



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 13.11.2001
SEC(2001) 1756

2001

REGULAR REPORT

ON

TURKEY'S

PROGRESS TOWARDS ACCESSION

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A. Introduction

a) Preface

The European Council in Cardiff in June 1998 noted that the Commission would present a report on Turkey based on Article 28 of the EC-Turkey Association Agreement and the conclusions of the Luxembourg European Council.

The Commission presented its first Regular Report on Turkey in October 1998, together with the Regular Reports for the other candidate countries, with a view to the Vienna European Council; a second report was adopted in October 1999, with a view to the Helsinki European Council.

The Helsinki European Council concluded that "Turkey is a candidate State destined to join the Union on the basis of the same criteria as applied to the other candidate States. Building on the existing European Strategy, Turkey, like other candidate States, will benefit from a pre-accession strategy to stimulate and support its reforms."

As part of the pre-accession strategy, the Commission reports regularly to the European Council on progress made by each of the candidate countries in preparing for membership. The first fully-fledged Regular Report for Turkey was presented to the Nice European Council of December 2000.

The Commission has prepared this Regular Report with a view to the Laeken European Council in December 2001.

The structure followed for this Regular Report is based on that used for the 2000 Regular Report. In line with previous Regular Reports, the present Report:

- describes the relations between Turkey and the Union, in particular in the framework of the EC-Turkey Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities) and in respect of the Enhanced Political Dialogue undertaken pursuant to the conclusions of the 1999 Helsinki European Council;
- assesses Turkey's situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of Turkey's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as emphasised by the Madrid European Council in December 1995, and confirmed by the Gothenburg European Council in June 2001. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their administrative structures, so as to

create the conditions for the harmonious integration of those States. The Gothenburg European Council emphasised the vital importance of the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening and reforming their administrative and judicial structures.

This Report takes into consideration progress since the 2000 Regular Report. It covers the period until 30 September 2001. In some particular cases, however, measures taken after that date are mentioned. This Report looks at whether intended reforms referred to in the 2000 Regular Report have been carried out and examines new initiatives. In addition, it provides an overall assessment of the situation for each of the aspects under consideration, setting out the main steps which remain to be taken by Turkey in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including Turkey's administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last Regular Report, complemented with a view of the overall situation for each of the aspects discussed. The economic assessment provides, besides an assessment of progress made over the reference period, a dynamic, forward-looking evaluation of Turkey's economic performance.

The Report contains a separate section examining the extent to which Turkey has addressed the Accession Partnership priorities. In assessing Turkey's progress on fulfilling the short-term priorities of the Accession Partnership, account is taken of the fact that this was adopted by the Council on 8 March 2001.

As is the case in previous Reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures, which are in various stages of either preparation or parliamentary approval, have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment of each country in terms of its concrete progress in preparing for accession.

The Report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as the information they have provided in the framework of the Association Agreement and in the context of the process of preparation of the analytical examination of the *acquis*, have served as additional sources. Council deliberations and European Parliament reports and resolutions¹ have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions, as well as that of non-governmental organisations. However, it has become clear that, in a number of areas of the Community *acquis*, information has to be broadened and deepened in order to complete the assessments made. It is mainly through the work of the subcommittees that this additional information could be obtained.

¹ For the European Parliament the *rapporteur* is Mr Lamassoure.

b) Relations between the European Union and Turkey

The Gothenburg European Council of 15 and 16 June 2001 concluded that “the decisions in Helsinki have brought Turkey closer to the EU and opened up new prospects for her European aspirations. Good progress has been made in implementing the pre-accession strategy for Turkey, including an enhanced political dialogue.”

During recent months, EU-Turkey relations have gained further momentum. Turkey is now fully involved in the pre-accession strategy on the same basis as all candidate countries. This strategy has stimulated the reform process in Turkey.

The implementation of the pre-accession strategy for Turkey is now well under way:

- The Accession Partnership (AP) was formally adopted by the Council on 8 March 2001. Its purpose is to set out in a single framework the priority areas for further work, identified in the Commission's 2000 Regular Report, the financial means available to help Turkey implement these priorities and the conditions applying to that assistance. The Accession Partnership priorities are to be reflected in Turkey's National Programme for the Adoption of the Acquis (NPAA), which sets out the policy framework, the schedule for adopting new legislation, policies and practices, and the administrative and budgetary requirements needed for Turkey to adopt the Community acquis.
- The Turkish government adopted its National Programme for the Adoption of the Acquis (NPAA) on 19 March 2001. The programme provides a wide-ranging agenda of political and economic reform. At the same time, a government decree was adopted on the implementation, co-ordination and monitoring of the NPAA. The Gothenburg European Council of 15 and 16 June 2001 regarded the National Programme as a “welcome development” and “urged Turkey at the same time to take concrete measures to implement the priorities of the Accession Partnership, which is the cornerstone of the pre-accession strategy.”
- Enhanced political dialogue continued under the French, Swedish and Belgian Presidencies with political directors' Troika meetings in Ankara and Stockholm, two meetings of Political Directors in Brussels, and political dialogue as part of the EC-Turkey Association Council in Luxembourg on 26 June 2001. These meetings covered key issues for EU-Turkey relations such as human rights, Cyprus, the peaceful settlement of border disputes, European Security and Defence Policy and wider issues such as the fight against terrorism, the situation in the Caucasus, the Middle East and the Balkans.
- Eight subcommittees of the Association Committee began the process of the preparation of the analytical examination of the acquis in two rounds, in the period June 2000 to July 2001. This has involved more than 500 officials on both sides from a wide range of Commission departments, ministries and public agencies. As requested by the Feira European Council, a report to the Council on this exercise is attached and recommendations are made in the Enlargement Strategy Paper.
- On 26 February 2001, the Council adopted a regulation, which provides for the co-ordination of EC pre-accession financial assistance to Turkey.

- A regulation was proposed by the Commission in April 2001 to simplify procedures and to ensure that financial assistance focuses on pre-accession priorities. This Regulation is in the process of being adopted. The proposed regulation recalls that: “in the financial perspective 2000 – 2006, the pre-accession financial assistance was doubled for the candidate countries; in the light of the Helsinki European Council, subject to the normal budgetary procedures the aim should be that this principle be applied for Turkey and continue to apply during the remaining period of the current financial perspective”.
- In 2000, a total of €209 million grant assistance was committed. In the same year, ECHO provided a further €30 million for emergency assistance.
- EIB loans to Turkey under the New Mediterranean Policy totalled €545 million between 1992 and 1999. In the year 2000, €575 million was provided by the EIB for various projects in Turkey. In all, Turkey is eligible for five different EIB-loan facilities.
- Experts from Turkey participated in seminars organised by TAIEX for all candidate countries. Turkish experts have attended over 30 multi-country workshops. A multi-country TAIEX seminar (on chemicals) was held for the first time in Turkey. Istanbul has been designated as a centre for multi-country seminars. TAIEX is now preparing single country events for Turkey.
- Preparations for Turkey’s participation in Community programmes and agencies went ahead. The Council decided on 5 June 2001 to authorise the Commission to negotiate with Turkey a framework agreement, which will simplify the legal procedures to permit Turkey’s participation in individual Community programmes. A draft framework agreement was transmitted by the Commission to the other institutions in August 2001. The agreement is in the process of being adopted. Some activities under the Socrates programme should therefore start on a pilot basis in 2002.
- The latest round of negotiations for the extension of the EC-Turkey Customs Union to services, and the mutual opening of procurements markets, took place in October 2001. The Customs Union currently covers trade in industrial goods and processed agricultural products.

Recent developments under the Association Agreement (including bilateral trade)

The EC-Turkey Association Council met in Luxembourg on 26 June and reviewed Turkey’s progress under the pre-accession strategy as well as priorities for future work. The human rights situation in Turkey, the Cyprus question and the peaceful settlement of border disputes were discussed as part of the enhanced political dialogue.

The Joint Parliamentary Committee met in Antalya on 21-22 November 2000 and in Brussels on 26-27 June 2001. Discussions focussed on the Turkish NPAA, the constitutional reforms, the new economic plan as well as political issues including Cyprus, the European Security and Defence Policy, the dissolution of the Fazilet (Virtue) party, the situation in Turkish prisons and human rights. Financial co-operation, visa requirements for Turkish businessmen and the conclusion of free-trade agreements with third countries in the context of the EC-Turkey Customs Union were also among the topics discussed.

A meeting of the EU-Turkey Joint Consultative Committee under the Economic and Social Committee took place on 19 April in Ankara. The Committee wished to see greater priority given to the adoption of legislation guaranteeing stronger trade union rights. The importance of social dialogue in the reform process was underlined. A report on the liberalisation of services was adopted.

The Customs Union Joint Committee met twice in Brussels. It confirmed the need to maintain momentum in the implementation of the Customs Union. The functioning of the Customs Union and a number of trade issues were discussed.

The Customs Co-operation Committee met several times to discuss the practical implementation of the Customs Union. The Court of First Instance issued a ruling on the import of TV sets from Turkey. The Court asked both the Commission and Turkey to ensure the correct implementation of mutual contractual obligations under the Association Agreement and related decisions.

A number of crucial transitional arrangements under the Customs Union expired on 31 December 2000. There is thus an urgent need for Turkey to remove technical barriers to trade, to adopt competition implementing rules, to enforce the implementation of intellectual property rights and to adjust state monopolies of a commercial character to ensure non-discrimination in market access between EU and Turkish operators.

In general, manufactured goods circulate freely within the Customs Union. Some trade issues, however, remain outstanding. Access for alcoholic beverages to the Turkish market is restricted and there are burdensome administrative procedures and testing requirements for certain EC products (e.g. cosmetics, ceramics, tiles, spare parts and textiles).

In the agriculture sector, the Commission has started to consult Turkey informally on a package to compensate the EC for its current ban on imports of live bovine animals and beef from the Community. A licensing system for the exports of Turkish hazelnuts to the EC has been established.

A regular informal consultation mechanism on areas of relevance for the Customs Union has been established. The Commission has also provided for Turkey's participation in technical committees in line with established policy for candidate countries.

Trade volumes between the EC and Turkey have increased steadily. The recent economic situation in Turkey has led to a fall in the Turkish trade deficit.

Community aid

In anticipation of the adoption of the new Regulation to bring the management of financial assistance into line with practice in other candidate countries, the Commission asked the Turkish Government to create new management structures for EC financial assistance. On 18 July 2001 the Turkish Government adopted on 18 July 2001 a circular entrusting the tasks of National Aid Co-ordinator to the Minister of State and Deputy Prime Minister responsible for EU Affairs and that of National Authorising Officer to the Minister of State responsible for the Economy. The National Fund will be established and directed by the Under-secretariat of the Treasury, and the Central Financing and Contracting Unit (CFCU) will be under the responsibility of the Prime

Minister's office. Training programmes for staff are being developed. The EC representation in Ankara is also being reinforced for the implementation of a devolved approach in the Community's financial assistance. As regards the programming of aid, 2001 has been a transition year for bringing assistance into line with the Accession Partnership and National Programme priorities. This should be fully achieved by 2002. Equally, in future, the twinning mechanism, providing public officials from Member States as "accession advisors", will be available to Turkey in this context.

As already indicated above regarding loan finance, Turkey will continue to receive a significant allocation from the new EIB mandate for the Mediterranean countries (the EuroMed II Lending Mandate). This amounts to a total of € 6.425 billion for the period January 2000-January 2007. Moreover, Turkey was accepted by the EIB as eligible to benefit from the EIB pre-accession facility, which amounts in total to €8.5 billion for the 13 candidate countries. The EIB also approved the Special Action Mandate for Turkey (€450m) and the Turkey Earthquake Reconstruction and Rehabilitation Assistance Facility (TERRA: €600m) is also available. The EIB has also adopted a new "Mediterranean Partnership Facility" of €1billion, covering the region, from which Turkey may also benefit.

Community programmes and agencies

Turkey currently participates in the LIFE III programme and in the Fifth Framework Programme for Research and Development (on a project-by-project basis). Turkey intends to start participating soon in the Multi-annual programme on Enterprise and Entrepreneurship and European Digital Content programmes. It has also requested participation in other programmes, e.g., in health and culture, and wishes to be fully associated with the future Framework Programme (6th framework programme) for Research and Development.

Negotiations for Turkey's participation in the European Environment Agency and in the European Information and Observation Network (EIONET) have been concluded. Turkey will become a member following its completion of the ratification process. Turkey has shown an interest in participating in the European Monitoring Centre on Drugs and Drug Addiction in Lisbon (*see also under Chapter 24 - Co-operation in the field of Justice and Home Affairs*).

In order to streamline Community legal procedures and thereby facilitate future participation of Turkey in Community programmes, an Agreement is in the process of being concluded between the European Community and Turkey establishing the general principles for such participation. The Commission has asked Turkey to set up a National Agency to manage the education and training programmes in which it intends to participate (*see also under Chapter 18 - Education and training*).

Preparation of the process of the analytical examination of the acquis

Subcommittees under the Association Committee have been preparing the process of the analytical examination of the acquis. Two rounds of meetings took place, starting in June 2000 and ending in July 2001.

These meetings allowed for exchanges of views on the policy objectives and legislation of the EU and Turkey. Turkey gained greater awareness of the acquis and the steps it needs to take to

transpose implement and enforce it. In many cases, studies have started and new legislation or amendments to legislation are under preparation. A favourable climate was established, which should lead to further dialogue between EU and Turkish experts, in particular on the drafting of legislation.

While these meetings proved useful, certain improvements in format and content to make the process more effective and intensive have been discussed between the Commission and Turkish officials at a senior level. In line with the conclusions of the Feira European Council, the Commission has prepared a report to the Council on the results of this work. It is attached to this Report Recommendations as to ways and means to intensify the process and make it more productive are included in the Enlargement Strategy Paper.

B. Criteria for membership

1. Enhanced political dialogue and Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved "stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities"².

In the last Regular Report 2000 on Turkey's progress towards accession, the Commission concluded that:

"A positive development since the last regular report is the launching in Turkish society of a wide-ranging debate on the political reforms necessary for accession to the EU. Two important initiatives have been taken in this context: the signing of several international human rights instruments and the recent endorsement by the government of the work of the Supreme Board of Co-ordination for Human Rights. However, compared to last year, the situation on the ground has hardly improved and Turkey still does not meet the Copenhagen political criteria."

"The basic features of a democratic system exist but Turkey is slow in implementing the institutional reforms needed to guarantee democracy and the rule of law. Changes in the executive have taken place with respect to EU-Turkey relations but a number of basic institutional issues, such as civilian control over the military, remain to be addressed. With regard to the judiciary, the new procedure facilitating the prosecution of civil servants is an encouraging development. The important draft laws related to the functioning of the judiciary referred to in last year's regular report are still pending. No further improvement has taken place concerning the State Security Courts since the last reform of these Courts in June 1999. Corruption remains a matter of concern."

"The death penalty is not being carried out, including in the case of Abdullah Öcalan, but many aspects of the overall human rights situation remain worrying. Torture and ill treatment are far from being eradicated, even though the matter is taken seriously by the authorities and the Parliament and training programmes on human rights are being implemented. Turkey has embarked on a substantial reform of its prison system, including the establishment of F-Type prisons. Freedom of expression as well as freedom of association and assembly are still regularly restricted. A positive approach seems to be adopted towards non-Muslim communities with regard to freedom of religion, but this should be developed for all religious communities, including non-Sunni Muslims."

"Compared to last year, the economic, social and cultural rights situation has not improved, particularly when it comes to the enjoyment of cultural rights for all Turks irrespective of ethnic origin. The situation in the Southeast, where the population is predominantly Kurdish, has not substantially changed."

² "These principles have been emphasised in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council in December 2000."

The section below provides an assessment of developments since the last Regular Report, as well as the overall situation in the country, seen from the perspective of the political Copenhagen criteria, including the overall functioning of the country's executive and its judicial system. Developments in this context are linked to Turkey's ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Turkey's ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Co-operation in the field of justice and home affairs*) of part B.3.1. of this Report.

Recent Developments

Important political reforms were announced in the NPAA and incorporated in constitutional amendments. Attention has now turned to the effective implementation of these changes.

Turkey experienced serious financial and economic crises in November 2000 and February 2001, leading to severe hardship for many Turkish citizens. These crises posed major challenges to the Government, which has sought to restore confidence at home and abroad. A new State Minister for the Economy, Mr Kemal Dervis, was given responsibility for co-ordinating economic policy and on 2 March 2001 the Government adopted a major package of financial and economic reforms. Financial support was provided by the IMF and the World Bank and a substantial number of laws, implementing aspects of the new economic plan, were adopted swiftly in the second quarter of 2001. These reforms are intended to overcome the crisis, and to help meet the economic criteria for EU membership.

Constitutional reform was set in motion after the adoption of the NPAA, building on the work of the Parliament's Conciliation Committee and on the basis of a strong cross-party consensus. The package of thirty-four amendments to the 1982 Constitution was adopted on 3 October 2001, introducing new provisions on issues such as freedom of thought and expression, the prevention of torture, the strengthening of civilian authority, freedom of association, and gender equality. Several amendments are related to the Copenhagen political criteria, the Accession Partnership and the NPAA.

The Turkish Government is finalising new draft legislation to give effect to some of the constitutional amendments. An initial analysis of these reforms and their implications is given in this report.

Prison reform, which is discussed below under civil and political rights, has also been a prominent issue during the reporting period, following the violent events in prisons in December and the continuation of the hunger strike that led to some 40 deaths.

At political level, the banning by the Constitutional Court of the Fazilet party in June, highlighted problems of freedom of expression and association, and led to changes in the party formations. Despite several Ministerial changes, the coalition government has held together and reached agreement on economic and political reforms.

The Turkish government expressed support for the efforts of the United Nations Secretary General to achieve a comprehensive settlement of the Cyprus problem. But these expressions of support have not yet led to advance the process. Indeed, the Government expressed understanding and support for the decision of the leader of the Turkish Cypriot community to

withdraw from the proximity talks which were underway last year and to refuse an invitation from the United Nations Secretary General to participate in talks in New York in September 2001.

Turkey's involvement in decisions regarding the European Security and Defence policy remained an unresolved issue. Currently, the EU is taking further steps to make the ESDP operational. Various meetings took place between the EU and 6 non-EU European NATO members (including Turkey), as well as in the EU-NATO context, on questions concerning the nature and functions of EU-led operations using NATO assets and capabilities. Turkey should be more forthcoming in solving the issue of the modalities for participating in decisions on EU-led operations.

Relations between Turkey and Greece have continued to develop, with several meetings between representatives of the two countries in which a number of joint initiatives were decided.

Turkey lent full support to the fight against terrorism following the attacks in the United States of America of 11 September 2001 and the authorities have agreed to make military capabilities available. It was among the first candidate countries to endorse the conclusions of the Extraordinary European Council of 21 September 2001.

1.1. Democracy and the rule of law

The Parliament

On 3 October 2001, the Turkish Parliament adopted a package of 34 constitutional amendments, drawn up by its Conciliation Committee. Several of the amendments are intended to prepare the ground to meet some of Turkey's Accession Partnership priorities and are evaluated under the appropriate headings below. The Parliament worked swiftly and effectively, and there was broad cross party support for most of the amendments. However, at the end of the process, the rejection of a draft amendment limiting parliamentary immunity was the subject of public criticism.

Earlier, in spring 2001, the Turkish Parliament acted rapidly to adopt a series of new laws, notably in response to the economic and financial crises. These laws introduced reforms required by Turkey's emergency economic programme and called for by the NPAA.

In all, 117 new laws were adopted between October 2000 and June 2001. During the same session, Parliament simplified its internal procedures and discussed the establishment of a Parliamentary Committee for EU integration.

On 22 June 2001, the Constitutional Court ordered the dissolution of the Fazilet (Virtue) party - the major opposition party - on the grounds of anti-secular activities. This led to the creation of two new political parties - Saadet (Felicity) and the AK Partisi (Justice and Development). At the beginning of the new parliamentary session, in October 2001, 6 parties were represented in the Turkish Parliament.

The executive

The current three party coalition government has been in office for more than 2 years. It has overcome a number of votes of no confidence and internal tensions.

The President of the Republic exercised his right of veto with respect to four laws and two decrees notably on the grounds that they were not compatible with the Constitution. A constitutional amendment has modified this right, in such a way that in future the President can also veto parts of laws.

The General Secretariat for EU Affairs has been placed under the responsibility of Minister of State and Deputy Prime Minister Mesut Yilmaz and has been operational for a year. By a decree of 19 March 2001, the EU Secretariat was entrusted with the implementation, co-ordination and monitoring of Turkey's NPAA. According to this decree, public administration and agencies are required to make administrative arrangements to carry out their responsibilities under the NPAA. They also have to incorporate the EU dimension in their decision making process. Nine inter-ministerial subcommittees have been established to co-ordinate the transposition and implementation of EU legislation. Some ministries have been restructured to carry out tasks related to the EU pre-accession process. For example, the Ministry of Justice was reorganised by a law of 15 May 2001.

During the reporting period, there has been little sign of increased civilian control over the military (see also under National Security Council).

The judicial system

A number of changes have taken place in the judicial system:

- A law was adopted on 15 May 2001, which established criminal enforcement judges as a new judicial function. These judges will be responsible for reviewing complaints by prisoners concerning their rights. Arrangements have been made to appoint 140 such judges to form part of criminal courts across the country
- 12 sections in the judiciary specialising in intellectual property rights issues were set up (Law adopted on 26 March 2001)
- Judicial sections dealing with consumer protection were created in courts in Ankara, Izmir and Istanbul (Law of 25 December 2000).

Constitutional and legal amendments adopted in 1999 regarding the restructuring of **State Security Courts** have entered into force.

As a result of these amendments, all members of the State Security Courts are now appointed from the civil judiciary. However, there are still several problems to be tackled to ensure fair trial in the State Security Courts, for example with respect to access to lawyers, as well as the competence of these courts *vis-à-vis* civilians.

As to the **military courts**, over the last year, 22 cases involving 38 civilians have been dealt with by military courts in relation to the charges of abuse of the right to freedom of expression.

As regards the **juvenile courts**, there is still a problem with their structure and remit of these courts. They are too limited in number, resulting in a backlog and long duration of court cases. An important new project has, however, been launched to move ahead with revising legal provisions and sanctions applicable to young offenders.

There is continuing concern regarding the extent of the **independence of the judiciary** in practice. Pressures were exerted on judges and prosecutors, particularly in connection with prosecutions of state officials, for instance in relation to corruption cases. The fact that the Supreme Board of Judges and Prosecutors, in charge of appointments and postings, is chaired by the Minister of Justice, puts into question the separation of powers between judiciary and executive.

Internal consultations are underway on a draft reform of the Penal Code and the Code of criminal procedure.

As regards judgements of the European Court of Human Rights, measures need to be incorporated into Turkey's legislation to make reparation for the consequences of convictions that have been found contrary to the European Convention on Human Rights (ECHR). This was stressed in Interim Resolution (2001) 106 adopted by the Council of Europe's Committee of Ministers on 23 July 2001. There is still no possibility under the Code of Criminal Procedure to reopen impugned proceedings or to take any other action to redress violations of the Convention. Other measures are required to ensure the restoration of civil and political rights, where those rights have been restricted as a result of a conviction, the reopening of proceedings and the clearing of criminal records. The ruling of the European Court on Human Rights of 17 July 2001³ highlights the issue of how the absence of a fair trial can be compensated. The Constitutional amendments to Article 36 makes explicit the right to a fair trial and paves the way for the necessary legislative changes in the Codes on Criminal, Legal and Administrative corruption. There also remains the problem of direct effect of ECHR judgements (the Constitutional reform package did not tackle any of these issues).

The implementation of the 1998 law on the increase of legal interest rates for delayed compensation in cases involving public expropriations is a positive development. This issue has been the focus of several judgements of the European Court of Human Rights on 18 September 2001. This law is designed to peg interest rates to inflation. Other important measures need to be taken to speed up Turkey's compliance with the judgements of the European Court of Human Rights.

On the functioning of the judiciary, numerous courses to train judges, prosecutors and judicial staff have been held. Training includes EC law and human rights, language courses, European affairs as well as seminars focusing on international co-operation and forensic medicine. At present most training courses are prepared by the Centre for Education and Training of Judges and Prosecutors, but there have been several other initiatives, including, for instance, a Greek-Turkish co-operation initiative to train judges in EC law. Sixteen members of the Turkish Constitutional Court visited the European Court of Human Rights in September 2001.

In summary, a range of initiatives, some reported in previous Regular Reports, have started to reform the judicial system and increase its efficiency. The judiciary has been given a role in

³ Case Sadak and Others versus Turkey of 17 July 2001.

Turkey's prison reform through the creation of the function of a criminal enforcement judge. There is still a need to guarantee the independence of the judiciary from the executive, to further reform the system of state security and military courts and to introduce the possibility of reparations for violations of the European Convention of Human Rights. A number of initiatives have been taken to increase the awareness of judicial personnel and of law enforcement officers on human rights issues, but it is too early to assess the practical impact of these.

Anti-corruption measures

President Sezer has stated that corruption is one of the most serious problems affecting Turkey and has given his support to the fight against corruption.

Several anti-corruption measures are included in the Turkish Government's economic programme of April 2001. Their aim is:

- to ensure transparency and accountability in resource allocation in the public sector;
- to prevent politically motivated interventions in the management of the economy;
- to strengthen good governance and the fight against corruption.

Initiatives are being taken to reinforce the independence of state owned banks, to bring public procurement rules into line with the acquis, and to ensure that the energy market is liberalised in transparent conditions. A number of high-level corruption investigations have started, notably in the energy, public works, housing, and banking sectors.

The Government has now set up a high level steering committee on corruption to develop a comprehensive strategy. An action plan was discussed at the World Bank sponsored conference on 21 September 2001.

With the support of the Ministry of Internal Affairs, a nation-wide survey to assess the extent of corruption in Turkey was carried out by an independent institute (TESEV). Some of the identified factors that contribute to corruption are the lack of a properly enforced regime of sanctions, a cumbersome bureaucracy and a widespread acceptance of corrupt practices. Moreover, the World Bank report mentioned that corrupt practices in the bureaucracy are a major hindrance to foreign direct investment. The report also drew attention to the existing practice of asking donations to political parties in the context of public procurement.

In June 2001, Parliament amended the law concerning public prosecution of civil servants in corruption cases. Under this law, the public prosecutor would have to ask permission from the relevant authority to start proceedings related to corruption charges. President Sezer vetoed this law on the grounds that it would have increased the immunity of civil servants in corruption cases. The Parliament rejected the constitutional amendment limiting parliamentary immunity in such cases.

On 27 September 2001, Turkey signed the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime as well as the Council of Europe Civil Law and the Criminal Law Conventions on Corruption. Turkey is also participating in the monitoring of anti-corruption measures effected by the OECD Working Group on Bribery in international commercial transactions.

The National Security Council

As part of the constitutional reform package, the provision of Article 118 concerning the role and the composition of the National Security Council has been amended. The number of civilian members of the NSC has been increased from five to nine while the number of the military representatives remains at five. In addition, the new text puts emphasis on the advisory nature of this body, stressing that its role is limited to recommendations. The Government is now required to "evaluate" them instead of giving them "priority consideration". The extent to which the constitutional amendment will enhance de facto civilian control over the military will need to be monitored.

Since the last Regular Report, the National Security Council has given its opinion on a number of governmental issues and policies including the NPAA, the Cyprus issue, European Security and Defence Policy, measures to combat anti-secularism activism, the extension of the compulsory age limit in primary education, the state of emergency in various provinces, the privatisation of state companies (e.g. telecoms), recent socio-economic developments and on the constitutional reform package. The National Security Council also warned against the risk of "social unrest".

The Action plan for the Southeast, as devised by the National Security Council, has not been made public, but is under implementation by the civilian authorities.

The law revising the legal framework for TV and radio (the "RTÜK" law), vetoed by President Sezer in June 2001, provided for a representative of the National Security Council to be appointed to the Audio-visual High Board. A revision of the law is now under preparation. It is important that a revised version of the law meet European standards.

1.2. Human rights and the protection of minorities

The recent constitutional amendments are a significant step towards strengthening guarantees in the field of human rights and fundamental freedoms and limiting capital punishment.

The freedom of expression, the freedom of the press, and the freedom of association and peaceful assembly are among the fundamental freedoms addressed by the constitutional amendments. In Articles 13 and 14, a number of restrictions have been deleted, thus narrowing the grounds for limiting fundamental rights and freedoms. The principle of proportionality has been introduced: any limitation of the rights protected must be proportionate⁴.

A number of restrictions on the exercise of fundamental freedoms have remained.

⁴ Article 13 now reads: "Fundamental rights and freedoms may be restricted only on the basis of specific reasons listed in the relevant articles of the Constitution without prejudice to the values defined therein and only by law. These restrictions shall not conflict with the letter and spirit of the Constitution and the requirements of the democratic social order and the secular republic and the principle of proportionality". Article 14 now reads "None of the rights and freedoms embodied in the Constitution shall be exercised with the aim of violating the indivisible integrity of the State with its territory and nation, or for activities undertaken with the aim of destroying the democratic and secular Republic based on human rights. No provision of this Constitution shall be interpreted in a manner that grants the State or individuals the right of destroying the fundamental rights and freedoms embodied in the Constitution, and of staging an activity with the aim of restricting rights and freedoms more extensively than is stated in the Constitution. Sanctions for persons undertaking activities in conflict with these provisions shall be defined by law."

The extent to which individuals in Turkey will enjoy a real improvement in the exercise of fundamental freedoms in practice will depend on the details of implementing legislation, and the practical application of the law. It is encouraging that a general principle of proportionality has been introduced and that the stated general aim of the reform is effectively to bring to the forefront respect for human rights and the rule of law.

Proposals for legislative changes aimed at implementing a number of constitutional amendments, in particular with respect to freedom of expression and thoughts, are being finalised by the Government. They include proposals to change Articles 159 and 312 of the Penal Code and of Articles 7 and 8 of the Anti- Terrorist Law.

As far as Turkey's position with respect to various **international conventions on human rights** is concerned, on 18 April 2001, Turkey signed Protocol 12 to the European Convention on Human Rights (ECHR) on the general prohibition of discrimination by public authorities.

Since the last Regular Report no progress has been made in acceding to a number of other major human rights instruments such as the UN Convention on the Elimination of All Forms of Racial Discrimination, the Statute of the International Criminal Court, the UN International Covenant on Civil and Political Rights, the UN International Covenant on Economic, Social and Cultural Rights.

As to Protocol 6 to the ECHR on the abolition of the death penalty, it remains to be seen whether, in the light of the constitutional amendment and the projected reform of the Penal Code it will be possible for Turkey to sign and ratify it. It can also be noted that Turkey has not signed the Council of Europe Framework Convention for the Protection of National Minorities.

