, and demand for immediate benefits without shouldering the costs of economic advancement were socio-political problems inherent to any democracy. He was certain that liberalization of the services sector, already quite open, would not have an adverse impact on Turkey; its impact was impossible to calculate, and he suggested the benefits of liberalization were as much an article of faith as economic theory.

93. The discussants noted that Turkey had come a long way in a short time; the results of courageous policy reform had been impressive by any standards despite an unfavourable external environment. The representative of Turkey expressed satisfaction with the review, notable for its friendliness. Through constructive criticism, it had shown up some shortcomings in their trade policy.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

94. 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.

95. 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.

96. The following main themes were raised during the review:

(1) Macroeconomic and Structural Aspects

97. 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.

98. 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.

(2) General Trade Policy Orientation

99. 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.

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

101. 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.

102. 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.

(3) Measures Affecting Imports

103. 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 régime. 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.

104. 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.

105. 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.

106. 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, 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.

107. 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.

108. 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.

(4) Measures Affecting Exports

109. 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 phase-out was requested. It appeared that export incentives often included a sectoral bias.

110. 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.

(5) Sectoral Issues

111. 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.

112. 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.

113. 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. The fertilizer subsidy, which was not commodity-specific, had been exempted from reduction obligations under 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 rôle. While Turkey's objective was to adopt CAP provisions, a definitive date had not yet been established.

114. 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 Régime; a 2.5 per cent charge for the Mining Fund remained. Imports of high quality coal were encouraged.

(6) Other Issues

115. 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.

116. 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.

117. 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.