

# TURKEY-EU RELATIONS: THE WAY FORWARD





**TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION**

# **TURKEY-EU RELATIONS: THE WAY FORWARD**

**July 2001**

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Meşrutiyet Caddesi, No.74 80050 Tepebaşı/İstanbul

Phones: (+90 212) 249 54 48 - 249 07 23 • Fax: (+90 212) 249 13 50

Web: [www.tusiad.org](http://www.tusiad.org) e-mail: [tusiad@tusiad.org](mailto:tusiad@tusiad.org)

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# FOREWORD

*TÜSİAD (Turkish Industrialists' and Businessmen's Association), which was founded in 1971, according to the rules laid by the Constitution and in the Associations Act, is a non-governmental organisation working for the public interest. Committed to the universal principals of democracy and human rights, together with the freedoms of enterprise, belief and opinion, TÜSİAD tries to foster the development of a social structure which conforms to Atatürk's principals and reforms, and strives to fortify the concept of a democratic civil society and a secular state of law in Turkey, where the government primarily attends to its main functional duties.*

*TÜSİAD aims at establishing the legal and institutional framework of the market economy and ensuring the application of internationally accepted business ethics. TÜSİAD believes in and works for the idea of integration within the international economic system, by increasing the competitiveness of the Turkish industrial and services sectors, thereby assuring itself of a well-defined and permanent place in the economic arena.*

*TÜSİAD supports all the policies aimed at the establishment of a liberal economic system which uses human and natural resources more efficiently by means of latest technological innovations and which tries to create the proper conditions of for a permanent increase in productivity and quality, thus enhancing competitiveness.*

*TÜSİAD, in accordance with its mission and in the context of its activities, initiates public debate by communicating its position supported by scientific research on current issues.*

*This publication is prepared by TÜSİAD. It summarizes the developments in the EU-Turkey relations since Helsinki Summit in 1999 and makes a political and economic assessment of the Turkey's National Program for the adoption of the EU acquis.*

**July 2001**



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# **TÜSİAD'S POSITION ON THE PRIORITIES OF THE EU-TURKEY RELATIONS<sup>1</sup>**

A new era has begun in the Turkey-European Union relations after the EU Helsinki Summit, Accession Partnership Agreement and the National Programme for the Adoption of the *acquis communautaire*. In this new era, however, it is difficult to assert that both sides act in accordance with the relative importance of the current status. This lag could lead to Turkey's further exclusion from the enlargement process.

TÜSİAD considers that the foremost priority at the moment is the fulfilment of all conditions needed to begin the accession negotiations by Turkey and the EU with minimum delay. Turkey's candidate status as officially recognised at the Helsinki Summit could be of real significance only when Turkey starts accession negotiations. With this goal in mind, the EU should start without any delay the screening process of examining the Turkish legislation *vis-à-vis* the EU *acquis*.

According to the Turkish private sector, Turkey's membership to the EU is, on the one hand, the most determinant factor for Turkey's both international competitiveness and national security. On the other hand, Turkey's steady progress towards membership shall definitely enhance the EU's political influence and economic vigour at the global level. In this context, Turkish private sector believes that Turkey and the EU should give priority to the following points:

## **1. Political Reforms**

Turkey's compliance with the Copenhagen political criteria is essential for establishing a better democracy, respecting human rights and consolidating the rule of law in Turkey as well as for Turkey's membership to the EU. In this framework, Turkey is urged to make the necessary constitutional and legislative amendments promptly and the EU should cooperate through constructive manner and policies with Turkey.

## **2. Economic programme**

The economic recovery programme adopted after the economic crisis of February 2001 in Turkey and the Accession Partnership Agreement have similar

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*(1) This position is prepared on the occasion of the EU-Turkey Association Council held on 26 June 2001*



objectives. The economic programme should be applied to full extent within the determined time framework without deviating in favour of populist policies. Through the full application of this programme, the Turkish economy will not only redefine the economic role of the state in accordance with modern economic understanding and as required for harmonisation with the EU, but also have the opportunity to construct a stable and competitive structure. With the completion of these reforms, Turkey will have brought to solution significant difficulties on the path to the EU. The EU could contribute to this process by demonstrating regular political backing through all discourse and activities in support of both Turkey's commitments to EU membership and official candidate status.