Since the last Regular Report, the European Court of Human Rights found that Turkey had violated provisions of the ECHR in 127 cases (although 43 of these are not final, as an appeal to the Grand Chamber is possible). These cases relate to a wide range of violations to the Convention such as freedom of expression, ill treatment by the security forces and length of police custody. Turkey has resolved 53 of these cases through friendly settlements.

In a ruling on 10 May 2001⁵, the European Court of Human Rights held Turkey responsible for breaching 14 Articles of the Convention with respect to human rights abuses in the northern part of Cyprus. The Court also concluded that "for purposes of former Article 26 (current Article 35 § 1) of the Convention, remedies available in the "TRNC" may be regarded as domestic remedies" of the respondent State and that the question of their effectiveness is to be considered in the specific circumstances where it arises."

In a subsequent ruling of 17 July 2001⁶, Turkey was found responsible for violating Articles 2, 5 and 13 of the European Convention in a case related to the death of a person while in custody.

In several judgements delivered on 18 September 2001⁷, Turkey was held responsible for breaching Article 1 of Protocol No. 1 to the Convention in 34 cases related to expropriation of property. The compensations paid did not reflect the real increase in inflation between the date of expropriation and the date of payment.

⁵ Cyprus v. Turkey N°25781/94

⁶ Bilgin v. Turkey N°25659/94

⁷ Yusuf Çelebi v. Turkey N°19667/92 followed by 33 judgements related to the same violation.

In a third Interim Resolution (2001) 80 adopted on 26 June 2001 by the Committee of Ministers of the Council of Europe, Turkey has been condemned for the non-execution of the judgement of the European Court of Human Rights of 28 July 1998 in the Loizidou case.

On 28 June 2001, the Parliamentary Assembly of the Council of Europe adopted a Resolution in which it was decided to pursue the monitoring procedure in respect of Turkey. A report on the two visits (26-30 March 2000 and 23-26 May 2001) paid to Turkey by the "Committee on the Honouring of Obligations and Commitments by Members States" of the Council of Europe's Parliamentary Assembly has been published.

With respect to the **enforcement of human rights**, Turkey has established a number of bodies (law of 5 October 2000): the Human Rights Presidency, the High Human Rights Board, the Human Rights Consultation Boards and the Investigation Boards. The Human Rights Presidency is intended to monitor the implementation of legislation in the area of human rights.

The High Human Rights Board is an inter-ministerial committee responsible for making proposals intended to promote and to strengthen human rights protection in Turkey.

The Human Rights Consultation Board is designed to serve as a permanent forum of exchange of views between the Government and NGOs. The Investigation Boards will have the task to conduct on the spot investigations with respect to alleged human rights abuses.

The principles for operation of these Boards have been laid down in an administrative regulation (Official Gazette of 21 August 2001). The Government has stressed the importance of the full functioning of these Boards and has requested that "the quarterly reports on the activities of Boards on Human Rights, together with their opinions and proposals, should continue to be sent regularly" to the High Board of Human Rights (Circular of the Minister responsible for Human Rights of 26 September 2001).

Fuller information is needed to assess the impact of these bodies.

Requirements for the training of law enforcement officials on human rights have been set down in the law on police education of 25 April 2001. Under this law, Police Academies will give police officers training on human rights issues over a period of 2 years. In addition, several projects have started in August 2001 in Ankara's police stations aimed at improving the reception conditions of detainees. Official data provided by the Turkish Government indicate that 26,780 security officers will have been trained in human rights by the end of the 2000-2001 academic year.

Civil and political rights

Despite a number of constitutional, legislative and administrative changes, the actual human rights situation as it affects individuals in Turkey needs improvement.

The revised Article 38 of the Constitution limits the **death penalty** to cases of terrorist crimes and to times of war or imminent threat of war. The exception for terrorist crimes is not in line with Protocol 6 to the ECHR (which does not permit any reservations), whereas the exception in the case of war crimes is permitted under Protocol 6. Legislative changes to the Penal Code will be needed to put this revised Article into effect. This will permit an assessment of whether Turkey is in a position to sign and ratify Protocol N° 6 to the ECHR.

During the reporting period, death sentences have continued to be imposed by Courts on the basis of the Anti-Terrorist Law. In 2000, 17 people were sentenced to capital punishment, and 10 between January and August 2001. However, the *de facto* moratorium on carrying out the death penalty - which has applied since 1984 - has been maintained. With respect to the case of Abdullah Öcalan, the Turkish authorities have agreed to postpone the execution of the sentence pending the completion of the proceedings before the European Court of Human Rights.

Regarding **torture and mistreatment**, the agreement of the Turkish Government to publish the report of the Committee on the Prevention of Torture and Inhuman and Degrading Treatment or Punishment (CPT) of the Council of Europe on torture and mistreatment, in January 2001, is a welcome development.

On 24 July 2001, the Minister of the Interior issued a circular in which he clarified the duties and obligations of law enforcement and other security officers with respect to custody, formal arrest, detention and interrogation of suspects. The circular explicitly forbids the use of torture and ill treatment. Inspections by public prosecutors in police and gendarmerie stations with a view to investigating claims related to human rights abuses have recently been established. The circular of 26 September 2001 (*see above*) also calls upon the regional authorities to intensify efforts to prevent abuses of human rights.

Pre-trial detention provisions are to be brought further into line with ECHR standards on the basis of the amendment of Article 19 of the Constitution, which reduces to four days the period of police custody before bringing the person detained before a judge in cases of collective offences. This is a positive development from the point of view of the prevention of ill treatment of detainees and should be applied also for offences falling under the competence of the State Security courts and in state of emergency provinces.

There are also several other procedures to be brought in line with ECHR standards, notably automatic judicial review and medical examination as mentioned in the previous report.

In practice, the situation as regards torture and mistreatment has not improved since the last Regular Report and still gives serious grounds for concern. Incidents of torture and ill treatment continue to take place during police custody. A recent case was reported on the death of a 16-year-old boy during police custody in Edremit (Urfa) in August 2001. Torture is especially prevalent in the Southeast. Particularly in the case of the "incommunicado detention", which is applied in particular in the 4 provinces under the state of emergency. It is also applied in cases related to State Security Court as foreseen under the Code of Criminal Procedure and Law establishing the State Security Courts.

Young people are apparently also affected. The Viransehir (Urfa) children who were arrested on charges of aiding and abetting an illegal organisation, and who were according to their lawyers subsequently **ill treated**, were eventually released following international pressure.

The number of prosecutions of officials suspected of acts of torture or ill treatment increased compared with earlier years. Though there are still concerns that sentences are too light or too frequently converted into fines or suspended. Moreover, the existing rule that an administrative authorisation is required in order to prosecute public servants has remained unchanged. According to the Turkish authorities, during the period 2000-2001, 1,472 proceedings for

charges of ill treatment and 159 proceedings for charges of torture were opened against security force members. As a result, 36 persons were given prison sentences while another 50 were expelled from service.

The Parliamentary Commission on Human Rights has become less effective in its investigation work on torture following the departure last year of Ms Sema Piskinsüt, the chair of the Parliamentary Commission. In addition, Ms Piskinsüt has declared herself willing to renounce to her parliamentary immunity in order to defend the non-disclosure of sources of information, which were received by the Commission during its investigations into the occurrence of torture. However, in a recent development, the new Chairman announced that members of the Commission would pay surprise visits to police stations and prisons to verify whether torture and / or ill-treatment is taking place in reality.

In autumn 2000, the Turkish Government decided to implement a **reform of the prison system** replacing large dormitories (up to 80 prisoners in one room) with a system of small cells shared by 1 to 3 inmates (F-type high security prisons). This led to violent demonstrations and hunger strikes, which related not merely to improvement of prison conditions but also to other demands. The vast majority of the prisoners involved in the strikes had been charged or convicted under the Anti-Terrorist law. A number of extremist groups were involved in the organisation of the hunger strikes.

The Turkish security forces intervened on 19-22 December 2000 against the hunger strikers and protestors to carry out a forced transfer to F-type prisons. This resulted in 32 deaths. In January 2001 the EU called for an independent investigation. The CPT produced a report in April 2001 indicating that some of the 32 casualties might have been the result of disproportionate use of force including the use of firearms and tear gas. The report of the Forensic Medicine Institute on the causes of the deaths confirms the CPT findings⁸. It was produced soon after the events but only later made available to the Parliament. Hunger strikes continue and to date some 40 hunger strikers, inside and outside prisons, have died. An Istanbul Prosecutor opened a case against 1,615 persons on duty in a prison during the operations of December 2000. They are charged with "ill-treatment" and "miscarriage of conduct". Free debate on these issues has been restricted.

A European Parliament ad hoc delegation visited Turkey in early June and urged Turkey to take appropriate measures in line with the recommendations of the CPT of the Council of Europe.

On other aspects of the **prison reforms**, a number of substantial legislative measures have now been adopted, notably:

- *Law amending Article 16 of the Anti-terrorist law* (5 May 2001). This amendment allows prisoners convicted of terrorism and organised crime to participate in education, sport and other social and cultural activities in common living areas. Open visits are permitted once a month.
- *Law on the Institution of the Judge of Enforcement* (16 May 2001). In total, 140 enforcement judge offices are being set up. They will be responsible for making decisions on actions taken in respect to convicts and detainees and handling complaints regarding such

⁸ A penal court case against "Radikal", initiated by the Ministry of Justice, for publishing the report on charges of its violation of Article 30 of the Press Law led to an acquittal.

actions. A regulation implementing this law, and the one below, was adopted by the Minister of Justice on 7 August 2001.

- *Law on the Establishment of Monitoring Boards for Punishment Enforcement Institutions and Detention Houses* (21 June 2001). The law establishes around 133 Monitoring Boards. Their task, inter alia, is to carry out inspections and produce quarterly reports for the Ministry of Justice and other relevant bodies, on the living and health conditions, transfers and disciplinary measures in penal institutions.

As a step towards reducing the pressures from over-population in prisons, reference can also be made to a Law on Conditional Release and Suspension (the so-called "Amnesty" law) adopted on 8 December 2000. As a result of this law, approximately 30,000 people have been released, some on condition that they would not commit a similar offence within 3 years. By 1 May 2001, there were 59,215 detainees in Turkish prisons, a decrease of 23% from the previous year. On 18 July 2001, the Constitutional Court ruled that the scope of the "Amnesty" law should be widened to include various other crimes, and it gave the Parliament six months to amend this law in line with the ruling.

Changes in legislation are needed to extend the scope of **freedom of expression** so as to give concrete content to the constitutional amendments, in particular to reflect the changes of the preamble and of Articles 13 and 14 and also of Articles 22, 26 and 28. These latter two articles remove the constitutional provision forbidding the use of languages prohibited by law. It is of particular importance, taking into account the aim of the reforms, that the new formulation of the restrictions in Articles 14 and 26 are translated into new legislation and practice in such a way as to provide an effective guarantee for freedom of expression, including the use of languages other than Turkish.

During the reporting period, there have been several serious problems in relation to the exercise of freedom of expression. Both the Penal Code (notably Articles 159 concerning insults to parliament, army, republic and judiciary and Article 312, concerning incitement to racial, ethnic or religious enmity) and Article 7 and 8 of the anti-terrorist law (disseminating separatist propaganda) continue to be widely used by public prosecutors and judges to restrict freedom of expression. Recent examples of such cases include those of the *Radikal* columnist Ms. Nese Düzel and the *Turkish Daily News* columnist Mr Burak Bekdil. Sixteen intellectuals, prosecuted for the re-publication of articles in a book on "Freedom of Thought 2000", have been acquitted by the Ankara Military Court, but continue to face the similar charges in other courts.

Since 1 January 2001, some 80 journalists have been imprisoned for political activities or for alleged infringements of various laws. Some are acquitted, such as Mr Mehmet Uzun, who had been detained on charges of "insulting the judiciary" and "insulting the Republic", and who was acquitted following international pressure. However, Dr. Sikret Baskaya, charged with dissemination of separatist propaganda, had to begin his sentence despite similar pressure. In a recent development, on 3 October 2001 Mr Uzun's book was confiscated, and there is a new risk of charges against him.

It has been recognised by some official sources that there are currently around 9,000 prisoners for crimes connected to freedom of expression. A significant number of journalists, intellectuals, writers and politicians have been detained for expressing views and opinions. Official data for

2000 show that 261 persons have been sentenced under Articles 159 and 312 of the Penal code and 324 under the Anti-Terrorist law. These figures in 1999 were 347 and 1,317 respectively.

As for **freedom of the press**, another amendment has been introduced. The provision that "publication shall not be made in any language prohibited by law" has been removed (Article 28). This amendment is encouraging but for it to become fully effective legislative changes are needed. The content of these legislative changes will be crucial for the enjoyment of this right. As the general restrictions of Article 26 also apply to the expression and dissemination of thought and opinions in writing and other media, it is important that the implementing legislation and practice ensure effective protection of the freedom of the press.

As for other aspects of freedom of the press, the Ministry of Interior published a list of terms prohibited in official documents and government owned media. A number of publishing companies had to suspend their activities and periodicals and books have been seized. A recent example is the decision to suspend the *IDEA Politika Journal* on 26 September 2001.

In a judgement on 14 December 2000, the Istanbul State Security Court N° 4 banned all publishing or broadcasting of information portraying Turkey in "a state of weakness". Newspapers and journalists have complained about this judgement that is seen as an "act of censorship" aiming at banning, in practice, the publication of news and pictures especially in relation to the F-type prison protests.

In the field of **broadcasting**, as mentioned above, the constitutional amendment removing the provision that "publication shall not be made in any language prohibited by law" is encouraging, but before it becomes fully effective in broadcasting, legislative changes are needed (see also under cultural rights). The Turkish Parliament adopted a law in June 2001 amending the status of the High Audio-Visual Board (RTÜK). This law, though it clarified ownership matters, legalised retransmission, established some ethical standards, could have further limited freedom of expression and plurality of ownership. One member of the High Board was to be nominated by the National Security Council (NSC). At the end of June 2001, President Sezer vetoed the law on the grounds that it was in breach of several principles of the Turkish Constitution. A revision of the law according to European standards is now under preparation.

As indicated in the last Regular Report, implementation of the existing law remains a matter of concern. The High Audio-Visual Board (RTÜK) continued to ban temporarily certain Radio/TV stations. In August 2001 for instance, 10 stations received penalties for closure from 1 to 365 days mainly for unacceptable comments on current events. Moreover, on 26 September 2001, the Radio and TV High Board took a final decision to prohibit broadcasting, in Turkish from the BBC and Deutsche Welle on the basis of Article 26 of the RTUK law (prohibition of retransmission). The President of the Board expressed his opposition to this decision and launched legal proceedings before an administrative tribunal. This Tribunal has rejected this appeal and RTUK has summoned the relevant radio stations to stop retransmission.

With regard to **freedom of association and peaceful assembly** the amended Article 33 of the Constitution⁹ modifies general rules and restrictions on the right to form associations. The impact of this can only be assessed when implementing legislation is established. Certain minor improvements regarding the creation of NGO international linkages may result from the Civil Code amendments currently before the Parliament.

Currently, the procedure to establish NGOs in Turkey remains cumbersome and the functioning of NGOs is still subject to considerable state controls. At present, NGOs need approval from the Government to receive financial resources from outside Turkey. NGOs report that they are subject to harassment and intimidation, in particular in the Southeast. On 7 September 2001, the Turkish Human Rights Foundation branch in Diyarbakir was raided by police forces and confidential medical information concerning the victims of torture and ill treatment were seized by the authorities. The medical files were returned on 10 October 2001. In the mean time, two procedures have been initiated against this NGO aimed at hindering its activities or even its closure.

The constitutional provision on the principles to be observed by political parties has been amended. Sanctions can be imposed upon a **political party** if "actions" committed by members violating a number of basic principles are endorsed by the party as a whole. Instead of permanent dissolution, the Constitutional Court may decide to bar the political party in question partially or completely depending on the gravity of the "actions". Moreover, the amendment will may lead to more proportionate sanctions in respect of political parties¹⁰ but the grounds for banning political parties remain unchanged (Article 68).

On 22 June 2001, after a procedure lasting 26 months, the Constitutional Court issued a ruling, with immediate effect (although the official "reasoning" has not yet been published) ordering the dissolution of the Fazilet Party and the confiscation of its assets for carrying out anti-secular activities. (Fazilet, the main opposition party with 102 elected members, was the fourth Islamic-oriented party to be banned in Turkey. Since 1983, a total of 21 political parties have been banned by the Constitutional Court).

The recent ruling, based on Articles 68 and 69 of the Constitution, expelled two elected members from the Parliament. These persons, and three other members of their party, were banned from politics for a period of five years. One of these persons was prosecuted because she attempted to take the oath while wearing a headscarf. This was viewed by the Court as an anti-secular activity.

In a judgement delivered on 31 July 2001¹¹ the European Court of Human Rights ruled that the dissolution of the Refah party ordered by the Turkish Constitutional Court in 1998 did not violate the principle of freedom of association under Article 11 of the ECHR. The Court considered that the dissolution of the Refah party "could reasonably be considered to meet a pressing social need for the protection of democratic society".

⁹ Specific grounds for the restrictions to this right, "national security, public order, for the prevention of crime, public morals, public health, or for the protection of the rights and freedoms of others", are added to the article.

¹⁰ The sixth paragraph of article 68 now reads : "The Constitutional Court may take the decision to deprive the party of State funds, either partially or in full, instead of permanently dissolving the party, according to the gravity of the actions brought before the Court".

¹¹ Refah Partisi, Erbakan, Kazan and Tekdal vs. Turkey N° 41340/98

As far as **freedom of religion** is concerned, there have been signs of increased tolerance towards certain non-Muslim religious communities.

During the year 2000, partly in commemoration of the Christian jubilee, the Turkish authorities sponsored several ecumenical events among major religious groups including a meeting in Tarsus. In December, President Sezer issued a message to Turkey's minority religious groups on the occasion of Christmas and Hanukah.

On 12 June 2001, the Prime Minister issued a circular to local authorities reaffirming the rights of Syrian Orthodox Turkish citizens, who had emigrated, to return to their villages in regions covered by the state of emergency and in adjacent provinces. With the support of President Sezer, the government gave permission for the opening of another Syrian Orthodox church in Istanbul.

Official permission is no longer required to carry out restoration of churches and other buildings belonging to minority foundations.

However, Christian churches continue to face difficulties, in particular with respect to ownership of property. No progress can be reported in the case of the closure since 1971 of the Orthodox Seminary of Halki. The lack of recognition of the legal status of various churches creates a number of constraints, including access to Turkey by ecclesiastic personnel.

No improvement in the situation of non-Sunni Muslim communities has taken place. The official approach towards the Alevis is unchanged. Alevi concerns have not been taken up by the Presidency of Religious Affairs. Particular Alevi complaints relate to compulsory religious instruction in schools and school books which fail to acknowledge the Alevi identity, and the fact that financial support is only available for the building of Sunni Muslim mosques and religious foundations.

The question of **asylum seekers** and **trafficking in human beings** is taken up under *Chapter 24 - Co-operation in the field of justice and home affairs*.

Economic, social and cultural rights

The constitutional reform package has introduced a number of amendments affecting the constitutional guarantees for economic and social rights. The main amendments deal with:

- broadening the scope of the right to work (Article 19),
- enhanced gender equality (see below) (Articles 41 and 66),
- broadening the scope of trade union rights and freedoms: Article 51 has been amended to extend the right to form unions to all employees not only to workers. The requirement of holding the status of a labourer for at least ten years in order to become a union leader has also been lifted.
- guaranteeing the right to a fair wage in light of the economic conditions (Article 55).

Regarding **children's rights**, the Turkish Government ratified on 26 January 2001 the ILO Convention N° 182 on the Elimination of Worst Forms of Child Labour, and on 18 January

2001 the European Convention on the Exercise of Children's Rights. A Child Bureau was set up in the Directorate General for Public Security by a law adopted on 13 April 2001. This new body is now responsible for tasks stemming from the implementation of the above-mentioned European Convention on the Exercise of Children's Rights. However, the situation regarding children's rights is not in conformity with Articles 7 and 17 of the European Social Charter ratified by Turkey in 1989.

Regarding **trade union rights**, a law on "Trade Unions of Public Employees" entered into force on 12 July 2001. This provides for some basic trade union rights such as the right to organise. It does not include the right to bargain collectively or the right to strike. Certain categories of public employees, such as police officers, judges and prosecutors, do not enjoy trade union rights. This law could be reviewed in light of the amendment to Article 33 of the Constitution, which broadens the right to form an association but retains restrictions "to the extent that the duties of civil servants so require".

An Economic and Social Council has been formally established following a law that entered into force on 21 April 2001. However, it is only a step towards the kind of social dialogue mechanism customary in the EU (*see also under Chapter 13 - Social policy and employment*).

As regards **cultural rights**, progress can be reported with the amendment of Articles 26 and 28 of the Constitution, in which the provision forbidding the use of languages prohibited by law has now been abolished. This could pave the way for the use of languages other than Turkish and is therefore a positive development. However, changes in existing restrictive legislation and practices will be needed to provide effective protection against interference with the right to communicate in languages other than Turkish. The RTÜK law stipulates that radio and television broadcasts will be in Turkish, "with an exception for languages that will contribute to the development of a universal culture and science".

For persons belonging to groups that are outside the scope of the 1923 Lausanne Treaty (Armenians, Greeks and Jews), the actual situation has not improved, notably in relation to broadcasting and education. In practice, for instance, Kurdish songs and street interviews in Kurdish are occasionally broadcast. In the field of education (basic and extended education), no language other than Turkish is allowed for teaching purposes, except where officially authorised by the Ministry of National Education. No amendment under the constitutional reform provides for education in languages other than Turkish.

In the area of **gender equality**, Article 41 of the Constitution has been amended with a view to establish the principle of equality between spouses as a basis for the family. The amended Article 66 of the Constitution on Turkish citizenship no longer discriminates on the basis of gender in the case of a foreign parent. A new Civil Code, which is pending before the Parliament would remove remaining discrimination and strengthen gender equality

The question of violence against women within the family, including the so-called "honour killings", remains an issue of concern. The legislation, which allows for the application of reduced sentences to the perpetrators of such crimes, is still applicable.

The Minister of Health introduced a change in the disciplinary regime for students in the health sector. According to this amendment¹², students who are found to have had sexual intercourse or to have engaged in prostitution will be expelled from their school. The Istanbul Bar Association initiated in September 2001 proceedings against this regulation.

Minority rights and the protection of minorities

Over and above what has been said above on cultural rights and the possible impact of the constitutional amendments, there has been no improvement in the ability of members of ethnical groups with a cultural identity and common traditions to express their linguistic and cultural identity. Turkey has not signed the Council of Europe Framework Convention for the Protection of National Minorities and does not recognise minorities other than those defined by the 1923 Lausanne Peace Treaty.

Following repeated initiatives taken by cultural association representing the Roma or other 'gypsy' interests in Turkey, some positive developments can be reported, such as the decision taken by the Ministry of Culture in July 2001 to confiscate and ban the selling of an official book, published in 2000, by the same Ministry, containing degrading and offensive language in relation to the Turkish Roma. Similarly, the Ministry of Education on 5 October 2001 issued a circular to eliminate pejorative words used about this group in definitions in dictionaries published by the ministry. However, the Settlement Law of 1934 is still applicable to "nomadic gypsies", implying that they are still among the categories of people who are not accepted in Turkey as immigrants.

The issue of respect for cultural rights is particularly important for improving the situation in the Southeast. The Newroz "Kurdish New Year" was celebrated there on 21 March 2001 without major incident, and the festivities are said to have attracted over 500,000 people. However, organised celebrations were banned in some cities elsewhere including Istanbul.

A Diyarbakir Culture and Arts Festival took place on 25-27 May, co-financed by the EC Meda programme. Several thousand persons participated in various activities, including a concert and a panel on multiculturalism. Several other cultural events have taken place in the past year.

Since the last Regular Report, the state of emergency in the Southeast has been extended three times: on 27 October 2000, on 27 March 2001 and on 29 June 2001, for 4 months periods for the four provinces of Diyarbakir, Hakkari, Sirnak and Tunceli. The security situation is reported to be much improved. However, the disappearance of two HADEP officials in 2001 after visiting a police station in the area of Silopi/Sirnak have not been clarified.

The pro-Kurdish HADEP political party also frequently faces difficulties from the authorities, including police investigations. A demonstration of HADEP to celebrate World Peace Day in Ankara, scheduled on 1 September, was forbidden by the Turkish authorities.

Turkey has invested over the years in an economic aid and development programme, which includes agricultural and housing projects for areas most affected by the years of violent conflict and terrorism.

¹² Official Gazette on 13 July 2001.

An East and Southeast Action Plan initiated by the National Security Council, but still not been made public has been enacted with the approval of the Prime Minister. The plan reputedly includes 107 measures related to public administration, economy, health and education. The co-ordination of the Plan falls under the responsibility of the State Planning Organisation and is carried out by the relevant public institutions and organisations. As part of this plan, the "return to village programme" consists of a resettlement scheme for those who have been displaced by the events in the region. According to the Emergency Rule Governor, up to 26,000 people have as of July 2001, returned to their villages. 2800 households have been officially resettled. However, 34,000 applications for return are still pending. In several instances village guards, armed and paid by the state to defend the evacuated or abandoned villages, have occupied the houses of departed villagers and refuse to return them to the legitimate owners. There are between 45,000 and 90,000 village guards in the region.

In the Simak area, 12 villages have been built and plans foresee the construction of 4 boarding schools and 19 elementary schools. The returned refugees, however, question whether the policy of building new villages, commonly referred to as "central villages", is fully to the benefit of the people concerned.

The government reports that 10 private bank branches were opened and infrastructure projects have increased by 14% in the region.

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Enhanced political dialogue continued under the French, Swedish and Belgian Presidencies with political directors' Troika meetings in Ankara and Stockholm, two meetings of Political Directors in Brussels, and as part of the EC-Turkey Association Council in Luxembourg on 26 June 2001.

The Helsinki European Council conclusions state that enhanced political dialogue with Turkey will in particular refer to the issues of human rights, the Cyprus question and efforts to resolve any outstanding border disputes. The developments on human rights have been described in the previous part of this report.

1.3. Cyprus

The prospects for a settlement of the Cyprus problem under the auspices of the United Nations are analysed in the Regular Report on Cyprus. This section is confined to the discussion of the Cyprus question in the context of the enhanced political dialogue with Turkey, as referred to under the heading "Relations between the EU and Turkey" above.

The Accession Partnership states that; "in accordance with the Helsinki conclusions, in the context of the political dialogue, strongly support the UN Secretary General's efforts to bring to a successful conclusion the process of finding a comprehensive settlement of the Cyprus problem, as referred in the point 9(a) of the Helsinki conclusions.

In the course of the enhanced political dialogue and at the Association Council with Turkey in June 2001, Turkish representatives expressed their support for the Secretary General's efforts. But EU representatives indicated their disappointment that these expressions of support have not been followed by concrete actions to facilitate a settlement of the Cyprus problem. In

particular, disappointment was expressed at Ankara's support for the decision of Mr Denktash, the leader of the Turkish Cypriot community, to withdraw from proximity talks under UN auspices and to decline the Secretary-General's invitation to talks in New York in September 2001.

During the enhanced political dialogue EU representatives urged Turkey to encourage the Turkish Cypriot leader to take advantage of the window of opportunity for reaching a settlement before the conclusion of the accession negotiations with Cyprus. This would allow the Turkish Cypriots to participate in EU accession negotiations, on the basis of a political settlement, and for the results of the settlement, reflecting the concerns of the respective parties, to be included in EU accession arrangements.

With this goal in mind, EU representatives invited Turkey to give practical support to the resumption of the UN process without additional preconditions.

1.4. Peaceful settlements of border disputes

Bilateral relations between Turkey and Greece have continued to improve. These positive developments have been led by the foreign ministers of both countries and the framework of co-operation that they put in place.

A number of confidence building measures have been adopted such as the commitment to keep each side mutually informed about military exercises in the Aegean as well, to clear land mines, the setting up of a direct telephone line between the foreign ministries and exchanges of time schedules for military exercises.

Another set of confidence building measures were decided by June 2001. These positive developments should create a climate conducive to progress in the peaceful settlement of disputes between the two countries, in accordance with the Helsinki European Council conclusions and the Accession Partnership with Turkey.

1.5. General evaluation¹³

The constitutional amendments adopted by the Turkish Parliament on 3 October 2001 are a significant step towards strengthening guarantees in the field of human rights and fundamental freedoms and limiting capital punishment. The amendments narrow the grounds for limiting such fundamental freedoms as the freedom of expression and dissemination of thought, freedom of the press and freedom of association. Attention has now turned to the effective implementation of these important changes. The Turkish Government is finalising a package of new draft legislation that is aimed at implementing a number of constitutional amendments, in particular with respect to freedom of expression and thought. It should facilitate progress towards satisfying the Accession Partnership priorities.

Despite these changes, a number of restrictions on the exercise of fundamental freedoms have remained. The extent to which individuals in Turkey will enjoy real improvement in the exercise of fundamental freedoms will depend on the details of implementing legislation, and the practical

¹³ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

application of the law. It is encouraging that a general principle of proportionality has been introduced and that the stated general aim of the reform is effectively to bring to the forefront respect for human rights and the rule of law.

The moratorium on the death penalty has been maintained. The revised Article 38 of the Constitution limits the death penalty to cases of terrorist crimes and in times of war or imminent threat of war. The exception for terrorist crimes is not in line with Protocol 6 to the European Convention on Human Rights (ECHR) (which does not permit any reservations), whereas the exception in the case of war crimes is permitted under Protocol 6. Legislative changes to the Penal Code will be needed to put this revised Article into effect. This will permit an assessment of whether Turkey is in a position to sign and ratify Protocol N° 6 to the ECHR.

The reforms related to economic, social and cultural rights contain a number of positive elements. The provisions forbidding the use of languages prohibited by law, in Articles 26 and 28, have now been abolished. This could pave the way for the use of languages other than Turkish and is a positive development. Existing restrictive legislation and practices will need to be modified in order to implement this constitutional reform, as the Turkish authorities have recognised. There has been no improvement in the real enjoyment of cultural rights for all Turks, irrespective of their ethnic origin.

A number of substantial prison reforms have been adopted. Turkey is encouraged to ensure that these reforms are fully implemented. The disproportionate use of force in breaking up prison protests is to be regretted. The continuing loss of life as a result of hunger strikes is unacceptable from a humanitarian point of view. Irrespective of the political motives of those involved, efforts should be stepped up to prevent further deaths. Free debate on these issues should be allowed.

Reform of the judicial system has begun. The independence of the judiciary, the powers of State Security Courts and military courts and compliance with rulings of the European Court of Human Rights remain matters of concern.

