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REGULAR REPORT

FROM THE COMMISSION

ON

TURKEY'S

PROGRESS TOWARDS ACCESSION

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A Introduction

a) Preface

The European Council in Cardiff, which took place in June 1998, welcomed the Commission's confirmation that it will submit at the end of 1998 its first regular reports on each candidate's progress towards accession. In the case of Turkey, the European Council noted that “the report would be based on Article 28 of the Association Agreement¹ and the conclusions of the Luxembourg European Council”.

The European Council in Vienna invited the Commission to present its further progress reports with a view to the Helsinki European Council.

Like the previous one, this Regular Report takes account of the conclusions of the European Council in Copenhagen. It:

- describes the relations between Turkey and the Union, particularly in the framework of the Association Agreement;
- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Turkey's situation and prospects in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of Turkey's capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union.
- gives a general evaluation of Turkey's situation and prospects on the road to accession with particular reference to the European strategy set out in the Commission communication of 4 March 1998.

It also covers judicial and administrative capacity as requested by the Madrid European Council which underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership. However, the examination of judicial and administrative capacity is limited to areas covered by the Customs union.

¹ Article 28 states that “as soon as the operation of the Agreement has advanced far enough to justify envisaging full acceptance by Turkey of the obligations arising out of the Treaty establishing the Community, the Contracting Parties shall examine the possibility of the accession of Turkey to the Community”.

The report takes into consideration progress since the last Regular Report. It looks at whether intended reforms referred to in the 1998 Regular Report have been carried out and examines new initiatives.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the last Regular Report, the economic assessment is based on a longer term evaluation of Turkey's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. This approach ensures equal treatment for all the candidate countries and permits objective assessment and comparison between countries in terms of concrete progress in preparation for accession.

The report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. Council deliberations and European Parliament reports and resolutions² have been taken into account in the preparations. The Commission also drew on assessments made by various international organisations and in particular on contributions from the Council of Europe, the OSCE and the international financial institutions as well as non-governmental organisations.

b) Relations between the European Union and Turkey

Recent developments

Since the adoption of the last Regular Report on Turkey, bilateral relations have developed without any major change. Although the political dialogue which Turkey brought to a halt after the Luxembourg European Council has not been re-established, regular meetings take place on the implementation of the European Strategy (see below). Given the deadlock at the political level, the Association Council has not been able to hold a meeting since April 1997.

In its conclusions, the European Council of Vienna of 11 and 12 December 1998 underlined "the great importance it attaches to the further development of relations between the EU and Turkey taking forward the European strategy to prepare Turkey for membership". It also recognised "the central role of the further implementation of the European Strategy in line with its conclusions in Luxembourg and Cardiff".

Despite efforts by the EU Presidency, the European Council of Cologne has not been able to adopt any agreed conclusions on Turkey.

EU-Turkey relations have also been marked by the arrest and trial of PKK leader Abdullah Öcalan, as well as the death sentence pronounced by the Ankara State Security Court against him on 29 June 1999.

² For the European Parliament the rapporteurs are A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens, B. Malone.

After his capture in Kenya in February 1999, Öcalan was brought to the Imrali prison-island in the Sea of Marmara. The Öcalan operation triggered violent PKK demonstrations in some EU Member States and terrorist acts in Turkey for a short period though. In this context, the European Union made the following declaration at the General Affairs Council of 22 February 1999:

“The European Union reiterates its condemnation of all forms of terrorism. The legitimate fight against terrorism must be conducted in full respect of human rights, the rule of law and democratic norms. Legitimate interests must be expressed through a political process, not through violence.

The EU strongly deplores the fact that the arrest of Abdullah Öcalan has sparked massive unrest and violent acts which have resulted in death, hostage-taking, intimidation and extensive destruction. It reaffirms its position that such acts of violence are inadmissible and under no circumstance tolerable.

The European Union takes note of the assurance of the Turkish Government that Abdullah Öcalan will have a fair trial. It expects this to mean fair and correct treatment and an open trial according to the rule of law before an independent court, with access to legal counsel of his choice and with international observers admitted to the trial. It underlines once more its strict opposition to the death penalty.

The EU fully upholds the territorial integrity of Turkey. At the same time, the EU expects Turkey to resolve its problems by political means with full respect for human rights, the rule of law in a democratic society and in full accordance with Turkey’s commitments as a member of the Council of Europe. In this context it welcomes all genuine efforts to separate the fight against terrorism from the search for political solutions and to promote conciliation. In support of this the EU stands ready to contribute, including through continued financial assistance.

Turkey’s efforts in dealing with these problems in this spirit cannot but affect EU-Turkey relations positively. “

On 23 February 1999, the Turkish Ministry of Foreign Affairs stated that “Questioning the independence of courts in Turkey is unacceptable. The intention of the EU to send observers to the hearings is tantamount to accepting and encouraging the efforts to intervene in and influence the independent judiciary. This attitude which is against the principle of the rule of law is also unacceptable.”

The trial of Abdullah Öcalan started on 31 May 1999 before the Ankara State Security Court in the presence of certain foreign representatives as well as the press. According to the Council of Europe’s Ad hoc Committee to ensure the presence of the Assembly at the trial of Abdullah Öcalan, the procedure of the trial “seems to have been largely correct and in accordance with the applicable Turkish law...”. On the other hand, Amnesty International considered that standards for fair trials had been violated throughout the pre-trial detention period and the trial.

The passing of the death sentence against Öcalan on 29 June 1999 by the State Security Court was followed by EU reactions. In its declaration of 29 June 1999, the EU Presidency expressed “the hope that Turkey will follow what has invariably been the practice for the last fifteen years and not carry out the death sentence passed on Mr Öcalan.” In a Resolution on 22

July 1999, the newly elected EP also called on the Turkish authorities not to carry out the sentence.

The death sentence against Öcalan has been appealed before the Turkish Supreme Court and would also have to be confirmed by Parliament before it could be executed. If confirmed by the Supreme Court, the sentence could also be appealed to the European Court of Human Rights.

The catastrophic earthquake of 17 August 1999 has also influenced to a large extent relations between the European Union and Turkey. The response of the international community to the disaster relief was immediate, involving provision of rescue teams, medical assistance, fire-fighting equipment as well as financial aid. The Commission immediately released 4 millions € for emergency assistance and prepared a 30 million € support package in order to help Turkey in the rehabilitation phase. Further support measures to help in the reconstruction phase are being examined. The General Affairs Council of 13 September 1999 adopted conclusions on Turkey, welcoming in particular the Commission's intention concerning further aid to Turkey. The same day, the Turkish Minister of Foreign Affairs Mr Cem participated in the General Affairs Council luncheon.

Noteworthy is the recent positive development in relations between Turkey and Greece. Ministers of Foreign Affairs from both countries agreed on exploring possibilities of promoting co-operation between the two countries in fields such as tourism, culture, environment and combating organised crime (including illegal immigration, drug trafficking and terrorism). Talks at high official level have already been held and are reported to have taken place in a positive atmosphere.

The European strategy

As stated in the last Regular Report, the first discussions on the implementation of the European strategy took place in September 1998. After this inaugural meeting, the contact group established between the Commission and the Turkish authorities to ensure the implementation of the strategy, met three times, either in Ankara or in Brussels. It also met under an ad-hoc form, on 30 April 1999 in Brussels, to discuss the possibility of an agreement on the liberalisation of services and public procurement markets. Through these regular meetings, some progress has been made. Another meeting will be held before the Helsinki summit.

On the financial side, the two regulations adopted in October 1998 by the Commission to underpin the European strategy, have not yet been adopted by the EU budgetary authority. It is clear though that without appropriate funding, it is not feasible to implement all aspects of the European strategy.

B. Criteria for Membership

1. Political criteria

Introduction

In its 1998 Regular Report on Turkey's progress towards accession, the Commission concluded that:

“On the political side, the evaluation highlights certain anomalies in the functioning of the public authorities, persistent human rights violations and major shortcomings in the treatment of minorities. The lack of civilian control of the army gives cause for concern. This is reflected by the major role played by the army in political life through the National Security Council. A civil, non-military solution must be found to the situation in south-eastern Turkey, particularly since many of the violations of civil and political rights observed in the country are connected in one way or another with this issue. The Commission acknowledges the Turkish government's commitment to combat human rights violations in the country but this has not so far had any significant effect in practice. The process of democratic reform on which Turkey embarked in 1995 must continue.”

“In addition to resolving these problems, Turkey must make a constructive contribution to the settlement of all disputes with various neighbouring countries by peaceful means in accordance with international law.”

The present analysis examines the progress that has been made since the 1998 Regular Report.

Recent developments

In November 1998, the minority government fell. After having been assigned by President Demirel in December 1998 to form a new government, DSP leader Ecevit took office in January 1999 to be in charge until the general elections of April 1999. As a result of these elections, the DSP and the centre-right party MHP became the two biggest parties of the country. These two parties together with the centre-right party ANAP formed a coalition, led by Mr Ecevit and received a large vote of confidence by the Parliament in June. The ruling coalition now has a solid majority in the Parliament (354 seats out of 550). Since the start of the new Parliament, there has been intense legislative activity which has led to the adoption of important laws in areas crucial for democratisation. Together with the general elections, local government elections were held. On this occasion, the pro-Kurdish HADEP party won a majority in seven provincial capitals in the South-east, including Diyarbakir.

After the closure of the Refah Party in January 1998, the Turkish Constitutional Court ordered in February 1999 the closure of the pro-Kurdish Democratic Mass Party (DKP) on grounds of promotion of separatism. In April 1999, the Constitutional Court rejected an application from the Chief Prosecutor to suspend the HADEP party. In May 1999, an application was also made to the Constitutional Court against the Islamist Fazilet Party which presented its defence in September 1999.

The Öcalan case and the August earthquake have been the two major events in Turkey. The earthquake led to substantial public debate as to the effectiveness of the Turkish authorities in organising disaster relief and indicates that civil society is increasingly present in Turkish politics.

1.1. Democracy and the rule of law

As far as the political party system is concerned, the Turkish Grand National Assembly (TGNA) adopted in August 1999 amendments to the Political Parties Law, which in particular makes it more difficult for the authorities to close a political party and ban its members from subsequent participation in political life.

The Parliament

There has been no change in the parliamentary structure. The establishment of the new TGNA in April 1999 took place in accordance with the constitutional provisions. Its powers are respected and the opposition plays a full part in its activities.

The national threshold of 10 % for political party representation in the TGNA led to the non-representation of about 5 million votes out of 31 million valid votes cast.

The Executive

No particular development has been noted in the executive.

The new government has taken a positive step by establishing a system for the recruitment of civil servants via a centralised exam supervised by the Student Selection and Placement Centre (OSYM), in order to prevent corruption in recruitment. Applications were submitted in July 1999, and the exam will take place in autumn 1999.

The Judiciary

The main legislative change in the judicial system concerns the reform of the State Security Courts (SSCs), which deal with overtly political crimes. In 1998, the European Court of Human Rights stated that the presence of a military judge in the SCC panel violated the European Convention of Human Rights. More recently, in July 1999, the European Court delivered judgement in 13 cases lodged by individuals in 1994-1995. In nine of these cases, the Court concluded that the applicants had been denied the right to have their cases heard by an “independent and impartial tribunal” because they had been tried by a SSC.

Constitutional and legal amendments removing the military judge in the SSCs were adopted by the TGNA and entered into force on 22 June 1999. As a direct effect of this reform, the military judge of the Ankara SSC in charge of the trial against Öcalan was replaced by a civilian judge on 23 June 1999.

Such a reform should clearly improve the functioning of the SSC, even if there are still some doubts about the full rights offered to the defendants in these courts. According to Justice Ministry sources, more than 7000 cases are awaiting trial by SSCs.

A number of proposals made by the current government and the previous ones and currently in the Parliament could have a positive effect on the functioning of the judicial system. They include:

- a draft of the Penal Code which in particular lifts the death penalty;
- a draft law entitled “Law on the prosecution of civil servants and other public officers” which facilitates the prosecution of public officers;
- a draft law amending the Code of Criminal Procedure regarding new arrangements on witness protection, payment of compensation to witnesses, physical examination and genetic analyses.

Finally it has to be noted that the government announced its intention to develop existing training programmes for judges and prosecutors. These initiatives aiming at raising awareness and improving training in the human rights field are of great importance.