### **3. "Deepening" the customs union**

Following the customs union, TUSIAD fully supports the successful conclusion of the current negotiations on the liberalisation of services and public procurement. As the customs union has previously played a crucial role in accelerating the integration of the Turkish economy to the European economy, Turkey has engaged itself politically in favour of extending the customs union to the field of services. The ongoing liberalisation negotiations, however, do not take into account Turkey's membership prospects and current candidate status. The EU should therefore alter its relevant policies.

The EU should intervene with determination where Turkey's harmonisation with the EU's external trade policy with third countries is urged and some of such third countries appear uncooperative. The Commission's continuous efforts with regards to US government and the Turkish government's follow up work on this issue are expected to conduct to a timely outcome. Moreover, Turkey should also participate in the EU preparations for the next round of trade negotiations within the WTO.

Turkish entrepreneurs, business representatives, private sector associations' representatives and experts face on a day-to-day basis EU visa requirements for travelling to the EU. These requirements are a considerable impediment and constitute a basis for unfair competition when developing business relations with the EU, especially within the scope of the customs union. Minimum one year of validity for the visas granted could become the first step towards the solution to this problem.

#### **4. Financial Cooperation**

Despite the official recognition of candidacy, in connection with financing the agreed reforms, a framework has not yet been established enabling Turkey's access to financial cooperation facilities on equal terms with other candidates. TÜSİAD expects that the difficulties encountered particularly by the Turkish private sector in using the European Investment Bank funds and in accessing aid grants be eliminated.

TÜSİAD calls for the rapid establishment of the institutional structure in Turkey to manage the coordination of financial assistance and to increase the usability of such assistance by the private sector in Turkey.

After a timely revision of the current financial assistance package amounting to approximately €177 million per year, the EU should increase this amount to better correspond to the objectives listed in the Accession Partnership Agreement. Furthermore, the EU Council of Ministers should without any delay adopt the European Parliament's proposal on Turkey's eligibility for structural assistance programmes (ISPA) currently available to Central and Eastern European Countries and for agriculture and rural development assistance programmes (SAPARD).

TÜSİAD believes that the Association Council meeting to be held on 26 June 2001 is a unique opportunity to pronounce political messages and to take decisions giving a new impetus to Turkey-EU relations. Taking into account that the 'short-term' defined in the Accession Partnership Agreement expires at the end of 2001, an interruption of this process because of probable early elections in Turkey is bound to have negative consequences in light of the current economic conditions.

# 1. INTRODUCTION

In the Helsinki Summit of the EU Council held on 10-11 December 1999 Turkey was granted the candidate status for EU membership without any preconditions. This is a turning point in the EU-Turkey relations, which opens Turkey the way to the EU on an equal treatment with the other candidate countries. With the Helsinki decision, the discouraging note pronounced in the Luxembourg summit three years earlier, was reversed and Helsinki laid down the foundation for Turkey's membership. Nevertheless, Turkey has to fulfill the Copenhagen political criteria which requires that the candidate country has to achieve stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and, protection of minorities for membership to start negotiations.

Meanwhile, the political dialogue, suspended since the Luxembourg Summit in December 1997, has been restored and high-level bilateral meetings started to take place. On April 11, the EU-Turkey Association Council met after a 3 years of interruption. In the meeting 2 important decisions were taken. First it was decided to set up 8 sub-committees and their work will be assessed as a preparatory stage to the screening process. Second, negotiations will be opened for the liberalization of services and for public procurement. These are major steps both for Turkey and the EU and will support their cooperation in Turkey's membership process.

Moreover, EU Secretariat General was set up in Ankara. It is the main institution providing coordination between public and private institutions and within the public sector in the process of harmonization. Secretariat has already gained the support and confidence of the Turkish society, which is crucial for the success of the accession process. The Secretariat prepared National Program for the Adoption of the Acquis with the support of the State Planning Organization.

Consequently, Turkey's candidacy process is in its normal track like those of the other candidates. Nevertheless, the political, economic and social reforms and transformations necessary for this process need to be achieved without losing time. TUSİAD considers that the foremost priority at the moment is the fulfillment of all conditions needed to begin the accession negotiations by Turkey and the EU with minimum delay. Turkey's candidate status could be of real significance only when Turkey starts accession negotiations. With this goal in mind, the EU should start without any delay the screening process of examining the Turkish legislation vis-à-vis the EU acquis.