A number of initiatives have been taken to increase the awareness of law enforcement officers and judicial personnel of human rights issues, but it is too early to assess the practical impact of these.

Despite several initiatives to foster more transparency in Turkey's public life, corruption remains a serious problem. The recent signature of important Council of Europe Conventions on corruption and on money laundering is a positive development.

Further action needs to be taken to improve the economic situation in the South East to reduce regional disparities and to enhance economic, social and cultural opportunities for all citizens. The state of emergency still applies to four provinces in this part of the country.

The basic features of a democratic system exist in Turkey, but a number of fundamental issues, such as civilian control over the military, remain to be effectively addressed.

Despite a number of constitutional, legislative and administrative changes, the actual human rights situation as it affects individuals in Turkey needs improvement.

Though it is beginning to make progress in some areas, Turkey does not yet meet the Copenhagen political criteria and is therefore encouraged to intensify and accelerate the process of reform to ensure that human rights and fundamental freedoms are fully protected in law and practice, for all citizens, throughout the country.

Fuller use should be made of the enhanced political dialogue, to further stimulate progress on key issues which are priorities of the Accession Partnerships, such as human rights, Cyprus and the peaceful settlement of border disputes.

Given Ankara's support for the decision of Mr Denktash to withdraw from the UN proximity talks and to decline the UN Secretary General's invitation to talks in New York, the support Turkey has expressed in the political dialogue for the UNSG's efforts to find a comprehensive solution of the Cyprus problem should now be followed by concrete steps by Turkey to facilitate a solution.

2. Economic criteria

2.1. Introduction

In its 1989 Opinion on *Turkey's* application for EC 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 its 1998 and 1999 Regular Reports, the Commission, while acknowledging that progress has been made, confirmed its Opinion. In its 2000 Regular Report the Commission found that:

“Turkey has made considerable progress in addressing the most urgent imbalances in the economy, yet the process of achieving a functioning market economy is not completed. Considerable parts of the Turkish economy are already able to sustain competitive pressure and market forces in a customs union with the EC.”

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 the methodology applied in the Opinion and the previous annual Regular Reports.

2.2. Economic developments

Macroeconomic stability deteriorated as a result of the financial crises and the situation remains very volatile. After a strong recovery during most of 2000, economic activity declined sharply during the first half of 2001. The main factors for this slowdown have been two financial crises in November 2000 and February 2001, when political tensions and thin money markets led to rapidly increasing difficulties in Turkey’s financial system. The February crisis forced the Turkish authorities to abandon the currency peg, which had been at the heart of Turkey’s disinflation programme. Since the switch to free floating on 22 February 2001, the Turkish lira has depreciated by more than 50%. As a result, inflationary pressures resumed rapidly. Domestic demand declined alongside a significant increase in interest rates, reflecting uncertainty in financial markets as well as growing domestic indebtedness. Imports fell markedly while exports benefited from the more favourable exchange rate after the depreciation. The slowdown in global demand and the sharp rise in domestic interest rates have hindered the export-oriented sector to fully benefit from the improved price competitiveness. Although the increase in exports remained moderate, significantly lower imports led to an improvement in the current account.

Foreign direct investment remained very low, while capital outflows were high, leading to a significant decline in foreign exchange reserves. After the tight monetary constraints associated with the currency peg, present monetary policy largely accommodates liquidity needs of the

Turkish economy. Nevertheless, real interest rates remained relatively high, largely due to high uncertainty in financial markets. In response to the crisis, the government tightened its fiscal stance in order to compensate for lower growth and the sharp increase in public debt.

Main economic trends							
Turkey		1996	1997	1998	1999	2000	2001 latest
Real GDP growth rate	per cent	7.0	7.5	3.1	-4.7	7.2	-6.1 Jan-June
Inflation rate (CPI)							
- annual average	per cent	80.4	85.7	84.6	64.9	54.9	47.8 Sept. ¹⁴
- December-on-December	per cent	79.8	99.1	69.7	68.8	39.0	61.8 Sept.
Unemployment rate, end-year	per cent						
- ILO definition		6.7	6.5	6.8	7.6	6.6	6.9 June
General government budget balance	per cent of GDP	-8.4	-13.4	-11.9	-21.8	-11.0	:
Current account balance	per cent of GDP	-1.4	-1.4	1.0	-0.7	-4.9	0.8 Jan-Jun
	million ECU/euro	-1,945	-2,333	1,766	-1,276	-10,574	590 ¹⁵ Jan-June
Foreign debt							
- debt export ratio	per cent	171.2	155.9	156.1	199.6	210.2	:
- gross foreign debt	million ECU/euro	52,797	64,308	67,583	80,196	108,865	:
Foreign direct investment in flow							
- balance of payments data	per cent of GDP	0.4	0.4	0.5	0.4	0.5	2.6 Jan-June
	million ECU/euro	576	712	837	735	1,063	1,874 ¹⁶ Jan-June

¹⁴ Moving 12 month average rate of change.

¹⁵ Source: Website of Central Bank

¹⁶ Source: Website of Central Bank, Balance of inflows and outflows

As a result of the financial crisis, the speed and scope of structural reforms have substantially increased. The Turkish authorities have adopted a wide range of structural reforms, to reduce the state influence in the economy. The restructuring of the financial sector has been accelerated by transferring nonviable institutions to the Savings and Deposit Insurance Fund, by strengthening surveillance and prudential standards and by reducing political influence in the management of state controlled banks.

Legal measures to liberalise such sectors, as sugar, electricity and gas have been approved, and steps have been taken to increase the independence of the Central Bank. The privatisation of former state monopolies and state banks is under preparation. State influence in the agricultural sector has been reduced and the system of support prices is in the process of being replaced by a new system of direct income support. The regulation of the telecommunication sector has been modernised and an independent regulatory agency for the telecommunication sector established.

Main Indicators of Economic Structure in 2000		
Population (average)	Thousand	65,293 E
GDP per head ¹⁷	PPS	6,400
	Per cent of EU average	29
Share of agriculture ¹⁸ in:		
- gross value added	per cent	14.6
- employment	per cent	34.9
Investment-to-GDP ratio ¹⁹	per cent	22.2
Gross foreign debt/GDP ²⁰	per cent	50.1
Exports of goods & services/GDP	per cent	23.8
Stock of foreign direct investment	Million Euro	:
	Euro per head ²¹	:

E: estimate

P: provisional data

¹⁷ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁸ Agriculture, hunting, forestry and fishing.

¹⁹ Data refer to Gross fixed capital formation as % of GDP.

²⁰ Estimated.

²¹ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

Over the period 1995 - 2000, no progress was made in catching-up with the EU. GDP per capita in purchasing power parities has remained at around 29% of the EU average. Regional and social disparities are considerable and widening. The economic activity rate is very low and declined from 53.4% in 1995 to 49.2% in 2000. As reported by the Turkish authorities, unemployment stalled at 6.9%. In urban areas, registered unemployment is significantly higher, at 9 - 10% of the labour force. In 2000, long-term unemployment accounted for about 24% of all unemployed. Unemployment among educated young people in urban areas has reached 25%. Unemployment rates for men and women do not differ significantly. In the countryside, registered unemployment is relatively low, partly due to the high share of "unpaid" family workers in the Turkish agricultural sector. Disparities between urban and rural areas, and upper and lower income groups, are very high in Turkey. It is likely that these disparities have further increased in the meantime, mainly due to the erosion of the purchasing power of lower income groups, through chronically high inflation. The present economic decline has further worsened the social situation.

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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.

Despite difficulties, the government is adhering to its economic programme and is continuing to adopt the envisaged measures. To address the causes and the consequences of the crisis, the mandate of the Ministry of the Economy has been strengthened and the Government presented a new economic programme in the framework of an IMF stand-by arrangement. The reform package, "Programme towards a strong economy", focuses on the elimination of political interference in the economy, the consolidation of the financial sector and the acceleration of structural reforms. Social dialogue is an important feature of the programme. On the base of this package, the IMF decided to increase the funding of its December 1999 3-year stand-by arrangement. Despite some delays due to tensions within the coalition government, the implementation of the new programme is on track. Nevertheless, the measures have not yet succeeded in restoring confidence. In line with the requirements of the Accession Partnership, Turkey submitted its first Pre-Accession Economic Programme in October. This programme is based on the "Programme towards a strong economy".

After strong output growth during most of 2000, economic activity has been declining since the November 2000 financial crisis. In 2000, real GDP grew by 7.2%. This was the result of strong private consumption and high investment. Private consumption responded rapidly to the sharp decline in interest rates after the announcement of the December 1999 disinflation programme. In addition, private and public investment rose due to the reconstruction needs after the devastation of earthquakes in 1999.

Financial turbulence in November 2000 and February 2001 brought a sudden end to the demand driven boom, as sharply increased interest rates and consumer prices reduced real disposable income and consumer confidence. During the first half of 2001, real GDP declined by 6.1% relative to a year ago. This reflects a year-on-year decline by 2.2% in the first quarter and by 9.3% in the second quarter. Private consumption fell by 7.5% year-on-year during the first half of 2001. Investment has been particularly sensitive to the financial crisis and has declined by 23.5%. Due to dampened demand, imports of goods and services declined by 23.7% in the first half of 2001, while exports rose by 8.8%. Net exports thus helped to limit partially the negative impact of the financial crisis on GDP growth.

Unemployment continued to increase in 2001. Unemployment rose to 6.9% in the second quarter of 2001, compared to 6.2% in the second quarter of 2000. Non-agricultural unemployment was 10.7%. Among educated young people, the unemployment rate was 23.2% in the second quarter of 2001. Unemployment is significantly higher in urban areas and among high school graduates. The participation rate is relatively stable at the low level of slightly below 50%.

Inflationary pressures have revived. In 2000 and early 2001, the disinflation programme succeeded in bringing down 12-month consumer price inflation (CPI) rates from 69% in December 1999 to 33% in February 2001. As a result of the sharp depreciation after the February 2001 crisis, inflationary pressures rose rapidly, reaching month-on-month CPI increases of 10.3% and 5.1% in March and April. In the summer, month-on-month inflation was rather low, but rose again to 5.9% in September, partly reflecting seasonal factors. After the main impulse of the initial depreciation seems to have largely fed through the system, the recent re-surge in inflationary pressures could have a negative impact on inflationary expectations. The continued weakness of the Turkish lira could maintain upward pressure on prices, despite weak domestic demand and low wage increases in the public sector.

After the crisis, monetary policy became largely accommodating, while interest rates rose sharply. Before the crisis, monetary policy supported the currency peg, by injecting and withdrawing liquidity in response to changes in foreign exchange reserves. With the currency peg abandoned, the Central Bank used its increased flexibility to try moderate swings in the financial markets, by providing liquidity in both domestic and foreign currency. This helped to avoid new liquidity bottlenecks in the financial sector, but did not actively address the sources for the sector's difficulties. At present, the Central Bank uses base money targets and intends to shift towards inflation targeting as soon as inflationary pressures have come down sufficiently. As a result of the crisis and insufficient success in restoring confidence of international markets, interest rates have remained very high. In October 2001, annualised treasury bill yields were still around 90%. Overnight interest rates came down to slightly below 60% by September. The stickiness of high interest rates immediately translates into higher than expected financing costs for the public sector debt and impede fiscal consolidation.

Since its free floating in February, the Turkish lira has lost more than 50% of its value. From December 1999 to February 2001, the exchange rate regime consisted of a crawling peg vis-à-vis a currency basket with a depreciation rate equal to the targeted inflation, combined with a pre-announced exit strategy. This external anchor was designed to reduce inflationary pressures. Despite some success, inflationary inertia kept domestic price increases higher than envisaged, leading to a considerable real appreciation of the Turkish lira. Together with sharply declining interest rates, the real appreciation triggered a boom in imports, resulting in a strong

increase in the current account deficit. Delays in privatisation eroded market confidence in the viability of the ambitious consolidation programme. On 22 February 2001, the crawling peg regime was abandoned, as the Turkish banking sector was no longer able to sustain the tight liquidity policy necessary for such an exchange rate regime. There are no specific exchange rate targets at present, although the Central Bank has announced that it will act to avoid excessive swings in the rate.

Turkey is forced to build up a large primary fiscal surplus in order to try to contain public sector indebtedness. Public sector deficits have traditionally been high in Turkey. According to national accounting standards, the national government deficit was 11¼% in 1999 and 10½% in 2000. According to harmonised EU national accounting standards (ESA95) the general government deficit was 11% of GDP in 2000 and 21.8% in 1999. The significantly higher deficit according to ESA95 reflects an accrual-based allocation of financial costs related to additional expenditure, caused by the earthquakes of August and November 1999²². When including extra-budgetary funds and transfers to state owned enterprises, more than 90% of the general government deficit relates to the central government. Local government net borrowing contributed only a ¼ percentage point to the general government deficit in 2000 and social security borrowing about a ½ percentage point. According to ESA95 standards, primary net borrowing was 5.6% in 2000, compared to 9.2% in 1999. In order to achieve a more sustainable situation in public finances, the Turkish authorities intend to realise substantial primary surpluses in the near future, 5½% of GDP in 2001 and 6½% of GDP in 2002. Although the burden of interest payments is expected to decline from the present level of about 15% of GDP, the overall deficits are likely to remain high.

In response to the February crisis, additional fiscal measures had to be taken. The modified fiscal package consists of temporary measures, such as freezing the number of civil servants, and permanent revenue measures, such as increasing the value added tax (VAT) rate by one percentage point, the increase in the petroleum consumption tax or the increase in the minimum contribution base for social security payments. Despite a significant deterioration in growth expectations for 2001, from -3% GDP growth in the spring to -8% in mid-October, fiscal targets have been maintained.

Interest payments are crowding out other expenditure categories. Fiscal revenues rose from 23¼% of GDP in 1999 to about 25½% in 2000. This increase was largely due to the rise in indirect taxes, while direct tax revenues and non-tax revenues remained largely unchanged. Fiscal expenditures rose from nearly 35% of GDP in 1999 to 36½% of GDP in 2000. This rise was mainly due to higher net interest payments, increasing from 13% of GDP in 1999 to nearly 16% of GDP in 2000. The latest budgetary projections forecast a slight increase in total revenues to 26½% of GDP and a sharp rise in total expenditures to more than 40% of GDP. This increase is mainly due to significantly higher interest payments, amounting to about 20% of GDP or 80% of total revenue.

General government gross debt was 57.8% of GDP in 2000, compared to 69.2% of GDP in 1999. This decline was mainly the result of strong growth and the sharp decline in interest rates in 2000. The restructuring of the banking sector will sharply increase the public sector debt

²² Two figures are given for the government balance. One is based on the most commonly used national concept, and the other is calculated according to the European System of Accounts (ESA 95), which was reported by the candidate countries for the first time this year.

stock by at least 20 percentage points of GDP in 2001. As the maturity of the additionally issued state obligations is rather short and, to some extent, those bonds are denominated in foreign currencies, the exposure of Turkey's debt service to fluctuations in short-term interest rates and exchange rates has risen considerably. The importance of restoring market confidence in order to establish a firm downward trend in interest rates and to stabilise the currency thus has further increased.

The current account balance improved markedly after the currency depreciation. In 2000, strong growth and the real appreciation of the Turkish lira had resulted in a sharp deterioration of the current account deficit from -0.8% of GDP in 1999 to -4.7% of GDP in 2000. During the first half of 2001, the sharp decline in domestic demand resulted in a minor current account surplus of 0.8% of GDP. Export revenues increased by nearly 16% (in EUR terms) year-on-year, while import expenditure declined by about 17%. As a result, the deficit in the trade account declined to 4.3% of GDP, compared to 10% in the first half of last year. So far, inflows in the form of tourist revenues, workers remittances and short-term portfolio investments have been sufficient to finance the trade deficit. However, in the absence of significant foreign direct investment (FDI) inflows, the cost for attracting external finance is substantial. The high mobility of short-term portfolio investment can cause substantial short-term fluctuations in Turkey's financial markets.

The current macroeconomic policy mix seeks to limit the damage of the financial crisis, but needs to be re-focussed on macroeconomic stabilisation. The December 1999 programme had failed due to the fragility of the Turkish banking sector and the declining credibility of the programme, given persistently high inflationary expectations, rapidly increasing external imbalances, tight financial markets and insufficient political support. The new programme is trying to remove the fundamental causes of Turkey's macroeconomic instability before focussing on disinflation. However, the period of prolonged macroeconomic instability needs to be kept as short as possible to avoid a further deterioration of public finances.

The free interplay of market forces has been increased. For historic reasons, the influence of the Turkish state on economic processes has been high. State enterprises provided inputs for the manufacturing industry and state dominated banks channelled preferential credits to sectors such as agriculture and small and medium-sized enterprises (SMEs). This interventionist approach resulted in overstaffed and subsidised state enterprises. Furthermore, state banks accumulated considerable duty losses, amounting to about 10% of GDP in 2000. Subsidised energy prices were used as social policy tool, which led to distortions in the sector's price structure and factor allocation. Transfers to the agricultural sector became a substantial budgetary burden. Furthermore, the existence of a large informal sector has led to further disproportions, like in the distribution of the tax burden among households. All these factors created unsustainable fiscal imbalances and market distortions and rigidities.

Since the financial crisis in February, Turkey has significantly accelerated its efforts to eliminate distortions and rigidities. The preparations for the privatisation of state enterprises have been speeded up, the government is committed no longer to interfere with loan decisions of state banks, insolvent private banks have been transferred to the Savings and Deposit Insurance Fund, and troubled state banks have been re-capitalised. In the agricultural sector, the system of support prices and state purchases will be eliminated gradually and will be replaced by a direct income scheme. As a result, state influence on producer prices has declined, but its influence on consumer prices continues to remain rather high at about 25% of

the items in the basket of the consumer price index. However, legislation on public borrowing and public procurement remains to be passed through Parliament and the enactment of the Tobacco Law is still pending.

The role of the state in output generation is still significant and progress in privatisation has been slow. In the manufacturing sector, state enterprises account for nearly one quarter of value added and for about 12% of employment. In the banking sector state controlled banks account for more than one third of the sector's net assets and for more than 40% of the sector's employment. Although privatisation started in the mid-1980s, accumulated privatisation revenues have been very low, accounting for only about 4% of nominal GDP. Last year, when Turkey registered a record performance in privatisation, total privatisation revenues amounted to about 1½% of GDP. The most important recent projects have been the block sale of 51% of the shares of the petrol distribution company *POAS* and the public offering of 31.5% of the oil refinery *TÜPRAS*. Attempts to privatise 51% of *Turkish Airlines* and 20% of *Türk Telekom* failed. Legislation on privatisation has been significantly improved, allowing for the privatisation of enterprises in the sugar, tobacco, energy and telecommunications sectors. However, since the recent financial crises, no significant privatisation has taken place, in part owing to poor market conditions, but also partly due to political opposition, also from within the government coalition. For the remainder of 2001, Turkey is planning secondary and tertiary public offerings of *POAS* and *TÜPRAS* and intends to try again to sell 51% of *Turkish Airlines*.

Despite fairly liberal regulations concerning market entry and exit, remaining barriers impede economic activity. As in previous years, the number of market entries and exits has been relatively high. During the first nine months of the year, about 35,000 new companies were registered, which is about 7% of the total number of enterprises. In the same period, about 12,500 enterprises were liquidated. The decline of new market entries by around 20% and the increase in closures by 25% reflects the effects of the economic recession. Apart from the economic decline, prohibitively high interest rates and the reluctance of private banks to provide credits to the private sector, are the main reasons for the decline in the number of newly established companies. However, there are also some bureaucratic barriers to overcome, which create difficulties for smaller enterprises, in particular.

The legal system, including the regulation of property rights, is in place. However, implementation and enforcement of laws and contracts is sometimes difficult. Despite the firmly established legal system, implementation of existing legislation is insufficient. The training of judicial staff does not always meet requirements. Legal procedures are sometimes complicated and time consuming. However, the election of the former president of the constitutional court as new president of Turkey has strengthened the respect of the law and has improved the implementation of existing legislation.

The financial sector is still under restructuring and does not channel sufficient financial resources to productive investment. The financial sector mainly consists of the banking sector. During the 1990s this sector expanded rapidly, benefiting from generous state insurance for savings and deposits, and strong public sector credit demand. As a result of political interference in the banking sector, chronically high inflation, weak legislation and insufficient surveillance, the Turkish banking sector accumulated substantial structural weaknesses. The banking sector consists of about 70 institutions. The four main state controlled banks account for about 30% of the sector's assets and for nearly 35% of the deposits. The privatisation of those state banks is overdue. Another 30% of the sector's assets are controlled by the 4 largest

private banks. About 10% of the assets are owned by 18 non-operative banks, which have been transferred into the custody of the Savings and Deposit Insurance Fund (SDIF). The share of government securities in private bank assets is relatively high at about 25%. Bank lending accounts for about 23% of GDP and is highly concentrated in the public sector and related group companies. As a result, only 0.1% of all borrowers account for nearly 40% of the total loan value. Stock market capitalisation is at about 20% of GDP. After the financial crisis, the share of non-performing loans in total loans rose to 18%, mainly due to the sharp rise of non-performing loans of state controlled banks, in particular of the banks under the administration of the Savings and Deposit Insurance Fund.

Progress in addressing the weakness of the financial sector has been achieved. The state controlled banks have been re-capitalised and their short-term exposure has been substantially reduced. Private banks have been obliged to improve their capital adequacy ratios and to adhere to international reporting and prudential standards. Non-viable private banks have been put under the administration of the SDIF, where they are in the process of being restructured and reorganised. The banking regulations have been further strengthened. The establishment of the Banking Surveillance and Regulatory Agency (BRSA) in 2000 has significantly improved banking surveillance and the adherence to prudential rules. However, the consolidation process is far from being completed. So far, only the smallest state-controlled bank, *Emlak bankasi*, has been dissolved. The two largest state banks, the agricultural bank, *Ziraat bankasi*, and a bank providing credits to SME's, *Halk bankasi*, have been put under joint professional management and will be prepared for privatisation. Another state controlled bank, *Vakif bankasi*, is planned to be privatised soon. Some of the non-viable banks have been merged with the *Sümerbank*, which is supposed to be sold soon to *Oyakbank*, belonging to a support fund of the military staff. So far, one smaller bank, the *Bank Ekspres*, and the 9th biggest bank in Turkey, the *Demirbank*, have been sold.

The capacity to cope with competitive pressure and market forces within the Union

The ability to fulfil this criterion depends on the existence of 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 before accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

Despite significant progress in strengthening the base for a functioning market economy, a sufficient degree of economic stability and predictability has not yet been achieved. Furthermore, the role of the state is still considerable and financial markets are not channelling investment to productive uses.

The composition of human and physical capital is very heterogeneous in terms of quality and regional distribution and needs urgent improvement. The demographic structure of Turkey, with a relatively young population, represents a considerable potential but also generates the need to provide adequate resources for schooling and training. Turkey's human

capital reflects decades of insufficient funding. The literacy rate is very low when compared to international standards. In 1999, the literacy rate of the population over 12 years old was 94% for men, but only 77% for women. In recent years, efforts have been undertaken to improve this situation. Since the 1997-1998 school year, compulsory schooling has been increased from 5 to 8 years. However, there are serious difficulties in providing facilities and teaching staff. Nevertheless, the enrolment ratio in primary schools increased to 98%, but is still only 60% for secondary schools. Educational resources are concentrated in urban areas, while a considerable share of the population is in rural areas. Furthermore, there is a considerable regional disparity in the level of basic education. The communication between the private sector and the educational system is insufficient to adjust the educational content to the needs of the private sector. High unemployment rates among high school graduates are the consequence. The health system does not provide sufficient support to the labour force. Besides insufficient resources, provision of health services differs significantly between regions.

The quality of physical capital is very heterogeneous, leading to considerable productivity differentials. Export oriented companies are equipped with state-of-the-art technology, while many SMEs are working with worn-out capital and outdated management techniques. As a result, overall productivity of the capital stock is relatively low. The road network is well developed and in good condition. Pipelines for oil and gas and energy connections have been extended. However, the railway network has been neglected. Its equipment is outdated and management capacities are insufficient. As a result, budgetary transfers to the railway company are a considerable fiscal burden.

Labour market policy remains to be developed. Due to Turkey's traditional focus on short-term stabilisation, labour market policies are hardly discussed during policy formulation. However, recently the institutional set-up and the involvement of the social partners have been improved. Tri-partite commissions, representing the state, employers and employees, are preparing reports and proposals on how to improve the efficiency of Turkish labour market policy.

Gross fixed capital formation is very volatile. In 2000, the share of gross fixed capital formation in GDP was around 22%. The share of housing investment is relatively high and the annual development is volatile, depending on interest rates and the general economic environment. The share of public investment is fairly constant at around 6% of GDP, with about 90% of this investment going into infrastructure. In view of the volatile economic performance in recent years, private sector investment declined from 21% of GDP in 1997 to 16% in 2000.

Despite increasing openness for foreign direct investment, inflows have remained marginal. During the last year, market liberalisation has improved access of foreign investors to Turkish enterprises: some sheltered sectors have been opened, although limitations in other sectors remain; the list of enterprises to be privatised has been extended and bureaucratic procedures have been improved. Due to the sale of a GSM licence and some privatisation projects, the inflow of FDI increased in 2000. FDI remains significantly below its potential, reflecting economic volatility and political uncertainty. Low capital inflows fail to support the external balance, but also represent missed opportunities in modernising the Turkish capital stock, in channelling modern know-how to Turkey and facilitating access to export markets. With respect to competitiveness, this represents a significant disadvantage, in particular in combination with Turkey's low investment in research and development.

Enterprise restructuring in the private sector, in particular in the agricultural sector, has been further accelerated by the structural reforms. The agricultural sector is experiencing substantial restructuring, since state support in the form of privileged credit lines, price support and purchase agreements is in the process of being dismantled. Important agricultural markets, like the sugar and tobacco market, are to be liberalised. State enterprises are increasingly subject to hard budget constraints, forcing them to aim for prices which cover costs. Despite the impressive progress achieved so far, the restructuring process in those formerly sheltered sectors has just started and the short-term social and political costs of maintaining the modernisation process might be considerable. However, strict implementation of the new regulatory framework and continued restructuring will be key for fostering competitiveness of these sectors and the economy as a whole.

Small and very small family companies are the backbone of the Turkish economy. Small and medium-sized enterprises account for about 60% of the employment in the manufacturing sector and for 30% of the sector's added value. Micro-enterprises are of particular importance in Turkey. These enterprises, with less than 10 employees, account for 94% of all enterprises in the manufacturing sector, employ 30% of the sector's labour force, but generate only 7% of the sector's added value. These mainly family enterprises are dynamic and flexible in finding market niches and benefit from cheap inputs from the informal economy. In combination with the informal sector and the family network, it is probably this category of enterprises which provides some core stability to the otherwise highly volatile Turkish economy. Many of these small enterprises might face serious difficulties once they have to apply European standards, like legislation concerning labour regulations, social and health standard and accounting rules.

State interference has been declining further in the agricultural and financial sector. The most important measures in this respect have been initiatives to liberalise the tobacco and sugar markets, the establishment of the autonomy of the agricultural sales co-operatives (ASCUs) and the elimination of political influence in the state banks. The role of the Telecommunication Regulatory Authority has been strengthened and the latest amendments to the regulation of the electricity and gas sector call for the establishment of independent regulatory institutions. These measures should raise the sectors' attractiveness for foreign or domestic long-term investment. Furthermore, the independence of the Central Bank has been increased. State subsidies are being reduced.

Trade integration with the EU has further increased, although progress is quite gradual. In 2000, the sum of exports and imports of goods and services accounted for about 55% of GDP. The Union is by far Turkey's most important trading partner, accounting for about 52% of Turkish exports and 49% of Turkey's imports. The establishment of the Customs Union in December 1995 has intensified Turkey's trade integration with the EU. In recent years Turkey has been fairly successful in increasing trade with the successor states of the Soviet Union. Textiles and clothing account for about 45% of exports. Around 90% of Turkish imports are inputs into the industrial process. The most important category is machinery, accounting for some 52% of total imports. Oil products account for about 5% of total imports.

Due to high domestic inflation, the price competitiveness of Turkish commodities declined when the currency peg was in force last year. The recent depreciation by more than 50% has more than compensated the previous real appreciation and improved the price competitiveness of Turkish commodities. However, due to the high import content of Turkish exports, considerably

increased financing costs and the international economic slowdown, the export sector could not take full advantage of the depreciation of the Turkish lira.

2.4. General evaluation²³

Confronted with two financial crises, Turkey has been unable to make further progress towards achieving a functioning market economy. Considerable parts of its economy are, however, already competing in the EU market, under the framework of the customs union with the EC.

The two financial crises brought to a halt economy recovery and put an end to the preceding economic stabilisation programme. Macroeconomic stability has been shaken, and many macroeconomic imbalances have reappeared. Turkey has adopted, and has been implementing, an ambitious economic reform programme that addresses better than its predecessor the risks and vulnerabilities of the domestic financial sector and seeks to reduce government intervention in many areas of the economy. These problems were at the heart of the crises.

Priority has to be given to establishing short-term macroeconomic stability, based on disinflation. However, the authorities must also continue to focus on establishing a solid basis for sustainable market-based economic development in the medium term. Significant restructuring is still needed in various sectors, such as banking, agriculture and in state enterprises, in order to guarantee the medium-term competitiveness of the economy as a whole. They will need to redefine their budgetary priorities, in a medium-term perspective, in order to provide a sufficient level of investment in education, health, social services and public infrastructure across the country.

²³ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 2000 Regular Report on Turkey's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 2000 Regular Report, this section seeks to provide an overall assessment of Turkey's ability to assume the obligations of membership, and of what remains to be done. This section is structured to follow the list of twenty-nine negotiating chapters, and incorporates an assessment of Turkey's administrative capacity to implement the *acquis* in its various aspects.

The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme, in Agenda 2000 the Commission underlined the importance of effectively incorporating Community legislation into national legislation, and the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership.

The European Council in Santa Maria da Feira and in Gothenburg in June 2000 and June 2001 respectively recalled the vital importance of the applicant countries' capacity to implement and enforce the *acquis*, and added that this required important efforts by the applicants in strengthening and reforming their administrative and judicial structures. Building on the assessment of Turkey administrative capacity provided in the 2000 Regular Report, the present Report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 2000 Regular Report, the Commission concluded that:

“Overall, Turkey's alignment with the community *acquis* in the areas covered by the Customs Union is most advanced. However, since the last regular report, progress in transposition of legislation in these areas has been limited.

As a candidate country, Turkey has to start making substantial progress in alignment with the *acquis* in all other fields. Strategies and detailed programmes (including priorities) are necessary for the transposition, implementation and enforcement of these relevant areas of the *acquis*. The results of the preparation of the analytical examination of the *acquis* and the National Programme for the Adoption of the *Acquis* to be established by Turkey will be important tools for this work.