Anti-corruption measures

Regarding the fight against corruption, bribery is considered a very serious crime which can be punished, according to the Penal Code, by up to 10 years of imprisonment. Furthermore, according to articles 48 and 98 of the Law on Civil Servants, officials found guilty of bribery are immediately dismissed from public service, irrespective of whether the penalty is postponed or commuted, and they are permanently barred from joining the civil service again. In 1997 and 1998, 399 staff were dismissed for abuse and/or bribery from the Police.

The OECD Convention on Combating Bribery of Foreign Officials in International Business Transactions which entered into force in 1999 has been signed by Turkey but not yet ratified.

Since the last regular report, no new legislation against corruption has been introduced.

The National Security Council

Through the National Security Council, the Military continues to have an important influence in many areas of political life.

The National Security Council continues to play a major role in political life. While the emergency courts system remains in place, the replacement of the military judge by a civilian one in State Security Courts, represents a clear improvement in terms of independence of the judiciary.

1.2. Human Rights and the Protection of Minorities

The human rights situation in Turkey is still under the monitoring procedures opened in 1996 by the Council of Europe. An information report on “Honouring of obligations and commitments by Turkey” has been published in January 1999, taking into account a visit in Turkey by the rapporteurs in September 1998.

The information report contains an analysis of the present situation in the country, focusing on the following areas: practises of torture and ill-treatment, rule of law, freedom of expression, imprisoned former DEP parliamentarians, constitutional reform and respect for the rights of Turkish citizens of Kurdish origin. The rapporteurs make also recommendations to the Turkish authorities to improve the situation.

Since the last Regular Report, Turkey signed in June 1999 the European Convention on the Exercise of Children’s Rights, aiming at the protection of the best interests of children. However

a number of important Human Rights Conventions have not yet been ratified by Turkey (see annex).

Civil and political rights

Even if certain positive steps have been made since October 1998, there are still problems in Turkey that give cause for concern.

Recent information from international organisations confirm that even if torture, disappearances and extra-judicial executions are not systematic, they still exist. Precise cases of torture and ill-treatment have been recently registered by a delegation of the “European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT)” from the Council of Europe, during their last visit to Turkey in February 1999. Most international sources indicate also that systematic judicial prosecution of law enforcement officials for misdemeanours is still not ensured. On this question, the report of the UN “Working Group on Enforced or Involuntary Disappearances” published in December 1998 recalls that impunity for law enforcement officials is one of the root causes of enforced disappearance and human rights violations. Policemen who had been previously acquitted from charges of torture in the Manisa case, will be re-tried following a verdict from the Penal Board of the Supreme Court of Appeals.

In a judgement in July 1999, the European Court of Human Rights underlined once again the existence of extra-judicial executions and torture.

The situation described in the last Regular Report has therefore not substantially changed. Nevertheless, Turkey has taken some steps that clearly go in the right direction.

As far as extra-judicial executions are concerned, the Constitutional Court annulled in January 1999 a legal provision, which entitled security officers to “fire directly and without hesitation at persons who do not stop when warned”. The government has been given one year to prepare a new legal provision to replace the old one.

Concerning detention procedures, as underlined in the previous Regular Report, an important move was made in March 1997 by reducing the duration of police custody. Many cases of torture happen during incommunicado detention in police stations. The entry into force of a “Regulation on Apprehension, Detention and Release Procedures” in October 1998 which aims at improving the current practice is another important step forward. Even if a detainee may still be held incommunicado for up to four days, the systematic implementation of this Regulation will probably allow for some progress. A circular issued by the Prime Ministry in June 1999 aims also at the effective implementation and stringent verification of the implementation of the October 1998 Regulation. As stated by Turkey in its opinion on the report by the “Committee on Honouring of Obligations and Commitments by Member States of the Council of Europe” dated January 1999, training courses for the police authorities began in November 1998.

These measures against the practice of torture have also recently been supplemented by the adoption by the Parliament in August 1999 of a law amending articles 243, 245 and 354 of the Penal Code. This law redefines torture, ill treatment and abuse of power against individuals by public officials and foresees higher penalties for public officials who commit such offences, or medical personnel who draft fake reports on torture.

It is also important to note that Turkey finally authorised in February 1999 the publication of the report of the Council of Europe CPT delegation after its visit to Turkey in October 1997.

Despite recent positive gestures made by the authorities, the situation regarding freedom of expression remains worrying.

In the aftermath of the Öcalan capture, the situation has actually slightly worsened. In March 1999, the Minister of Justice issued a communiqué to Governors to be zealous in identifying associations, foundations, publications, individuals and organisations that are likely to take initiatives in favour of PKK leader Öcalan. In April 1999, the Public Relations Department of the Ministry of Interior issued a circular forbidding the use of certain terminology in relation to the Kurdish question in press releases and publications by public institutions and organisations. At the end of May 1999, the General Penal Board of the Supreme Court of Appeals increased the sentences in relation to abuse of freedom of expression.

An encouraging measure should however be noted, albeit one of limited scope. In September 1999, President Demirel approved a law postponing prosecutions and punishment for offences committed through the press and broadcasting. This law foresees that sentences can be suspended for a three-year parole period and that if offences are repeated during this time, the original sentence comes back into effect. According to the Justice Ministry, 21 persons including the Turkish writer Ismail Besikci had already been released before mid September 1999³. However, the situation of journalists in prison for offences falling outside the scope of the law (i.e. those charged with being members of illegal organisations) will remain unchanged.

Among others, the case of Mr Akin Birdal, former Chairman of the Turkish Human Rights Association, remains a matter of concern. Although he was released in September 1999 on medical grounds after nearly four months in prison, his case is to be reviewed in six months time.

Another reason for concern is the case brought against the board members of the Non Governmental Organisation TOSAV in May 1999. They are prosecuted for “separatist propaganda” on the basis of a document which is the output of a project co-financed by the EU in 1997. This project intended to strengthen civil society, human rights and democracy in Turkey through the organisation of education programmes and workshops and the publication of newsletters. Though the incriminated document is moderate in tone and appears to provide a useful contribution to debate and consensus building in Turkey, its dissemination has been prohibited.

In its July 1999 judgement, the European Court of Human Rights concluded in eleven cases that there had been a violation of the freedom of expression as guaranteed by the European Convention of Human Rights. In some of these cases the Court referred to the essential role of the press in ensuring the proper functioning of political democracy, as well as to the freedom of artistic expression.

³ According to the Turkish Human Rights Association Report of May 1999, there were at that time 134 persons in prison for offences in the general sense of freedom of expression and thought. Out of these, 84 were journalists.

Regarding the freedom of the press, the situation has not substantially changed. Cases of harassment and police violence against individual journalists have still been reported by domestic and international human rights organisations.

The conditions in Turkish prisons do not seem to have improved. Overpopulation and lack of adequate medical care remain major problems, to which hunger strikes and revolts often relate. In September 1999, a major prisoner revolt has been severely repressed.

The situation regarding freedom of association and freedom of assembly has not changed. These freedoms continues to be subject to the limitations raised in the last Regular Report. Since October 1998, several branches of the Turkish Human Rights Association have been closed by the authorities either temporarily or for an indefinite period.

As far as freedom of religion is concerned, there still exists a difference of treatment between those religious minorities recognised by the Lausanne Treaty and other religious minorities.

Regarding the status of women, a positive development is the lifting in July 1999 of Turkey's reservations against the UN Convention for the Elimination of All Forms of Discrimination Against Women. The reservations were made 14 years ago on grounds that it contradicted the provisions of the Turkish Civil Code that govern marriage and family relations.

The question of capital punishment has recently been a major subject of debate in Turkey as well as outside Turkey in connection with the Öcalan trial. As mentioned above, on 29 June 1999, Öcalan was convicted of treason and the intention to separate part of the territory of the Turkish Republic, and sentenced to the death penalty. It is clear that the application of such a sentence would nullify the important effort made for the abolition of the death penalty in Turkey. In this context, it has to be recalled that the draft Turkish Penal Code bill which is on the agenda of the Parliament provides for the abolition of the death penalty.

Human rights protection instruments

As mentioned above, new rulings against Turkey have been adopted by the European Court of Human Rights since the last Regular report. The case of Mrs Loizidou which is developed under part 1.3 is still pending.

Generally speaking, since the last report, the situation concerning civil and political rights in Turkey has not evolved significantly. Several sources continue to underline the existence of torture, disappearances and extra-judicial executions. Moreover, certain administrative measures taken in the aftermath of the Öcalan affair show a more restrictive attitude by the Turkish authorities as regards freedom of expression. Nevertheless, there have been some concrete improvements reflecting the intention of the authorities to end human rights abuses by law enforcement officials. Several legislative and administrative measures adopted since October 1998 in order to fight against torture practises are important in this context. The recent adoption of a law postponing prosecution and punishment for some offences committed by journalists appear as a good will gesture from the authorities. Its implementation will be followed carefully.

Economic, social and cultural Rights

There has been no particular development concerning these rights.

Minority Rights and Protection of Minorities

Contrary to certain hopes expressed notably by some Member States in the context of the Öcalan trial, progress on the Kurdish question has not been made. These hopes were mainly based on the expectations that the arrest of Öcalan as well as other key PKK figures would help bring terrorism under control and increase the prospects of a civil solution to the problems of the South east. As stated in the last Regular Report, “a civil solution could include recognition of certain forms of Kurdish cultural identity and greater tolerance of the ways of expressing that identity, provided it does not advocate separatism or terrorism”. For instance, TV broadcasting in Kurdish, while apparently tolerated for non-political programmes, is still officially not allowed.

The “Committee on the Honouring of Obligations and Commitments by Member States of the Council of Europe” indicated in its January 1999 report that “ the essential point is that any such group [Turkish citizens of Kurdish origin] should have the opportunity and material resources to use and sustain its natural languages and cultural traditions in circumstances and under conditions now clearly and reasonably defined by two important Council of Europe Conventions: the Framework Convention on Protection of National Minorities and the European Charter for Regional or Minority Languages, as well as by Assembly Recommendation 1201 (1993) on an additional protocol on the rights of national minorities to the European Convention on Human Rights.”

Emergency legislation remains in force in six provinces. Certain developments are however likely to have a positive impact on the situation in the region. Firstly, the Repentance Law (N°4450), applicable for a six month period and granting an amnesty notably to PKK members who surrender and disclose information on their organisation, has been adopted by the Parliament in August 1999. This law excludes from its application the PKK command structure and those PKK members who have killed members of the security forces. Secondly, PKK leader Öcalan called in August 1999 the members of its organisation to end attacks on Turkish targets and to withdraw from Turkish territory. He asked the PKK to end its struggle as of the 1st September 1999. It is difficult at this stage to evaluate to what extent the withdrawal has been implemented. Thirdly, last August, President Demirel met with representatives of the HADEP party apparently to discuss the problems of the South east.

On the economic side, it is worth noting that in March 1999, PM Ecevit announced that the Government will support the socio-economic development of the south-east Anatolia region with an additional USD 100m over the next two years.

Concerning the right of asylum, some positive changes have been made in January 1999 to the existing legislation. The period of requesting residence permission of an asylum seeker is extended to 10 days from the previously recognised 5 days. Also for those aliens whose applications are refused, the time for appealing has been extended from 10 days to 15 days.

1.3. The Cyprus issue

Since the last Regular Report, the UN Secretary General and his representative in Cyprus have continued the process of separate meetings with the two Cypriot leaders aimed at finding a basis for a resumption of direct talks.

In order to reinforce the UN efforts the G-8 Summit of Head of States decided on 21 June 1999 to "urge the UN Secretary-General in accordance with relevant UN Security Council resolutions to invite the leaders of the two parties to negotiations in the fall of 1999". In the conclusions it was further stated that both parties should commit to set no pre-conditions, put all issues on the table, negotiate in good faith until a settlement is reached, and to take full consideration of relevant UN resolutions and treaties

With resolution 1250 on June 29, the Security Council requests the UN Secretary-General to invite the Greek and Turkish Cypriot leaders to hold negotiations in the autumn. It also calls on the two sides on Cyprus, including military authorities, to work constructively with the Secretary-General and his special representative to create a positive climate on the island that will pave the way for these negotiations.

As evidenced by the Joint Declaration of 20 July 1999 issued by Messrs. Denktash and Ecevit, Turkey and the North of Cyprus still envisage to develop their relations «in line with the target of integration set at the highest level».