Turkey's membership to the EU is, on the one hand, the most determinant factor for Turkey's both international competitiveness and national security. On the other hand, Turkey's steady progress towards membership shall definitely enhance the EU's political influence and economic vigor at the global level.

The approval of the AP and its financial framework by the Council and the EU Parliament creates a positive atmosphere and signals the beginning of constructive relationship between Turkey and the EU. In this process, it is the responsibility of Turkey to prepare necessary infrastructure to fully apply the National Program. The National Program can only be effective if it embraces all the segments of the Turkish society as it brings fundamental changes and challenges to social, economic and political life in Turkey.

## **2. THE ACCESSION PARTNERSHIP**

The adoption of the Accession Partnership and its financial framework by the EU Parliament and the Council is a major step for Turkey to move forward in its candidacy process.

The EU Commission's Regular Progress Report on Turkey in 2000, and the Accession Partnership (AP) offer a perspective for Turkey in its accession process. Whereas the AP underlines once more the criteria for full membership and demands Turkey to comply with those criteria within a time schedule, the Progress Report evaluates Turkey's degree of harmonization to the EU acquis.

The AP defines the political criteria within the context of universal human rights principles and common democratic standards in the EU. The EU's position on this issue is in conformity with Turkey's unitary state structure, constitutional order and citizenship concept.

The demands of reform are focused on current legal arrangements, which forbid individual freedoms and the expression of cultural identities. The EU's approach takes into account differences of understanding and practice in itself and is based on minimum common points.

The short and medium term priorities envisaged for Turkey have already coincided with political and economic reforms that have been planned and declared by Turkey.

In the 8th Five Year Development Plan, Turkey mostly in parallel with the priorities set out in the AP, defines its priorities as: becoming an EU member and achieving the economic and social transformation that is required for the EU membership.

In this context, the effective implementation of the Accession Partnership and its financial co-operation commitments are essential for the future of EU-Turkey relations. Turkey's participation to all the initiatives between the EU and the candidate countries is also another indispensable improvement urgently needed. This is a key factor in mobilising channels of horizontal integration between the European societies, extending beyond public authorities.

### **3. THE NATIONAL PROGRAM**

It is a major step that the National Program of Turkey for the adoption of the *acquis communautaire* was adopted by the Council of Ministers in March 2001. Firm commitment to the implementation of the National Program on the way to the EU membership is regarded as one of the major pillars for ensuring stability and completing the necessary reforms in Turkey.

The National Program (NP) is an action plan, which responds to the demands of transformation in areas set out in the Accession Partnership (AP) and it covers financial engineering of the action plan. It is of major importance that the NP supports and complements the AP especially, concerning political criteria.

TÜSİAD's main concerns are as follows:

- It is necessary to speed up in fulfilling political criteria in order to be able to start accession negotiations with the EU. The medium-term priorities cover a period until 2003 in the AP whereas the NP extends some actions to be taken until 2005.
- For the efficient implementation of the NP, it is important that the views of the private sector should be regularly, taken into account, as it will be directly affected all through the implementation process of the NP.
- The financial aspects of the NP should be included in the budgetary planning of 2002. This will ensure that actions committed in the NP will have the necessary funds for the implementation. Within this context it is

necessary to harmonize Turkey's plans, programs and budgetary items with the context of the NP.

TÜSİAD has already presented its initial views on the National Program to the EU Secretariat General. The overall process in relation to Turkey's preparations for membership is being followed by the help of the 8 committees and 30 Working Groups established under TÜSİAD, where the priorities of the private sector concerning the harmonization process and the adoption of the *acquis communautaire* are assessed. Moreover, this issue is also discussed in the platforms of Industrial Branch Associations (SİADs) and Local Business Associations (PMÖs).

### **3.1 Assessment on the Political Criteria of the National Program**

The Accession Partnership for Turkey, an important step in the pre-accession strategy, determines the basic conditions of Turkey's candidacy.

The "political criteria" are defined in the Accession Partnership as they appear in the European Commission's Regular Progress Reports, particularly in the Regular Progress Report 2000.