Substantial administrative reforms are necessary in order to implement and adequately enforce the different EC policies. The alignment of the Turkish *statistical* base with that of Eurostat is a very first priority.

Concerning *internal market legislation*, efforts are needed in the areas of free movement of goods, particularly with respect to the alignment of standards and removal of other technical barriers to trade. As a result of the obligations under the Customs Union this process has to be

completed by the end of 2000. Trade in agricultural products remains a problem. For the *internal market*, Turkey needs to adopt framework legislation based on the principles of the New and Global approach. Substantial reforms have been conducted in the banking sector. No progress was recorded on the transposition of capital movement legislation. Serious problems in money laundering persist. Alignment in the areas of non-financial services and free movement of persons is at a very early stage. Further work on all other aspects of the internal market remains to be done, as well as with respect to institution building, for example in the state aid sector. Further adjustments to Turkish monopolies are necessary. Turkish company law is subject to further Commission assessment of compliance with EU legislation. Substantial harmonisation is still required in the area of *taxation*. In the customs area, there is almost full alignment.

In the field of *telecommunications*, substantial progress has been made to introduce competition. Further alignment with the community *acquis* is needed. Piracy of audio-visual materials remains a serious problem.

The first priority in *agriculture* and *fisheries* is to start the introduction of basic mechanisms and structures, (statistics, land register, improved fishing fleet register, plant and animal identification systems, upgrading equipment) to be able to manage these policies. The *maritime* safety record of the Turkish fleet remains a matter of concern. Maritime and *road transport* needs to be adapted to EU standards.

In the *social policy* field, Turkish legislation is still very different from that of the Union in particular in terms of standards, methods and monitoring requirements. In the different areas much remains to be done. The same applies to key *energy* laws reforming the power and gas sectors, which are still pending. In the *environmental* sector, strategies for transposing the *acquis* as a first step are recommended.

Compared to 1999, no major progress has been made in the field of *justice and home affairs*. As regards migration, efforts need to be seriously stepped up to decrease the number of illegal entrants trying to reach Western European countries. It is recommended that the various departments in Turkey are better co-ordinated in order to increase the efficiency of checks, particularly exit checks.

A comprehensive policy framework is needed to further establish *financial control*. Substantial efforts are still required to modernise financial management, with a view also to protecting EU financial interests.

The overall conclusion is that substantial efforts are needed in policy fields outside the Customs Union to further align with EU legislation. including the establishment of adequate implementation and enforcement mechanisms. This will require important reforms of the administration at all levels. In some cases this will entail the establishment of new structures, for example in the fields of state aids and regional development. Various issues mentioned above are identified as priorities in the Accession Partnership for Turkey."

3.1. The chapters of the *acquis*

As indicated, the review of Turkey's ability to assume the obligations of membership that is below has been structured in accordance with the list of twenty-nine negotiating chapters.

Accordingly, this section opens with an assessment of progress related to the so-called “four freedoms”, the cornerstones of the internal market, and continues with a systematic review of progress on each of the chapters, to cover the *acquis* in all its various aspects, including sectoral policies, economic and fiscal affairs, regional policy, environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

Since the last Regular Report Turkey has made some further progress in aligning with the *acquis*. However, on the whole, alignment is not yet completed.

Concerning **horizontal and procedural measures**, and in particular the *New and Global Approach*, progress can be noted. The Law on the Preparation and Implementation of Technical Legislation on Products was approved by the Turkish Grand National Assembly in June 2001 and should enter into force in January 2002.

The purpose of this framework law is to lay down the principles and procedures for the placing on the market of products (including the obligations on producers and distributors), conformity assessment, market surveillance and inspection and the notifications relating to these arrangements. The implementation of this law forms the legal basis for further alignment with the *acquis*.

As regards sectors covered by the Old Approach Directives, good progress can be noted in the area of motor vehicles and their trailers since the last Regular Report. Since October 2000, legislation transposing 15 EC Directives has been adopted. With regard to agricultural and forestry tractors, a further 4 EC Directives have also been transposed. The Ministry of Industry and Trade has started to issue National Type Approval and National Whole Vehicle Type Approval Certificates for motor vehicles, tractors and motorcycles.

In the field of pressure vessels, all 5 of the Old Approach Directives were transposed between November 2000 and March 2001.

In the field of textiles, 2 EC Directives (on quantitative analysis of ternary fibre mixtures and quantitative analysis of binary textile fibre mixtures) were transposed in April 2001. Legislation transposing the Directive on labelling of footwear has been adopted and entered into force on 3 December 2000.

In the field of legal metrology and pre-packaging, 4 EC Directives (on alcohol meters and alcohol hydrometers, alcohol tables, electricity meters and tyre pressure gauges for motor vehicles) were transposed by early 2001.

No progress can be reported in other sectors covered by Old Approach Directives, including the fields of pharmaceuticals, cosmetics and chemicals. Similarly, there has been no progress in the fields of crystal glass and wood.

In the field of pharmaceuticals, Turkey has become member of the Collaboration Agreement of Drug regulatory Authorities in the European Union (CADREAC) in April 2001.

There is no progress to report on the adoption of **food legislation**. (*See also chapter 7 – Agriculture*)

Concerning the **non-harmonised sector**, on the basis of the information available, no progress can be recorded since the last Regular Report.

Concerning **public procurement**, no progress has been made.

Overall assessment

Although Turkey has taken steps to align with the *acquis* in the area of free movement of goods, further efforts are required, in particular in all the areas covered by the *acquis*, both new approach and old approach. The development of the necessary legal metrology infrastructures is essential.

In accordance with the product-specific approach, Turkey's alignment with the *acquis* in some sectors is completed. But Turkey is lagging behind in meeting its obligations under the Customs Union, which require it to have adopted and implemented a large body of legislation on technical requirements for products by the end of 2000. Adequate implementation of the Community *acquis* in the area of free movement of goods requires the establishment, reorganisation and upgrading of different bodies in Turkey (e.g. relating to standardisation, accreditation, conformity assessment and market surveillance). Substantial work remains to be done in this respect including ensuring greater independence from the state and increased efficiency of the relevant institutions.

The existence of the Customs Union between Turkey and the European Union influences Turkey's situation with regards to aligning legislation in the area of free movement of goods. According to Decision 1/95 of the EC-Turkey Association Council on implementing the final phase of the Customs Union, Turkey undertook to adopt Community legislation relating to the removal of technical barriers to trade by the end of 2000.

Decision 2/97 of the EC-Turkey Association Council established the list of the relevant Community legal instruments, including a substantial part of the *acquis* on industrial products, and the conditions and arrangements governing their implementation by Turkey.

However, Turkey has not been able to meet its obligation under Decision 1/95 of the EC-Turkey Association Council. The transitional arrangements have expired by the end of 2000, while a substantial part of the *acquis* remains to be transposed and implemented in Turkey. Although industrial goods largely circulate freely within the Customs Union territory, the number of non-tariff barriers has in practice increased during 2001. This distorts trade and prevents the Customs Union from being used to its full potential.

The adoption of the framework law relating to the preparation and implementation of the technical legislation on products is a significant development. It lays the ground for substantial progress in alignment with the Community *acquis* in areas covered by the New Approach Directives. The implementation of the framework law is due to be taken forward through the adoption of five additional regulations on the following issues: the use of the CE conformity marking, conformity assessment bodies and notified bodies, exchange of information on national measures derogating from the principle of free movement of goods between the European Union and Turkey, exchange of information between Turkey and the European Union on technical regulations, and market surveillance and inspection of products.

In the area of standardisation, the Turkish Standards Institute (TSE), which is an independent institution not funded by the state budget, is responsible for the preparation and publication of standards, industrial metrology and calibration, conformity assessment and certification. It is already an affiliate member of both CEN and CENELEC and has applied for full membership of both these organisations.

According to the Turkish authorities, by April 2001, the TSE had adopted a total of 4949 CEN EN standards and 2282 CENELEC EN standards. Of these, 490 CEN standards and 275

CENELEC standards were adopted between November 2000 and 1 May 2001. A number of standards relating to New Approach Directives have already been adopted.

In the area of accreditation, the Turkish Accreditation Council (TURKAK) was created by the Law on the Organisation and Functions of the Turkish Accreditation Council, to accredit organisations to conduct laboratory, certification and inspection services. It has been given administrative and financial autonomy. Since the last Regular report, efforts have been made to ensure that the accreditation system set up by the law becomes operational, and arrangements are made to deal with the first accreditation applications. TURKAK's current staffing level (60 people) is regarded as sufficient to carry out its tasks. It is expected to become operational this year. A quality management system is being finalised by a special board established by the Government.

Further development in the area of conformity assessment will depend on the implementation of framework legislation on technical requirements for products. The same is true for market surveillance. Currently, market surveillance activities are carried out by a number of Ministries and public institutions, depending on the sector covered by the relevant legislation. These include the Ministry of Industry and Trade, the Ministry of Public Works and Settlement, the Ministry of Health, the Ministry of Agriculture and Rural Affairs and the Undersecretariat of Foreign Trade. Pre-market control is still a feature of the Turkish system.

Efforts should be made to reduce the number of trade issues which have arisen in recent years. In particular, greater efficiency of the Turkish Standards Institute (TSE) should decrease the use of various Turkish standards which diverge from international standards and Customs Union requirements. Moreover, issues like unnecessary requests for documentation, delays for approval and excessive testing procedures should be addressed. It is recommended to pay special attention to these points during the setting up of the implementation arrangements under the new secondary legislation package. In sectors covered by the Old Approach Directives, progress in the area of motor vehicles and agricultural and forestry tractors is welcomed. Turkey should accelerate its alignment in the pharmaceutical and chemical sectors, where it currently foresees that alignment of its legislation will not be completed until 2003 and 2005, respectively. On cosmetics, the regulation of this sector in Turkey has evolved in a direction contradictory to the *acquis*. Indeed, a category of products ("cosmeceuticals") has been developed which is not foreseen in the EU *acquis*.

Once the *acquis* on these and other industrial products is adopted in Turkey, the authorities must ensure that it is accompanied by the necessary administrative development to ensure it is fully enforced.

Concerning food legislation, further work is needed to confirm whether legislation fully in line with the *acquis* has been successfully adopted and implemented. A food action plan was drafted in 2000 which aimed to prepare the current Turkish system for compliance with Community standards. A "Food inspection strengthening project" drawn up in 1997 has still not been implemented.

Some training programs on inspection, on HACCP and laboratory analysis have been carried out. Turkey is also working on the establishment of a rapid alert system. Some monitoring plans for aflatoxine and residues have been drawn up.

The administrative responsibility for foodstuffs, including control, is shared between the Ministry of Health and the Ministry of Agriculture. Administrative structures will need to be strengthened

to ensure compliance with Community legislation. In particular, the existing laboratories are not sufficiently equipped to carry out the necessary analyses.

As regards safety checks on products at external borders, Turkey still needs to establish appropriate market surveillance infrastructure and improve the administrative co-operation with competent authorities.

As regards the non-harmonised area, problems remain on the application of the mutual recognition principle and the *acquis* stemming from Articles 28-30 EC.

The existing regime of public procurement is not in line with the *acquis*.

Chapter 2: Free movement of persons

The reporting period has not seen any significant developments in this area of the *acquis*.

No progress can be reported in the area of **mutual recognition of professional qualifications**. In most areas access to profession is limited to Turkish citizens.

No particular developments can be reported on **citizens' rights**.

No development can be reported concerning the issue of **free movement of workers**.

Some basic preparatory work has taken place with respect to **co-ordination of social security**.

Overall assessment

Turkey is not yet aligned with the *acquis* in this field and has completed first preparations in some areas.

In the area of mutual recognition of professional qualifications as well as citizen's rights, no progress has been made. With respect to the co-ordination of social security, preparatory work needs to continue and the necessary administrative capacity in this area will need to be built up. The issue of free movement of workers needs to be the subject of mutual consultations.

Chapter 3: Freedom to provide services

Turkey has made moderate progress in aligning with the *acquis* in the area of financial services.

In the area of **right of establishment and freedom to provide (non-financial) services**, a law on the exercise of the legal profession was adopted in May 2001. This gives foreigners the right to carry out legal consulting services, without needing to be members of a Turkish bar. However, the regime restricts certain professional activities to Turkish citizens only. In addition, the law only applies to nationalities, which make similar rights available to Turkish nationals seeking to practise abroad.

In the field of **financial services**, and in particular the *banking sector*, important changes have taken place as part of the programme "Strengthening the Turkish Economy" which was adopted in March 2001. As part of these reforms, the Banking Regulatory and Supervision Authority

issued a programme on “Restructuring the banking sector” in May 2001. This accelerated the privatisation of State-owned banks, which had started in September 2000.

A number of pieces of legislation has been adopted such as the Directive on determining the qualifications for loans and other receivables for which banks shall set aside provisions and on general principles and procedures for provisions, and the Decree on savings deposits subject to insurance and on premiums to be collected by Savings Deposit Insurance Fund. The maximum coverage saving deposit accounts provided by the Savings Deposit and Insurance Fund has been reduced to 50 Billion TL for the deposits made after 1 January 2001. The ceiling had previously been reduced to 100 Billion for deposits made after 1 January 2000. The coverage for deposits made before this date remains unlimited.

Additionally, the Regulation on the Internal control and risk Management System of Banks was adopted requiring banks to set up appropriate internal inspections and risk management tools by 1 January 2002.

The Regulation on measurement and assessment of capital adequacy on a consolidated basis was also adopted, as were the principles concerning the accounting and implementation of the standard ratio relating to the banks' own funds, to net overall positions in foreign currencies , a ratio which is calculated on a consolidated basis.

In addition, the banking law was amended in May 2001, introducing important changes, including the definition of thresholds for a bank's own funds, the definition of credit, as well as rules on provisions against bank losses.

All these provisions aim to stabilise the financial sector and align legislation with the Community acquis.

Concerning **securities**, two regulations were adopted in June 2001 by the Capital Market Board. One concerned the functioning of the Investor Protection Fund, intended to cover losses incurred by customers of insolvent securities firms, and the other the establishment and functioning of a central registry. The function of the central registry is to manage a fund intended for the progressive liquidation of insolvent intermediaries. The regulation will enter into force once the central registry, which is to administer the Fund, is operational.

A Communiqué on the principles regarding licensing and registration of working in the field of capital markets has been published in June 2001.

In the field of **insurance** services, three laws have been adopted since the previous Regular Report. These relate to insurance and reinsurance brokers (October 2000), to Individual retirement and Saving System (April 2001), and an amendment to the Regulation on Insurance Adjusters (May 2001).

As regards the non-harmonised area, problems remain on the application of mutual recognition principle and the acquis stemming from Articles 28-30 EC.

No progress has taken place concerning **personal data protection**, neither as regards legislation or development of administrative capacity.

Overall assessment

The overall alignment with the *acquis* and the liberalisation process is advancing in the area of financial services. The current reforms particularly in the banking sector are significant and are welcomed. Much work remains to be done in order to bring the Turkish legislation in line with the *acquis* in the field of non-financial services.

The outcome of the ongoing negotiations to extend the Customs Union in the area of services and public procurement should promote further progress. These negotiations have started in 1999, and are progressing, after a reformulation of the draft agreement to take into account Turkish status as a candidate country.

Important discrepancies with the *Acquis* remain in the area of *non-financial services*. Foreign residents still need a permit or an incentive certificate issued by the General Directorate of Foreign Investments of the Under secretary of Treasury, and the provision of certain services is reserved to Turkish nationals.

In the field of *investment services and securities market*, the adoption by the Capital Market Board of the Regulation on the functioning of the Investor protection fund is a welcome development. It is now essential that the Central Registry becomes operational.

In the field of insurance, specific restrictions on the freedom of services remain. The Insurance Surveillance Board maintains links with the Ministry of State for Economic Affairs and may therefore not be qualified as fully independent. This matter needs to be further reviewed.

As regards administrative capacity, the Capital Market Board (CMB) is the authority monitoring the *investment services and securities market*. It is autonomous, self-financing (through a 0.25% levy on transactions) and has a staff of 366 persons. It can carry out autonomous inspections, which can lead to financial penalties and the suspension of licenses. The Board works on the principles of the International Organisation for Securities Commissions and EC standards.

Chapter 4: Free Movement of Capital

Since the previous report, Turkey has made limited progress in further aligning with the *acquis*.

As regards **payment systems**, the new generation real time settlement system, which was introduced the previous year, was extended to electronic transfer and settlement.

The law of April 2001 amending the Central Bank law enables the Central Bank to regulate the volume and the circulation of the Turkish Lira, to establish payment, securities transfer and settlement systems. The law also introduces regulations ensuring uninterrupted operations and supervision of existing or future systems, to determine methods and instruments including electronic environment for payments.

With respect to the related *acquis* on **money laundering**, some progress can be reported with the signature of the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime on 27 September 2001.

Overall assessment

The Turkish regime on the free movement of capital is to a certain degree aligned with the *acquis*, but some further efforts are required for the legislation to be fully in line. Liberalisation must be extended to all transactions. Restrictions concerning foreign investment in various sectors, such as mining, energy, banking, TV and radio companies, telecommunications are still in place. There are also limitations on foreign investment in the transport sector (e.g. maritime and aviation companies) and in ports, where foreign participation may not exceed certain ceilings. Foreign investments in real estate are limited, and Turkish insurance companies are not permitted to invest their reserves in foreign assets.

The authorisation system for investment should be abolished and replaced by a registration system. The current system is not in conformity with the relevant Community *acquis*.

As a result of the economic crisis of February 2001, Turkey has embarked upon a substantial reform of the financial sector. These reforms included the restructuring of the banking system, and the privatisation or closure of certain ailing banks (*see Section 2 on the economic situation*). Rapid completion and implementation of banking sector reform is essential, to complete alignment with the *acquis*.

In general, the conditions for foreign companies wishing to be listed on the Turkish stock exchange are similar to those applied to EU companies. However, a foreign company must also be listed in its home country.

Outward transfers of funds by residents are free, provided they are for sums below US\$ 5 million. For larger amounts, official authorisation remains necessary. The conditions under which non-residents may export large sums are unclear.

Turkey needs to properly enforce the legislation on money laundering, in force since August 1999. Compliance with the Recommendations of the Financial Action Task Force should be ensured.

The Central Bank is connected to the TARGET system of the European Central Bank for real time transaction in EUROS.

In terms of administrative capacity, the special unit dealing with financial crimes investigations recruited 19 new financial crime experts in 2000-2001. This unit has been operating since 1997 within the Ministry of Finance, and has a staff of 88.

Chapter 5: Company law

Turkey has made some progress in this area, in particular concerning the legislation on Intellectual Property rights, and has also made efforts to implement this legislation.

No progress concerning **company law** as such.

In the field of **intellectual property rights (IPR)**, Turkey has taken a first step by adopting a legislation which aims to align the Turkish regime with the Directives on rental right and lending rights and others rights related to copyrights in the field of intellectual property and the Directive on the co-ordination of certain rules concerning copyright and rights related to copyright

applicable to satellite broadcasting and cable retransmission, and with the Bern and Rome Convention, as well as with the TRIPs Agreement, the WIPO Copyright Agreement, and the WIPO Performances and Phonogram Agreement.

In March 2001, the Parliament adopted a law establishing specialised Courts to deal with intellectual property issues in the major provinces, while the General Civil Courts and General Penal Courts have been authorised to handle cases related to IPR issues.

Turkey ratified the European Patent Convention in November 2000 together with the Memorandum of Understanding in order to harmonise Turkish practices with those of the Office for Harmonisation in the Internal Market. The law on Customs adopted in February 2001 contains measures aimed at fighting against violations of IPR at the frontiers and contains measures concerning counterfeited and pirated goods.

Overall Assessment

Turkey has advanced further in the field of industrial and intellectual property rights. No developments towards further alignment with the *acquis* in other relevant areas can be recorded.

Important discrepancies remain in the area of company law, in particular in relation to merger provisions, and accounting and audit legislation. The registration of companies is carried out by the Provincial Trade Registries which are established within the Chambers of Commerce. There is a need to further improve the quality of the data and registry.

On intellectual property rights, Turkey needs to fully implement its commitments under the Customs Union. In addition, Turkey is neither member of the WIPO Copyright Treaty nor of the WIPO Performance and Phonogram Treaty, and should advance its efforts to align with these.

Piracy of audio-visual materials continues to be a serious problem in Turkey, and efforts to address it should be taken further. Strengthening the enforcement of existing legislation, and gaining approval for the relevant new legislation, remain important priorities for Turkey.

Matters relating to industrial property rights, and in particular the implementation of the Hague agreement on the Deposit of Industrial Rights, are managed by the Turkish Patent Institute. This Institute is not a fully independent body, but is connected to the Ministry of Industry. This situation must be addressed.

The adoption of a law on protection of topographies of integrated circuits is well underway.

Chapter 6: Competition policy

Since the last Regular Report, Turkey has made substantial progress in the field of anti-trust policy. No progress can be recorded concerning the alignment with State aid regulation and enforcement.

Turkey has further aligned its legislative framework in the area of **anti-trust** with the *acquis* and the obligations of the Customs Union. Turkey has adopted a considerable amount of secondary legislation, in particular in the area of block exemption regulations.

In the area of **state aid**, in June 2001 the establishment of a functionally independent body responsible for the enforcement and monitoring of State aid granted in Turkey was agreed, to be effective as of 1 January 2003. An ad-hoc committee has been set up within the Turkish Government with a view to preparing the setting up of this independent body. Concerning state aid for regional development purposes, no progress can be recorded.

Turkey has prepared a list of its remaining State monopolies of commercial character and companies with exclusive rights. This list was presented to the Commission in April 2001. Turkish liberalisation efforts have in the period under review continued to be insufficient as regards dismantling the special rights of TEKEL. The transition period for adjustment foreseen by the Customs Union agreement expired already in the beginning of 1998. Difficulties in relation to monopoly adjustment on alcohol and tobacco therefore remain.

The preparation of the procedure for implementing rules in the field of competition under the Customs Union was finalised and the process of their final adoption by the EC - Turkey Association Council has been launched.

Overall assessment

The application of anti-trust provisions remains satisfactory. Further alignment to the *acquis*, however, remains necessary in this field. The Competition authority has handled a considerable number of cases, but the administrative capacity of the authority should be strengthened to ensure that the handling of all cases is of a high standard.

No effective state aid control, based on EC principles and criteria, exists in Turkey. It needs to align its legislation with the *acquis* in this area. It should speed up preparation for the establishment of an independent State aid control body. In addition, Turkey does not have an inventory of existing state aid, nor is there a regular annual reporting following the methodology and the presentation of the Community's survey on state aid. However, Turkey has agreed to establish an inventory of state aid and regular annual reporting following the methodology and the presentation of the Community's survey on state aid after the creation of the State Aid Monitoring Authority. At present, control of State aids remain under the responsibility of a number of different public bodies, such as the Undersecretary of State Treasury and the Undersecretary of Foreign Trade.

Turkey should accelerate its work on the definition of a State aid map for regional development purposes. Further work is needed to ensure that Community criteria and methodology, as well as geographical and statistical data collected according to Eurostat standards, are followed when finalising the map to enable a differentiation of maximum aid intensities in the country.

The independent Turkish Competition Authority became operational in 1997. It has adopted and published a number of legislative acts and has continued to follow closely the developments of the EU legislative framework on antitrust and merger policies. However, doubts remain as to whether this Authority enjoys the appropriate powers to effectively apply competition law to public undertakings, state monopolies and companies having special rights. The exact competence of that authority therefore needs to be clarified.

The situation with respect to monopoly adjustment on alcohol and tobacco (TEKEL) remains a matter of concern. Under the Customs Union decision, the necessary adjustment should have

taken place by 1998. A new law, adopted in January 2001, is in contradiction with Turkey's obligations under the Customs Union. As a result, TEKEL effectively retains a monopoly on trade in alcoholic beverages and tobacco products, although its character has changed from a public body to a commercial enterprise. Privatisation of TEKEL is under preparation.

Chapter 7: Agriculture

Since the last Regular Report, no progress in aligning legislation has been made.

Agriculture in Turkey accounted for 14,6% of Gross Value Added in 2000²⁴, as opposed to 15% in 1999²⁵. Agriculture employed just over one third (34,9%) of the Turkish labour force in 2000²⁶.

In 2000, EC imports of agricultural products originating in Turkey decreased by 3,8% to €1,917.0 million. EC exports to Turkey increased by 24,6% to €1,004.6 million. The trade balance in favour of Turkey was €912.4 million compared to 1.187 million in 1999²⁷. In 2000, the most important product groups in terms of EC imports from Turkey were fruit (46%) and processed fruit and vegetables (20%). As far as EC exports to Turkey are concerned, the most important sectors were tobacco (9%), drinks and vinegar (7%) and cereals and rice (6%).

Turkey has introduced a number of measures in the area of agricultural policy reform.

According to Turkey's April 2001 programme "Transition to a strong economy", the main principle of agricultural policy is to assist farmers by means of direct income support throughout the whole country. In the short term, state-controlled support prices will take into consideration Turkey's financial resources and will not exceed targeted inflation rates. Support purchase volumes will be linked to Turkey's financial constraints.

The government's objective is to phase out various support policies and to introduce a decoupled direct income payment system per hectare (nation-wide). Moreover, measures are taken to limit the role of the State in agriculture. Furthermore, measures to avoid fragmentation, for example by changing the inheritance rules under the Civil code, and through rural development projects to improve infrastructure and living standards, are being considered.

In 2001, the State budget for agricultural policies will amount to approximately € 2,600 million. Out of the total agricultural budget, € 450 million will finance direct support schemes to farmers, € 140 million input support and € 2,000 million general and other support measures. State support to agriculture, including rural development, represents about 3.9 % of the State budget.

Horizontal issues

Preparations for the implementation of measures related to the **European Agricultural Guidance and Guarantee Fund (EAGGF)** and other horizontal mechanisms have not started.

²⁴ Data refer to ISIC Rev.2

²⁵ The source for all agricultural statistics is EUROSTAT unless otherwise specified.

²⁶ Eurostat Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture.

²⁷ Uruguay Round definition of agricultural products, figures taken from EUROSTAT COMEXT

As regards the implementation of trade mechanisms, Turkey's state of alignment falls within the Customs Union Decision of 1995 (*see Chapters 25 - Customs union, and Chapter 26 - External relations*).

Under a pilot programme on direct income payments per hectare, partly financed by the World Bank, that has been implemented in four provinces, different mechanisms for registering farmers has been tested. Based on these results, registration will be developed on a nation-wide scale (4 million farmers). The registry will be developed over two years. At present 20% of the relevant offices have fully computerised cadastre information. Ministry of Agriculture and Rural Areas (MARA) district offices will keep the farmer registration records.

Within MARA, a Geographical Information System and Remote Sensing Department was established to classify and map agricultural land, to estimate production and production capacity for various products and to create a database for land use planning purposes.

A regulation on the identification, registration and monitoring of bovines was published in June 2000. The aim is to start registration still in 2001 and register 10 million bovine animals. A computerised system is under development.

Common Market Organisations

The Government has started to shift support policies such as intervention, subsidies of input and credit systems, towards a policy of direct income payments per hectare.

The fertiliser subsidy has been held constant at a nominal rate since 1997. A programme for the phasing out of agriculture credit subsidies has been approved. Support for some crops such as wheat has been lowered. The latter issue has led to tensions within the Turkish government due to the compatibility of the wheat price level with the commitments made under IMF standby agreement.

As indicated, a pilot programme on direct income payments per hectare has been implemented in four provinces. The payment per decare was € 5.5 with a maximum eligible area of 199 decare (or 19.9 hectare) per farmer. So far, approximately € 2.7m has been paid to 9,677 farmers.

As a transitional measure, farmers may also receive financial assistance to stimulate the change to more profitable crops (alternative crop programmes). The main purpose is to reduce land use for tobacco, sugar beet, tea and hazelnut. Some farmers also may receive supplementary income support for the development of activities outside agriculture in those regions where the growing of alternative crops is difficult.

The Government took a further decision in April 2001 on the implementation of the direct income support system in agriculture (nation-wide).

External border tariffs for certain commodities have been decreased to introduce a more market conform approach.

Another important element of the reform process in the agricultural field entails the reduction of the role of the state in agricultural and agro-industrial production. A process of privatisation of

State Economic Enterprises (SEEs) has started. A law de-monopolising the production of alcoholic spirits was enacted in January 2001.

Moreover, the law of 2000 on Agricultural Sales co-operative unions and Agricultural Sales Co-operatives entered into force in 2001. The Restructuring Board was established and former annual credit payments and subsidies have been replaced as from 2001 by transitional compensation payments to 12.000 workers.

With respect to privatisation of enterprises, from 2002, the sugar company (TSFAS) will operate on a commercial basis. Sugar mills and some tea factories are expected to be transferred to the Privatisation Agency still this year. A Sugar Board was established by the Council of Ministers' Decree of June 2001. All of TEKEL's assets have been transferred to the same agency with the aim of completing asset privatisation in 2002 (Law of January 2001).

The changes in the Agricultural Sales Co-operatives will further lead to some changes at governmental level. The Ministry of Agriculture and Rural Areas will need to take over some responsibilities previously carried out by the SEEs. Moreover, a further restructuring of the Ministry is under preparation both at central, provincial and local level. MARA has begun work on the necessary legislation.

With respect to *arable crops, sugar, specialised crops and animal products*, new legislation has been adopted.

A new Sugar Law was adopted on 19 April 2001. It opens the market to competition, reduces state interference, and aims to maintain stable and self-sufficient sugar production. A system of production quotas will be part of secondary legislation still to be adopted.

In the *tobacco sector*, the Turkish parliament adopted the Law on Restructuring of the General Directorate of TEKEL and on the production, exports and imports of tobacco and tobacco products, with the aim of restructuring the State-owned TEKEL and adopting new regulations on tobacco, tobacco products and alcoholic beverages. The Law did not receive the approval of the President because of its social consequences for tobacco-growers. A "Tobacco, Tobacco Products and Alcoholic Beverages Market Regulation Board" is to be set up under this law. In addition, the monopoly status of TEKEL will be converted into a commercial enterprise that will operate under free-market conditions, and will subsequently be privatised subsequently.

Rural development and forestry

Rural development programmes as foreseen by the relevant *acquis* do not exist in Turkey. However, a number of 'classical' development projects, developed together with the International Fund of Agriculture Development (IFAD), do exist. They aim to improve infrastructure in rural areas, to increase income levels and the standard of living. The Grand Anatolian Project (GAP) has enabled a number of sectoral programmes to improve agricultural structures. A separate desertification programme has been established. Specific areas of action in the forestry sector are forest fire protection, afforestation, erosion control, the protection of biological diversity and the improvement of social and economic conditions of forest villages through low interest loans. The total staff of the whole Ministry of Forestry is around 30,500 persons.