Turkey as a guarantor country, should show strong commitment to bring the two sides together under the UN process launched at the invitation of the G8. Turkey could have an active and constructive role in this framework in order to reach a comprehensive solution that addresses the legitimate concerns of all parties.

In 1996, the European Court of Human Rights delivered a ruling against Turkey in the case of a Greek-Cypriot woman (Mrs Loizidou) who was deprived of access to her property in northern Cyprus. In a second judgement in July 1998, the Court decided on pecuniary compensation for the claimant and gave Turkey until October 1998 to pay the compensation. Till now, arguing that the land in question is not Turkish but part of the TRNC⁴, Turkey has not complied with the Court judgement. In April 1999, the President of the Committee of Ministers of the Council of Europe recalled the obligation of Turkey to pay the compensation awarded by the Court.

Other questions related to the situation in the North of Cyprus have been referred to the European Court of Human Rights since the last regular report, in particular within the context of the interstate complaint Cyprus against Turkey (application n° 25781/94).

1.4 General evaluation

Recent developments confirm that, although the basic features of a democratic system exist in Turkey, it still does not meet the Copenhagen political criteria. There are serious shortcomings in terms of human rights and protection of minorities. Torture is not systematic but is still widespread and freedom of expression is regularly restricted by the authorities. The National Security Council continues to play a major role in political life. Although there have been some

⁴ "Turkish Republic of Northern Cyprus" not recognised by the international community apart from Turkey.

improvements in terms of the independence of the judiciary the emergency courts system remains in place. In recent months there have been some more encouraging signs of democratisation. The government and Parliament have worked to adopt some key laws regulating political life, the justice system and protection of human rights. It is too early to assess the impact of these measures but these efforts should be pursued and extended to all citizens, including those of Kurdish origin. The Commission hopes that the positive impact of these measures will not be undone by the carrying out of the death sentence passed on Mr Abdullah Öcalan.

2. ECONOMIC CRITERIA

2.1 Introduction

In its 1989 Opinion on Turkey's application for EU membership, the Commission concluded:

“Turkey’s economic and political situation, ... , does not convince it that the adjustment problems which would confront Turkey if it were to accede to the Community could be overcome in the medium term”.

In the 1998 Regular Report the Commission found that: Turkey had achieved most of the “hallmarks of a market economy”, and that “... the proven considerable potential for growth and the shown great adaptability, especially in the context of the customs union, ... should enable Turkey in the medium term to acquire a viable market economy able to withstand the pressure of competition”.

In examining the economic developments in Turkey since the Opinion, the Commission’s approach was guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed this methodology.

2.2 Economic developments

After three years of strong growth, economic activity slowed down considerably since mid-1998. The Russian financial crisis hit the Turkish economy primarily through its negative effects on the financial markets. As a result of a substantial flight of short-term capital, the interest rate level rose significantly in Autumn 1998, deterring private investment and increasing drastically the costs for the financing of the public deficit. Export growth slowed down markedly, but lower imports more than offset the effects on the trade balance. The current account turned into surplus, benefiting also from increased capital inflows, as workers remittances rose sharply in reaction to the increased interest rate differential. For the first time in the 1990s, consumer price inflation declined throughout the year. The general government deficit was reduced, despite sharply increased costs of debt financing and higher than expected transfers to the agricultural sector. Structural reforms came virtually to a standstill in the second half of 1998, as the economic environment deteriorated. A new government entered office end of May with an ambitious reform programme. It has already brought through parliament numerous important reform packages.

On 17 August 1999, a massive earthquake struck Turkey’s industrial core region and caused considerable damage. The temporary disruption of production might dampen economic growth by about 0.5 percentage points but the reconstruction needs (about 2.5-3.5% of GDP) will

lead to stronger growth next year. There is a risk that fiscal consolidation will be delayed and structural reforms could be postponed. Although, it is only the swift implementation of structural reforms, especially in the field of public finances, which could prepare the ground for being able to master the economic challenges caused by the natural disaster.

Macroeconomic developments

Economic activity in Turkey slowed down markedly in the second half of 1998. In the first quarter of 1998, real GDP growth still was rather strong (8.5% above the level a year before) but it declined throughout the year and became negative in the fourth quarter of 1998. The decline continued in the first half year of 1999. Overall GDP growth in 1998 was 2.8% - significantly below the level of around 7% during the period 1995-1997.

Private consumption remained largely unchanged in 1998, year-on-year, while private investment contracted sharply by 6.7%, compared with growth rates well above 10% in the three previous years. The main reasons for the decline in investments have been the negative impact of the Russian crisis on the financial markets and a sharp rise in interest rates, discouraging business investment as investing into government bonds offered higher returns at a lower risk. The lack of private consumption dynamics reflected declining consumer confidence and lower wage growth. Public consumption rose by 5% in real terms, and public sector fixed investment also increased considerably in 1998. In the first quarter of 1999, private consumption declined by 6.7% year-on-year and private investment declined by 21%.

With respect to production it was mainly strong growth of the agricultural output - accounting for 14% of GDP and increasing by 7.6% year-on-year - which prevented real GDP growth from slowing down even sharper, while industrial production (25% of GDP) rose by a mere 1.8% and trade (20% of GDP) increased by only 1.2% year-on-year.

Registered employment rose by 2.8% in 1998, mainly thanks to increased labour demand in agriculture and services. In contrast to recent trends, the share of employment in the agricultural sector increased slightly to 42.3% of total employment in 1998, while the share in the service sector remained unchanged (34.9 % in 1998) and the share of the industrial sector even declined marginally (from 17.2% in 1997 to 16.8% in 1998). This reflects the slowdown in output during the second half of 1998 and in the first half of 1999. However, the underlying labour market dynamics might be higher than indicated by statistical data, as the share of unregistered employment is relatively high in the textile and metal industries, which were most affected by the slowdown in growth. The official unemployment rate remained largely unchanged in 1998, as labour supply rose in parallel to demand.

Foreign trade was strongly affected by the deterioration in the external environment and the decline in domestic demand. Growth of commodity exports declined from 13.1% in 1997 to 2.7% in 1998. Exports benefited from a rather stable demand from the European Union and North African countries, while export to the CIS and the Asian region declined markedly. This slowdown was more than offset by a strong decline in imports (-5.4% in 1998, after an increase of 11.3% in 1997) and the fall in oil prices; the import content of exports is relatively high. The trade deficit decreased to 7.1% of GDP . In the first quarter of 1999, the trade deficit shrank to 0.9% of GDP, compared with 2.3% of GDP in the first quarter of 1998 .

The current account improved in 1998, turning from a deficit of 1.4% of GDP in 1997 to a surplus of 0.9% of GDP. The most significant contributions to the improvement came from the decline in the trade deficit and from a rise in workers' remittances (from 2.2% of GDP in 1997 to 2.7%), which mainly occurred in the last quarter of 1998, when interest rate differential rose sharply. Tourist revenues, accounting for 2.7% of GDP in 1997, remained largely unchanged during 1998 but declined by some 25% in the first quarter of this year. The declining number of tourists indicates that tourist revenues might be quite weak in 1999. After the drain in foreign exchange reserves during the second half of 1998, reserves recuperated in the first half of 1999 and are at present covering nearly 6 months of imports.

The continuous and substantial decline in inflationary pressures has been one of the most noteworthy developments during the last year. Starting from a level of 101.6% in January 1998, 12-month consumer price inflation declined continuously since then and reached a level of 64.3% in June 1999. Diminishing demand and lower import prices contributed to that development. In Turkey inflationary developments are largely driven by strong growth of public expenditures for agricultural support and public sector wages and from inflationary expectations. As part of the 3-year stabilisation programme adopted end of 1997, the Turkish government tried to break the inflationary inertia and shifted the indexation of agricultural price support and of public wages from backward to forward looking indexation. This policy seems to have been successful in breaking inflationary inertia.

The Turkish Central Bank aims at maintaining the real exchange rate broadly constant. At a monthly level, the lira is allowed to depreciate daily in line with a predetermined unannounced monthly rate against a currency basket containing 1 US dollar and €0.77. In terms of a trade weighted real effective exchange rate, the Turkish currency appreciated by 2.6% year-on-year during the first half of 1998 and depreciated afterwards, so that during the first half of 1999 the real effective value of the Turkish currency was nearly 5% below the value of a year before.

Central government finances largely remained in line with targets of the IMF-guided consolidation. This is a remarkable success and a significant change compared to previous consolidation attempts. The fiscal consolidation took place despite a series of adverse influences: interest payments rose sharply in the wake of the Russian crisis (from 7.8% of GDP in 1997 to 11.7% of GDP in 1998); costs for agricultural support were higher than expected as world market prices were below expectations; revenues were dampened by the first-round effect of the 1998 tax reform. The government reacted by further reducing expenditures and intensifying tax collection on the base of the stricter regulations of the new tax law. In addition, there were one-off privatisation revenues such as those from the sale of mobile phone licences. As a result, the primary surplus was raised from 0.1% of GDP in 1997 to 4.7% in 1998, while the general government financial deficit declined from 7.5 % of GDP in 1997 to estimated 7% in 1998. However, revenue shortfalls and higher expenditures during the first half of 1999 made it necessary to revise upwards the budgetary deficit target.

Main Economic Trends						
Turkey	1995	1996	1997	1998	1999 latest	
Real GDP growth rate per cent	7.2	7.0	7.5	2.8	-5.1	Jan-Jun

Inflation rate									
- annual average	per cent	93.6	80.4	85.7	84.6	64,4	Jan-Aug		
- December-on-December	per cent	76.0	79.8	99.1	69.7	:			
Unemployment rate, end-year									
- ILO definition	per cent	6.9	6.1	6.4	6.4	7.3	April		
General government budget balance ⁵	per cent of GDP	-4.0	-8.3	-7.5	:	:			
Current account balance	per cent of GDP	-1.4	-1.3	-1.4	1.0	0.2	Jan-Mar		
	million ECU/€	-1787	-1919	-2362	1669	905	Jan-Mar		
Foreign debt ⁶									
- debt export ratio	per cent	:	:	98	86	:			
- gross foreign debt	billion ECU/€	:	:	51.0	48.4	:			
Foreign direct investment net inflow	per cent of GDP	0.5	0.4	0.4	0.5	0.6			
- balance of payments data	million ECU/€	677	569	710	838	182	Jan-Mar		

Source: National sources, OECD external Debt Statistics, IMF Government Finance Statistics.

Structural reforms

In the framework of the IMF-guided stabilisation programme, the privatisation of state assets plays a central role for debt redemption. During the first half of 1998 privatisation has been rather successful, selling 12.3% share of the Is Bank and two 25-year mobile phone licenses, generating revenues of nearly €1 billion. This is about 0.5% of GDP, or nearly a quarter of realised privatisation revenues since the beginning of privatisation in 1985. However, other more important privatisation projects were either suspended or postponed in the second half of 1998, when the situation on the international capital market deteriorated, legal and institutional obstacles appeared and the increasing internal political instability seriously interfered with the decision making process. Thus, instead of the targeted privatisation revenues of roughly € 2 billion, only about one billion could be realised in 1998. Given the limited objectives of the caretaker government, only little emphasis was devoted to privatisation activities in the first half of

⁵ Excluding local government.

⁶ The data are the result of cooperation between BIS, IMF, OECD and World Bank. This source should be more reliable in terms of broader coverage, avoidance of double counting, etc., as well as improved timeliness.

1999. However, there are ambitious plans to realise privatisation revenues of nearly €4 billion during the second half of the year, selling state-dominated companies in the manufacturing sector (oil, iron and steel, chemical industry, ...) and the national airlines. Out of the 76 companies lined up for privatisation, 26 are earmarked for sale in 1999.

With respect to the privatisation of state banks, Turkey is presently restructuring the Emlak Bankasi, specialised in the financing of housing construction. Two other banks, the Halk Bankasi (savings bank) and the Ziraat Bankasi (agricultural bank) are also on the list for privatisation, but the current situation might make it difficult to generate sufficient interest.

The newly adopted amendments to the banking law closed important legislative gaps, and established a new regulatory and supervisory body, the Banking Regulation and Inspection Board, to be operative by the beginning of next year. The new law also tightened rules and raised penalties for misbehaviour. This modified banking law is an important step towards improving transparency in the banking sector. However, further steps are necessary, such as the reduction of the still considerable role of the state banks.