These "political criteria" represent the common democratic values shared by all European countries. Thus, unlike the economic and administrative criteria, they are not part of the negotiation process but a prerequisite for its commencement.

Certainly, differences in perceptions of the member states and various political views lead to different interpretations of these political criteria, which have a rather general framework. "Political criteria" which are very clear on issues like democracy, election law, and guarantee of fundamental rights and freedoms, may lead to different views and implementations on issues like "minority rights, constitutional guarantees for the protection of and respect for minorities."<sup>2</sup>

Regarding Turkey's membership, section 4.1 of the Accession Partnership defines political criteria under short and medium terms.

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(2) *"Avrupa Birliği'ne Tam Üyeliğe Doğru. Siyasi Kısıtlar ve Uyum Süreci" (Towards Full Membership to the European Union. Political Criteria and Process of Harmonisation), TÜSİAD publication, December 1999, pub. No. TÜSİAD-T/99- 12/276*

In this line, Turkey has prepared its National Program that addresses the issues raised in the Accession Partnership.

Put together with the Accession Partnership, Turkey's National Program does not take into account some of these "political criteria" and does not even mention some serious shortcomings. However, even unclear expressions should not be seen adequate in the National Program. It must be deemed imperative that these changes, which are vital for democratisation and rule of law in Turkey, are enacted and enforced. Therefore, the important point in this line is not the mere inclusion of certain abstract principles in the National Program but identification of the Constitutional, legal and administrative arrangements that would concretise these principles. The enactment of these changes by the Turkish Grand National Assembly (TGNA) and their implementation by the administration should be provided.<sup>3</sup>

Moreover, these political criteria mean more than a mere "prerequisite" to start negotiations with the European Union. Indeed, they overlap with the demands and efforts by various circles and organisations in Turkey, for the improvement in the process of "democratisation" and establishment of "the rule of law".

The first fundamental effort to achieve the objectives, which are declared at National Program, is the proposal of a committee at TGNA, named as Inter Parties Conciliation Commission. Proposal contains 37 amendments; most of them are related to the increasing of democratic standards of Turkey.

Here are the most important of the proposals that are related to the Copenhagen Political Criteria:

**Restriction of fundamental rights and freedoms:** The relevant article is rearranged in accordance with the basic principles of the European Convention of Human Rights. Thus, there will no longer be a provision on general restriction for all constitutional rights. Each right will be restricted only by virtue of reasons stated in relevant articles, and according to the necessities of a democratic social order, and the principle of proportionality.

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(3) For more about the Political Criteria in the Turkish National Programme for the Adoption of the Acquis and necessary political reforms, see TÜSIAD publication "Perspectives on Democratisation in Turkey and EU Copenhagen Political Criteria- Views and Priorities", July 2001, publication no. TÜSIAD-T/2001-07/305.



**Prohibition of abuse of fundamental rights and freedoms:** The article is amended, in accordance with the principles laid in European Convention of Human Rights, in a manner that enlarges the scope of the freedoms. The article in proposal includes less number of restrictions than the existing article and narrows the scope of abuse of the rights.

**Protection of fundamental rights and freedoms:** A proposed provision compels the state to notify to people concerned as to which legal ways and authorities and within which time period, that they can recourse to. Thus, it is aimed at facilitating for people to claim their rights before the judicial or administrative authorities.

**Freedom of thought and opinion:** With an amendment in the Preamble of the Constitution, the expression of "any idea and opinion" is replaced with "any act" in the sentence, "no protection..... shall be granted to any idea and opinion". Such an amendment in the Preamble where the general principles are located is an important step towards the achievement of freedom of thought and opinion and can be a source of future amendments in the Turkish Penal Code and other laws.

**Freedom of expression and dissemination of thought:** The provision that languages prohibited by law cannot be used to express and spread of the ideas is abolished. This freedom shall not be used in any way to amend the articles 1, 2 and 3 of the Constitution, which define the basic characteristics of the state.

**Freedom of press:** The provision that prohibits publishing in a language forbidden by the law is removed.

**Detention and Arrest:** Those people detained and arrested for offences committed collectively must be brought before a judge within 7 days, and those for other offences within 48 hours. Damages to those under arrest will be initially compensated by the state. Thereafter the state will be able to recourse the people who inflicted the damages.