A Land Use and Soil Conservation Law is pending before the Turkish Parliament.

Veterinary and phytosanitary issues, including food *safety*

In the **veterinary sector**, the animal disease situation remains serious (foot and mouth disease, rinderpest, blue tongue, sheep/goat pox and brucellosis).

A new animal breeding law entered into force in March 2001. The law aims to improve the efficiency of animal production (both for agriculture and also the breeding of animals for races and competitions), and the protection of animal gene resources.

The basic law on Animal Health Services was amended in April 2001. Its aim is to form the legal basis for the adoption of various items of EC legislation concerning regionalisation of countries for which import restrictions are imposed due to certain animal diseases and for strengthening of sanctions. In addition, a circular was issued in February 2001 that set out the guidelines on animal health conditions and veterinary certification for imports of registered equidae for breeding and production.

Following a bylaw on the Procedure and Principles for the Establishment, Commencement, Operation and Inspection of Red Meat and Meat Products Establishments adopted in September 2000, slaughterhouses are classified into three groups and the number of animals to be slaughtered and sale points are determined in terms of their technical and hygienic conditions. The aim of this bylaw is to improve the hygienic and technical conditions of slaughterhouses, increase the number of licensed establishments, and shut down facilities that do not meet the requirements. The Turkish authorities have indicated that, as a result of this bylaw, 375 fresh meat and meat product establishments and 84 poultry-meat and poultry-meat products establishments have been licensed, and that 550 establishments have been shut down.

As a first action in view of the surveillance of BSE, a screening programme was initiated at the beginning of 2001, with the aim of inspecting and monitoring samples taken randomly from cattle with nervous disorder symptoms and from cattle, older than 30 month, slaughtered at slaughterhouses.

Moreover, at the end of 2000, a “National BSE Monitoring Committee” was established under the Ministry of Agriculture and Rural Affairs.

A bylaw on the Establishment and Duties of the Provincial Control Laboratory Directorates of the Ministry of Agriculture and Rural Affairs was amended in January 2001. This amendment provides for the restructuring of laboratory directorates in order to enable their practices to come into line with the principles set out in “Good Laboratory Practice”. The capacity of these directorates was strengthened in 2000 by providing laboratory equipment (€1.3 million).

Disease diagnostic capacity of the laboratories in Veterinary Control and Research Institutes was enhanced either by establishing new laboratories or by introducing new techniques and instruments (e.g. establishment of a Molecular Epidemiology Laboratory at the Foot and Mouth Disease Institute, a BSE laboratory at the Etlik Central Veterinary Control and Research Institute).

In the **phytosanitary sector** the disease situation for *Ralstonia solanacearum* and *Globodera spp.* has improved. The health situation for other diseases has not changed since the last Regular Report.

A new article for Notification of Interception of a Consignment of Harmful Organisms was added to the new legislation on plant quarantine. Registration of producers and importers of plant and plant products and of warehouses and dispatching centres is obligatory.

As regards food safety, a communiqué on the Determination and Announcement of Entry and Exit Points for Foodstuffs to be Exported and Imported was adopted on 1 March 2001 in order to ensure effective controls on foodstuffs with respect to food safety and quality. Certain customs offices were assigned for imports and exports of foodstuffs. Moreover, training of food inspectors at border points has been initiated (*see also Chapter 1 Free movement of goods*).

Overall assessment

Turkey's preparations to harmonise legislation with the community *acquis* in the field of agriculture are still at a very early stage. Limited progress has been made in the adoption of legislation directly related to the *acquis* in the fields of veterinary, phytosanitary and food safety in order to align with the *acquis*. The development of a land register has not been completed. A plant passport system has not been established in Turkey and preparations have not started.

Low income levels, overproduction in some sectors, fragmented farm structures, and relatively low education levels of farmers are the main outstanding issues for the Turkish agricultural sector. The Government is aware of the need to improve productivity and efficiency in the agricultural sectors. Against this background, Turkey has started a substantial reform process in the agricultural sector. Various agricultural support mechanisms (input subsidies, agricultural support prices, credit subsidies) are gradually being replaced by a decoupled per hectare direct income payment system nation-wide. However, not all of the steps that have been taken necessarily go in the direction of current Community policies. There is a clear difference in approach.

The role of the State in agricultural markets and processing of agricultural products is being reduced.

A functioning land register is necessary for the implementation of a direct payment system (land parcel identification system; data on land use; data on land ownership). Turkey is encouraged to continue with projects in this area (including TAKBIS), and with the preparation of statistical information systems so that valuable information on agricultural developments is gathered. At a later stage, Turkey is recommended to concentrate on the establishment of other management systems such as those related to the European Agriculture Guidance and Guarantee Fund (EAGGF), producers organisations and mechanisms to manage rural development programmes.

A detailed opinion on the new Sugar Law is at present difficult to provide given the fact that its exact scope greatly depends on the content of various implementing laws, for example with respect to the establishment of quotas. Further information should be collected on the legislation in the field of animal nutrition.

The overall health situation in agriculture needs to improve, and in addition, specific attention should be given to improve the system of veterinary and phytosanitary controls at external borders (border inspection posts). Inspection visits of the Food and Veterinary Office of the EC have established major shortcomings in the performance of Turkey's veterinary office and of certain departments within the general directorate for inspection and control. Their recommendations should be implemented.

The administrative systems and control and inspection equipment in agriculture urgently need to be restructured and upgraded. It is necessary to upgrade food processing establishments.

Chapter 8: Fisheries

No concrete progress can be reported in this sector since the last Regular Report.

In the field of **structural actions**, a pilot study for a more sophisticated registration system is being conducted on 1,500 vessels. This system records information such as the size of catch, the species fished and the fishing grounds used.

A law to change the nature of sanctions used within the framework of the Fisheries law (i.e. from criminal to administrative sanctions) is currently pending before the Parliament.

Overall assessment

Major discrepancies with the main elements of the EC's fisheries policy remain, particularly on resource management, inspection and control, and market and structural policies.

Concerning resource management, inspection and control, a quota system as such does not exist in Turkey, but other conservation measures are applied through conditions attached to licences (e.g. length of vessels, time and place of fishing, use of nets etc). In order to prevent overfishing, no vessel certificates have been issued since 1997. Foreign-owned vessels are not allowed to fish in Turkish waters.

Licences for fishermen and fishing vessels are recorded in register books by the provincial directorates of the Ministry of Agriculture and Rural Areas. The goal is to transfer these records to a computer system to establish a national database.

As a first step, the fleet registration system needs to be modernised and producers' organisations established. Moreover, administration, inspection and control systems should be improved.

Chapter 9: Transport policy

Some progress has been made in this area, although no new legislation transposing the Community transport acquis has been adopted.

As concerns **land transport**, Turkey signed the Agreement on the International Occasional Carriage of Passengers by Coach and Bus (INTERBUS) in June 2001. On 16 July 2001, Turkey joined the AETR (European Agreement concerning the Work of Crews of Vehicles

engaged in International Road Haulage), thus integrating driving and rest time rules for international road transport operators into its national legislation.

As regards rail transport, no new developments can be reported.

In the field of **air transport**, services at airports open to international traffic have been opened. Slot allocations are made according to IATA rules. Turkey has hitherto not shown an interest in participating in the European Common Aviation Area process with the other candidate countries.

The Turkish administration responsible for air transport has been restructured through the creation of a Civil Aviation Authority.

The Turkish aviation sector is undergoing privatisation, although the latest attempted privatisation of Turkish Airlines was unsuccessful. An amendment to the Turkish Civil Aviation Code was adopted on 19 April 2001 allowing air carriers to set airfares without the approval of the Ministry of Transport. This will further promote competition.

In the field of **maritime transport**, Turkey is taking steps to address its problems as regards maritime safety. According to 2000 statistics under the Paris Memorandum of Understanding, the detention rate for Turkish-flagged vessels in 2000 was 23.8%, a slight improvement on the figures for 1999 (24.5%). This compares to an average for EU-flagged vessels of 3.9 % in 2000.

Turkey is a signatory of many related International Maritime Organisation rules and regulations and has harmonised its legislation accordingly. Further safety legislation has been adopted and International Maritime Organisation Conventions transposed. Turkish vessels with serious deficiencies receive additional penalties.

No progress can be noted as regards lifting the restrictions that Turkey still applies on vessels serving the Cyprus trade and on vessels on the Cyprus register. In addition, market access to coastal trade is reserved for Turkish-flagged vessels.

Overall assessment

Turkey needs to step up its legislative work considerably to adopt the Community transport acquis. Whilst a large number of new texts are in preparation, many of these are framework laws which leave the detail of implementation to secondary legislation. Furthermore, improvements of Turkey's administrative capacity to implement and apply effectively the legislation are required in all sectors of transport policy, in particular as far as the maritime administration is concerned.

As regards road transport, the structure of the taxes collected from road transport operators is partly harmonised with the prevailing tripartite EC structure. Turkey does not apply road-user charges in the way foreseen by the relevant acquis, and vehicle taxes vary according to the year of manufacture.

It should be noted that although Turkey does not apply the three EC criteria for admission to the road transport profession, it does apply a set of criteria for financial standing. A set of

criteria for good repute that is similar to that of the EC also exists. The regulation on the professional qualifications of road transport operators is insufficiently enforced.

Turkey is well advanced in taking over and implementing the EC road transport *acquis* in the technical field. EC norms on vehicle weights and dimensions, including the 11.5 tonnes maximum authorised weight on driving axles as well the 44 tonnes for-axle combination, are already part of Turkish national legislation. More efforts need to be made, however, with their enforcement.

Turkey is having problems in adapting its road transport fleet. Although vehicles engaged in international traffic comply with international and European norms (environmental norms, tachographs and speed limitation devices), those that carry out national transport only are far from complying. For instance, Turkey is only now considering extending the use of the tachograph to the national fleet. Retrofitting and adapting this fleet will be costly.

As for the rail sector, the regulatory authority is still to be established.

In the field of air transport, a new aviation safety monitoring system is now in place, and the International Civil Aviation Organisation (ICAO) has expressed satisfaction with Turkey's compliance.

On maritime safety, the Turkish maritime safety record is a matter of very serious concern. Despite Turkey being aware of the problems in this area, and despite some attempts to address these, the figures for the detention rate of vessels flying the Turkish flag are still very high. Improving this record should be an urgent priority for Turkey. Turkey should try to fulfil its Flag State implementation obligations as first priority, followed by its Port State obligations. Turkey has identified the shortcomings of the maritime administration - particularly that of Flag State Implementation - as being a major factor in the low safety level of the Turkish register.

Chapter 10: Taxation

Since the last Regular Report Turkey has made progress, especially in the field of excise duties.

In the field of **indirect taxation**, in June 2001 the levels of minimum excise duties on LPG used as motor fuel was brought above the minimum EC level. Now the level of the duty is higher than the minimum EC level on all motor fuel oils (liquid petroleum gas - LPG, leaded and unleaded fuel and diesel).

Concerning **direct taxation**, Turkey adopted in June 2001 a number of amendments to existing laws. It exempted capital gains arising from mergers, divisions and exchanges of shares from corporate income tax, in accordance with the relevant *acquis* on mergers, divisions, transfers of assets and exchanges of shares with regard to domestic transactions. It also reduced the rate of the indirect taxes on capital-raising by companies, in accordance with the relevant *acquis*.

The use of the Personal Identification Number has been extended in 2001 to various financial transactions.

As regards **administrative capacity**, the implementation of the personal tax identification number is aimed at improving the effectiveness of tax collection.

Overall assessment

Overall, further efforts are needed to align national legislation with the *acquis*.

As regards VAT, the structure of the tax is in place, following the introduction of the VAT Act in 1985. However, significant efforts of alignment are necessary in particular with regard to the exempt transactions and the rates applied.

As regards excise duties, in spite of the positive steps taken on the level of rates on motor fuel oils, further alignment is required as regards the structure of the duty, the obligatory exemptions, as well as with regard to the rates applied to tobacco and alcoholic products.

The legislation adopted concerning direct taxation brings the Turkish legislation on direct taxation more in line with the relevant EC Directives. However, substantial alignment remains necessary.

As regards administrative capacity, Turkey needs to modernise and strengthen its tax administration, in order to enable it to implement and enforce the EC *acquis* and to increase the tax collection.

Evasion of taxes continues to be widespread in the industrial and business sectors. The Transition Programme on Strengthening the Turkish Economy aims to address this issue, but tangible results have not yet been observed.

Chapter 11: Economic and monetary union

A detailed assessment of Turkey's economic policy in its various aspects has been given above, in the Chapter discussing the economic criteria (B-2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union *acquis* as defined by title VII of the EC treaty and the other relevant texts which candidate countries should implement before accession i.e. the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of the public sector to financial institutions, and independence of the national central bank. As to the process of liberalisation of capital movements, upon the completion of which compliance with the EMU *acquis* is conditional, this aspect has been covered above, in the section on *Chapter 4 – Free movement of capital*.

Turkey has made some progress in the adoption of the EMU *acquis*.

The **independence of the Central Bank** has been increased with the adoption of the amendments to the Law on the Central Bank of the Republic of Turkey in April 2001.

As regards **direct public sector financing by the central bank**, the provisions preventing the Bank from granting, advancing or extending credit to the Treasury, public establishments and institutions have been reinforced. The Bank may not purchase debt instruments issued by the Treasury and public establishments and institutions on the primary market.

Overall assessment

Turkey will participate in EMU upon accession with the status of a country with a derogation under article 122 of the EC Treaty. It will need to implement the necessary changes to its institutional and legal framework by the date of accession.

Turkey has taken important steps to increase the independence of the Central Bank, but further measures are needed to align with the *acquis* in this area. The Central Bank law is incompatible with the *acquis* as far as the determination of the inflation target is concerned, since this is decided upon in agreement with the Government. Other amendments may be needed to ensure full compliance with the *acquis* in the area of personal and institutional independence.

Chapter 12: Statistics

No concrete progress can be reported in this area over the past year, except for the start of co-operation between the relevant Turkish authorities and Eurostat.

In the context of this co-operation, priority areas were defined as the following fields: Harmonised Consumer Price Index and Purchasing Power Parities, demographic and social statistics, regional statistic, macro-economic statistics, business statistics, external trade, agriculture statistics, business register, Classifications and Dissemination. The State Institute of Statistics (SIS) has set up a Working group on the business register and prepared a first annual Work Plan (2001) covering the main statistical domains.

Overall assessment

Turkey's statistical system is still very different from that of the EU. This is true in most fields, such as statistical infrastructure, demographic and social statistics, regional statistics, business statistics, transport statistics, external trade statistics and agricultural statistics. Differences also exist in macro-economic statistics although some alignment has taken place in recent years due to the EU-Turkey Customs Union.

In all of the areas mentioned above, much more work is needed on methodology, quality and completeness of data to achieve compliance with the *acquis*. As a first step, Turkey will need to set up the basic infrastructure. In particular this means adopting the required classifications, building a business register that meets EU standards and amending its Statistical Law, which is currently not in line with the *acquis*.

The State Institute of Statistics is the central authority of the statistical system, responsible for data collection, production and publication of statistics. The Headquarters of the Institute consist of 10 "Principal Service Units" which cover the main statistical areas, complemented by three "Advisory Units" (Legal, Research, Planning and Co-ordination, Statistics) and three "Supporting Units" (Administrative and Financial Affairs, Personnel, Civil Defence Unit). The SIS has 23 regional offices at present. The total number of employees is about 2890 people, of which 2000 are working in the central office and 890 in the regional offices. The "Supreme Statistical Council" is the advisory body in Turkey on statistical matters.

The administrative organisation of the statistical system needs to be improved substantially. Particular efforts are needed in areas including setting of priorities, staff training, and ensuring appropriate staffing in departments working on areas relevant for EU integration.

Chapter 13: Social policy and employment

Since the last Regular Report, limited progress can be recorded in these areas (see also under economic social and cultural rights).

In the field of **child labour**, Turkey ratified in January 2001 the ILO Convention N° 182 on the Elimination of Worst Forms of Child Labour, and also in January 2001 the European Convention on the Exercise of Children's Rights. A Child Bureau was set up in the Directorate General for Public Security by a law adopted in April 2001. However, child labour remains widespread and a matter of major concern, particularly during the continuing economic crisis.

In the field of **equal treatment for women and men**, preparatory work has been undertaken with respect to maternity leave and with respect to the elimination of existing discrimination in the framework of the new Civil Code, currently pending before the Parliament. The Civil Code also aims at abolishing the concept of the "head of the family". Further steps in transposing the relevant *acquis* should follow.

No further transposition can be noted in the area of **health and safety at work**.

Despite reforms in progress, the situation of the **public health** care system could not be improved compared to the previous reporting period. Public expenditure is still insufficient and the distribution of services in general has not improved, despite reforms in progress.

As regards **social dialogue**, a bill on public servants' trade unions was adopted in June 2001. The present bill is not in line with the Community *acquis* and the relevant ILO conventions that Turkey has ratified. The law contains a number of provisions, which entail significant constraints on the right to organise in the public sector. Notably, there are restrictive provisions relating to the exclusion of the right to strike and to collective bargaining.

Turkey adopted in April 2001 a law setting up the Economic and Social Council, which establishes a platform for dialogue between the social partners. NGOs can be invited to attend the meetings at the discretion of the Prime Minister. While the Economic and Social Council provides a useful forum for consulting a great variety of economic and social actors it does not, however, form an appropriate basis for an autonomous tripartite social dialogue, given the predominant place of government. The bill has to be further amended to provide for an effective consultation of the social partners (employers and trade unions organisations), especially on labour issues.

Regarding autonomous social dialogue, restrictions continue to exist for the signing of collective agreements at company level, which seriously limits the extent of collective bargaining and social dialogue.

Unemployment stood at 6.9 % in June 2001. The main challenges for Turkey remain the high level of youth unemployment, the structural changes associated with the transition from a labour market which is still dominated by the agricultural sector and the extent of the informal economy (*for further details see part B*).

ISKUR, the Turkish Employment Organisation, is the agency in Turkey dealing with matters relating to employment and unemployment issues, job finding, placement of workers into public and private organisations and vocational training activities (see also below). Following a restructuring on the basis of a decree in summer 2000 (the confirmation of which by Parliament is now overdue), ISKUR has started to design pro-active labour market policies at provincial level in conjunction with the social partners, but it still lacks the financial resources required.

Concerning **social protection**, a law was adopted in March 2001, which allows for private pensions, and thus complements the compulsory pension system. The law provides for the establishment of an Individual Pension Advisory Board. This new unit will be formed by the Under Secretariat of the Treasury, by one member each from the Ministries of Finance and Labour, and by the Capital Markets Board. Its task is to determine individual pension policies and implementation. However, the critical issue of tax exemptions is not included in the law, and this will reduce the scheme's attractiveness.

As regards the fight against **discrimination**, no further progress can be reported (see also above under Civil Code).

As regards **administrative capacity**, since last year a new co-ordination department has been set up in the Ministry of Labour and Social Security. The status of the Health and Safety Department was upgraded. No other major progress can be reported in strengthening administrative capacity.

Overall assessment

Overall, much work remains to be done in order to bring the Turkish legislation in line with the relevant *acquis*. This process has suffered from the deepening of the economic crisis which has severely affected the employment and social situation causing hardship.

In the framework of the constitutional reform, amendments were made with respect to social rights. These will be implemented by further legislation. Some other steps have been taken in this field but in different cases the Community *acquis* has been taken insufficiently into account. Turkish legislation remains very different from that of the Union, particularly in terms of standards, methods and monitoring requirements.

In the field of Labour law action is required in areas such as the protection of employees with regard to the transfer of undertakings and insolvency, the contract or employment relationship, health and safety of temporary workers, the organisation of working time and part-time work, the protection of young people at work, the European Works Council and posting of workers.

Despite Turkey's efforts to improve the situation, the issue of child labour still needs to be addressed as a matter of priority.

In the field of health and safety at work, Turkey should transpose and implement the *acquis*. The administrative capacity to implement and enforce legislation needs to be strengthened. The reform process in the public health care system has to be continued. Turkey needs to ensure that public expenditure is sufficient to meet needs and that the provision of services is improved. Turkey should also align with the tobacco *acquis*. Improvements are also needed regarding

health monitoring and data collection as well as in the field of epidemiological control and surveillance systems.

In the field of equal treatment for women and men, Turkey should speed up efforts to align with the *acquis*.

As regards social dialogue, further progress needs to be made as a matter of priority to create the conditions for a free and genuine social dialogue at all levels in line with the *acquis*.

Difficulties with regard to freedom of association and collective bargaining also persist in law and practice. At the sectoral level, Turkey still requires a 10% threshold for the recognition of a trade union for collective bargaining purposes at company level. Moreover, trade union rights are curtailed in export processing zones, where the application of most labour legislation is suspended and restrictions are imposed on the freedom of workers to organise and on rights to collective bargaining. The scope of collective bargaining should be improved and Turkey should take steps to promote workers' participation and information/consultation at the company level.

At national level, although the creation of the Economic and Social Council is a step towards more dialogue with a larger number of actors from civil society, the government should also continue to preserve a tripartite dialogue with social partners to discuss economic and social policy. Turkey needs to strengthen its administrative capacity for social dialogue in terms of staff and resources, secretariat facilities for national tripartite and multipartite processes, and registration and analysis of collective agreements. The government should promote the social partners' capacity to assume the role they will be called to play in the future in the social dialogue at EU level as well as in common European policies.

Furthermore, much remains to be done in the field of social protection. Progress in the on-going reform of the Turkish social security system is urgently needed. Overall, the social security system continues to experience serious financial difficulties.

No national programme for disabled people exists as yet in Turkey. Several institutions are in charge of disabled people, among others the Administration of Social Services and Child Protection, the Ministries of Health, Education, and Labour, and the Worker Placement Agency. The Turkish Labour Law foresees that private and public institutions should employ disabled people, and that they should make up at least 3% of the total number of staff. But implementation and enforcement are not ensured.

Overall, the administrative capacity needs to be improved in order to ensure effective implementation and enforcement.

As regards **discrimination**, the pending new Civil Code contains provisions to eliminate this. Further efforts are needed to ensure alignment with the *acquis* on anti-discrimination based on Article 13 of the Treaty.

Fight against social exclusion, as laid down in Article 136 of the Treaty, is part of the objectives of EU social policy. As decided at the Lisbon and Nice European Councils, policies to combat social exclusion combine commonly agreed objectives at the EU level, and national action plans. The Gothenburg European Council in June 2001 invited candidate countries to include the Union's objectives of promoting social inclusion into their national policies.

Chapter 14: Energy

Progress has been achieved in this area since the last Regular Report, notably as regards competitiveness and the internal energy market.

No particular developments are to be reported with respect to **security of supply**.

Regarding competitiveness and the internal **energy market**, the Turkish Electricity Market Law was adopted on 18 February 2001. The Law concentrates mainly on defining the sector's new structure and the status of the power sector actors, including restructuring and unbundling the utilities. Whilst the state will retain control over power transmission, generation and distribution activities are to be opened up to competition and to private companies - the latter divided into 29 distribution regions. The Law also foresees establishing a regulatory authority, in the form of an Energy Regulatory Board, which is also expected to prepare secondary legislation. This Regulatory Board will also cover the gas sector.

The **Natural Gas Market law** was adopted on 3 March 2001. This law also concentrates on defining the sector's main structure and the status of the different actors, and the creation of agencies. The formerly state-owned company, BOTAS, is to be separated into two State economic Enterprises: one to carry out transmission activities, the other for importing and commercial activities. In the long term, distribution will be transferred to wholesalers.

It should be noted that the adoption of these two key laws, and the creation of the Energy Regulatory Board, was a condition for the IMF's support for Turkey.

Turkey continues to play a pivotal role as a transit country for oil and gas from the Caspian, Black Sea and Central Asian regions. The development of the 'Blue Stream' gas pipeline to supply gas from Russia across the Black Sea continues. Work on the Baku-Ceyhan oil pipeline also continues. Such projects can be considered as clearly having an important role to play in terms of helping ensure the security of supply for the Union (particularly given it is difficult to envisage significant increases in volumes transiting by sea through the Turkish straits). Other possibilities are being developed in the framework of co-operation activities between Greece and Turkey.

In the oil sector, nearly 35% of the refining company was privatised in 2000.

No particular developments can be reported with regard to **energy efficiency**.

Last year saw Turkey abandon a call for tender to construct the country's first nuclear power plant at Mersin-Akkuyu. There have been no other developments to note in the nuclear sector.

Regarding Nuclear Material Safeguards, Turkey has concluded a Full Scope Safeguards Agreement with the IAEA. An additional Protocol to this Agreement is in force since July 2001.

Overall assessment

Turkey has advanced in preparing to harmonise with the acquis and to prepare itself for the internal energy market through the adoption of two major framework laws for the electricity and gas sectors. It is, however, important to point out that important aspects of the Electricity

Directive are absent from the Electricity Law - such as access to networks, market opening and the regime for constructing new capacity. These will need to be the subject of secondary legislation. Market opening is initially scheduled at a rate of 20%, but there are no further plans beyond this.

Similarly, provisions required by the Gas Directive, such as third party access, unbundling, public service obligations or storage are not covered by Turkey's Natural Gas law, and have been left to secondary legislation to be adopted by the regulatory body, which itself is still to be created. Access to the transmission system is planned, but not access to the distribution system.

The Energy Regulatory Board was established on 2 November 2001. It is important that this body adopt implementing legislation in full compliance with the EC Electricity and Gas Directives (such as defining eligible customers and licensing), as well as establishing prices and tariffs. In addition, it is essential that this authority be given the necessary independence and resources (in terms of personnel, budget, and salaries) to be able to act.

Overall, Turkey's priority in restructuring its energy sector is attracting investment and reducing state control. The two new laws pave the way for the opening up of each sector and encouraging competition, but much remains to be done in terms of compliance with EC standards. Improving the financial discipline of utilities, particularly those in the power sector, would assist in making energy investments more attractive.

In terms of security of supply, as a member of the International Energy Association, Turkey has already taken important steps towards complying with IEA commitments and the emergency preparedness *acquis* as regards oil stocks. Total oil stocks, as regularly notified to the IEA, were largely equivalent to the level required by the *acquis*. All emergency preparedness measures are under the control of the Directorate General for Petroleum Affairs, which serves as the agency for monitoring and controlling oil stocks.

Energy efficiency promotion is the responsibility of the Ministry of Energy and Natural Resources, through an Energy Conservation Co-ordination Board and a National Energy Conservation Centre. It is estimated that there is an energy conservation potential of 40%. New norms for insulation standards and for new buildings will contribute to this effort.

Turkey should continue to give energy efficiency due attention.

Turkey will need to ensure compliance with Euratom requirements and procedures. In this respect, due attention should continue to be given to preparing for the implementation of Euratom nuclear safeguards.

Chapter 15: Industrial policy²⁸

Since the 2000 Regular Report, the government has concentrated its efforts on stabilising the macroeconomic situation. As a result, only limited progress has been made with development of industrial and enterprise policy.

²⁸ Developments concerning Industrial policy should be seen in relation to the overall enterprise policy, including the SME policy (see Chapter 16 – Small and medium-sized enterprises).

Turkish **industrial policy** is based around the eighth Five Year Development Plan and was further developed in the Programme "Transition to a Stronger Economy" adopted in May 2001. (See also Part B.2 - *Economic criteria*). The business community was involved in the design of the policy guidelines of the Programme.

The Government adopted a programme for the **promotion of foreign investments**, which contains measures aimed at attracting FDI. Moreover, in order to overcome the shortage of credit for enterprises, it has announced that a restructuring fund would be established to aid enterprises facing liquidity problems. This would be financed by contributions from both the government and the financial sector.

Privatisation has proceeded but has met certain obstacles, and not all the privatisations foreseen could take place within the established timeframe. In the steel sector, following the previous attempt in 2000 to privatise the Isdemir plants, a take-over by Erdemir was agreed in 2001, which provided for the modernisation of the plants and re-orientation of the production to a different market segment. The attempt to privatise Türk Telekom was unsuccessful, and subsequently the conditions of the tender had to be substantially modified, in particular, by increasing the number of shares offered to the public. The conditions agreed with the IMF were met. No progress can be recorded on the **restructuring** of state-owned companies.

Overall assessment

Overall, the Turkish policy towards its industry is by and large in conformity with the principles of EC industrial policy, i.e. market-based, stable and predictable. However its implementation has suffered from the macroeconomic instability. Turkey should continue its efforts to identify clear priorities taking into account needs of the business community, included the Small and Medium Enterprises, and ensure the effective implementation of the policies drawn up. By doing so, Turkey can further enhance the competitiveness of its industry and in particular that of small and medium-sized enterprises. A particular priority could be the establishment of closer links between the financial sector and industry.

The privatisation process will continue, although progress so far has been limited. Turkey needs foreign direct investment to further modernise and broaden its production base. In spite of an increase in FDI inflows compared to previous years, the stock remains very low compared to the potential and the size of the country. The investment climate needs to improve drastically to attract investments. Reducing the administrative procedures and increasing transparency would favourably influence this. Administrative capacity should be strengthened, for example with respect to the Customs Authorities and the metrology and accreditation system.

Turkish industrial policy is managed by the Ministry of Industry. Privatisation is implemented by the Privatisation Administration, although in some cases privatisation has been carried out by the relevant public institution.

It should be noted that an important element of any industrial policy is the control of state aid and that the compatibility of support schemes with EC rules, including the restructuring provisions of the ECSC Treaty, will have to be examined (*see Chapter 6 - Competition policy*).

Chapter 16: Small and Medium-sized Enterprises

Turkey has made some progress in revising its **SME policy** and reforming the state support system for business promotion. In particular, it has launched the “SME Action Plan Framework” which contains some useful initiatives.

The new Economic reform programme was designed after consulting the Social partners and the economic operators, including SMEs.

Limited progress can be recorded concerning the improvement of the **business environment**.

No specific developments can be noted regarding the alignment of the **SME definition**.

Overall assessment

Turkey has made some steps in following the approach of the EU towards SME's. Further efforts are needed to improve the business climate of SMEs. Turkish SMEs have been particularly affected by the recent financial crisis. SMEs suffer from the reduced domestic demand, while their competitive position is not strong enough to allow them to take advantage of the devaluation of the Turkish Lira. In this climate, it is particularly important to make progress in rapidly implementing the SME Action Plan Framework and other related initiatives.

The major problem for Turkish SMEs remains access to finance. This problem has come even more acute under the current economic situation.

There are a number of useful initiatives underway with a view on supporting enterprises in Turkey. Support services for small businesses, such as the network of industrial estates for small companies, are well developed. However, their impact will be limited if the business environment does not become more stable and predictable. The Turkish government should act to improve the conditions for business including administrative simplification.