After lengthy discussions and massive resistance by the trade unions, the parliament recently adopted a reform of the pension system, which at present is a heavy burden on public finances. Despite the favourable age structure of the Turkish population, the number of contributors is relatively low, while expenditures are relatively high due to the generous provisions on the retirement age and increasing life expectancy. The bill raises the retirement age to 58 for women and 60 for men. Workers who had maximum two years left to his/her retirement will not be affected by the new scheme. A transition period of ten years is foreseen for the remaining workers. The minimum premium payment period is increased from 5000 days to 7000 days. The new law also introduces for the first time an unemployment insurance scheme in Turkey, which will be launched in June 2000. The unemployed will continue enjoying medical treatment while they are jobless and being trained to find a new job. The amount of benefit is to be calculated as 50% of the net earnings on the basis of the last 4 months' social security premium payments. Pensions are also indexed to monthly inflation. In early September, the reform package received the required approval by the President.

Other proposals which have been put to parliament are the customs code, the bill on unfair competition in imports and accreditation and the capital markets board law.

Main Indicators of Economic Structure in 1998		
Population (average)	thousand	63451
GDP per head	PPS-ECU	6400
	per cent of EU average	32
Share of agriculture ⁷		16.1

⁷ Agriculture, hunting, forestry and fishing.

in:	per cent	42.3
- gross value added	per cent	
- employment		
Investment-to-GDP ratio	per cent	25.4
Gross foreign debt/GDP	per cent	27.6
Exports of goods & services/GDP	per cent	24.2
Stock of foreign direct investment, according to EBRD	billion € €per head	: :
<i>Source: National sources, OECD external Debt Statistics, IMF, EBRD.</i>		

2.3 Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

As set out in Agenda 2000, the existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

After years of frequently changing governments, the parliamentary election in April 1999 resulted in the formation of a coalition government with a comfortable parliamentary majority and a strong political commitment to tackle overdue structural reforms and to bring down the chronic high levels of inflation and public deficits paralysing the Turkish economy during most of the 1990s. In early July 1999, the new government has already reached a further agreement with the IMF on a Staff Monitored Programme until the end of 1999 and a consolidation programme starting in the year 2000, with the target of bringing down inflation to single digit numbers by 2002. Trade unions in Turkey appear to agree with the government on the need for swift reforms.

With respect to macroeconomic stability, 1998 has been a difficult year for Turkey. The response to the negative external shock demonstrated the flexibility and swift adaptability of the Turkish economy. But it also illustrated its vulnerability, as it revealed that the functioning of the economy depends crucially on the access to liquid capital markets, which when markets are squeezed markets is only provided at high costs. Thus, despite the considerable potential to

face adverse developments, the degree of macroeconomic stability that has been reached does not allow economic agents to plan beyond a short-term horizon.

In principle, prices are determined by market forces. However, roughly one third of the items in the consumer price index basket still is subject to administrative pricing.

As far as external liberalisation is concerned, Turkey has made, in line with its commitments under the Customs Union, further progress in negotiating preferential agreements with EU partner countries. For example, it has signed Free Trade Agreements with all EU candidate countries.

As a heritage of decades of trying to use its own enterprises to modernise and diversify the Turkish economy, the state still plays an important role as an economic agent, especially in sectors like basic industries and banking.

Market entry and exit remain free. Foreign direct investment is subject to prior authorisation, which however is generally conceded. There are neither quantitative restrictions on the inflow of capital, nor on the remittance of capital earnings. The legal framework for the working of a market economy is largely in place. In 1998, this newly established, independent Competition Authority started to deal with competition infringements, considered applications for mergers and acquisitions and gave its opinion on possible incompatibilities between various government institutions. The new government also brought through parliament a change to the constitution, in order to allow for international arbitration. This measure facilitates privatisation of enterprises in the energy, telecommunications and infrastructure sector and removes a considerable disincentive for foreign direct investment, which until now is still very low in view of the economy's size and potential. However, despite the progress achieved there is still a need to improve the implementation of already existing legislation.

The remaining distortions in the financial sector, impact negatively on the development of small and medium-sized enterprises. However, the recent amendment to the banking law has introduced stricter regulations in an attempt to improve transparency in the sector.

Turkey has many of the characteristics of a functioning market economy. It has made progress in achieving macroeconomic stability, especially in reducing inflationary pressures and public deficits. The authorities have demonstrated the ability to adhere to budgetary consolidation in an unfavourable economic environment and during a time of political uncertainty. However, the process of achieving a smoothly functioning market economy is not completed, as there are still considerable areas of state dominance and market distortions - especially in agriculture and the financial sector. Structural imbalances, such as the close link between the banking sectors' profitability and the existence of a high and short-term financing need of the public sector lead to a distorted capital market and high real interest rates. In order to cure such chronic imbalances and to unveil Turkey's slumbering growth potential, the authorities should continue to focus on bringing down inflationary pressures and public deficits, and on developing further structural reforms.

The Capacity to Cope with Competitive Pressure and Market Forces within the Union

Turkey's ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

With respect to the existence of a functioning market economy, the Turkish economy has shown a considerable degree of flexibility when weathering the turbulence caused by the Russian crisis. In addition, the relative ease with which the economy took up the increased competition due to the customs union provides further evidence for the economy's potential. Nevertheless, macroeconomic stability is not reached to a sufficient degree. Due to the high level of inflation, the planning horizon of economic agents is very short in Turkey and strongly biased towards liquidity consideration. The present environment does not allow for longer-term investment considerations, which would be necessary to secure the long-term competitiveness of the Turkish enterprise sector within the environment of a common market.

As far as physical capital is concerned, Turkey's investment share is over 25% of GDP, which is in line with other catching-up economies, but is subject to a relatively high degree of volatility and distortions. In addition to the normal volatility, the investment behaviour is hampered by the volatile monetary environment, the sub-optimal functioning of the financial sector in channelling the investment funds to the most efficient uses and the crowding-out by the public sector. Public investment accounted for 6.7% of GDP in 1998, which is more than one quarter above the level of the previous year. About 70% of public investment is used for construction purposes.

Foreign direct investment accounts for about 0.5% of GDP, which is relatively low, despite the liberal Turkish regime for foreign direct investment, the large domestic market and the free access to the European market for manufactured commodities.

Turkey is in the favourable position of having a relatively young population. However, the level of human capital is relatively low when compared to other applicant countries. Turkey's competitiveness in terms of human capital could further deteriorate and enter a vicious cycle of low education and low wages.

Wage flexibility remains relatively high in Turkey. In the early 1990s, wage growth was rather strong, but it declined sharply after the recession in 1994. In 1998, real wages of employees in the public sector declined by 0.4%, while private sector wages rose by 9.6%. Productivity per registered employee rose by 12% in 1997 but declined by 2.6% in 1998.

Physical infrastructure is a potential bottleneck of economic growth. Especially the railway system is outdated and operates only with considerable deficits. On the other hand, the quality of the telecommunication network has improved considerably in recent years. Furthermore, the government is very active in expanding and upgrading networks for energy transport.

Trade integration with the European Union remains relatively high. Turkey is the only applicant country which has entered a customs union with the EU, covering industrial and processed

agricultural commodities. About 50% of Turkey's trade is carried out with the EU. More than two thirds of Turkey's exports went to the wider set of European countries. The major economic effect of the customs union, which is in force since 1 January 1996, was a redirection of Turkish imports towards the EU, while the share of Turkey's exports to the EU declined over last few years: this phenomenon results from firstly from a relatively low growth of import demand in the EU and secondly from a dynamic increase of Turkish exports markets in Central Asia. Turkish enterprises have had no major problems in adjusting to the new competitive situation. During the 1990s, the commodity structure of Turkey's trade improved rapidly, with the share of manufactured commodities rising from 66% in 1990 to 78% in 1998. The share of intra-industry trade with the EU is relatively high.

Small and very small family companies are the backbone of the Turkish private sector. In the manufacturing sector they account for 99.5% of the total number of enterprises, employ about 61.1% of total employment and generate 27.3% of value added. These companies demonstrated a high degree of flexibility and adaptability to new situations, but their competitiveness in a bigger market is limited as their access to the Turkish capital market is restricted and their management and administrative skills are not up to modern standards.

Given Turkey's relatively smooth economic performance within the customs union with the EU, considerable parts of the Turkish economy are able to sustain competitive pressures and market forces. However, there are still significant pockets of sheltered and non-competitive sectors, which are not able to survive without substantial government support, such as agriculture and state dominated basic industries and banks. In addition, small and medium-sized enterprises need considerable upgrading for being able to sustain international competition. The economy has not yet reached a sufficient degree of stability to allow for medium-term planning of economic agents. The overall level of education and of the transport infrastructure has to be improved significantly. Regional disparities between urban and rural areas and East and West are very large, leading to considerable internal migration flows. Despite government's attempts, like the Güney Anadolu Projesi, to promote economic development in underdeveloped areas, the present disparities pose a potential threat to Turkey's social and economic stability.

With regard to the capacity to cope with competitive pressure and market forces within the Union, Turkey is a dual economy. Part of the Turkish economy should be able to cope with competitive pressure and market forces within the Union in the medium term; another part needs major development. Much progress still is needed in order to remove structural imbalances.

2.4 General Evaluation

Turkey has many of the characteristics of a market economy. It should be able to cope, albeit with difficulties, with competitive pressure and market forces within the Union, provided sustainable macroeconomic stability is attained and there is further progress towards the implementation of legal and structural reform programmes.

Turkey has continued its consolidation policy and economic imbalances have been reduced. The public deficit and inflation have been reduced, the latter through a change in wage and price indexation. Pension reform has been approved by parliament. The efficiency of revenue

collection procedures has been improved. The constitution has been changed to permit international arbitration. This should facilitate privatisation of the electricity sector and investment in infrastructure and remove an important impediment for foreign direct investments.

Priority should be given to reduce inflationary pressures and fiscal deficits in order to reduce real interest rates and high financing needs of the public sector, which are crowding out private sector investment. In view of the financing needs for the repair of earthquake damage, special attention should be paid to the overall fiscal discipline and to the swift implementation of further structural reforms. Privatisation needs to be continued and the promotion of SMEs has to be enhanced. The uneven distribution of income and the huge regional disparities impede sound economic development. Attention should be paid to education as an element of an overall socio-economic development strategy.

3. Ability to assume the obligation of membership

The presentation of this chapter follows the structure used in the last Regular Report. It reflects Turkey's gradual approach to the adoption of the Community *acquis*.

In the perspective of the preparation of this report, Turkey has done an important work of self-assessment of the level of harmonisation of its legislation with the Community *acquis*. This exercise will serve as a starting point for further discussion between the Commission and Turkey on approximation of legislation.

3.1 Sectors of the *acquis* covered by the customs union

The customs union continues to form the backbone of the relationship between the EU and Turkey. As a result of an unfavourable external environment, Turkey has faced difficulties in sustaining its exports to some of its major trading partners. There was a considerable drop in overall exports of 7.1% in the first half of 1999. Turkey's exports to its biggest trading partner, the EU, however, posted growth of 2.4% in the same period, demonstrating the benefit of the customs union and partly compensating for a loss in exports to some other destinations.

Internal market

Free movement of goods

Current situation

There is free movement of industrial goods between the EU and Turkey. As far as technical legislation is concerned the situation is the following.

The Framework Law on the Preparation and Implementation of the Technical Legislation on Products has not yet been adopted. This has delayed the adoption of its implementing legislation, which is already prepared and covers specific issues on CE marking, conformity assessment bodies, market surveillance and exchange of information on technical regulations. It has also delayed the adoption of separate *New Approach* directives.

The transposition of European standards has substantially progressed. Full membership in CEN and Cenelec of the Turkish Standards Institution is currently a first priority.

As regards *sector specific legislation* related to areas covered by the new approach, the regulations transposing the directives on personal protective equipment, recreational crafts, machinery, low voltage, electromagnetic compatibility, lifts, civil explosives, gas appliances, pressure vessels, medical devices and toys, which have been prepared, have not yet been adopted.

New legislation has been adopted in the field of legal metrology.

Concerning sector specific legislation related to areas covered by the old approach, progress has been uneven. In the field of foodstuffs, most of the EC legislation is already in place. New regulations need to be adopted in the field of materials and articles intended to come into contact with foodstuffs. Customs checks on EU imported foodstuffs, which are still in place, should be urgently removed.