**Privacy of the individual's life:** The restrictions to this right are determined within the framework of the European Convention on Human Rights much clearly than the provisions of the existing Constitutional provisions. This proposal gives protection against the searching of individuals and their belongings as well as their confiscation.

**The inviolability of domicile:** Concrete criteria with respect to how and under which conditions this right can be restricted are brought with this package

within the framework of the European Convention of Human Rights. A written order is deemed necessary to enter a residence, search the residence, and confiscate anything in the residence.

**Freedom of communication:** The proposal puts forward concrete conditions for restrictions on this freedom.

**Freedom of settlement and movement:** The restriction on the freedom of citizens to travel abroad due to economic situation of the country is removed from the constitution and therefore a possible obstruction to the freedom of travel is abolished.

**Freedom of association:** The scope of restrictions with respect to the associations is narrowed. It is also made possible for the legal persons to be the founder or a member of an association.

**Right to hold meetings and demonstration marches:** This freedom can only be restricted for the reasons of national security and public order and some of the restrictions in the present article are removed.

**Freedom to claim rights:** With the inclusion of the term, "fair trial" to the article, it is stated that everybody has the right to fair trial in front of judicial authorities. Thus, this judicial concept which appears in international agreements most frequently will be included to the Constitution.

**Protection of family:** A clause that ensures gender equality is added to the relevant article and the principle that "the family depends on the equality of spouses" is included to the Constitution.

**Right to organise labour unions:** Restrictions on this right are rearranged. The prerequisite that workers should have held the status of a labourer for at least ten years to become an executive at a labour union is abolished.

**Principles to be observed by political parties:** The proposal provides concrete criteria to the case of becoming a centre of the activities that cause to the dissolution of political parties. The Constitutional Court is allowed to give penalties other than dissolving, like depriving the party partially or utterly of state aid.

**Right of petition:** In accordance with the principle of reciprocity, foreign residents will be given the right to petition.

**Parliamentary immunity:** As proposed, the investigation and prosecution about a reelected MP will not depend on the condition of reabolishing his/her immunity.

**Ratification of international agreements:** The clause that in case of a conflict of national laws and international agreements, the international treaties will prevail is added to the Constitution.

**National Security Council:** It is proposed to amend the clause "The Council of Ministers gives priority consideration to the decisions of the NSC" with "The Council of Ministers evaluates the decisions of the NSC". Moreover, a propoosal on increase of the number of civil members of the NSC is made.

**Constitutional judgment:** The proposal amends provisional Article 15 according to which no claim is allowed against the incompatibility of the laws enacted in September 1980-November 1983 with the Constitution.

### **3.2 Assessment on the Economic Criteria of the National Program**

Turkey has been designated as a candidate country on the basis of the same criteria as applied to the other candidates at Helsinki Summit. In the pre-accession strategy Turkey obtained a mission to emphasize on progressing towards fulfilling the political and economic criteria. Turkey identified policy instruments in the National Program to make progress towards membership to the EU. Although Turkey has already adopted market economy principles, political instability, existence of high-unregistered economy, significantly low financial sector and huge public borrowing requirements induce economy to a vulnerable position against economic crises. After the recent twin crises, Turkey adopted a new economic program supported by the IMF, which acquires a strengthened structural reforms agenda to achieve transition in the Turkish economy through strong and competitive economy. Accordingly, statements in the National Program to fulfill economic criteria and structural reforms in the new economic program mostly coincide. First table shows comparison of the legal amendments in the new economic program and statements of the National Program in brief, and second table shows structural reforms in the context of the Letter of Intent of Turkey in detail.