Most of the support to SMEs is provided directly by semi-public bodies, such as TESK, the Confederation of Crafts and Tradesmen of Turkey, KOSGEB (Small and Medium sized Industry Development Organisation) and IKV (Foundation for the Economic Development).

KOBI Investment Inc. was established to facilitate the access to finance by SMEs. It works as a venture capital fund. Moreover, a Credit guarantee fund has been established with the purpose of providing guarantee for loans delivered by the Turkish Halk Bank.

For high tech start-up companies, the Technology Development Foundation of Turkey (TTGV) also stimulates the creation of venture capital.

The definition of SMEs is not fully aligned with the recommendations of the European Commission.

Chapter 17: Science and research

Some further developments can be reported in this area.

In December 2000, Turkey decided to consider an eventual association to the next Framework Programme on research and development 2002 - 2006.

Turkey continues to participate in the Fifth Framework Programme on a project-by-project basis.

Overall assessment

While the principles on the basis of which a European Research Area is presently evolving are generally shared by Turkey, there is considerable room for development in the RTD sector, where the level of activity and spending remains relatively low. For the further development of the sector and for an effective integration of Turkey into the European Research Area, it is important to increase the gross domestic expenditure on the technological development.

Science and research activities are carried out mainly by universities and public research institutions, with private sector activity being limited. In some cases, larger firms carry out their own research and development make use of technology transferred from abroad. Access of SME's to technological innovation should be improved.

Chapter 18: Education and Training

Only limited progress has been achieved in the area of education and training.

A new impetus has been given to Turkey's preparations for participating in the **Community programmes** in these fields (Socrates, Leonardo da Vinci and Youth). A preparatory phase within Turkey under the management of the Ministry of National Education is due to begin in 2001, with a view to full participation from 2003 onwards. A clear proposal is now needed on how the National Agency will be set up.

No progress can be reported on the **directive concerning the education and training of children of migrant workers**.

As regards **reform of the education and training system**, Turkey adopted a law in June 2001 which has expanded the use of the taxation fund to secondary education until 2010. This, along with a new World Bank secondary education loan and possible credits from the European Investment Bank, should help the Government to achieve its key 8th Five-year Development Plan education policy of 12 years compulsory education by 2005.

The law will also substantially affect the structure of Vocational Educational Training in Turkey. It lays the foundation for a single system of vocational education that will enable easier transition within the education system. Under the new law it will be possible to enter institutions for further VET without taking a university entrance examination, considerably lessening the burden on vocationally-orientated students under the existing system.

Overall assessment

In general terms, most principles underlying the educational system are consistent with those of Member States. However, the quality of education is uneven, particularly in rural areas.

The new education law is a positive step, and will in particular benefit the vocational education and training sector. However, the law does not address the issue of making the VET system more relevant to the needs of the labour market. Efforts should be made in this direction, in co-operation with industry and social partners.

In the immediate future, Turkey should as a matter of priority take the steps needed to establish the National Agency needed to successfully manage the three Community education programmes. This is a crucial condition for the participation of Turkey in those programmes.

The directive concerning the education of children of migrant workers still has not been transposed and implementation has to be ensured.

Chapter 19: Telecommunications and information technologies

Turkey has made progress since the last Regular Report.

There have been a number of developments in the **liberalisation of the telecommunications market**, some of which were made as part of the new economic reform plan. The Telecommunication Law of May 2001 provides the legal basis for the privatisation of Türk Telekom (it provides for 100% privatisation of the capital of the incumbent operator, Türk Telekom, with the exception of a nominal “golden share” retained by the State) and stipulates that the full liberalisation date of 1 January 2004 will be brought forward to the date when the state's ownership in the operator's capital falls below 50%. There has also been progress in introducing further competition in mobile telephony, which has resulted in a considerable decrease in GSM tariffs.

In addition to the two existing GSM licences, another two licences have been issued to ARIA (owned by Telecom Italia and Turkish IS-Bank) which has been operational since March 2001 and AYCELL (a subsidiary of Türk Telekom) which has been operational since August 2001.

As regards the **regulatory framework**, following the establishment of the Telecommunications Authority in August 2000, a regulation on the procedures and tasks of this authority was issued in February 2001. A concession agreement between the Ministry of Transport and Telecommunications and Türk Telekom was signed in February 2001. A regulation on the licensing of telecommunications networks and services was issued in March 2001. In the meantime, based on the new telecommunications law, the licensing tasks have been transferred from the Ministry of Transport and Telecommunications to the Telecommunications Authority. In September 2001, a regulation has been adopted on a price cap mechanism for tariffs reform.

There is no progress to report on the liberalisation of the markets for **postal services**.

Overall assessment

While steps have been taken to liberalise the telecommunications market, further efforts are needed to bring Turkey's telecommunications regulatory framework fully in line with the *acquis*. The same is true for postal services.

The liberalisation of the markets needs to be accompanied by a comprehensive and transparent regulatory framework. Substantial progress in this area will require amending the

Telecommunications Law of February 2000 and issuing regulations on key subjects such as numbering, interconnection, universal service and data protection.

Based on the new tariffs regulation, the principle of cost orientation of tariffs needs to be implemented. This requires Türk Telekom to introduce cost accounting methods, leading to a subsequent re-balancing of tariffs.

Strengthening the administrative capacity of the Telecommunications Authority is a key priority. Staff needs to be recruited and trained to ensure that it is able to carry out its full range of tasks, including preparing legislation and handling its new responsibility for licensing. At present, the majority of staff is dealing with technical tasks, e.g. frequencies and equipment type approval.

The Telecommunications Authority has started to monitor actively fair competition in the markets by preparing a decision on the general technical and financial conditions for national roaming between the GSM operators. Further progress also needs to be made to ensure that the Telecommunications Authority is fully independent from the Ministry of Transport and Telecommunications. A comprehensive enlargement project for regulatory assistance for the Telecommunications Authority is under preparation.

Chapter 20: Culture and audio-visual policy

Limited progress can be reported in this area since the last Regular Report.

The **audio-visual** sector is dominated by two large industrial groups, which control the majority of Turkey's mainstream media. It has particularly suffered from the economic and financial crisis. During the first half of 2001, it is estimated that up to 4000 workers across the media sector have been made unemployed.

Over the last year, tenders have been prepared that would allow for the conversion of temporary broadcasting licences for national channels into permanent licences. The same procedure is planned for regional and local stations.

The High Audiovisual Board (RTÜK), which is responsible for regulating television and radio broadcasting, has recently taken on responsibility for satellite broadcasting as well.

Turkey ratified the Protocol Amending the Council of Europe Convention on Transfrontier Television in October 2000.

An important development was the adoption by the Turkish Parliament in June 2001 of a law amending the radio and television law, press law, income tax law and law on institutional taxes. This law was subsequently vetoed by the President and is now being reconsidered.

This law (known as the RTÜK law) included provisions on "broadcasting principles", sanctions, internet, composition of the RTÜK board and retransmission, as well as on ownership, mergers and acquisitions in this area. However, the law made no change to the current regime in relation to the broadcasting of languages other than Turkish. It also contained no provisions which advanced alignment with the Community *acquis* in this area (i.e. the "Television without Frontiers" Directive).

Under the proposed RTÜK law, individual programmes, and not stations, that violated “broadcast principles” could be suspended and requirements could be imposed on the transmitting station, such as broadcasting an apology or paying a fine of up to € 90 000. The sizes of the fines would vary for central, regional and local stations. The maximum share that foreign nationals are allowed in private radio or television stations would be increased from 20 % to 25 %. Various organisations such as political parties would not be allowed to own a radio station. The composition of the High Audiovisual Board would be substantially changed, with for example one board member to be nominated by the National Security Council.

The President subsequently vetoed this law, citing the arbitrary criteria for imposing sanctions, the disproportionately high fines, and changes to the composition of the RTÜK Board which could jeopardise its previously agreed neutrality. He also considered that it did not sufficiently safeguard basic principles of freedom of speech and that imposing sanctions on broadcasters was properly a role for the judiciary rather than for the RTÜK.

Overall assessment

Turkey's alignment with the *acquis* in this area remains limited.

The new law which was proposed on radio and television represented a clear step backwards for Turkey away from compliance with international media standards, in particular on freedom of speech, and the independence of the regulatory authority. The law also reaffirmed and strengthened current principles concerning the use of the Turkish language, which continue to restrict the use of language other than Turkish.

The RTÜK law should therefore be redrafted in line with international standards and recommendations on television and radio broadcasting, for example those of the Council of Europe. Turkey has ratified the Council of Europe Convention on Transfrontier Television and will be bound by its amending protocol upon the date of entry into force.

Turkey is not advanced in aligning with Community audiovisual legislation. It should incorporate the Community *acquis* contained in the “Television without Frontiers” Directive. Major discrepancies need to be tackled, in particular concerning definitions, jurisdiction, freedom of reception, discrimination on the grounds of nationality, promotion of European and independent works, advertising and teleshopping, protection of minors, and limits to the share of foreign capital in radio and television enterprise. There is also a contradiction between Turkey's international commitments in the GATS/WTO framework and those that arise from Turkey's commitment to full implementation of the Community *acquis* as a candidate country.

Chapter 21: Regional policy and co-ordination of structural instruments

Since the last Regular Report no progress has been achieved in preparing for the implementation of structural policies.

No developments can be reported concerning the adoption of the **legislative framework** which would allow for the implementation of the *acquis* under this chapter.

No further progress has been made as regards **institutional structures, programming, monitoring and evaluation, financial management and control.**

No progress has taken place with respect to the **development of regional statistics**.

As regards administrative capacity, the Turkish regional policy is carried out in the framework of a centralised planning system, for which the State Planning Organisation (SPO) is responsible. With the exception of the Authority for the development of the South Eastern Anatolia region (GAP), there are no implementing structures outside Ankara.

Overall assessment

While a regional policy exists in Turkey, preparations for implementing structural policies have not really started. Turkey still needs to develop the structures necessary for the implementation of the Structural Funds.

Although combating regional disparities in Turkey should be a major objective for strengthening internal socio-economic cohesion as well as preparing for accession, there is still no comprehensive, long-term strategy to address such issues.

High priority should therefore be given to formulating an efficient and modernised regional policy, which complies with Community standards, and addresses the major issues in the regions lagging behind. At the very least, specific actions should be directed towards what are termed the “priority” provinces, which represent more than half of the area of the country and more than a third of its population, with a per capita GDP of 56% of the national average (19% of the Community average).

This will require a significantly higher level of public investment, aiming inter alia to reduce infrastructure disparities, create a favourable environment for private investment, boost human resource development, and improve living conditions.

In administrative terms, Turkey should strengthen its structures for managing regional development, both at central level (either through the SPO or a specific department given responsibility for regional policy) and at regional level (setting up regional development authorities).

Turkey has not yet begun to develop the necessary structures and operational arrangements to implement the European Social Fund.

The State Planning Organisation and the State Institute of Statistics have started to prepare a NUTS II classification in accordance with Community rules, but work remains at an early stage. Such a map is a pre-condition for the implementation of structural policies. Following the definition of a NUTS II classification, the regional per capita GDP in Purchasing Power Standards should be calculated.

Chapter 22: Environment

Since the last Regular Report, Turkey has made no substantial progress in transposing the acquis in this field, neither as regards horizontal legislation, nor in areas such as air quality, waste management, water quality, nature protection, industrial pollution and risk management, genetically modified organisms, noise from vehicles and machinery, and nuclear safety and radiation protection.

As regards administrative capacity, Turkey adopted a law on the redefinition of the main departments in the Ministry of Environment, which establishes local branches of the Ministry. This is an important first step in ensuring proper enforcement of environmental legislation.

In the field of **chemicals**, the Regulation on the Control of Dangerous Chemical Substances and Products, which entered into force in 1993, was amended in April 2001. Under this amendment, definitions, risk phrases and combinations, safety phrases and combinations, danger symbols and their standard wording have been rearranged. However, full alignment with EC legislation is not yet achieved.

Overall assessment

Turkish legislation is still very different from that of the *acquis* in particular in terms of standards, monitoring requirements and methods of measurement. Complete adoption of the environmental *acquis* will require major effort. Implementation and enforcement capacity also needs to be upgraded substantially. It is also important to carry out detailed compliance checks of existing laws in order to ensure full transposition of EC environmental directives.

The 1983 Environment Law currently defines the framework for environmental management and environmental legislation. The last legislative activities based on the Environment Law date back to 1997 (amendment of the Environment Impact Assessment Regulation, which needs, however, to be revised to bring it in line with the *acquis*).

In the field of horizontal legislation, the Environment Committee of the Parliament approved a draft Framework law. This draft law amends the Environment Law of 1983 and creates a new legislative framework in the field of environment.

This represents a significant step forward, as it will introduce the legal framework needed to transpose the EC *acquis*. Its final adoption is expected this year.

The purpose of this draft law is to integrate the Sustainable Development Principle and to provide for the implementation of the Strategic Environmental Impact Assessment Procedure for environmental policies, plans and programmes. The details of this procedure will, however, be covered by the secondary legislation. The law also revises provisions on nature protection, and provides for more effective environmental monitoring and supervision by the Ministry of the Environment, with stricter penalties for non-compliance. It ensures public access to environmental information. The provisions dealing with the Environmental Pollution Prevention Fund have been revised and level of funding has been increased.

In the field of air quality, legislation still needs to be aligned with the *acquis*. Moreover, the Turkish air quality monitoring system needs further improvement to align it with the EC *acquis*.

Waste management is one of the most problematic areas, in particular as regards implementation of related legislation. A large percentage of household waste (93%) is uncontrolled waste, being illegally dumped. Substantial efforts need to be undertaken to comply with the *acquis*.

As regards water quality, the 7th and 8th Five Years Development Plans underlines the need for a new legal framework law on Water Resources and for bringing drinking water standards and

wastewater discharging in line with the *acquis*. Turkey's water legislation is not in line with the *acquis*.

In order to preserve Turkey's rich assets in bio diversity, nature protection needs particular attention. Turkey will need to make significant efforts to align its legislation with the Community nature protection legislation.

In the area of industrial pollution control and risk management, legislation in line with the *acquis* still needs to be introduced. Turkey still lacks a general inventory of chemical substances. Turkish legislation as regards genetically modified organisms still needs to be aligned with the *acquis*.

Concerning nuclear safety, Turkish legislation is not fully in line with the *acquis*, particularly as regards reporting and monitoring requirements.

Concerning radiation protection, the Turkish Atomic Energy Authority has defined a strategy for licensing, radiation shielding of all equipment and development of local safety procedures in all establishments.

Turkey's environmental investment amounted in 1997 to around USD 1 billion corresponding to 0.5% of national GDP. The Environmental Pollution Prevention Fund (to be closed down as of end 2001) is the only national fund to finance environmental activities and investments in Turkey, but the Ministry of Environment has the authority to approve only 10% disbursements from this fund. For the time being, the fund provides the Ministry with an annual amount of € 125 million to finance research, clean-up operations, education and training, projects aimed at preventing environmental pollution and credit for the construction of treatment plants.

Turkey's environmental investments should to a larger extent focus on the implementation of EC environmental directives, based on a comprehensive investment strategy.

As regards administrative capacity at central level, the Ministry of Environment, established in 1991, has overall responsibility for environmental activities. These are carried out in close co-operation and active partnerships with other ministries, government agencies, local authorities and NGO's. The Ministry of Environment employs around 800 staff, with a further 500 working in over 30 provincial offices. The State Planning Organisation (SPO) develops Five-Year Development Plans, the main instruments for co-ordinating government policies. Implementation of environmental policy is also entrusted to the municipalities, which play an important role in implementing environmental protection measures, building environmental infrastructure, and collecting and disposing of municipal waste, as well as land use planning.

Overall, the administrative capacity at national and regional level is a matter of concern. Enforcement of environmental rules seems not to be ensured due to the involvement of various bodies and institutions at different levels which leads to conflicting interests and responsibilities, as well as a lack of trained and specialised staff, financial resources and equipment. It is necessary to establish monitoring networks and permitting procedures as well as environmental inspectorates with strong and well-determined powers. Penalties should apply in case of non-compliance. The municipalities also need to be strengthened, in particular as regards training in the field of environmental policy implementation.

Chapter 23 Consumers and health protection

During the reporting period, no further progress was made in terms of legal alignment.

There was no progress in the area of **safety and non-safety related measures** and the same was true for **market surveillance**.

As regards administrative capacity, Consumers Courts have been established and are now operating in the provinces of Istanbul, Ankara and Izmir, further to a decision of the Supreme Board for Judges and Prosecutors of 25 January 2001.

Overall assessment

Overall, the alignment of the Turkish Consumer legislation with the *acquis* is limited.

Turkey still needs to establish a general consumer protection system. The sector is still governed by a framework law adopted in 1995 which established a Consumer Council.

A number of initiatives were undertaken in the previous years in areas such as misleading advertising, door-to-door sales, comparative advertising, indications of labels as well as tariffs and prices.

Turkey has initiated preparatory work in order to complete the alignment in the fields of time share contracts, unfair terms in consumer contracts, distance selling and package travels.

Consumer policy falls within the competence of the Directorate General on Protection of Consumers and Competition, within the Ministry of Industry and Trade.

Administrative responsibility for foodstuffs (including control) is shared between the Ministry of Health and the Ministry of Agriculture. The existing laboratories are inadequately equipped to carry out the necessary analyses. Administrative capacity needs to be strengthened.

The Accreditation Council (TÜRKTAÇ) has not granted any accreditation to date. As a result, no laboratories have yet been accredited.

Consumers associations are developing, but it is still essential they should be reinforced, as indicated in the previous Regular Reports.

On the basis of the information available, significant adjustments will most probably have to be made to administrative structures, technical facilities and legislation before accession can take place.

Chapter 24: Co- operation in the field of Justice and Home Affairs

Some progress has been achieved over the past year.

On **data protection**, no developments have taken place with respect to the alignment of legislation with the *acquis*.

In the field of **visa policy** the Government has decided to end the visa free regime for Kazakhstan and Bosnia-Herzegovina. It has also decided to introduce airport transit visas in the case of a selected number of countries from which illegal immigration originates. As from July 2001, Bulgarian citizens are exempted from visa requirements.

In the area of alignment with the **Schengen** agreement, no progress has been made.

With a view to the reinforcement of **external border** controls, a process of co-operation and co-ordination between the various Ministries and bodies involved has begun. A number of actions have been taken to strengthen border management, in particular to prevent and deter illegal border crossings. Such measures relate to the setting-up of new checkpoints, the assignment of additional sea patrols and the enhancement of vigilance and pursuit of suspicious vessels anchored at harbours. The construction of watchtowers along the Iranian border has been started.

With regard to **migration**, bilateral negotiations with a number of countries, both of destination and origin, for readmission agreements have started. On 10 September 2001 Turkey signed, a readmission agreement with Syria. Iran, Pakistan, Bangladesh, India, Sri Lanka China, Romania and Bulgaria, all countries of origin, have been approached about draft readmission Protocols. A Protocol on readmission with Greece is well advanced. In the context of the EU Action Plan for Iraq, the EU made a proposal to Turkey to improve co-operation in transit matters.

The Directorate General for Public Security of the Ministry of the Interior provided a training session on the prevention of forgery of documents, as a measure to prevent illegal border crossing. In total 553 officials were trained between November 2000 and May 2001. Regarding participation in the Schengen Information System (SIS), legislation is under preparation. The Gendarmerie is completing its Integrated Communication System Project (JEMUS) aimed at the speedy transmission of information between all its Units.

There is serious concern about illegal migration flows in Turkey, which have been steadily increasing. The authorities have acknowledged the existence of 94, 514 illegal immigrants in 2000, as compared to 11, 362 in 1995. In the first 5 months of 2001, the number of illegal immigrants was 29, 684, which represents a 28% increase compared to last year.

Turkey is a destination and transit country for trafficking of human beings. Women and girls, mostly from Romania, Russia, Ukraine, Moldova, Armenia, Azerbaijan and Georgia, are trafficked to or through Turkey. Turkey does not meet the minimum standards for the elimination of trafficking and has not yet adopted specific legislation concerning trafficking in human beings. According to Government statistics, the authorities arrested 850 members of organised gangs of traffickers in 2000.

There has been no progress in the ratification of international instruments pertaining to combating illegal migration, in particular the 2000 UN Convention against Transnational Organised Crime and its Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children as well as its Protocol Against the Smuggling of Migrants by Land, Sea and Air, signed by Turkey in December 2000.

In the field of **asylum**, in April 2001 Turkey confirmed its willingness to lift the geographical reservation to the 1951 UN Convention relating to the Status of Refugees, provided that a

number of conditions are met. These relate to the ability to cope with refugee inflows and support from the Community.

The government decided to review or adopt new legislation on asylum. The development of reception facilities for refugees has started in the two existing Refugee Guesthouses, at Yozgat and Kirklareli. The authorities identified the need to embark on the construction of refugee centres in 11 provinces to supplement the two existing guesthouses. Since 1998, the Ministry of Interior has been engaged in training activities in co-operation with the UNHCR. A co-operation framework was adopted in April 2001 on issues related to asylum and refugee law.

In the **field of police co-operation and the fight against organised crime**, an Agreement between Turkey and Greece on co-operation on combating crime entered into force in July 2001. The focus is on terrorism, organised crime, drug trafficking and illegal migration. This Agreement is to be supplemented by the above-mentioned Protocol on readmission currently being negotiated with Greece.

Developments in the area of police co-operation relate to the gradual introduction of the Laboratory Work Flow System (LIAS) in all police criminal laboratories as well as to the process of transfer of data to the Integrated Ballistics Identification System (IBIS) at the Police Criminal Laboratories in Ankara, Diyarbakir and Istanbul. Since August 2001, every regional criminal laboratory of the Gendarmerie in Ankara, Bursa and Van has been equipped with 2 automated fingerprint identification systems.

On the **fight against fraud and corruption**, a significant development has been the signature by Turkey of the Council of Europe 1999 Civil Law and Criminal Law Conventions in September 2001 (*see Section B.1.1. - Democracy and the rule of law*). The Ministry of Interior established a Central Anti-Smuggling Department. It also decided to improve the supervisory capacities of the Directorate General for Title Deeds and Cadastre which has started running an Information System Project aimed at gradually transferring to electronic media the land registry records.

No developments can be reported in the field of combating fraud.

In the area of **drugs**, a number of successful seizure operations have been carried out and trafficking organisations have been dismantled. Procedures allowing for the accession to the 1972 Protocol amending the 1961 Single Convention on Narcotic Drugs were finalised in April 2001. In June 2001 the Family Research Institution of the Prime Minister's Office was designated as the National Focal Point for contacts with the EMCDDA. The Turkish International Academy against Drugs and Organised Crime (TADOC) has been established by the Ministry of Interior with the aim of developing projects related to the fight against drugs and of providing training on the suppression of illicit manufacture of drugs, drug abuse and drug trafficking.

As for **money laundering**, Turkey has signed in September 2001 the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

Another development relates to the adoption, in May 2001, of the Act Amending the Act on Banks which provides for the development of training programmes in the area of fight against corruption and money laundering.

In the field of **judicial co-operation in criminal and civil matters**, no progress can be reported in terms of acceding to the relevant Conventions.

Details with regard to **customs co-operation** are in *Chapter 25 - Customs union*.

As for the strengthening of administrative capacity, the Ministry of Interior established two additional Divisions for Identification and Crime Scene Investigation in the Provincial Directorates for Public Security of Kahramanmaraş and Denizli. The Ministry has engaged in an education programme aimed at providing training on crime scene investigation and fingerprint technologies and techniques. In the context of preparations for Europol membership, a national liaison official has been appointed by the Ministry of Interior.

In May 2001, a meeting took place with representatives of the Turkish General Staff, the Ministry of Defence, the Ministry of Foreign Affairs and the Ministry of the Interior, which resulted in the appointment of liaison officers in each institution and the establishment of an early warning system in the field of border management.

A process of administrative reorganisation has taken place in the field of police co-operation with a view of strengthening the efficiency of the operational structures. In this context, new Divisions for Anti-Smuggling and Organised Crime have been established at 81 provincial Gendarmerie Commands.

The Ministry of Justice underwent a restructuring in May 2001. Matters related to co-ordination of EU affairs were entrusted to a European Union Directorate General. A Directorate of International Law and Foreign Relations as well as an Information Technology Department were also created. The department for prisons has been upgraded to a Directorate General for prisons and detention houses.

The Ministry has embarked on a major information technology project, the National Judicial Network Project, aimed at linking all the Courts in the country, as well as the prisons and a number of ministerial offices, by 2004.

In July 2001, a report of EU experts on the justice and home affairs situation was completed with the co-operation of the Turkish authorities. It contains a set of conclusions and recommendations, which should be used in the formulation of future reforms as well as of financial assistance programmes in the area of justice and home affairs.

Overall assessment

Overall, Turkey has started the process of alignment with the *acquis* in the field of Justice and Home Affairs.

On **data protection**, no progress can be reported, including with regard to the ratification of the 1981 Council of Europe Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data, signed by Turkey on 28 January 1981.

As far as **visa policy** is concerned, steps have been taken to gradually come into alignment with the *acquis* and, in particular, the Common Consular Instructions and the relevant EC Regulation. However, there are no indications on precise targets and timetables. Concrete

results to date relate to the implementation of the project for issuing passports and installing optical readers at entry and exit points.

As regards **external borders** and preparations for alignment with the **Schengen** Agreement, efforts to strengthen border management should continue. The question of the establishment of a non-military professional body specifically responsible for the control of borders should be addressed. It is important to adopt a strategy for the effective control and management of all Turkish borders, as well as for the upgrading of the technical equipment. In order to foster the administrative capacity of the various actors involved in the protection of the borders, special attention should be given to training, including language training, in particular for border police at land, sea and air borders.

As for **migration**, clarifications are needed on the possible scope, contents and timing of readmission agreements signed by Turkey. Given the recognition of Turkey's status as a transit country, a significant step in alleviating the immigration problem would be the adoption of co-operation measures with the EU in transit matters, in line with the proposals put forward by the EU to Turkey in July 2001. As a matter of priority, Turkey needs to strengthen the efficiency of its fight against illegal migration and trafficking in human beings. In that respect the signing of a readmission agreement between Turkey and the EU would be a step in the right direction.

The willingness expressed by Turkey to lift its geographical reservation to the 1951 UN Convention relating to the Status of Refugees is a positive development in the area of **asylum**. The conditions attached to it raise a number of questions, which require further discussion. There are serious concerns regarding current legislation and practices on asylum. This relates mainly to: the fate of non-European asylum seekers, the time limitations attached to the registration of asylum claims, the situation of asylum seekers waiting for the determination of their cases and the deficiencies of the appeal arrangements for rejected asylum applicants. An important step needed is the setting-up of an independent asylum appeal board.

Turkey is requested to establish a nation-wide screening mechanism to identify asylum seekers among detained illegal immigrants.

The issue of the creation of reception facilities and their management should be given priority, including the allocation of adequate resources.

It is worth noting that international experts operating in the field approve the current practice of providing accommodation to refugees through private local population housing. This practice, which entails financial support from local governmental authorities for the host families, is considered more secure than placement in crowded refugee centres, which are exposed to various forms of criminal activity.

Regarding the **fight against organised crime** and the **fight against fraud and corruption**, procedures should be accelerated to allow for the ratification of the Council of Europe 1990 Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime which stipulates that income obtained from all kinds of criminal activities is considered as "illegal money". The same goes for the 1999 Criminal Law Convention on Corruption and the 1999 Civil Law Convention on Corruption. Turkey should adopt legislation aimed at implementing the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, ratified in 2000. In order to begin to comply with the acquis

in the area of the protection of the financial interests of the European Communities, Turkey should first and foremost align its legislation with the 1995 Convention on the Protection of the Financial Interests of the European Communities and its Protocols.

In the area of **drugs**, Turkey's strategic location on the transit smuggling route between the producer countries and the consumer countries and at the crossroads of three smuggling routes, the Balkan route, the Northern Black Sea route and the Eastern Mediterranean route, makes drug trafficking a particular concern. International co-operation in the fight against drugs should be promoted. Accession to the 1972 Protocol Amending the 1961 Single Convention on Narcotics Drugs, for which a legal basis has been in existence since April 2001, should be accomplished. Turkey is encouraged to accede to the Council of Europe 1995 Agreement on Illicit Traffic by Sea, Implementing Article 17 of the 1995 UN Vienna Convention against Illicit Traffic in Narcotic Drugs and Psycho-tropic Substances.

The establishment of a "mini-Dublin Group" in Ankara on drug-related issues is recommended. Turkey is requested to develop a national drug strategy, in line with the EU Drug Strategy 2000-2004. The appointment of a National Drug Co-ordinator should be considered. The launch of an awareness campaign among the competent law enforcement officials should be envisaged in order to underline the priority character of the struggle against drugs.

As regards **money laundering**, the process of reviewing the 1996 Act on Prevention of Money Laundering should be actively pursued. It should aim, inter alia, at enlarging the scope of the definition of money laundering offences, in line with the EU *acquis*, and at ensuring alignment with the *acquis* on prevention of the use of the financial system for the purpose of money laundering.

On **police co-operation**, all ongoing efforts co-ordinated by the Ministry of Interior should be accelerated. These are intended to allow for full participation in Europol and in the Schengen Information System (SIS), and are also aimed at reviewing the Act on the Duties and Competencies of the Police, in line with the *acquis*. The establishment of the Directorate General for Foreign Relations and EU Co-ordination within the Ministry of Interior would be another positive step in order to strengthen the administrative capacity of the Ministry.

As regards **judicial co-operation in criminal and civil matters**, Turkey should speed-up the adoption of the Civil Code, the Code of Civil Procedure, the Penal Code, the Code of Penal Procedure and other relevant Codes and legislation. The momentum gained by the strengthening of the administrative capacity of the Ministry of Justice should be maintained. The establishment of the Justice Academy and the creation of a Court of Appeal should be accelerated. In order to fulfil the overall objective of modernisation of the Judiciary, additional measures should be envisaged aimed at strengthening the independence and impartiality of judges (including the removal of obstacles to the creation and joining of associations), increasing the number of judges and public prosecutors, extending the number of the Juvenile Courts, and revising the competence of the State Security Courts.

Chapter 25: Customs union

Some progress has been achieved by Turkey in the field of customs since the last Regular Report.

Turkey has applied the Common Custom Tariff (CCT) since January 2001 on what are considered “sensitive products”, as defined by Decision 2/95 of the EC-Turkey Association Council.

The new **Turkish Customs Code** is almost fully aligned with the *acquis*. However, its practical application remains slightly divergent, especially in relation to free zones and customs procedures with economic impact.