In the field of pharmaceuticals, directives on homeopathic products, pricing, immunological products, products derived from human blood, distribution, classification, labelling and advertising still need to be transposed.

In the field of chemicals, the EC directive on classification, packaging and labelling on dangerous substances and preparations as well as the Directive on restrictions on the marketing and use, which have been prepared, have not yet been transposed.

In the field of cosmetics, textiles, footwear, crystal glass and wood, no progress has been made.

Concerning motor vehicles the main progress is the transposition in 1999 of the type-approval directive for agricultural and forestry tractors.

With regard to product liability, Directive 85/374/EEC is only partially transposed.

Evaluation

The general situation with regard free movement of industrial products is satisfactory but implementation of EC legislation on elimination of technical barriers to trade is limited. In particular a framework legislation is still missing. Although in some sectors (based on the product specific approach) alignment with the directives is already in place, there has been no significant progress in completing this alignment since the last regular report, apart from the motor vehicles sector.

Competition

Current situation

There has been no significant change since the last regular report.

As far as the implementation of *anti-trust* rules is concerned, the situation remains satisfactory.

However, progress still remains to be made in order to finalise the approximation on the *acquis* as foreseen in the customs union Decision. Regarding *state aid*, information on Turkey's state aid schemes have already been submitted to the Commission. Their conformity with EC rules still needs to be discussed between the Commission and the Turkish authorities.

As far as adjustment of *monopolies and enterprises with exclusive rights* is concerned, the Commission is still particularly concerned with regard to the privileged position enjoyed by TEKEL, the Turkish State alcohol, tobacco and salt conglomerate.

Evaluation

The great efforts that Turkey undertook in the preparation of the entry into force of the customs union should be continued.

Intellectual, industrial and commercial property

Current situation

Patent protection on pharmaceutical products and processes is ensured in Turkey since January 1999 in line with Turkey's obligations under the **customs union** Decision. However, other obligations under annex 8 of this Decision (i.e accession to the Convention of new varieties of plants, protection of copyrights and neighbouring rights in satellite and cable broadcast etc), due to be fulfilled before 1 January 1999, have not been met.

Evaluation

There has been real progress in terms of protection of industrial property rights in Turkey. The other obligations that Turkey has to fulfil should not raise major problems but effective enforcement still merits special attention.

Commercial policy

Current situation

As stated in the last Regular report, Turkey's commercial policy is already largely aligned on EC policy. Further alignment has been achieved in the preferential policy field. Negotiations on a Free Trade Agreement with Poland were concluded in July 1999. When this agreement is formally adopted, Turkey will have Free Trade Agreements with all candidate countries from Central and Eastern Europe as well as FYROM. Negotiations with Egypt, Tunisia, Morocco and the Palestinian Authority continue, while negotiations with Malta and Jordan should start soon.

The EU is also holding preliminary discussions on the possible extension of the Customs union with Turkey to services and public procurement. A successful extension of the Customs Union in this area and enhanced co-ordination with Turkey and other candidate countries in the WTO should lead to a progressive alignment of Turkey's position with that of the EU in the GATS, the GPA etc.

Turkey is fully involved in the consultation process between the EU and the other candidate countries in view of the forthcoming negotiations in the WTO.

Evaluation

Turkey's compliance with the Community commercial policy remains very satisfactory.

Customs

Current situation

As stated in the last Regular report, Turkey's customs regime is similar in substance to the Community Customs Code rules. The differences between the two regimes have nevertheless not yet been totally eliminated, in particular concerning free zones, suspensive arrangements and customs procedures with economic impact. The new Turkish Customs Code, pending in the parliament since 1995, has still not been adopted.

Since 1 January 1999, Turkey participates, as foreseen in the European Strategy, in the pan-European cumulation system for rules of origin for industrial products.

A further strengthening of the Customs union, also envisaged in the European strategy, has been achieved through the establishment on 1 January 1999 of a common outward processing system for textile products. This system allows for economic outward processing operations involving both parts of the Customs union to be undertaken in a third country.

Evaluation

Some progress has been achieved but further efforts are needed to reach full harmonisation

Conclusion

While Turkey continues to comply with most of its obligations under the customs union, additional legislative efforts should be made in order to reach full compliance in the competition and customs fields.

3.2 Sectors of the *acquis* covered by the European Strategy

Although Turkey has no legal obligation on approximation of legislation outside the scope of the Customs union, the last regular report assessed the position with regard to the adoption of the *acquis* in the sectors covered by the European strategy. The present section examines progress made.

Internal market

Free movement of capital

After a long period of gradual opening up of its regime on capital movements, the alignment of the Turkish legislation with the *acquis* in this field is well advanced.

No recent liberalisation measures have been taken. Restrictions remain in particular in the field of foreign direct investment by foreigners in the Turkish mining, energy and banking sectors. Investment by foreigners in the field of real estate is also restricted. Public offering of foreign securities to the domestic capital markets by foreign issuers is only possible with a minimum quality track record. Finally, insurance companies' technical reserves cannot be invested in foreign assets.

Although Turkey was severely affected by the global financial crisis starting in 1997 and continuing through 1998, it did not revert to any measures which would have restricted the free movement of capital.

The dialogue on greater liberalisation of movements of capital between the Community and Turkey, as foreseen in the European Strategy, was supposed to start together with the macro-economic dialogue. Both sides intend the discussions on these issues to take place in autumn 1999.

Free movement of services

A few legislative developments entered into force in the financial services sector. In the *banking* sector a new Banking Act has been adopted in June 1999. The Act introduces, among other

things, a stricter set of requirements for the taking up and pursuit of the business of banking. It also introduces provisions to avoid misuse of resources by shareholders. Further large exposures are defined. The Act also foresees the establishment of a Banking Regulatory and Supervisory Authority with auditing and monitoring capacity. The conformity of this new law with the First and Second Banking Co-ordination Directives and the Directives on Large Exposures and Deposit Guarantee Schemes will have to be evaluated. The conditions of its implementation will also have to be followed. Efforts must continue to fully align with the EC Directives in this field.

No major progress can be reported in the *securities* market and *insurance* sector, in which, according to the last year regular report, further approximation with the acquis was needed.

Concerning the *payment* infrastructure, a real time gross settlement (RTGS) system is already in place and the Central Bank of Turkey is currently introducing more advanced features in the system. No information is available on progress on the implementation of the electronic securities transfer and settlement (ESTS) system, that will have a real-time connection to the settlement system. Based on the existing RTGS system, the payment system in Turkey can be considered as rather advanced.

Exploratory talks between the Commission and the Turkish authorities on a preferential agreement on the liberalisation of services foreseen in the European strategy have progressed well on questions such as the form, structure and scope of the agreement. On many occasions the EU and Turkey have underlined the great importance they attach to substantial progress in these two sectors.

Public procurement

The information available does not make possible an evaluation on the openness of the Turkish public procurement market.

Discussions on mutual opening of public procurement markets, as foreseen in the European strategy, have been held in the context of discussion on services.

Industrial and SME policy

Turkish industry has been influenced by negative international macro-economic developments.

Due to lower domestic demand, domestic market oriented sectors like the Turkish automotive industry have experienced a drop in sales, while export oriented sectors like the textile industry had to cope with increased price competition from Asian countries on world markets. This has led to pressures from some parts of industry for protection. Despite these pressures and the political uncertainty in the run-up to the last elections, the Turkish Government has resisted protectionist calls.

In this context, the customs union with the EU has acted as a stabiliser for Turkish industry, because exports of industrial products to the EU have been largely unaffected by the crisis, while imports from the EU have decreased in line with the fall in domestic demand.

As mentioned above (chapter on economic criteria) structural reforms and stabilisation measures are still needed in order to improve the business environment. It is also crucial that Turkey improves its rating as a foreign investment location.

An important dimension of the industrial policy is the control of state aids (see competition chapter).

Concerning the privatisation programme, the ambitious targets for 1998 have not been met. However, the new Government has declared that it will continue privatising State run companies, and has set itself the target of €3.8 billion privatisation revenues in 1999.

As far as the steel sector is concerned, the privatisation of the steelworks at Eregli, although planned for 1997, has not yet taken place. Moreover, the entire sector needs to restructure, while ensuring that any state aid granted is compatible with international obligations.

SMEs play an important role in the economic and social fabric of the country. However they still face a series of difficulties that stem from traditional modes of production in certain sectors and parts of country. They find it difficult to get access to the capital markets and to cope with high interest rates.

The EU and the Turkish Government are currently in the process of setting up a contact group for industrial co-operation, consisting of the main industry and SME federations. This group will have a pivotal role to play in defining future strategy for EU-Turkish industrial co-operation, and should also work on concrete co-operation projects, which could be realised in the framework of the European strategy for Turkey. Through ad hoc participation of Turkey in various Community initiatives, co-operation between Turkish and EU business organisations continues as well as direct business-to-business contacts.

Agriculture

Compared to 1997, the sector's total contribution to GDP rose by 2.8 percentage points to 17.8% in 1998, which is the highest value reached in this decade. The agricultural share in employment is about 43%. Foreign trade of agricultural goods is reported to be stable on the export side with € 2.4 billion in 1998 while imports shrank considerably. The decrease amounted to 13,5 % resulting in only € 1.8 billion of agricultural imports. Thus, the Turkish agricultural trade surplus was €626 million compared to €335 million in 1997.

Agricultural and food trade between the EU and Turkey followed the same lines. Stable Turkish exports and decreasing imports from the EU resulted in Turkey's positive agricultural and food trade balance with the EU of €980 million.

However, agricultural trade relations between Turkey and the EU are still disturbed by Turkish restrictions on imports of live bovine animals and beef from the EU.

With regard to agricultural policy, Turkey continued its path of relatively high support and protection for agriculture. Provisional OECD data on percentage PSE (producer support estimate) amounts to 39. This compares to 31 in 1997 and is the highest value ever calculated for Turkey. The most important increases in PSE were observed for cereals, sugar and beef.

Another important issue concerns the abolition of state involvement in marketing and processing of agricultural produce, which is still strong for alcoholic beverages, tobacco, cereals, tea, sugar and red meat. As far as can be ascertained by the Commission, no significant progress was reached in this area since the last regular report.

As part of its European strategy for Turkey the Commission has proposed a programme along the lines of the approach followed for the candidate countries from Central and Eastern Europe to help Turkey to bring its farm policy in line with the CAP. The Commission's services and the Turkish authorities have started a process of policy comparison in the area of arable crops.

Telecommunications and information society

The expansion and modernisation of services and infrastructure is developing well with a penetration rate in fixed telephony of 32 lines per 100 inhabitants, and in mobile telephony of 5.3 per 100 inhabitants. The digitalisation of the backbone network went up to 82.9%, although the market for fixed voice telephony will remain under the monopoly of Turk Telecom until 1 January 2003.

A further liberalisation of the market for mobile telephones is under preparation (adding further licences to the two GSM licenses granted in 1998).

A new telecommunications law has been prepared which will change the status of Turk Telecom, allow for partial privatisation of up to 49 % of the company, introduce general conditions for concession and licences and provide for the establishment of an independent regulatory authority. A regulation has been prepared on revenue sharing between Turk Telecom and the mobile network operators has been elaborated. In order to cope with the rapidly growing demand for Internet connections, a new Internet backbone service (TT-NET) will be launched by Turk Telecom this year.

The major part of the *acquis* has still to be adopted, including a new law, the draft of which is in essential parts not in line with EU regulations.

Co-operation in specific technical and regulatory projects would be facilitated if funding were available. As part of the European strategy, the Commission and the Turkish institute Tubitak have recently decided to co-operate through their respective Information Society Technology Programme and TIDEB Programme.

Scientific and Technical research

No particular development can be reported.

During recent contacts between the Turkish administration and the Commission, Turkey has indicated that it would not participate as a fully associated country in the Fifth Framework Programme and that it will continue to participate on a project by project basis.

Environment

The last regular report indicated that the Turkish law was very different from that of the Union, particularly in terms of standards, monitoring requirements and methods of measurement, and

that the implementation of the law left much to be desired. It also underlined that the May 1998 national environmental action plan devoted little attention to adoption of the *acquis*.