**A COMPARISON TABLE OF LEGAL AMENDMENTS IN ECONOMIC PROGRAM  
AND NATIONAL PROGRAM**

<b><i>Legal Amendments In Economic Program</i></b>	<b><i>Related parts in the National Program</i></b>
Amendments to the Budget Law	-
Decree and Law to Eliminate Duty Losses	-
Public Borrowing Law	-
Expropriation Law	-
Law Regarding the Closure of 15 Budgetary And 2 Extra-Budgetary Funds	<b><i>Economic Criteria</i></b> , Fiscal Transparency; Pre-accession Economic Program, Public Finance Part, Fiscal Transparency
Public Tender Law	<b><i>Custom Union</i></b> , Public Procurements; <b><i>Free Movement of goods</i></b> , Public Procurements; <b><i>Fiscal Surveillance and Fiscal and Budgetary Affaires</i></b>
Central Bank Law	<b><i>Economic Criteria</i></b> , Structural Reforms, Financial Sector Reforms; <b><i>Economic and Monetary Union</i></b> , Monetary Policy; Statistics, Balance of Payments and Money and Banking Statistics
Amendments To Banking Law	<b><i>Economic Criteria</i></b> , Structural Reforms, Financial Sector Reform; <b><i>Free Movement of Goods</i></b> , Financial Services, Banks and Other Financial Institutions
Labor Law (Concerning job security)	<b><i>Political Criteria</i></b> , Freedom of Association, Peaceful Assembly and Encourage Development of Civil Society; <b><i>Social Policy and Employment</i></b> , Protect the rights of employees in the Case of Employer's facing salary payment difficulties

<b><i>Legal Amendments In Economic Program</i></b>	<b><i>Related parts in the National Program</i></b>
Economic And Social Council Law	<b><i>Political Criteria</i></b> , Freedom of Association, Peaceful Assembly and Encourage Development of Civil Society; <b><i>Social Policy and Employment</i></b> , Social Dialog
Amendment To The Civil Aviation Law	<b><i>Common Transport Policy</i></b> , Air Transport
Telecom Law	-
Sugar Law	<b><i>Economic Criteria</i></b> , Structural Reforms, Agricultural Reforms; <b><i>Common Agriculture Policy</i></b> , General and Agricultural Goods
Tobacco Law	<b><i>Economic Criteria</i></b> , Structural Reforms, Agricultural Reforms; <b><i>Competition and Public Subsidies</i></b> , Competition Policy <b><i>Common Agriculture Policy</i></b> , General and Agricultural Goods
Natural Gas Market Law Electricity Market Law	<b><i>Energy</i></b>

Source: Republic of Turkey EU Secretariat General

**STRUCTURAL REFORMS IN THE CONTEXT OF  
THE LETTER OF INTENT OF TURKEY**

	<i>Structural Reforms in the context of the Letter of Intent, 15 May 2001</i>	<i>Type of Action</i>	<i>Timing</i>	<i>Realization</i>
April	Presentation by all capital-deficient banks of detailed capital strengthening plans	Prior action for 6th and 7th reviews	End-April 2001	✓
May	Parliamentary approval of legislation to facilitate Turk Telekom privatization	Prior action for 6th and 7th reviews	...	✓
	Reduce the SDIF and state banks' overnight position by at least two-thirds from the March 16, 2001 level, including the elimination of overnight positions vis-à-vis commercial banks	Condition for the completion of the 6th and 7th reviews	...	✓
	The SDIF to recapitalize Sumerbank to cover the bank's negative net worth	Condition for completion of the 6th and 7th reviews	...	✓
	Recapitalize the remaining SDIF banks to cover their negative net worth	Condition for completion of the 6th and 7th reviews	...	✓
	Approval of tax measures: (a) increase petroleum consumption tax by 15 percent in early May 2001 (b) increase VAT rates (except the reduced 1 and 8 percent rates) by one percentage point; and (c) increase, as of April 2001, the minimum contribution base relevant for social security payments in line with existing regulations	Prior action for 6th and 7th reviews	...	✓

	<b><i>Structural Reforms in the context of the Letter of Intent, 15 May 2001</i></b>	<b><i>Type of Action</i></b>	<b><i>Timing</i></b>	<b><i>Realization</i></b>
	Complete financial restructuring of state banks	Condition for completion of the 6th and 7th reviews	...	✓
	Parliamentary approval of amendments to Banking Law	Condition for completion of the 6th and 7th reviews	...	✓
	Establish a common and politically independent board for Ziraat and Halk Banks, report to the Treasury, and appoint new management.	Condition for completion of the 6th and 7th reviews	...	✓
	Adopt related lending regulation	Benchmark	Within one month of approval of amendments to the Banking Law	✓
	The stock of repos of the SDIF and state banks with the CBT not to exceed TL 7 quadrillion	Condition for the completion of the 8th review	End-May 2001	✓
	Close Emlak Bank and transfer its liabilities and some of its assets to Ziraat Bank	Condition for completion of the 8th review	End-May 2001	✓
	Organize in a second transition bank or put into liquidation the four banks for which there are presently no interested bidders	Condition for completion of 8th review	End-May 2001	✓
	Parliamentary approval of Tobacco Law	Condition for completion of 8th review	May-2001	✓