Other relevant national legislation outside the Customs Code has not been aligned. Therefore, no progress has been achieved in respect of counterfeit goods, cultural goods, precursors or provisions laid down in WCO/ECE Customs Conventions.

Concerning **administrative capacity**, some progress has taken place. The Turkish authorities have recognised that there is a need for thorough training of officials in customs legislation and 2500 customs officials and 12000 economic operators received training over the last year.

The number of customs offices has been reduced from 250 to 136. The number of transactions managed electronically has risen, and is now above 90% for both imports and exports. A programme aimed at improving the infrastructure of Customs Laboratories is under way.

Overall assessment

The Decision establishing the Customs Union (Decision 1/95 of the Association Council) requires that Turkey align its commercial and customs policies with those of the Community. With the alignment of Turkish duty rates on “sensitive products” with the CCT, Turkey has almost completed the alignment with the Common Custom Tariff. Moreover, its customs legislation is also largely aligned with the Community customs legislation.

Turkey is requested to address the practical application of the provisions with respect to free zones and customs procedures with economic impact.

Preparatory work to implement the Single Administrative Document (SAD) remains ongoing.

Further efforts are needed to ensure full alignment and implementation of legislation in particular in areas where competence is shared between the customs, trade and external relations departments. Efforts are therefore needed in respect of customs legislation outside the Customs Code, for example counterfeit goods, drug precursors and cultural goods.

The problems concerning the lack of co-operation with the Community have continued, in particular as regards post-verification of the origin of products. This lack of co-operation obliged the European Commission to publish a notice to importers concerning the origin of tuna fish in December 2000. The same problem was highlighted by the Court of First Instance (Judgement of 10 May 2001 on Turkish television sets).

As regards administrative and operational capacity to implement the *acquis*, Turkey should continue its efforts, notably for the improvement of border management, and the fight against irregularities and corruption within the administration. Turkey should also continue its efforts regarding waiting time at the borders, and continue to act in the field of the fight against customs fraud and economic crime and improve its co-operation with other enforcement bodies.

Chapter 26: External relations

Turkey's **Commercial policy** is largely aligned with the EC Common Commercial Policy, as a result of the obligations from the Customs Union, aimed at avoiding trade divergence between the parties. This includes the progressive alignment of Turkey with the preferential customs regime of the EC consisting of both free trade agreements and autonomous regimes within five years starting from 1996. Consultation mechanisms between the EC and Turkey on these matters have been improved.

Concerning bilateral agreements with third countries, Turkey is in the process of negotiating free trade agreements with Tunisia, Morocco, Egypt, the Palestinian Authority, Croatia and Faeroe. In particular, three negotiating rounds have been held with Morocco and two with Croatia. Initiatives have also been taken to conclude agreements with Malta, Jordan, Mexico, South Africa and Bosnia-Herzegovina.

During the reporting period, discussions took place with Turkey with a view to its gradual adoption of the EC's Generalised System of Preferences.

No developments can be reported on the conclusion of a Free trade agreement between Turkey and Cyprus. There is no development in the area of GATS.

Turkey has continued to co-ordinate positions and policies within the WTO, in particular with regards to the new Round.

In terms of **development aid and humanitarian aid**, according to Turkey's State Institute of Statistics (DIE), Turkey paid about €243 million on official aid last year, of which about €28 million in the form of grants was sent to around 65 developing countries and over € 3 million to around 15 countries in transition to a market economy.

In the field of development aid and humanitarian aid, Turkey has contributed to international stability through the provision of humanitarian assistance. A total of over € 1.3 million has been spent in 2000 as external emergency aid mainly via the Turkish Red Crescent.

Overall assessment

Overall, there is large convergence between the EC and Turkey in the area of external commercial policy.

In the WTO framework, Turkey is a signatory to the Information Technology Agreement (ITA) and has observer status in the Government Procurement and Civil Aircraft Agreements. Turkey is supportive of EU policies and positions in the WTO and in particular the preparation of a new Round.

As regards the conclusion of free trade agreements with third countries, Turkey has so far entered into Free Trade Agreements with the EFTA countries, Israel, Hungary, Romania, Lithuania, Estonia, the Czech Republic, Slovakia, Slovenia, Latvia, Bulgaria, Poland, and FYROM. Turkey should continue to keep the EU informed about negotiations aimed at the conclusion of any new trade agreements with third countries. The Commission will continue its initiatives to increase the readiness of third countries to conclude the relevant free trade agreements with Turkey.

Turkey still has to align its legislation on export credits with the *acquis*.

As regards administrative capacity, Turkish commercial policy is implemented mainly by the Under secretariat of Foreign Trade. Physical checks are carried out by the Regional Directorates of Foreign Trade Inspectors. The administrative capacity which needs to be in place as regards Customs services is addressed under the chapter relating to the Customs Union (*Chapter 25 - Customs Union*).

For the purpose of the Turkish future financial contribution to the European Development Fund, the Turkish management of its national budget organisation and management of flow of funds to the EC budget is addressed under *Chapter 29 – Financial and budgetary provisions*.

Chapter 27: Common Security and Foreign Policy

Since the previous Regular Report, Turkey has continued to align its foreign policy with that of the European Union.

With respect to the latest developments on enhanced **political dialogue**, see Section A.b. Relations between the European Union and Turkey.

Turkey has regularly aligned itself with **statements and declarations of the EU**, and has associated itself with the Union's **joint actions and common positions**. Since October 2000, it associated itself with 8 EU common positions, including 3 on the Federal Republic of Yugoslavia.

In the field of European Security and Defence Policy (ESDP), Turkey has actively participated in exchanges with the EU in EU+15 format (i.e. non-EU European NATO members and EU candidates) and in EU+6 format (i.e. non-EU European NATO members). However, it has not yet been possible to reach agreement with Turkey on the European Security and Defence Policy, in particular as regards access to NATO assets in order to carry out the “Petersberg tasks” with a Rapid Reaction Force.

Turkey has expressed full support to the conclusions of the Extra-ordinary European Council of September 2001 on the fight against terrorism. The decision was taken by the Parliament to make military capabilities available.

Since the last Regular Report, bilateral relations between Turkey and Greece have improved significantly. This resulted in a number of confidence-building measures, such as a decision by both sides to keep each other informed on military exercises in the Aegean, and a decision to clear the common border of land mines. A direct telephone line between the foreign ministries was set up, as well as a naval and air transportation committee. Co-operation in relation to natural disasters as earthquakes and fires, and on health issues has been strengthened.

A Greek-Turkish EU Committee has exchanged views in areas such as customs, finance, jurisdiction and agriculture. A number of other initiatives were also taken at grass-roots level, such as the Third Turkish-Greek Tourism Forum in Marmaris in May 2001.

Relations with other neighbouring countries have been further deepened. Relations with Syria have improved with initiatives at the level of regional co-operation. Steps have been taken to clear landmines in parts of the Turkey-Syria border area. Relations with Iraq have also

undergone some development with a Turkish Ambassador now permanently based in Baghdad. Turkey's border with Armenia is still closed. An unofficial "Turkish-Armenian Reconciliation Commission" has been set up with a view to promoting dialogue and mutual understanding in the field of economy, tourism, culture, education, research, environment as well as media.

Turkey continues to play a regional role of importance. It actively supports the Black Sea Economic Co-operation Council, for which it is chairman-in-office in 2001, the Group of Central Asian Turkic Countries, and the D8 which gathers a group of 8 Muslim countries including, among others, Egypt, Nigeria, Pakistan and Malaysia. Turkey has made a substantial contribution to the peace-keeping operations in the Balkans, and has also made a notable contribution to promoting peace in the Middle East peace process, through frequent bilateral contacts with all the main actors.

Overall Assessment

Overall, Turkey's alignment with the CFSP acquis is advanced, and co-operation on issues relating to foreign and security policy is well developed.

However, differences on ESDP i.e. EU access to NATO assets for conflict prevention and peace keeping operations persist.

Turkey is an important actor in promoting stability and security in its region (Balkans, Caucasus and Middle East) and has taken a number of initiatives within this role. It continues to play an effective role in crisis management operations.

Concerning the administrative capacity to implement the provisions relating to CSFP, Turkey has a well-staffed and functioning Ministry of Foreign Affairs. The ministry is connected to the Associated Correspondents' Network information system through which the EU communicates within the CSFP with the candidate countries.

Chapter 28: Financial control

Progress in this domain has been limited.

In the area of Public Internal Financial Control (PIFC), little progress can be reported. However, the government has identified the inadequacies and weaknesses in the present financial management and control systems. The 2001 National Programme for the Adoption of the Acquis acknowledges the need to alter the present Turkish systems to align them with internationally accepted and EU-compliant concepts and definitions of internal control and internal audit.

Overall assessment

The Turkish **public internal financial control** (PIFC) systems lack coherence in concept and implementation, lack an integrated legal framework and do not consistently follow internationally accepted principles of sound financial management, transparency, public accountability and performance management. As a result, the current practice of PIFC is not effective in preventing fraud, corruption and/or serious irregularities.

The most relevant issues to be addressed are the fact that many (including some of the most risky) areas of government expenditure remain outside the scope of control and audit; that responsibilities for specific control and audit roles are not clearly defined among the main actors in the field; that there is no coherent government approach relating to modern PIFC; that there is no overall Law on PIFC, and that the public internal audit profession in Turkey does not exist.

The roles and responsibilities of internal and external financial control are not well defined. The total number of internal audit units established by various public agencies and organisations is reported to be 129. A precise definition of the functions of these units is required. Turkey is also invited to describe the audit methods and experience of the Board of Finance Inspectors in order to ensure that the Board's function complies with International Institute of Audit standards.

The current situation leads to multiple auditing of the same activity or, conversely, the exclusion of some areas from the scope of auditing. There is also a lack of clarity within the administrative structure between financial management and control functions, functionally internal audit activities, and external audit functions.

For example, both the Ministry of Finance and the Turkish Court of Accounts (the supreme audit institution in Turkey) carry out extensive *ex ante* controls. The *ex ante* control function of the Ministry of Finance is restricted to commitments and disbursements but all financial decisions, including disbursements are also controlled *ex ante* by the Court of Accounts. In addition, such audits focus simply on the regularity and legality of expenditure transactions. Turkey is invited to reconsider its position that internal audit should be strictly centralised within a unit in the Ministry of Finance.

All government national budget expenditure and extra-budgetary expenditure, since both have an influence on the government's financial or budgetary policies, should be subject to *ex ante* control and internal audit. The continuing existence of extra-budgetary funds leads to an absence of control and audit in many important areas of government expenditure or to a variety of un-harmonised control and audit systems throughout the public sector. This situation is illustrated by the large number of control bodies which lack an integrated approach to financial control and internal audit.

The Turkish Court of Accounts is prevented from properly organising its **external audit** duties with regard to budget expenditure as a result of its *ex ante* controls, which conflict with its main *ex post* external audit functions and obligations. The Court of Accounts should transfer the responsibility for the *ex ante* control function to the government and focus on the systems-based and performance audits of the PIFC systems established in the budgetary spending centres of the government. The Court should also develop strategies to increase the value of its audit efforts in appropriate reporting and follow-up procedures with line ministries and the parliament.

A Central Harmonisation Unit for co-ordinating control and audit methodology should be set up in the Ministry of Finance. This unit would be responsible for the drafting of financial management and control manuals, audit manuals and audit trails for all sectors of public spending. This unit would also have the power to make on-the-spot checks to see whether its recommendations were being followed up correctly.

With a view to ensuring suitable **protection of EC financial interests**, Turkey needs to put in place the legislation necessary to allow the competent EC bodies to carry out on-the-spot checks and to develop adequate administrative capacity to implement the *acquis*, including the ability of Turkish law enforcement bodies and judiciary to address cases where EC financial interests are at stake.

Overall, the Government should now focus on preparing the policy paper which it announced in its National Plan for the Adoption of the Acquis would form the basis for appropriate legislation, and on which work is ongoing. This legislative framework could then become the basis of a financial control structure capable of meeting EC requirements.

Chapter 29: Financial and budgetary provisions

Some progress has been made over the past year, notably as regards the **national budget**.

Following the closure of 25 budgetary funds and two extra-budgetary funds in 2000, a law adopted on 21 February 2001 closed a further 21 budgetary funds and four extra-budgetary funds. A further law adopted on 19 June 2001 reduced the number of budgetary funds to one - the Support Price Stability Fund (DFIF) - and the number of extra-budgetary funds to five: the Social Aid and Solidarity Fund, the Defence Fund, the Promotion and Publicity Fund, the Savings Deposit and Insurance Fund, and the Privatisation Fund. The DFIF is needed to channel the proceeds from World Bank loans. There is also a firm commitment not to create any new budgetary funds. The number of revolving funds – still over 2600 in the first half of 2001 and which are used by local institutions to supplement budget allocations - will be cut by half by the end of the year.

The Government is also committed to adopting a law on public finance and debt management which defines clear borrowing rules and limits for the public sector and incorporates into the budget the on-lending and debt-guarantee operations of the Treasury.

The Treasury has already provided consolidated tables on Guaranteed Debt as well as on Actual and Foreseen Payments on Issued Guarantees. Annex D of the 2001 budget applies ceilings to the guarantees that can be extended during the current financial year by category of beneficiaries (state enterprises, funds, etc). The budget also placed limits on the introduction of new projects into the public investment programme.

No developments can be reported with regard to **own resources**.

Overall assessment

Turkish budgetary practices have in many respects been inconsistent with standards generally applicable in the EC. The central budget submitted to Parliament excluded revolving funds and extra-budgetary funds. There are a large number of revolving funds and agencies with special accounts conducting off-budget operations. Revolving and extra-budgetary funds do not follow the standard budget classification.

However, the situation has improved. The budget is being consolidated, and the government has developed a comprehensive public sector reform programme based in part on the

recommendations of the Public Expenditure and Institutional Review jointly prepared by the government and the World Bank. These efforts must continue.

More effective expenditure control mechanisms are being developed. The government needs to complete the implementation of a computerised accounting system to allow better monitoring of expenditure in government units. A new budget classification which is in line with international standards has been completed and will be implemented in six pilot budget agencies for the 2002 budget.

Financial management responsibilities continue to be fragmented between several administrative units each headed by a different minister. As a result there is a lack of clear ownership of the overall public sector budget. In addition, greater realism is required in assessing budget magnitudes in the budget's preparatory stage. In line with expanding the coverage of the budget, as outlined above, priority areas for on-going reform include improving the transparency of the budget and accounting standards, and improving the capacity for policy formulation linked to the budget process.

Progress is needed also with regard to own resources and administrative infrastructure. To date little has been planned to ensure compliance of the Turkish financial system with EC requirements concerning own resources. Additional alignment is necessary for the proper calculation of VAT and GNP resources, as well as further administrative modernisation. Appropriate administrative structures are required also with regard to EC co-financed measures.

3.2. General evaluation²⁹

Turkey's alignment with the *acquis* is most advanced in the areas covered by the Customs Union. Since the last Regular Report, further alignment has taken place in these areas. In addition, significant legislation was adopted in the field of banking including on the Central Bank, and in sectors such as telecommunications, energy and agriculture. However, in some cases newly adopted legislation departed considerably from the *acquis* (cosmetics, audio-visual policy, social policy). Major discrepancies between the *acquis* and Turkish legislation have remained. Progress in strengthening administrative capacity to implement the *acquis* has been limited.

Regarding the *internal market*, various pieces of legislation on *free movement of goods* have been adopted including standards. The adoption of a framework for technical legislation is particularly significant. Further steps need to be taken in a number of areas. The existing regime of public procurement is not in line with the *acquis*. No progress can be reported in the field of *free movement of persons*. In the field of *free movement of capital* important restrictions on foreign investment in various sectors have remained. Major efforts are required to further align legislation in the field of non-financial services. The implementation of legislation in the field of money laundering should be given greater attention. In the area of *company law*, no progress has been made in establishing a new commercial code. Important steps have been taken to align legislation on intellectual property rights with the *acquis*. Specialised courts have been set up in

²⁹ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

the field of intellectual property protection, but the enforcement capacity in this field needs to be strengthened. In the field of *competition policy*, the application of anti-trust provisions remains satisfactory. Turkey's state aid policy is not compatible with the *acquis*. Despite a new law, the situation with respect to monopoly adjustment on alcohol and tobacco remains a matter of concern.

Turkey has started a substantial reform in the *agricultural* sector. However, some of the basic features of the new Turkish direct income policy differ from the current approach in the EU. Turkey has not established a number of basic mechanisms, such as a nation wide land register. It should focus on the transposition, implementation and enforcement of EC legislation in the veterinary and phytosanitary sectors.

On *fisheries*, no progress has been made in the alignment with the Common Fisheries Policy. A modernised fleet registration system needs to be established.

As regards *transport policy*, Turkey should step up the legislative work necessary to adopt the Community transport *acquis*. The administrative capacity to apply and implement the relevant legislation in all sectors should be improved.

On *taxation*, significant progress is required in particular on approximation of the rates applied in the VAT system.

In most fields, Turkey's *statistical* infrastructure is still very different from that of the EU. No concrete progress can be reported.

Steps have been taken in the field of *Social Policy and Employment* but not all conform with the *acquis*. The new law on the Economic and Social Council, for example, fails to create the conditions for a genuine social dialogue. Turkish legislation remains very different from that of the EC. As regards *energy*, substantial progress has been achieved in the field of electricity and gas sectors. The two major laws adopted this year are important steps in preparing Turkey for the internal energy market.

In the *telecommunications* sector, the new regulatory framework should be brought in to line with the *acquis* on matters such as universal services and data protection.

As regards *regional policy*, Turkey has made no progress and considerable attention needs to be paid to prepare the implementation of structural policies.

In the *environmental field*, further new legislation needs to be adopted including an important framework law, which is pending before parliament.

In the field of *justice and home affairs*, Turkey recently signed three important conventions of the Council of Europe on money laundering and the fight against corruption. A bilateral agreement with Greece to combat crime has entered into force. Turkey has taken initiatives to align with the EU's visa policy and to conclude readmission agreements in the field of migration. Administrative capacity should be strengthened in the field of border controls and the fight against illegal immigration.

In *customs*, there is almost full alignment.

On *financial control*, budgetary and financial control mechanisms inside the Turkish Government should be improved.

Administrative capacity in different areas needs to be strengthened to ensure that the *acquis* is implemented and enforced effectively. A significant reform at all levels of the administration is required. In some cases, this will entail the establishment of new structures, for example in the field of state aid and regional development. In some areas, new regulatory bodies have been set up. Their autonomy should be assured while at the same time sufficient staff and financial resources need to be made available.

The Accession Partnership with Turkey was adopted in March 2001 and Turkey has made substantial preparatory efforts for its implementation. . Turkey gained greater understanding of the *acquis* and the government has started an intensive process of preparation of new legislation. In the areas of free movement of goods, intellectual property protection, energy, telecom and customs, the measures taken have partially met the short term Accession Partnership priorities. Considerable further efforts are needed to meet the short term Accession Partnership priorities related to the *acquis*.

C. Conclusion³⁰

The constitutional amendments adopted by the Turkish Parliament on 3 October 2001 are a significant step towards strengthening guarantees in the field of human rights and fundamental freedoms and limiting capital punishment. The amendments narrow the grounds for limiting such fundamental freedoms as the freedom of expression and dissemination of thought, freedom of the press and freedom of association. Attention has now turned to the effective implementation of these important changes. The Turkish Government is finalising a package of new draft legislation that is aimed at implementing a number of constitutional amendments, in particular with respect to freedom of expression and thought. It should facilitate progress towards satisfying the Accession Partnership priorities.

Despite these changes, a number of restrictions on the exercise of fundamental freedoms have remained. The extent to which individuals in Turkey will enjoy real improvement in the exercise of fundamental freedoms will depend on the details of implementing legislation, and the practical application of the law. It is encouraging that a general principle of proportionality has been introduced and that the stated general aim of the reform is effectively to bring to the forefront respect for human rights and the rule of law.

The moratorium on the death penalty has been maintained. The revised Article 38 of the Constitution limits the death penalty to cases of terrorist crimes and in times of war or imminent threat of war. The exception for terrorist crimes is not in line with Protocol 6 to the European Convention on Human Rights (ECHR) (which does not permit any reservations), whereas the exception in the case of war crimes is permitted under Protocol 6. Legislative changes to the Penal Code will be needed to put this revised Article into effect. This will permit an assessment of whether Turkey is in a position to sign and ratify Protocol N° 6 to the ECHR.

The reforms related to economic, social and cultural rights contain a number of positive elements. The provisions forbidding the use of languages prohibited by law, in Articles 26 and 28, have now been abolished. This could pave the way for the use of languages other than Turkish and is a positive development. Existing restrictive legislation and practices will need to be modified in order to implement this constitutional reform, as the Turkish authorities have recognised. There has been no improvement in the real enjoyment of cultural rights for all Turks, irrespective of their ethnic origin.

A number of substantial prison reforms have been adopted. Turkey is encouraged to ensure that these reforms are fully implemented. The disproportionate use of force in breaking up prison protests is to be regretted. The continuing loss of life as a result of hunger strikes is unacceptable from a humanitarian point of view. Irrespective of the political motives of those involved, efforts should be stepped up to prevent further deaths. Free debate on these issues should be allowed.

Reform of the judicial system has begun. The independence of the judiciary, the powers of State Security Courts and military courts and compliance with rulings of the European Court of Human Rights remain matters of concern.

³⁰ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

A number of initiatives have been taken to increase the awareness of law enforcement officers and judicial personnel of human rights issues, but it is too early to assess the practical impact of these.

Despite several initiatives to foster more transparency in Turkey's public life, corruption remains a serious problem. The recent signature of important Council of Europe Conventions on corruption and on money laundering is a positive development.

Further action needs to be taken to improve the economic situation in the South East to reduce regional disparities and to enhance economic, social and cultural opportunities for all citizens. The state of emergency still applies to four provinces in this part of the country.

The basic features of a democratic system exist in Turkey, but a number of fundamental issues, such as civilian control over the military, remain to be effectively addressed.

Despite a number of constitutional, legislative and administrative changes, the actual human rights situation as it affects individuals in Turkey needs improvement.

Though it is beginning to make progress in some areas, Turkey does not yet meet the Copenhagen political criteria and is therefore encouraged to intensify and accelerate the process of reform to ensure that human rights and fundamental freedoms are fully protected in law and practice, for all citizens, throughout the country.

Fuller use should be made of the enhanced political dialogue, to further stimulate progress on key issues which are priorities of the Accession Partnerships, such as human rights, Cyprus and the peaceful settlement of border disputes.

Given Ankara's support for the decision of Mr Denktash to withdraw from the UN proximity talks and to decline the UN Secretary General's invitation to talks in New York, the support Turkey has expressed in the political dialogue for the UNSG's efforts to find a comprehensive solution of the Cyprus problem should now be followed by concrete steps by Turkey to facilitate a solution.

Confronted with two financial crises, Turkey has been unable to make further progress towards achieving a functioning market economy. Considerable parts of its economy are, however, already competing in the EU market, under the framework of the customs union with the EC.

The two financial crises brought to a halt economy recovery and put an end to the preceding economic stabilisation programme. Macroeconomic stability has been shaken, and many macroeconomic imbalances have reappeared. Turkey has adopted, and has been implementing, an ambitious economic reform programme that addresses better than its predecessor the risks and vulnerabilities of the domestic financial sector and seeks to reduce government intervention in many areas of the economy. These problems were at the heart of the crises.

Priority has to be given to establishing short-term macroeconomic stability, based on disinflation. However, the authorities must also continue to focus on establishing a solid basis for sustainable market-based economic development in the medium term. Significant restructuring is still needed in various sectors, such as banking, agriculture and in state enterprises, in order to guarantee the medium-term competitiveness of the economy as a whole. They will need to redefine their budgetary priorities, in a medium-term perspective, in order to provide a sufficient

level of investment in education, health, social services and public infrastructure across the country.

Turkey's alignment with the *acquis* is most advanced in the areas covered by the Customs Union. Since the last Regular Report, further alignment has taken place in these areas. In addition, significant legislation was adopted in the field of banking including on the Central Bank, and in sectors such as telecommunications, energy and agriculture. However, in some cases newly adopted legislation departed considerably from the *acquis* (cosmetics, audio-visual policy, social policy). Major discrepancies between the *acquis* and Turkish legislation have remained. Progress in strengthening administrative capacity to implement the *acquis* has been limited.

Regarding the *internal market*, various pieces of legislation on free *movement of goods* have been adopted including standards. The adoption of a framework for technical legislation is particularly significant. Further steps need to be taken in a number of areas. The existing regime of public procurement is not in line with the *acquis*. No progress can be reported in the field of *free movement of persons*. In the field of *free movement of capital* important restrictions on foreign investment in various sectors have remained. Major efforts are required to further align legislation in the field of non-financial services. The implementation of legislation in the field of money laundering should be given greater attention. In the area of *company law*, no progress has been made in establishing a new commercial code. Important steps have been taken to align legislation on intellectual property rights with the *acquis*. Specialised courts have been set up in the field of intellectual property protection, but the enforcement capacity in this field needs to be strengthened. In the field of *competition policy*, the application of anti-trust provisions remains satisfactory. Turkey's state aid policy is not compatible with the *acquis*. Despite a new law, the situation with respect to monopoly adjustment on alcohol and tobacco remains a matter of concern.

Turkey has started a substantial reform in the *agricultural* sector. However, some of the basic features of the new Turkish direct income policy differ from the current approach in the EU. Turkey has not established a number of basic mechanisms, such as a nation wide land register. It should focus on the transposition, implementation and enforcement of EC legislation in the veterinary and phytosanitary sectors.

On *fisheries*, no progress has been made in the alignment with the Common Fisheries Policy. A modernised fleet registration system needs to be established.

As regards *transport policy*, Turkey should step up the legislative work necessary to adopt the Community transport *acquis*. The administrative capacity to apply and implement the relevant legislation in all sectors should be improved.

On *taxation*, significant progress is required in particular on approximation of the rates applied in the VAT system.

In most fields, Turkey's *statistical* infrastructure is still very different from that of the EU. No concrete progress can be reported.

Steps have been taken in the field of *Social Policy and Employment* but not all conform with the *acquis*. The new law on the Economic and Social Council, for example, fails to create the conditions for a genuine social dialogue. Turkish legislation remains very different from that of

the EC. As regards *energy*, substantial progress has been achieved in the field of electricity and gas sectors. The two major laws adopted this year are important steps in preparing Turkey for the internal energy market.

In the *telecommunications sector*, the new regulatory framework should be brought in to line with the *acquis* on matters such as universal services and data protection.

As regards *regional policy*, Turkey has made no progress and considerable attention needs to be paid to prepare the implementation of structural policies.

In the *environmental field*, further new legislation needs to be adopted including an important framework law, which is pending before parliament.

In the field of *justice and home affairs*, Turkey recently signed three important conventions of the Council of Europe on money laundering and the fight against corruption. A bilateral agreement with Greece to combat crime has entered into force. Turkey has taken initiatives to align with the EU's visa policy and to conclude readmission agreements in the field of migration. Administrative capacity should be strengthened in the field of border controls and the fight against illegal immigration.

In *customs*, there is almost full alignment.

On *financial control*, budgetary and financial control mechanisms inside the Turkish Government should be improved.

Administrative capacity in different areas needs to be strengthened to ensure that the *acquis* is implemented and enforced effectively. A significant reform at all levels of the administration is required. In some cases, this will entail the establishment of new structures, for example in the field of state aid and regional development. In some areas, new regulatory bodies have been set up. Their autonomy should be assured while at the same time sufficient staff and financial resources need to be made available.

The Accession Partnership with Turkey was adopted in March 2001 and Turkey has made substantial preparatory efforts for its implementation. Turkey gained greater understanding of the *acquis* and the government has started an intensive process of preparation of new legislation. In the areas of free movement of goods, intellectual property protection, energy, telecom and customs, the measures taken have partially met the short term Accession Partnership priorities. Considerable further efforts are needed to meet the short term Accession Partnership priorities related to the *acquis*.

D. Accession Partnership and National Programme for the Adoption of the Acquis: Global assessment

The purpose of the Accession Partnership is to set out in a single framework:

- the priority areas for further work identified in the Commission's Regular Report;
- the financial means available to help candidate countries implement these priorities;
- the conditions which will apply to this assistance.

Each candidate has been invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how the country in question envisages dealing with the Accession Partnership, the timetable for implementing the Partnership's priorities, and implications in terms of human and financial resources. Both the Accession Partnerships and the National Programmes for the Adoption of the *Acquis* are revised on a regular basis to take account of progress made and to allow for new priorities to be set.

1. Accession Partnership

The European Union adopted the first Accession Partnership for Turkey on 8 March 2001 (Council Decision N°2001/235/EC³¹). Turkey adopted its National Programme for the Adoption of the *Acquis* soon afterwards on 19 March 2001.

On the basis of these documents, Turkey started a dynamic and intensive process to study the *acquis* and to prepare legislative changes in conformity with it. A number of committees and working groups have been established inside the Turkish government, which are fully engaged in this process. Turkey is encouraged to continue this important work, thereby taking into account the assessment made in this Report, including the report on progress in preparing the process of analytical examination of the *acquis* with Turkey as annexed, as well as comments given on the occasion of numerous meetings at various level under the EC-Turkey Association Agreement.

The assessment below focuses on those short-term priorities where a degree of progress has been made. Progress towards fulfilment of medium term priorities will be assessed in the framework of the next Regular Report.

Enhanced political dialogue and political criteria

- Turkey expressed support for the efforts of the United Nations Secretary General to achieve a *comprehensive settlement of the Cyprus problem*. However, a disappointing development was Ankara's support for the decision of Mr Denktash, the leader of the Turkish Cypriot community, to withdraw from proximity talks under UN auspices and to decline the Secretary-General's invitation to talks in New York in September 2001.
- The constitutional amendments adopted by the Turkish Parliament on 3 October 2001 are a significant step towards strengthening guarantees in the field of human rights and

³¹ OJ L 85, 24.3.2001, p.13.

fundamental freedoms and limiting capital punishment, and should facilitate progress towards satisfying the Accession Partnership priorities in this field. The amendments narrow the grounds for limiting such fundamental freedoms as the *freedom of expression* and dissemination of thought, freedom of the press and *freedom of association*. Attention has now turned to the effective implementation of these important changes. The Turkish Government is finalising a package of new draft legislation that is aimed at implementing a number of constitutional amendments, in particular with respect to freedom of expression and thought. Despite these changes, a number of restrictions on the exercise of fundamental freedoms have remained. The extent to which individuals in Turkey will enjoy real improvement in the exercise of fundamental freedoms will depend on the details of implementing legislation, and the practical application of the law. It is encouraging that a general principle of proportionality has been introduced and that the stated general aim of the reform is effectively to bring to the forefront respect for human rights and the rule of law.