Complete adoption of the environmental *acquis communautaire* remains a long-term prospect. Since the last Regular report, no evidence of progress in adopting the *acquis* is apparent in areas such as water, nature protection, waste incineration, industrial pollution control and risk management, chemicals, ozone depleting substances, nuclear safety and radiation protection.

Turkey has reported that the regulations on the protection of air quality and noise control are being revised taking into account EC norms and the prevailing conditions in Turkey. It also reports that it has partially amended the regulation on medical waste control.

The production or marketing of genetically modified organisms (GMOs) is not currently permitted. Acts and regulations to control GMOs are under preparation by the appropriate ministries following receipt in 1998 of the first application to import genetically modified potato, maize and cotton.

Turkey has continued to play an active role in the Black Sea environmental co-operation and currently holds the Chairmanship of the Istanbul Commission set up under the 1992 Bucharest convention for the protection of the Black Sea.

The Community programme LIFE-Third Countries continues to be used to fund environmental projects complying with the aims of Community policy and legislation with three new projects having been agreed in 1999.

Turkey has responded positively to the European strategy by making concrete propositions for enhanced environmental co-operation. Further progress will require the adoption of financial regulations providing support for implementation of the European strategy.

In March 1999, Turkey formally applied to participate in the activities of the European Environment Agency (EEA). In July 1999 the Commission adopted a draft proposal for a Council Decision concerning the negotiations on behalf of the Community on the participation of all candidate countries in the EEA.

Transport

Turkey is following a policy of progressive adaptation of its regulatory system to that of the EU.

In road transport, Turkey does not yet apply some of the important UN-ECE multilateral conventions in the field of social legislation and transport of dangerous goods, which are also incorporated into the Community *acquis*; however, ratification of the AETR is now in its final phase, and accession to the ADR is planned for this year. A number of difficulties remain in road transport (authorisations and permits for road hauliers, safety, weights and dimensions).

In the maritime field, the treatment in Turkish ports of vessels serving Cyprus and of vessels on the Cyprus register is still cause of major concern. Considering the very high detention rate of Turkish vessels in foreign ports, maritime safety should be a priority issue.

On the occasion of various contacts between the Commission and the Turkish authorities on the European strategy, specific fields of co-operation have been discussed. Nevertheless, the implementation of European strategy proposals has not substantially progressed, in part due to the absence of adequate financial support.

Concerning air transport, the Commission remains open to entering into exploratory discussions on liberalisation.

Concerning infrastructure, Turkey has expressed its interest to participate in the extension of the transeuropean network of Global Navigation Satellite System (GNSS). Discussions with the Commission services have started on this subject.

Energy

Turkey's energy policy objectives remain to a large extent in line with those of the EU and include security of energy supplies, diversification, market principles, environmental norms and increased efficiency. The recent change to the Constitution allowing privatisation and international arbitration has been an important development in this sector. Turkey is also considering the creation of an independent structure in the energy sector (Regulatory body). Improving energy efficiency is a priority but much remains to be done.

There has been no major policy change concerning recourse to nuclear power and the planned Akkuyu nuclear power station.

In line with the European strategy, Turkey has prepared an inventory of EU and Turkish energy legislation with a view to the harmonisation with the energy *acquis*. This inventory will be assessed by the Commission in a similar way as for the other candidates countries.

Next steps should include alignment in areas such as the internal energy market, oil stocks, state interventions in solid fuels sector, improvement of energy efficiency including losses in power transmission and distribution, promotion of the use of renewable energies and the Euratom *acquis*.

Following Turkey's request for participation in the INOGATE oil and gas pipeline management programme, discussions have started in view of the financing of specific projects in this field under MEDA.

Consumer protection

Turkish alignment with the consumer protection *acquis* is progressing rather slowly and none of the directives in this field have been fully transposed. Market surveillance authorities need to be reinforced. Consumer protection associations need to be further strengthened to become effective.

Under the European strategy, proposals for co-operation are being discussed.

Justice and Home Affairs

The last Regular Report called on Turkey to develop active cooperation with the EU on immigration, to lift its geographical reservation on the Geneva Convention and to adopt a number of items of legislation (under criminal law).

Immigration / border controls

So far as immigration is concerned, in 1998 the number of persons caught while transiting illegally through Turkey exceeded 40.000. This figure represents a significant increase in comparison to 1997 (30.000) and 1996 (18.000). The majority of these people come from Pakistan, Bangladesh, Sri Lanka, Afghanistan and first and foremost from Iraq. Coast guards, Land forces, Gendarmerie and Police are responsible for the prevention of illegal immigration.

Turkey is not a country of final destination : almost all the persons caught try to reach Western European countries and the majority of them are caught at the land border between Turkey and Greece at Edirne since most illegal immigrants try to enter Greece as a first step. The number of illegal crossing attempts in Bulgaria is negligible. The sharp increase in the number of immigrants caught calls for a development of the facilities and an increase of the financial means to accommodate the illegals.

The fight against illegal immigration is on the agenda of the talks which started in July 1999 between Turkey and Greece. Turkey participates in the Budapest Process against illegal immigration and also co-operates with the Office for International Migrations in the field of training.

The objection of Turkey to conclude readmission agreements remains a serious difficulty.

So far as borders are concerned, sea borders fall under the responsibility of coast guards (Ministry of Interior) while Land forces (Ministry of Defence) and Gendarmerie (Ministry of Interior) are responsible for the protection of the green borders. In the future, merging within a unified Border Guard of the different services in charge of border controls could be considered in order to improve co-ordination and efficiency.

Right of asylum

Turkey co-operates with UNHCR in the field of training. 17746 Kosovars have been granted temporary residence for six months as from March 1999. In addition, as mentioned above (chapter 1), the procedure for the examination of residence permission request have been improved.

Turkey still maintains a geographical reservation to the 1951 Geneva convention and only grants refugee status to people coming from European countries, thus largely rendering the asylum machinery ineffective. The conditions in which asylum-seekers are held need to be improved. A department specifically intended to handle asylum cases also needs to be set up. It would also have to be able to gather and evaluate figures on the number and origin of asylum seekers and on the reasons for refusal of asylum.

Police

The internal security forces (151.664 persons), i.e. the bodies affiliated to the Ministry of Interior, are the General Directorate of Security, the Gendarmerie and the Coast guards. These

three bodies perform their tasks respectively in urban areas, rural areas and on the coasts. The General Directorate of Security, i.e. Police *stricto sensu*, is divided into judicial, administrative and political branches.

As far as crimes against public order in 1998 are concerned, when compared to 1997, the highest increase is observed in illegal gambling, robbery, wounding and child kidnapping while there was a significant decrease in women kidnapping and pyromania. Crimes regarding traffic and smuggling are on the increase.

In July 1999, Parliament passed a new law intended to combat organised crime, with the intention of curbing the power of the Turkish mafia and other illegal organisations. The law will bring increased powers of surveillance to the security services, allowing police and gendarmerie to monitor and record the movements and activities of individuals after obtaining a court order. Police will not be required to determine a suspect's guilt before embarking on surveillance operations and may do so for a period of three months while awaiting court approval. Members of illegal organisations who provide information to the State benefit from a witness protection programme. The new law gives a detailed definition of organised crime. These provisions bring Turkey closer to the EU *acquis* in that field.

The issue of money laundering is regulated by Law 4208 of November 1996 on the Prevention of money laundering, complemented by a Regulation which provides that financial institutions are liable to prosecution if they fail to report suspicious transactions.

Regarding international co-operation, Turkey has signed so far 44 bilateral agreements on co-operation for the fight against organised crime and drug trafficking. Turkey also participates in a number of fora such as the OECD Financial Action Task Force (FATF).

Fight against organised crime should be strengthened, especially as regards trafficking of human beings. Although relevant articles of Law 4422 and of the Penal Code are applicable to trafficking in human beings, this activity is not criminalised as such in the Turkish legislation. This gap should be filled.

Drugs

An agreement on cooperation in combating drug trafficking was signed with India in 1998.

Turkey remains a major trafficking centre, particularly for drugs coming from Afghanistan, Iran and Central Asia. It is also a centre for refining opium.

The Turkish authorities need to devote attention to dismantling hidden laboratories and combating the chain of trafficking more effectively. Greater efficiency will require significant reinforcement of police cooperation with EU Member States, an area hitherto marked by insufficient exchanges of information. The Turkish authorities will have to acquire legal instruments which are compatible with international police cooperation practices, particularly in connection with "controlled delivery".

Judicial cooperation

In the field of civil law, Turkey ratified the European Convention on Recognition and Enforcement of Decisions concerning Custody of Children in August 1999, but it has so far

failed to ratify the Convention of 25 October 1980 on the Civil Aspects of International Child Abduction, and has not acceded to the Convention on the Taking of Evidence Abroad in Civil or Commercial Matters of 18 March 1970 or the Convention of 25 October 1980 designed to facilitate international access to the Courts.

In the field of criminal law, Turkey has yet to accede to two vital Council of Europe instruments: the 1990 Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the Agreement on illicit traffic by sea, implementing Article 17 of the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. Furthermore, Turkey has not signed the first additional protocol of 15 October 1975 to the European Convention on Extradition or the additional protocol of 18 December 1997 to the Convention on the Transfer of Sentenced Persons.

Employment and Social affairs

In the framework of the contact group meetings on the European strategy, Turkey has expressed its interest in discussing employment and social affairs under the European strategy.

The unemployment rate (ILO methodology) was 6.3% in 1998, as against 6.4% in 1997. An underemployment rate of 5.9% has to be added to this, according to official figures. It should be noted that no unemployment insurance system exists in Turkey at present, although with the adoption of the social security bill in 1999 (see above, chapter 2), an unemployment insurance scheme is to be introduced in June 2000.

As indicated in the last Regular report, Turkey has a number of workers' and employers' organisations. Progress has been made in recent years on the freedom of workers to organise and join trade unions. The Economic and Social Council has met twice in 1999. Notwithstanding this dialogue between social partners, restrictive provisions on trade union activity remain in Turkish law, particularly with regard to public sector unions and free trade zones. Moreover, there continue to be reports of widespread harassment of trade union activists by both employers and the authorities⁸. Further progress needs to be made to create the conditions for a free and genuine social dialogue.

The degree of alignment of Turkish legislation with the *acquis* in the field of health, social security, labour and equal opportunities is limited.

While Turkey is making serious efforts to address the problem of child labour, the phenomenon remains widespread.

The social security system continues to be in grave financial difficulty. On major health indicators, such as infant mortality, maternal mortality and life expectancy, Turkey continues to fare significantly worse than EU Member States.

⁸ Source: International Confederation of Free Trade Unions, Annual Survey of Violations of Trade Union Rights 1999.

Contacts have been established with a view to initiating an exchange of views and experiences between the Turkish authorities and the Community on issues of mutual interest in the field of social and employment policy and to work on approximation of legislation in these fields.

Conclusion

Since the last regular report, alignment efforts on the *acquis* have been continuing in most of the areas identified in the European strategy. However, much still remains to be done in fields such as the internal market (in particular as regards public procurement), agriculture, transport and environment.

3.3 Other sectors of the *acquis*

It is recalled that we are dealing here with sectors not currently falling within either the Customs Union Decision or the European strategy proposals, but nonetheless important in the context of a far-reaching approximation of laws. Some of them may in due course be brought within the European Strategy framework

Internal market

In the absence of legislation on data protection, no independent supervisory authority exists.

As regards company and accounting law, no specific developments can be reported.

As far as recognition of diplomas and professional qualifications are concerned, the information available does not allow for an evaluation of progress made in terms of alignment with the Community *acquis*. The Commission is in the process of launching a study on the situation in this field in Turkey.

Education, training and youth

The information available does not allow for an evaluation of progress made in this field. The Commission and the Turkish authorities are currently discussing the preparatory measures to be put in place in Turkey to allow future participation in the Community programmes Leonardo da Vinci II, Socrates II and Youth for Europe. EU funding is foreseen for these measures.

Audio-visual

The information available does not allow for an evaluation of progress made in Turkey with respect to the adoption of the audio-visual *acquis*. Turkish broadcasting legislation can not be considered as being in full conformity with the *acquis*.

EMU

Although the Turkish Central Bank enjoys a degree of factual independence, its statutes still need to be aligned to assure the full legal independence of the monetary authorities.

Further assessment of existing legislation is needed to assure that no form of privileged access of the public authorities to financial institutions exists.