	<b><i>Structural Reforms in the context of the Letter of Intent, 15 May 2001</i></b>	<b><i>Type of Action</i></b>	<b><i>Timing</i></b>	<b><i>Realization</i></b>
	Organize in a second transition bank or put into liquidation the four banks for which there are presently no interested bidders	Condition for completion of 8th review	End-May 2001	✓
	Enact tax regulation to extend the use of Tax Identification Numbers	Condition for completion of 8th review	End-May 2001	✓
June	Eliminate the SDIF and state banks' remaining overnight position	Condition for the completion of the 8th review	...	✓
	Appointment of new professional board and management team for Turk Telekom	Condition for the completion of the 8th review	...	✓
	Approval of supplementary budget in line with program expenditure figures	Condition for completion of 8th review	...	✓
	Adoption by Parliament of a law fully implementing the constitutional amendment on international arbitration	Benchmark	Before Parliament's 2001 summer recess	✓
	Close the remaining 15 BF's (except DFIF) and 2 EBF's	Benchmark	End-June 2001	✓
	At least half the number of revolving funds	Benchmark	End-June 2001	✓
	Submit to Parliament a Law on Public Finance and Debt Management	Benchmark	End-June 2001	✓

	<b><i>Structural Reforms in the context of the Letter of Intent, 15 May 2001</i></b>	<b><i>Type of Action</i></b>	<b><i>Timing</i></b>	<b><i>Realization</i></b>
Oct.	Submit to Parliament a Public Procurement Law in line with UN (UNCITRAL) standards	Benchmark	15 October 2001	
Year End	Sell, put into liquidation, or otherwise resolve the remaining SDIF banks	Condition for completion of the 12th review	End-2001	
	Reduce the stock of private sector tax arrears from the end-2000 level of 2 percent of GNP (including interest and penalties)	Benchmark	End-2001	
	Bring accounting standards for banks in line with international standards	Benchmark	From the beginning of 2002	
	Accompany the draft 2002 budget by accounts and financial outlook for all EBFs and SSIs, revolving funds, contingent liabilities of the Treasury, all SEEs, and local authorities	Benchmark	...	

Source: Undersecretariat of Treasury and TUSIAD

#### **4. THE NEGOTIATIONS ON THE FREE MOVEMENT OF SERVICES AND PUBLIC PROCUREMENT BETWEEN TURKEY AND THE EUROPEAN UNION**

Relying on the decision of the Association Council (1/95), customs union between Turkey and the European Union came into effect in the beginning of 1996 and the necessary regulatory steps have been taken for free movement of industrial goods between two parts. Following the preliminary talks, held in 1998 and 1999 with the European Commission, on extending customs union into the area of services, it was decided, in the Association Council meeting in April 2000, to initiate simultaneous negotiations on mutual opening of trade in services and public procurement between the parties.

Within this framework, first-round of negotiations on services and public procurement based on the draft text prepared by the European Commission were held on 17 and 18 October 2000 in Ankara. During the negotiations some amendments in the draft were recommended. It was declared that the negotiations on the exceptions, transition periods and sectors that will remain outside the agreement would be determined in the following rounds.

TUSİAD fully supports the successful conclusion of the current negotiations on the liberalisation of services and public procurement. As the customs union has previously played a crucial role in accelerating the integration of the Turkish economy to the European economy, Turkey has engaged itself politically in favour of extending the customs union to the field of services.

##### **The general framework of the draft text prepared by the European Commission**

The agreement proposed by the European Union entails wider liberalization than the provisions of the General Agreement on Trade in Services (GATS) bring on the signing countries. The draft text proposes;

- wider liberalisation that finds its legal base on the Article 5 of the GATS, between Turkey and the European Union than the provisions of the GATS
- the mutual elimination, between Turkey and the European Union, of the right to discriminate between domestic and foreign suppliers of services

recognized by GATS upon some conditions, and application of national treatment principle to all service-suppliers concerning Turkey and the EU

- the harmonization of Turkey's legislation with the *acquis communautaire* through the process.