- On *pre-trial detention*, the amendment of Article 19 of the Constitution reduces to four days the period of police custody before bringing the person detained before a judge in cases of collective offences. This is a positive development from the point of view of the prevention of ill treatment of detainees and should be applied also for offences falling under the competence of the State Security courts and in state of emergency provinces.
- Numerous *training courses in human rights* have taken place for judges and law enforcement officials but it is too early to evaluate their impact.
- A limited number of initiatives were taken to strengthen the *efficiency of the judiciary*, such as the establishment of criminal enforcement judges as a new judicial function and the setting-up of special sections in the judiciary specialising in intellectual property rights and consumer protection.
- The *de facto moratorium on capital punishment* has been maintained.

Despite a number of constitutional, legislative and administrative changes, the actual human rights situation as it affects individuals in Turkey needs improvement.

Economic criteria

- The Government drew up in March 2001 a new financial and economic programme comprising structural reforms, as well as fiscal and monetary policies, to improve public finances. This new programme is now under implementation and several laws have been adopted in a short period of time.
- A significant element of the new economic programme is the *restructuring of the financial sector*. The banking law was amended to strengthen the banking sector. The Central Bank law was amended to increase the independence of the Central Bank.
- Turkey is participating in the *pre-accession fiscal surveillance* procedure.
- The Government has initiated the process of *structural agricultural reforms* aiming at the nation-wide introduction of a direct de-coupled income support system per hectare in the future. A new sugar law has been adopted.

- The process of *privatisation* in the economic and agricultural sectors has continued. The adaptation and the privatisation of the TEKEL is taking place. Despite a new law of January 2001, the situation with respect to monopoly adjustment on alcohol and tobacco remains a matter of concern.

Internal market

- As regards alignment of *intellectual property* legislation, Turkey has amended its intellectual property law in March 2001 (protection of artistic works). It has become a member of the European Patent Convention. There is a need to strengthen the legislative framework and implementation and enforcement capacity in this field. The Turkish Patent Institute needs to be fully independent.
- Concerning *free movement of goods*, a new framework law was adopted in June 2001. It will enter into force in January 2002. Full implementation of this law should accelerate the adoption of the relevant legislation in the field in line with the Customs Union requirements. Progress has been made in the adoption of European standards. Various pieces of legislation have been adopted. Harmonisation activities in sectors such as foodstuffs, pharmaceuticals and cosmetics should now start. Substantial work also remains to be done to establish and improve the functioning of various bodies (standardisation, accreditation, conformity assessment, market surveillance).

Energy

- Progress has been made in establishing an *independent regulatory authority for the electricity and gas sectors*. Two laws restructuring the industry were adopted: the Electricity Market Law on 18 February 2001 and a Natural Gas Market Law on 13 March 2001. A regulatory authority (the Energy Regulatory Board) needs to be created as a matter of priority. Further efforts to align are necessary. Preparations have started for an *internal energy market*. The Electricity Market Law is expected to be fully operational by 2003. However, issues such as access to networks, market opening and constructing new capacity remain to be dealt with in secondary legislation that needs to be drafted. The same applies for the new gas regime with respect to crucial issues such as third party access, unbundling, public service obligations and storage. Access to the distribution system is not foreseen.

Telecommunications

- A new Telecom law and a *licensing regulation* have been adopted. Further work needs to be done to ensure that the regulatory framework (including secondary legislation) is in conformity with the acquis, in matters such as interconnection, numbering, universal service and data protection need specific attention. Further efforts are needed to improve administrative capacity of the Telecoms Authority, in particular in relation to human resources and training.

Justice and home affairs

- Various *information and awareness activities* have taken place in the areas of external borders, migration, asylum and drugs. More officials should take part in the training initiatives, which should encompass a wider range of subjects. As concerns the fight *against*

organised crime and drug trafficking, an Agreement between Turkey and Greece on co-operation and combating crime entered into force in July 2001. In September 2001, Turkey signed the Council of Europe Convention on the Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, as well as the Council of Europe Civil and Criminal Law Conventions on Corruption. Substantial efforts are needed to establish a comprehensive strategy to fight against the various criminal activities.

2. National Programme for the Adoption of the Acquis

The Turkish National Programme for the Adoption of the Acquis (NPAA) is a wide-ranging document, which addresses many of the priorities set out in the Accession Partnership (AP). It presents a broad agenda of political and economic reforms. It contains a useful inventory of measures, which are to be taken. It is an impressive piece of work that was adopted very soon after the adoption of the Accession Partnership by the European Union.

Turkey's NPAA is part of an evolving process under the pre-accession strategy. A revised document to be prepared as soon as the Turkish authorities have had the opportunity to complete their initial review of the acquis should function more as a planning tool for future work. This would allow better prioritisation of actions including clearer timetables and deadlines, particularly as regards the priorities under the Accession Partnership. It would also make it easier to monitor the different stages of Turkey's alignment efforts (preparation, consultation, decision making, implementation and institution building).

In a number of cases, actions to address short-term priorities have been shifted to the medium-term, or have been split between short and medium-term priorities.

With respect to the political criteria, some of the initiatives foreseen in the Turkish NPAA have already been overtaken by more recent developments, such as the adopted constitutional amendments. A revised NPAA will have to take these and other developments into account, for example with respect to newly adopted legislation that has been adopted. The present NPAA makes it insufficiently clear how Turkey will address a number of priorities in the Accession Partnership such as those on cultural rights. The NPAA falls considerably short of the Accession Partnership priority of guaranteeing cultural rights for all citizens irrespective of origin. Furthermore, the priority on the removal of all legal provisions forbidding the use by Turkish citizens of their mother tongue in TV/radio broadcasting is to be included. With respect to the death penalty, a commitment in the NPAA to sign Protocol 6 of the ECHR is lacking. The document should specify how Turkey intends to guarantee freedom of religion, in particular with respect to minority religions not covered by the Lausanne Treaty (Muslim and non-Muslim communities).

On the chapters related to the acquis, further improvements are recommended to address a number of differences with the Accession Partnership in areas such as agriculture (phyto-sanitary and veterinary), social affairs, transport, energy, regional policy, justice and home affairs, and customs. The descriptive parts can be omitted. Moreover, in some cases, incorporated planned legislative steps will have to be moved to the proper chapter of the acquis (food legislation, intellectual property rights, et al). More information is needed on state aid and state aid control in the different areas, including compatibility with existing Community rules. It is also advised that a revised document takes better into account the legally binding Turkish

commitments made by the Turkish Government, e.g. in the framework of the Customs Union (free movement of goods, competition, state aid, adaptation of state monopolies).

Different parts of the acquis need to be added explicitly in a revised document. For example in social affairs, a number of directives in the field of labour law, anti-discrimination, equal opportunities and health and safety at work will need to be incorporated. In transport, the need to adapt Turkey's transport fleet (maritime, road and aviation) to Community requirements is not mentioned. On environment, no detail is given on actions related to the implementation of the acquis. In Justice and Home Affairs, the issues of border management should be further clarified. In the field of agriculture, the need to develop a strategic plan to transpose legislation in the veterinary and phyto-sanitary field should be included.

To assist budgetary, legal, institutional and financial preparations further clarifications are needed on the financial resources required for the implementation of the priorities. This would provide an invaluable guide for the programming of national, Community and IFI efforts. This is of particular importance in high-cost areas such as environment and external border controls.

The next version of the document should also contain more detail on institutional matters and any administrative restructuring foreseen to ensure efficient implementation and enforcement of Community legislation. This should describe which governmental body (including regulatory authorities) is in charge of the relevant policy. The Turkish Government is recommended to take the points made here into account in its revision of the NPAA. Assistance under TAIEX will be made available.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
30 September 2001***

<i>Adherence to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SI	TK
ECHR (European Convention on Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	X	X	X	X	X	X	X	O	X	X	X	X	O
Protocol 6 (death penalty)	X	X	X	X	X	X	X	X	X	X	X	X	O
Protocol 7 (ne bis in idem)	X	X	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	X	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	X	X	O	X	O	O	X	O	O	X	O	X	O
Framework Convention for National Minorities	X	X	X	X	X	O	X	X	X	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 ICCPR (right of individual communication)	X	X	X	X	X	X	X	X	X	X	X	X	O
Second Optional Protocol to the ICCPR (death penalty)	X	X	O	O	X	O	O	X	O	X	X	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
Optional Protocol to the CEDAW	O	O	X	O	X	O	O	O	O	O	X	O	O
CRC (Convention on the Rights 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; LT=Lithuania; MT=Malta;

PL=Poland; RO=Romania; SK= Slovak Republic; SV=Slovenia; T=Turkey

Statistical data

	1996	1997	1998	1999	2000
Basic data	in 1000				
Population (average)	61.528	62.455	63.391	64.337	65.293 E
	in km²				
Total area	769.604	769.604	769.604	769.604	769.604

National accounts	In 1000 Mio Turkish Lira				
Gross domestic product at current prices	14.772.110	28.835.883	52.224.945	77.415.272	124.982.454
	In 1000 Mio ECU/euro				
Gross domestic product at current prices	143	168	178	173	217
	ECU/euro				
Gross domestic product per capita ³² at current prices	2.300	2.700	2.800	2.700	3.200
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	7,0	7,5	3,1	-4,7	7,2
	in Purchasing Power Standards				
Gross domestic product per capita ³³ at current prices	5.500	6.200	6.300	6.100	6.400
Structure of production	% of Gross Value Added³⁴				
- Agriculture	16,4	14,1	17,4	15,0	14,6
- Industry (excluding construction)	25,0	25,0	22,1	22,6	23,3
- Construction	5,7	6,0	5,8	5,5	5,3
- Services	52,9	54,9	54,7	56,9	56,8
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	78,8	80,3	81,9	87,4	85,2
- household and NPISH	67,2	68,0	69,2	72,2	71,2
- general government	11,6	12,3	12,7	15,2	14,0
- Gross fixed capital formation	25,1	26,4	24,6	21,9	22,2
- Stock variation ³⁵	2,4	-0,9	-2,9	-5,6	0,0
- Exports of goods and services	21,5	24,6	24,3	23,2	23,8
- Imports of goods and services	27,8	30,4	27,9	26,9	31,2

Inflation rate	% change over the previous year				
Consumer price index	80,4	85,7	84,6	64,9	54,9

Balance of payments	Mio ECU/euro				
-Current account	-1.945	-2.333	1.766	-1.276	-10.574
-Trade balance	-8.445	-13.584	-12.656	-9.801	-24.185
Exports of goods	25.895	28.876	27.786	27.522	33.970
Imports of goods	34.340	42.460	40.441	37.323	58.155
Goods and services, net	5.287	9.612	11.981	6.987	12.287
Net income	-2.336	-2.665	-2.657	-3.320	-4.333
-Net current transfers	3.549	4.304	5.097	4.857	5.657
-of which: government transfers	443	279	142	341	232
- FDI (net) inflows	576	712	837	735	1.063

Public finance	in % of Gross Domestic Product				
General government deficit/surplus	-8,4	-13,4	-11,9	-21,8	-11,0
General government debt	:	55,6	52,3	69,2	57,8

³² Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

³³ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

³⁴ Data refers to ISIC Rev. 2.

³⁵ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy	36,9	38,3	38,0	46,3	50,1
	as % of exports				
Gross foreign debt of the whole economy	171,2	155,9	156,1	199,6	210,2
Monetary aggregates	1000 Mio ECU /euro				
- M1	6,6	7,0	7,0	7,8	10,8
- M2	39,8	47,1	55,3	73,7	89,8
- M3	41,5	49,2	56,9	75,6	92,6
Total credit	26,1	33,8	30,8	30,7	42,3
Average short-term interest rates	% per annum				
- Day-to-day money rate	76,2	70,3	74,6	73,5	56,7
- Lending rate	99,2	99,4	79,5	86,1	51,2
- Deposit rate	80,7	79,5	80,1	78,4	47,1
ECU/EUR exchange rates	(1ECU/euro=..Turkish Lira)				
- Average of period	103214	171848	293736	447229	574816
- End of period	135042	226634	365748	544641	624267
	1994=100				
- Effective exchange rate index	46,2	26,7	15,4	9,9	7,1
Reserve assets	Mio ECU/euro				
- Reserve assets (including gold)	14.130	17.706	17.880	24.279	25.108
- Reserve assets (excluding gold)	13.025	16.721	16.943	23.225	24.017

External trade	Mio ECU/euro				
Trade balance	-16.301	-19.866	-17.019	-13.402	-29.164
Exports	18.533	23.340	24.130	24.964	30.182
Imports	34.834	43.206	41.149	38.366	59.346
	previous year=100				
Terms of trade	101,7	104,4	100,0	98,6	91,4
	as % of total				
Exports with EU-15	49,7	46,6	50,0	54,0	52,3
Imports with EU-15	53,0	51,2	52,4	52,6	48,8

Demography	per 1000 of population				
Natural growth rate	15	15	14,9	14,8	14,8 E
Net migration rate (including corrections)	:	:	:	:	:
	per 1000 live-births				
Infant mortality rate	41,4	39,8	38,3	36,8	35,3 E
Life expectancy :	at birth				
Males:	66,0	66,2	66,4	66,6	66,9 E
Females:	70,6	70,8	71,0	71,3	71,5 E

Labour market (ILO methodology)	% of labour force				
Economic activity rate	53,4	52,2	52,3	52,9	49,2
Unemployment rate, total	6,7	6,5	6,8	7,6	6,6
Unemployment rate, males	6,7	6,3	6,8	7,7	6,6
Unemployment rate, females	5,9	7,8	6,9	7,5	6,6
Unemployment rate of persons < 25 years	13,5	14,3	14,2	15,2	13,2
Unemployment rate of persons >= 25 years	4,4	3,9	4,5	5,2	4,5
	as % of all unemployed				
Long-term unemployment rate	46,1	43,7	42,4	31,0	23,8
Average employment by NACE branches	in % of total				
- Agriculture and forestry	42,8	40,7	40,5	41,4	34,9
- Industry (excluding construction)	16,7	17,8	17,4	16,7	18,1
- Construction	6,2	6,3	6,2	6,0	6,5
- Services	34,3	35,1	35,8	35,8	40,5

Infrastructure	in km per 1000 km²				
Railway network	8.607	8.607	8.607	8.682	8.671

Length of motorways	km				
	1.405	1.528	1.726	1.749	1.773

Industry and agriculture	previous year=100				
Industrial production volume indices	107,6	111,5	101,3	96,2	106,1
Gross agricultural production volume indices	107,0	97,7	110,6	94,7	:

Standard of living	per 1000 inhabitants				
Number of cars	53,2	57,1	60,5	63,3	67,7
Main telephone lines	232,2	252,1	267,5	280,6	281,7
Number of subscriptions to cellular mobile services	11,3	23,7	53,3	117,6	229,3
Number of Internet subscriptions	:	:	3,6	6,8	24,6 E

E=estimate

Methodological Notes

Inflation rate

National CPI is given, no proxy HICP exists so far, but is in preparation.

Finance

Public finance: The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series are available from 1997; the 1996 data are an approximation derived from the IMF's GFS methodology.

Gross foreign debt is of the whole economy, covering both short- and long-term, but excluding equity investment and money market instruments. The source for stock of outstanding debt is OECD, while the source of GDP is Eurostat. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used (source: Eurostat). The data for 2000 are Eurostat estimates, based on joint OECD/IMF/BIS/World Bank series.

Monetary aggregates are end-year stock data, as reported to Eurostat. Generally, M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks (corresponding to the Turkish series M2Y). M3 means M2 plus certain placements in a less liquid or longer-term form (corresponding to the Turkish series M3Y). Not all countries produce an M3 series. Total credit means loans by resident monetary financial institutions (MFIs) to non-MFI residents.

Interest rates: Annual average rates based on monthly series reported to Eurostat. Lending rates refer to bank lending to enterprises for over 1 year. Deposit rates refer to bank deposits with an agreed maturity of up to one year. Day-to-day money rates are overnight interbank rates.

Exchange rates: ECU exchange rates are those that were officially notified to DG ECFIN until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank. The effective exchange rate index (nominal), as reported to Eurostat, is weighted by major trading partners.

Reserve assets are end-year stock data, as reported to Eurostat. They are defined as the sum of central bank holdings of gold, foreign exchange, SDRs, reserve position in the IMF, and other claims on non-residents. Gold is valued at end-year market price.

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).

FOB means that all costs incurred in transport up to the customs frontier are charged to the seller .CIF means that the purchaser pays the additional costs.

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 LFS (Labour Force Survey) observing the following ILO definitions and recommendations:

Labour force: employed and unemployed persons according to 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 co-operatives or contributing family workers. Members of armed forces (excluding residents 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 LFS (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.

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.

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.

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.

Sources

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

National accounts, inflation rate, balance of payment, public finance, finance: Eurostat

Report on progress in preparing the process of analytical examination of the acquis with Turkey

1. Introduction

The Helsinki European Council of December 1999 stated that “Turkey is a candidate State destined to join the Union on the basis of the same criteria as applied to the other candidate States. Building on the existing European strategy, Turkey, like other candidate States, will benefit from a pre-accession strategy to stimulate and support its reforms.” It invited the Commission to prepare a process of analytical examination of the acquis as part of the pre-accession strategy for Turkey

Subsequently, the Feira European Council of June 2000 noted Turkey’s initiatives to meet the accession criteria. In accordance with the Helsinki conclusions, the European Council looks forward to concrete progress, in particular on human rights, the rule of law and the judiciary. The Commission was asked to report to the Council on progress in preparing the process of analytical examination of the acquis with Turkey. This document aims to meet this request.

2. Context

The Helsinki European Council of 10 and 11 December 1999 stated that Turkey was a candidate country destined to join the Union on the basis of the same criteria as applied to the other candidate countries.

Turkey, like other candidate states, would benefit from a pre-accession strategy to stimulate and support its reforms. This strategy contains the following elements:

- enhanced political dialogue with emphasis on progress towards fulfilling the political criteria for accession, in particular as regards human rights, border disputes and Cyprus;
- the establishment by the Commission of a Regular Report covering the relevant chapters of the acquis;
- the adoption of a single framework for co-ordinating all sources of European Union financial assistance for pre-accession, including a legal base for the Accession Partnership;
- the adoption of an Accession Partnership for Turkey. The Accession Partnership priorities are to be reflected in the National Programme for the Adoption of the Acquis (NPAA);
- the opening up of Community programmes and agencies to Turkey;
- the extension of the EC-Turkey Customs Union in the fields of services and public procurement;
- the use of the technical assistance offered by TAIEX (Technical Assistance Information Exchange Office).

The European Council of Göteborg noted that good progress has been made in implementing this pre-accession strategy for Turkey, including an enhanced political dialogue. The

presentation by Turkey of its National Programme for the Adoption of the Acquis (NPAA) was seen as a positive development.

3. Analytical examination of the acquis

The Helsinki European Council conclusions also stated that the preparation of a process of analytical examination of the acquis is an essential part of the pre-accession strategy for Turkey. Its aim is to increase the understanding of the content of the Community acquis and to identify which issues need to be addressed to adopt and implement EU rules and measures.

a) Framework

A specific framework has been established to carry out the preparation of the process of the analytical examination of the Community acquis. The EC-Turkey Association Council of 11 April 2000 adopted Decision No. 3/2000³⁶, which created eight subcommittees under the EC-Turkey Association Committee. The structure of these subcommittees is similar to those under the Europe Agreements.

In its Decision, the Association Council mandated the Association Committee to adopt the terms of reference of the subcommittees, which are equivalent to those for other candidate countries.

Moreover, it was asked that these terms of reference take account of:

- the existence of the EC-Turkey Customs Union, which has its own institutional framework, in particular the existence of a Customs Union Joint Committee and the Customs Co-operation Committee;
- the modifications to the Treaty of the European Union, in particular as regards Title VI.

The EC-Turkey Association Committee adopted by its Decision No. 1/2000 of 14 June 2000³⁷ the terms of reference of the subcommittees.

The subcommittees are composed of representatives of the European Commission and representatives of the Government of Turkey. They are chaired alternately by the two parties according to the rules on the alternate chairmanship of the Association Committee. The Member States are informed and invited to the subcommittee meetings.

The subcommittees also have the task of monitoring progress on the implementation of the priorities of the Accession Partnership for Turkey.

They should monitor progress as regards law approximation, implementation and enforcement. The subcommittees may also examine any problems that arise in the different priority sectors and, where relevant, what steps should be taken. This task relates in particular to the implementation of the EC-Turkey Association Agreement and relevant decisions of the Association Council.

³⁶ OJ L 138, 9.6.2000, p. 28

³⁷ SEC/2000/931

Further details on the tasks and methods of the subcommittees, and their remit, are included at attachment I.

b) Overview

The subcommittees started their work on 22 June 2000, immediately after the completion of the formal procedures for their establishment and the definition of their terms of reference. On 18 July 2001, two full rounds of subcommittee meetings were completed, i.e. each subcommittee met twice within a period of just over a year. Overall, 16 meetings took place (see Attachment II) involving around 500 officials from both sides from various Commission departments, Turkish ministries and public agencies, covering a broad range of subjects. These discussions also included macroeconomic policies, ongoing reforms in the economic sectors such as financial restructuring and efforts to increase competition in the economy, in particular the privatisation of state enterprises.

Additional meetings between experts were also held, in areas such as agriculture, energy, telecoms, audio-visual policy, banking, taxation, capital movement, financial control and coal and steel products. In a number of cases, such as in the areas of cosmetics, environment, social policy, taxation and cultural goods, specific seminars were held.

As is the case of other candidate countries, Turkey was invited to respond to a number of requests for information and also to participate in a number of actions, such as the customs blueprint exercise, the pre-accession fiscal surveillance procedure, the macro-economic assessment exercise and contributing to a study on Turkey's industrial competitiveness.

During the first series of subcommittees, the EU introduced its policy objectives in broad terms and the administrative requirements to implement the relevant policies. Initial explanations of the acquis were given and the EU has gained a first overview of the degree of alignment of Turkey's legislation and administrative structures. At some meetings, more methodical presentations were also made on the content of the Community acquis and the division of the acquis into various chapters.

In response, the Turkish side provided wide-ranging information on the actual situation in the different economic sectors in the country and in particular the policies of the Government to address the relevant issues. Information was given on the different administrative bodies and agencies involved in public policy.

The adoption of the Accession Partnership for Turkey and the Turkish National Programme for the Adoption of the Acquis provided an increased focus for the work of the subcommittees. Discussions were able to concentrate more on the specific requirements and priority actions for transposing legislation. In this connection information on newly adopted items of EC legislation was also given. At some meetings, the Commission provided initial comments on the Turkish NPAA.

Consequently, the working methods of the subcommittees evolved to allow more detailed exchanges of views. Expert meetings were organised. Examples of issues that were discussed in greater detail in this way are illegal immigration and the Community acquis related to social dialogue.

The meetings touched on administrative issues, for example the efficient management of agricultural and environmental policy, and how to improve the functioning of bodies in Turkey such as the Customs Service and the Turkish Standards Institute. Where relevant, the need to establish independent bodies was discussed, for example in the areas of banking, telecoms, competition, state aid control and regional development.

The meetings also covered issues of a more horizontal nature such as the opening up of Community programmes and agencies, and the scope and mechanisms of the EC financial assistance to Turkey. Needs for further assistance in various fields were identified. The activities of the Technical Assistance Information Exchange Office (TAIEX) were presented during the first set of subcommittee meetings.

There was also discussion of outstanding trade issues resulting from the implementation of the EC-Turkey Association Agreement and relevant Association Council Decisions, such as those on the Customs Union and on trade in agricultural goods.

4. Assessment

Overall, the meetings of the subcommittees allowed for exchanges of views on the policy objectives and legislation of the EU and Turkey in the various fields. Turkey gained greater understanding of the *acquis* and the steps it needs to take to transpose implement and enforce the *acquis*. In many cases, preparatory studies have started and new legislation or amendments to legislation are under preparation. Working groups have been set up within the Turkish administration to prepare this work and to initiate administrative reforms. A favourable climate was established, which should lead to further dialogue between EU and Turkish experts, in particular on the drafting of necessary legislative changes.

It became clear that Turkey needs to:

- make greater efforts to ensure that all new legislative proposals are checked for conformity to the Community *acquis*. On several occasions, laws were adopted which did not conform with the *acquis*, or even in some cases represented a step away in that respect (e.g. in relation to social policy, cosmetics, the alcohol regime, and radio and television). Turkey is encouraged to send all relevant draft legislation to the Commission for comment well in advance of its planned adoption, so that EU experts are able to provide advice.
- strengthen planning of the alignment process by setting a logical order and a clear timetable for the steps that need to be taken in each sector. This planning should also focus more closely on addressing the priorities set out in the Accession Partnership. Turkey is advised to ensure that the revised version of its National Programme for the Adoption of the *Acquis* reflects these priorities adequately. It also became clear that Turkey's level of understanding of various parts of the Community *acquis* needs to be further improved.
- give priority to strengthening the administration in areas where certain weaknesses have been identified. Particular attention should be given to the capacity of the Turkish administration and judiciary to implement and enforce the *acquis* effectively. The implementation of the *acquis* requires in some high-cost sectors substantial investments. Future meetings should also clarify these matters, i.e. to establish greater clarity on the level of investment needed.

The subcommittee meetings also allowed an initial overview of the state of alignment of Turkey's legislation with the acquis. In this respect, the overall picture is rather uneven. Turkey's alignment is most advanced in the areas covered by the Customs Union (although there is considerable work to be carried out here too) and is less advanced in other areas. In some areas there are major discrepancies between Turkey's legislation and that of the EU, also due to the complexity of the transposition process itself.

OVERVIEW OF THE EC-TURKEY ASSOCIATION COMMITTEE SUBCOMMITTEES

The EC-Turkey Association Committee subcommittees have a two-fold task, namely:

- to monitor progress in Turkey’s legislative approximation to the Community acquis including implementation and enforcement;
- to monitor progress made by Turkey in the implementation of the priorities of the Accession Partnership.

In total, 8 subcommittees have been established, following the model established for the other candidate countries.

Each subcommittee is composed of representatives of the European Commission and representatives of the Government of Turkey. They are chaired alternately by the two parties according to the rules set out by the Association Committee. The Member States are informed and invited to the subcommittee meetings.

Subcommittees work under the authority of the Association Committee, to which they report after each meeting. They do not have any decision-making power.

An official of the European Commission and an official of the Government of Turkey act jointly as permanent Secretaries of each subcommittee.

Subcommittees meet whenever circumstances require. A meeting may be convened on the basis of a request from either party,

At the beginning of each meeting an agenda is adopted by the subcommittee and minutes are taken and agreed after each meeting.

The meetings of the subcommittees are not public unless otherwise decided.

The division of tasks and issues to be discussed in each of the subcommittees is as follows:

1. Agriculture and Fisheries:
 - Products of agriculture and fisheries;
 - Agricultural co-operation and rural development;
 - Processed agricultural products;
 - Veterinary and plant-health issues;
 - Legislation applicable to trade.

2. Internal Market and Competition:
 - Free movement of goods, including standardisation, certification, conformity assessment and market surveillance;
 - Intellectual and industrial property rights;
 - Public procurement, data protection and civil law;
 - Company law, accounting and e-commerce;
 - Consumer protection;
 - Competition and State Aid;
 - Services, including financial services (banking, insurance, investment) and postal services;
 - Movement of workers, except co-ordination of social security;
 - Right of establishment and provision of service;
 - Turkish participation in Community programmes.
3. Trade, industry and ECSC products:
 - Trade issues;
 - ECSC products;
 - Investment promotion;
 - Small and medium sized enterprises and Turkish participation in Community SME programmes;
 - Industrial policy and co-operation, tourism.
4. Economics and monetary issues, capital movements and statistics:
 - Economic and monetary issues;
 - Current payments and movements of capital, including investment protection;
 - Reform of the financial sector;
 - Statistical co-operation.
5. Innovation:
 - Education, training and youth, and Turkish participation in Community programmes;
 - Science, research and technological development and Turkish participation in research and technological development programmes and demonstration programmes;
 - Telecommunications and information technology;
 - Cultural co-operation and audio-visual policy, Turkish participation in Community programmes;
 - Science, research and technological development.
6. Transport, environment and energy (including trans-European networks):
 - Transport;
 - Environment and Turkish participation in Community programmes;
 - Energy, including nuclear safety, Turkish participation in Community programmes.
7. Regional development, employment and social policy:
 - Employment policy, social policy, Turkish participation in Community social programmes;
 - Regional development policy;
 - Co-ordination of social policies.

8. Customs, taxation, drug trafficking and money laundering:
- Customs co-operation;
 - Indirect taxation and Turkish participation in Community programmes in the field of taxation;
 - Money laundering;
 - Drugs;
 - Auditing and financial control.

**CHRONOLOGICAL OVERVIEW OF THE
EC-TURKEY ASSOCIATION COMMITTEE SUBCOMMITTEES**

The meetings of the EC-Turkey Association Committee subcommittees have been held in the following chronological order:

Dates	No.	Subcommittee
22-23 June 2000	1.	EC-Turkey Subcommittee N° 1 on Agriculture and Fisheries
30 June 2000	6.	EC-Turkey Subcommittee N° 6 on Transport, Environment, Energy (including Trans European Networks – TENs)
6-7 July 2000	2.	EC-Turkey Subcommittee N° 2 on Internal Market and Competition
23-24 November 2000	5.	EC-Turkey Subcommittee N° 5 on Innovation
28 November 2000	7.	EC-Turkey Subcommittee N° 7 on Regional Development, Employment and Social Policy
7 December 2000	3.	EC-Turkey Subcommittee N° 3 on Trade, Industry and ECSC products
25-26 January 2001	4.	EC-Turkey Subcommittee N° 4 on Economic and Monetary Issues, Capital Movements and Statistics
6-7 February 2001	8.	EC-Turkey Subcommittee N° 8 on Customs, Tax, Drugs and Money laundering
27-28 February 2001	6.	EC-Turkey Subcommittee No. 6 on Transport, Environment, Energy (including Trans European Networks – TENs)
21-22 March 2001	1.	EC-Turkey Subcommittee N° 1 on Agriculture and Fisheries
2-3 April 2001	2.	EC-Turkey Subcommittee N° 2 on Internal Market and Competition
2-3 May 2001	5.	EU-Turkey Subcommittee N° 5 on Innovation
16 May 2001	3.	EC-Turkey Subcommittee N° 3 on Trade, Industry and ECSC products

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| 7-8 June 2001 | 7. EC-Turkey Subcommittee N° 7 on Regional Development, Employment and Social Policy |
| 2-3 July 2001 | 8. EC-Turkey Subcommittee N° 8 on Customs, Tax, Drugs and Money laundering |
| 17-18 July 2001 | 4. EC-Turkey Subcommittee N° 4 on Economic and Monetary Issues, Capital Movements and Statistics |