Taxation

The Turkish VAT system, based on the Community approach, still differs from the *acquis* to some extent. No further alignment in the VAT area has been made since the last Regular Report.

As for the excise duties, Turkey's scheme still differs significantly from that of the Community.

The indirect tax systems applied by Turkey are a solid starting point in its future alignment to the Community tax *acquis*, although significant adjustments are still required. A more sustained effort is required in particular as regards excise duties. Special attention should also be given so as to ensure that imports are taxed at the same rate as similar domestically produced products. Furthermore, priority should also be given to the elimination of the supplementary tax for certain imports (eg. X-ray films).

Statistics

Although to date there have been only minor efforts to implement the *acquis* in co-operation with Eurostat, Turkey is willing to adopt the European statistical legislation. The State Institute of Statistics has made a self-assessment of its conformity with the EU *acquis* which will have to be discussed with Eurostat.

Fisheries

The information available does not allow for an evaluation of progress made in this field.

Regional policy and cohesion

Since the last regular report, a significant amount of new information has been made available.

Among all the candidate countries, Turkey is experiencing the most acute regional problems. This is firstly due to the importance of the gap between Turkey's GDP per capita and the EU average as well as the extent of internal disparities; and secondly, due to the population size (of which 38% are classified as lagging behind, according to internal criteria);

Contrary to the other candidate countries, Turkey has already been implementing a regional policy for a number of years. However, this policy has been carried out within the framework of a centralised planning system. As such, the regional dimension is not taken explicitly into account in the priorities of the public investment budget (no use of regional indicators in the selection of the projects). In addition, the service in charge of regional policy has very few people (25 officials) and no representatives in the regions.

According to available data, and given the fact that the effort to combat regional disparities is limited, the results are also very limited: the subsidised regions do not attract significant inward investment⁹ and infrastructure investments (even the GAP project, very strongly concentrated

on electricity production) have not enough positive impact on the development of the eastern regions.

Therefore, and despite the importance of emigration, the internal disparities have not been reduced.

When preparing for membership, a high level of priority would have to be given to the establishment of an efficient regional policy, addressing the major gaps of the regions lagging behind. Turkey would have to adapt its central administration in order to address this priority in allocating significant human and budgetary resources in this area, improving administrative procedures and establishing operational structures in the regions.

Common foreign and security policy

Following the Luxembourg European Council of December 1997, Turkey has refused to engage in any political dialogue with the European Union on the sensitive issues of the territorial dispute in the Aegean, Cyprus and the democratisation process. It has also continued to decline the invitation issued by the Luxembourg European Council to participate in the European Conference. However, in September 1999, FM Cem participated in the GAC luncheon and in early October, a Political Directors Troika meeting (provided for in the Association Council resolution of 30 October 1995 on EU-Turkey political dialogue) has taken place for the first time since October 1997.

Turkey has not asked to be associated to the positions taken by the EU in the area of Common and Foreign Security Policy.

Turkey's stance on the Cyprus question remains at odds both with UN resolutions and with the European Union's position and also has a negative impact on the Euro-Mediterranean Partnership. Turkey and the Turkish Cypriots have dismissed the statement of the G-8 Summit of 21 June 1999 and on 20 July a Turkish high level delegation led by PM Ecevit and including deputy PM Bahçeli, FM Cem and others ministers travelled to northern Cyprus to mark the 25th anniversary of the 1974 intervention and to strengthen political and economic ties between Turkey and the "Turkish Republic of Northern Cyprus".

The territorial dispute in the Aegean remains unsolved but the foreign ministers of Turkey and Greece have recently agreed on a new dialogue, aiming at pragmatic co-operation in a number of non-contentious areas.

Turkey has contributed significantly to crisis management operations in the Western Balkans. Turkish troops are involved in IFOR/SFOR in Bosnia, in the Multinational Protection Force in Albania and most recently in KFOR. During the Kosovo crisis the country has accepted several thousand Kosovo refugees. It applied the NATO-decided oil embargo on Yugoslavia and, on the basis of NATO obligations, a ban on Yugoslav flights, though it did not formally participate in the EU-decided flight ban.

⁹ Even in the 29 provinces (out of a total of 49), eligible to regional subsidies and not under the state of emergency

Turkey remains concerned about its status with regard to possible EU-led operations in the framework of the European security and defence policy³ It has indicated that the establishment of a satisfactory formal mechanism concerning this issue is a priority condition for its consent to the use of NATO facilities by the EU.

On the basis of the military co-operation agreement between the two countries, Turkey has consolidated its relations with Israel, while relations with Syria and Iraq remain strained. A Iran-Turkey High Security Commission meeting took place in August 1999 and adopted a memorandum of understanding on border security issues. Since the last Regular Report, several operations have been led by the Turkish Army in Northern Iraq. Turkey maintains considerable influence in Central Asia, both through its special relations with the Turkic language republics and its role in multilateral fora such as the Black Sea Co-operation and the Economic Co-operation (BSEC).

Conclusion

As regards sectors not covered by the customs union or the European strategy, it is clear that effective alignment on the *acquis* can not be expected at this stage. Next steps on the alignment of Turkey's legislation with the *acquis* will depend on a clear perspective on membership. This will also positively influence co-operation on CFSP matters.

³ The Presidency Report on Strengthening the European Policy on Security and Defence approved by the Cologne European Council calls for (1) "satisfactory arrangements for European NATO members who are not EU Member States to ensure their fullest possible involvement in EU-led operations, building on existing consultation arrangements with WEU" and (2) "arrangements to ensure that all participants in an EU-led operation will have equal rights in respect of the conduct of that operation, without prejudice to the principle of the EU's decision-making autonomy, notably the right of the Council to discuss and decide matters of principle and policy".

3.4. General evaluation

Turkey continues to make most progress in alignment in the areas covered by the Customs Union and, to a lesser extent, in areas covered by the European strategy. In general terms the situation with regard to free movement of goods is satisfactory and Turkey has reached a high level of adoption of European standards even if it has still not adopted a framework law. Despite the high degree of alignment in the customs area there is still a need for a new customs code. The Customs Union was further developed in the last year through the establishment of a common system of outward processing for textiles. There is a need for early progress in the area of copy right law. Although there has been no recent progress in the area of capital movements the general situation is good and the recent adoption of a new Banking act has brought further alignment.

In competition there has been progress in the area of anti-trust although the Commission remains concerned about the operation of the TEKEL monopoly. Turkey has notified its state aid schemes to the Commission and these are under examination. Agriculture is still characterised by high levels of support and protection and there has been no progress in legislative alignment since the last Report.

In public procurement and in some other parts of the internal market acquis the Commission does not have sufficient information available to be able to assess progress.

The administrative capacity to apply the acquis in the context of the Customs Union remains very satisfactory. However, Turkey needs to further modernise its administrative structures and to increase staff training.

4. Administrative capacity to apply the *acquis*.

The uniform application of EC law: As indicated in the last Regular report the judicial system in Turkey suffers from certain deficiencies as far as resources and operating procedures are concerned. This situation has not changed.

The current number of 8.300 judges and prosecutors, of whom 2.723 are women, is to be increased up to 9.400 next year. This increase is a positive step, but in view of the case law seems insufficient to ensure the proper functioning of the judicial system.

Single Market: The Patent Institute is the responsible body for the protection of *intellectual property* rights and patents. It carries out its tasks with a staff of 242 persons.

The administrative capacity for the enforcement of IPR will have to be strengthened, including border enforcement. Particular attention should be paid to measures to combat counterfeit and piracy. Effective co-ordination among law enforcement authorities is required as well as training of judges on IPR issues. Court delays should also be reduced and effective deterrence measures imposed.

In the area of *standardisation*, the Turkish Institution for Standardisation is the unique body in charge of standardisation in Turkey. It employs 1.162 people and can be considered as a well-equipped, independent body, with enough resources both from the personal and technical point of view. Currently the majority of its work is CEN-Cenelec related. Only 1% is occupied by national standardisation work, the rest being international related. As mentioned in chapter 3, Turkey has made good progress in the adoption of European standards since last year.

In the area of *conformity assessment*, the transformation of existing bodies in conformity assessment bodies in conformity with EC rules has not yet been finalised. Current efforts are concentrated in improving the equipment capacity of these bodies.

In the area of *accreditation*, an independent Turkish Accreditation body still needs to be established.

In the area of *market surveillance*, current efforts are concentrated in training the relevant personnel and in improving the equipment capacity of these bodies.

The establishment of administrative structures necessary to ensure the proper functioning of the customs union in the field of free movement of goods still needs to be completed. The structures already in place need to be strengthened, in particular through appropriate training of staff.

Competition: The Competition Authority, operative since November 1997, is the governmental Agency (staff of 307 persons), in charge of the enforcement of competition rules. The Competition Board is the decision-making body of the institution. State aid matters are dealt with in the Directorate-General for Incentives in the Undersecretariat for Treasury by a staff of 133 persons.

Even if administrative structures seem to function in a satisfactory manner, it is at this stage difficult to further assess their capacity to investigate anti-competitive practices

and their power to order the termination of such practices. The situation concerning state aids still needs to be assessed.

Commercial Policy: Commercial Policy matters are dealt with by the Undersecretariat for Foreign Trade with a staff of 1491 persons.

Existing administrative structures ensure satisfactory implementation of commercial policy regulations in the framework of the customs union.

Customs: The Undersecretariat for customs, which is affiliated to the Prime Ministry is the responsible body for dealing with all matters concerning customs, customs administration services as well as with combat against smuggling. It currently employs 8.539 persons.

The administrative structures have not yet been sufficiently improved to ensure the proper functioning of a customs regime fully harmonised with that of the EU. Modernisation of the customs administration needs careful attention.

Conclusion

Turkey's administrative capacity to apply the acquis in the context of the Customs union remains very satisfactory. However further efforts are needed in terms of modernisation of the structures and staff training.

C. Conclusion

Recent developments confirm that, although the basic features of a democratic system exist in Turkey, it still does not meet the Copenhagen political criteria. There are serious shortcomings in terms of human rights and protection of minorities. Torture is not systematic but is still widespread and freedom of expression is regularly restricted by the authorities. The National Security Council continues to play a major role in political life. Although there have been some improvements in terms of the independence of the judiciary the emergency courts system remains in place. In recent months there have been some more encouraging signs of democratisation. The government and Parliament have worked to adopt some key laws regulating political life, the justice system and protection of human rights. It is too early to assess the impact of these measures but these efforts should be pursued and extended to all citizens, including those of Kurdish origin. The Commission hopes that the positive impact of these measures will not be undone by the carrying out of the death sentence passed on Mr Abdullah Öcalan.

Turkey has many of the characteristics of a market economy. It should be able to cope, albeit with difficulties, with competitive pressure and market forces within the Union, provided sustainable macroeconomic stability is attained and there is further progress towards the implementation of legal and structural reform programmes.

Turkey has continued its consolidation policy and economic imbalances have been reduced. The public deficit and inflation have been reduced, the latter through a change in wage and price indexation. Pension reform has been approved by parliament. The efficiency of revenue collection procedures has been improved. The constitution has been changed to permit international arbitration. This should facilitate privatisation of the electricity sector and investment in infrastructure and remove an important impediment for foreign direct investments.

Priority should be given to reduce inflationary pressures and fiscal deficits in order to reduce real interest rates and high financing needs of the public sector, which are crowding out private sector investment. In view of the financing needs for the repair of earthquake damage, special attention should be paid to the overall fiscal discipline and to the swift implementation of further structural reforms. Privatisation needs to be continued and the promotion of SMEs has to be enhanced. The uneven distribution of income and the huge regional disparities impede sound economic development. Attention should be paid to education as an element of an overall socio-economic development strategy.

Turkey continues to make most progress in alignment in the areas covered by the Customs Union and, to a lesser extent, in areas covered by the European strategy. In general terms the situation with regard to free movement of goods is satisfactory and Turkey has reached a high level of adoption of European standards even if it has still not adopted a framework law. Despite the high degree of alignment in the customs area there is still a need for a new customs code. The Customs Union was further developed in the last year through the establishment of a common system of outward processing for textiles. There is a need for early progress in the area of copy right law. Although there has been no recent progress in the area of capital movements the general situation is good and the recent adoption of a new Banking act has brought further alignment.

In competition there has been progress in the area of anti-trust although the Commission remains concerned about the operation of the TEKEL monopoly. Turkey has notified its state aid schemes to the Commission and these are under examination. Agriculture is still characterised by high levels of support and protection and there has been no progress in legislative alignment since the last Report.

The administrative capacity to apply the acquis in the context of the Customs Union remains very satisfactory. However, Turkey needs to further modernise its administrative structures and to increase staff training.

**HUMAN RIGHTS CONVENTIONS RATIFIED BY THE CANDIDATE COUNTRIES,
JUNE 1999**

<i>Adherence to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LIT	MT	PL	RO	SK	SV	T
ECCHR (European Charter for Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property et al.)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom of movement et al.)	O	X	X	X	X	X	X	X	X	X	X	X	O
Protocol 6 (death penalty)	O	O	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	O	X	X	X	X	X	O	O	X	X	X	O
European Convention for the Prevention of Torture	X	X	X	X	X	X	X	X	X	X	X	X	X
European Social Charter	O	X	O	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	O	O	O	O	O	O	O	O	O	X	O	X	O
Additional Protocol to the ESC (system of collective complaints)	O	X	O	O	O	O	O	O	O	O	O	O	O
Framework Convention for National Minorities	X	X	X	X	X	O	O	X	O	X	X	X	O
ICCPR (International Covenant on Civil and Political Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O

Optional Protocol to the CCPR (right of individual communication)	X	X	X	X	X	X	X	X	X	X	X	X	O
Second Optional Protocol to CCPR (abolition death penalty)	X	O	O	O	X	O	O	X	O	X	O	X	O
ICESCR (International Covenant on Economic, Social and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
CAT (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X
CERD (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
CRC (Convention on the Right of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X

X = Convention ratified

O = Convention NOT ratified

BG = Bulgaria; CY = Cyprus; CZ = Czech Republic; EE = Estonia; HU = Hungary; LV = Latvia; LIT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; T = Turkey

Annex

STATISTICAL DATA

	1994	1995	1996	1997	1998
1.1.1.1.1. Basic data					
in 1000					
Population (mid year)	60 159.9	61 074.7	62 003.4	62 981.0	63 451.0
Km ²					
Total area	774 815	774 815	774 815	774 815	774 815
National Accounts					
In 1000 Mio Turkish Lira					
Gross Domestic Product at current prices	3 868 429	7 762 456	14 772 110	28 835 883	51 625 143
1000 Mio EURO					
Gross Domestic Product at current prices	108.9	129.6	143.1	168.6	175.8
EURO					
Gross Domestic Product per capita at current prices	1810.2	2122.0	2307.9	2677.0	2770.6
% change over the previous year					
Gross Domestic Product at constant prices (nat. currency)	-5.5	7.2	7.0	7.5	2.8
in Purchasing Power Standards					
Gross Domestic Product per capita at current prices	5 280	5 620	5 999	6 463	6 383
Structure of production					
% of Gross Value Added					
- Agriculture	14.8	15.0	15.9	13.6	16.1
- Industry (excluding construction)	25.7	25.8	24.2	24.2	21.8
- Construction	6.6	5.4	5.6	5.8	5.6
- Services	52.9	53.8	54.3	56.4	56.5
Structure of expenditure					
as % of Gross Domestic Product					

- Final consumption expenditure	78.4	79.5	81.2	80.6	79.3
- household and NPISH	67.2	68.9	69.3	68.3	67.0
- general government	11.2	10.6	11.9	12.3	12.3
- Gross fixed capital formation	23.7	23.3	25.8	26.5	24.3
- Stock variation (including discrepancies)	-3.0	1.5	-0.5	-1.3	-0.2
- Exports of goods and services	20.5	19.5	22.2	24.7	24.2
- Imports of goods and services	19.6	23.8	28.7	30.5	27.6
Inflation rate					
% change over the previous year					
Consumer price	106.3	93.6	80.4	85.7	84.6
Balance of payments					
In Mio EURO					
- Current account	2212	-1787	-1919	-2362	1669
- Trade balance	-3544	-10101	-8334	-13578	-12784
<i>Exports of goods</i>	15460	16800	25553	28774	27848
<i>Imports of goods</i>	19004	26901	33887	42352	40632
- Services, net	5901	7326	5218	9582	12007
- Incomes, net	-2744	-2450	-2305	-2657	-2663
- Net current transfers	2599	3437	3502	4291	5108
<i>Of which government transfers</i>	322	819	437	277	142

	1994	1995	1996	1997	1998
	% of Gross Domestic Product				
1.1.1.1.2.Public finance					
General government deficit ¹⁰	-3.9	-4.1	-8.4	-7.6 ¹¹	-7.2 ¹²
Finance	% of Gross Domestic Product				
Gross foreign debt of the whole economy	45.4	37.6	37.3	30.2	27.6
Monetary Aggregates ¹³	1000 Mio EURO				
- M1	4.8	4.8	6.5	6.6	5.8
- M2	26.1	31.3	40.4	47.6	49.8
- Total credit	23.8	27.4	36.9	42.6	44.8
Interest rates	% per annum				
- Lending rate ¹⁴	135.0	150.0	150.0	126.0	126.0
- Deposit rate ¹⁵	87.9	76.0	80.7	79.5	81.8
EURO exchange rates	(1 EURO = ...Turkish Lira)				
- Average of period	35535	59912	103214	170992	293736
- End of period	47303	80442	135042	226634	365748
	1994=100				
- Effective exchange rate index ¹⁶	100.0	60.0	34.8	20.8	12.2

¹⁰ Central government only.

¹¹ National source.

¹² National source.

¹³ October 1998 data.

¹⁴ National source.

¹⁵ November 1998 data.

¹⁶ National source; Index of nominal exchange rate (end of month).

		Mio EURO				
Reserve assets						
	- Reserve assets (including gold)	7018	10570	14222	17882	17628
	- Reserve assets (excluding gold)	5828	9467	13117	16897	16704
External trade ¹⁷		Mio EURO				
	Imports	19 280	27 777	34 879	43 303	40 498
	Exports	15 539	16 962	18 771	23 784	24 140
	Balance	-3 741	-10 816	-16 108	-19 519	-16 359
		previous year=100				
	Terms of trade	93.6	97.2	99.3	104.7	101.7
		as % of total				
	Imports with EU-15 (EU-12 in 1994)	44.2	47.2	52.9	51.2	52.4
	Exports with EU-15 (EU-12 in 1994)	45.7	51.3	49.8	46.7	50.0
Demography		per 1000 of population				
	Natural growth rate	16.2	15.8	15.5	15.1	15.1
	Net migration rate	:	:	:	:	:
		per 1000 live-births				
	Infant mortality	46.8	44.4	42.2	39.5	37.9
		at birth				
	Life expectancy : Males	66.4	65.7	65.8	66.2	66.5
	Females	67.7	67.9	68.2	68.4	71.2

¹⁷ United Nations sources except for Terms of Trade.

	1994	1995	1996	1997	1998
	in % of labour force				
1.1.1.1.3.Labour market (ILO methodology)					
Economic activity rate	53.9	53.8	53.2	50.8	51.3
Unemployment rate, total	8.1	6.9	6.1	6.4	6.4
Unemployment rate of persons < 25 years	15.7	14.7	12.9	14.4	13.8
Unemployment rate of persons >= 25 years	5.4	4.4	3.9	3.9	4.2
	in % of total				
Average employment by NACE branches (LFS)					
- Agriculture and forestry	44.8	46.8	44.9	41.9	42.3
- Industry (excluding construction)	18.4	15.3	15.9	17.2	16.8
- Construction	5.8	5.8	6.0	6.2	6.1
- Services	33.0	32.2	31.1	34.7	34.9
	in Km				
Infrastructure					
Railway network	8 452	8 549	8 607	8 607	8 607
	in Km				
Length of motorways	1 167	1 246	1 405	1 528	1 726
	previous year=100				
Industry and agriculture					
Industrial production volume indices	101.5	114.3	122.9	137.0	139.4
Gross agricultural volume indices	:	:	:	:	:
	per 1000 inhabitants				
Standard of living					
Number of cars	47.9	50.5	53.2	57.1	60.5
Telephone subscribers	206.1	219.9	232.2	251.9	267.2

Number of Internet connections	:	:	:	:	3.6
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: not available

2. METHODOLOGICAL NOTES

Balance of payment

Exports of goods. Recorded on FOB basis, including shuttle and transit trade

Imports of goods. Recorded on FOB basis, including imports of non monetary gold and transit trade 1992/93

Services and incomes, net. Sums of services and income

2.1.1. Finance

Sources

The IMF's 'International Financial Statistics' publication has been used as the main source. The European Commission (DG II) is used as the source for exchange rates against the EURO, where available.

Concerning *gross foreign debt*, the OECD External Debt Statistics publication has been used as the source for 1994-6. The data for 1997-8 are the result of closer cooperation between BIS/ IMF/ OECD/ World Bank, and published jointly by them. Debt is of the whole economy, and includes both short- and long-term. According to the convention, the stock of outstanding debt is converted from US dollars into EURO at end-year exchange rates, whereas GDP is converted into EURO using annual average exchange rates.

Concerning *general government deficit / surplus*, Candidate Countries are presently unable to provide reliable data on a national accounts basis. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).

Method

Reserve assets are end-year stock data. They are defined as the sum of central bank holdings of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at end-year market price.

General government deficit / surplus: is an approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts.

Gross foreign debt: Gross foreign debt (in US \$) / GDP (in US \$ converted via exports weighted effective exchange rate)*100

Monetary aggregates: are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government and private sectors. It should be noted that the problem of measuring the circulation of foreign currency in some Candidate Countries may affect the reliability of the data.

Interest rates. Annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

Lending rate. Lending rate applied to medium term management credits by Turkish Development Bank-end of period.

Exchange rates Where available, the EURO exchange rates are those officially notified.

2.1.2. External trade

Imports and exports (current prices). The data are based upon the “special trade” system, according to which, external trade comprises goods crossing the customs border of the country. Trade data includes direct re-exports, trade in services and trade with customs free zones as well as licences, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.). **Trade Classification.** Merchandise trade flows should be using the commodity classification according to the Combined Nomenclature (CN).

Imports are recorded on CIF basis, exports on FOB basis.

Imports and exports with EU-15. Data declared by the republic of Turkey.

Labour force

Economic activity rate (ILO Methodology). Percentage of labour force in the total population aged 15+. This rate is derived from LFSS (Labour Force Sample Survey) observing the following ILO definitions and recommendations:

Labour force: employed and unemployed persons in the sense of the ILO definitions stated below.

The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of cooperatives or contributing family workers. Members of armed forces (excluding residence of military barracks) and women on child-care leave are included.

The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed: (i) have no work, (ii) are actively seeking a job and (iii) are ready to take up a job within a fortnight.

Unemployment rate (by ILO methodology). Percentage of the unemployed in labour force. This rate is derived from LFSS (Labour Force Survey) observing the ILO definitions and recommendations (see ILO definitions above)

Average employment by NACE branches. This indicator is derived observing the ILO definitions and recommendations.

2.1.3. *Infrastructure*

Railway network. All railways in a given area. This does not include stretches of road or water even if rolling stock should be conveyed over such routes; e.g. by wagon-carrying trailers or ferries. Lines solely used for tourist purposes during the season are excluded as are railways constructed solely to serve mines; forests or other industrial or agricultural undertakings and which are not open to public traffic. The data considers the construction length of railways.

Length of motorway. Road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which:

- (a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;
- (b) does not cross at level with any road, railway or tramway track, or footpath;
- (c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

2.1.4. *Industry and agriculture*

Industrial production volume indices. Industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the ISIC Rev. 3 Classification Sections C, D, and E).

Gross agricultural production volume indices. Gross agricultural production volume indices are calculated in constant prices of 1993. The quarter indices are calculation on the basis of the previous quarter.

2.1.5. *Standard of living*

Number of cars. Passenger car: road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

The term "passenger car" therefore covers microcars (need no permit to be driven), taxis and hired passenger cars, provided that they have less than ten seats. This category may also include pick-ups.

Telephone subscribers. (Mobile and hand phones subscribers are not included.)

Number of internet connection. The number of internet subscribers is the ratio of subscribers of internet service providers (ISP) to the inhabitant population.

Sources

Total area, national accounts, inflation rate, external trade, demography, labour market, infrastructure, industry and agriculture, standard of living: National sources.

Balance of payment : IMF.