The draft text prepared by the European Commission was not considered adequate by Turkey on the grounds that it carries only characteristics of a more liberal free trade agreement than the GATS foresees. However, Turkey as a candidate country would like to sign an agreement which will encompass the whole integration process in this area, like EEA or Europe Agreements.

### **The views of Turkey on the draft text**

No official document by Turkey against the draft text prepared by the European Commission exists yet. There is only a text prepared by the Ministry of Foreign Affairs concerning financial services.

The position of Turkey on the draft text can be summarized as follows:

- Turkey asks for an agreement, which entails a system that recognizes Turkey as a candidate country for full membership to the EU. Within this framework, Turkey prefers an agreement envisioning her full membership to the EU instead of a mere free trade agreement.
- For Turkey, the agreement ought to envisage a more liberal attitude on the free movement of labor, on the conduct of common policies between two sides and deeper integration entailing the inclusion of Turkey into the EU programs.

Upon the request of the Turkish side for the amendment of the text in line with the aforementioned principles, the officials on the EU side underlined their lack of authorization to amend the text and declared that they have to get a new mandate from the Commission. Nevertheless the demands of the Turkish side were not deemed irrelevant for the negotiations and not rejected.

Notwithstanding the lack of authorization of the EU representatives, it is expected that this procedure will be completed by August 2001.

## **5. EU-TURKEY SUB-COMMITTEES**

On April 11, 2000 at the meeting of EU-Turkey Association Council it was decided to set up the following 8 sub-committees whose work will be assessed as a preparatory stage to the screening process:

1. Agriculture and Fisheries
2. Internal Market and Competition
3. Trade, Industry and ECSC products
4. Economic and Monetary Issues, Capital Movements and Statistics
5. Innovation
6. Transport, Environment, Energy (including Trans European Networks)
7. Regional Development, Employment and Social Policy
8. Customs, Tax, Drugs and Money laundering

The Committees meet twice a year and are composed of representatives of the EU Commission and Turkey. Priorities of the Accession Partnership and related issues are dealt within three main headings:

- Harmonization and implementation of laws
- Setting up necessary institutions
- Technical assistance including participation to the Community programs

In the period June 2000-July 2001 committees accomplished their first and second round meetings. The meetings provided opportunities for both parties to be acquainted with issues other than customs union and with daily policies. Parties put forward their priorities and bilateral contacts were established.

Besides these sub-committee meetings, various committees and working groups were established within the EU Secretariat General in Ankara. Those bodies are composed of public institutions and their works mostly focus on the important issue of implementation phase of the National Program. Private sector representatives and other private institutions are also invited to take part in some of the meetings of those bodies and they present their views on specific issues like free movement of services, agriculture, taxation, etc.

The pre-screening process has been started and moving forward through these sub-committees. However, at the last EU-Turkey Association Council, held on 25-26 June 2001, the Turkish Foreign Minister Mr. İsmail Cem raised the request for the commencement of the screening process. The main reason behind this is that for the harmonization process, institutional and administrative structure to be developed in the most effective and efficient way, strong EU support is essential. Moreover, although many new laws are adopted in various areas since the beginning of 2001, there is no possibility to check their conformity with the EU acquis as the screening process has not yet started. The EU Commission, on the other hand, argued that the screening process would only begin when Turkey fulfills Copenhagen political criteria and starts negotiations. A solution needs to be found to assess properly the excessive amount of work of those sub-committees by providing them a legal base similar to screening process.

## **6. THE FINANCIAL COOPERATION AND PARTICIPATION OF TURKEY TO THE EU PROGRAMS**

Despite the official recognition of candidacy, in connection with financing the agreed reforms, a framework has not yet been established enabling Turkey's access to financial cooperation facilities on equal terms with other candidates.

The EU Commission proposal on April 25, 2001 for a Council Regulation concerning pre-accession financial assistance to Turkey is a positive step in this sense. The Council is invited, in the conclusions of the EU Goteborg Summit, held on 15-16 June 2001, to adopt the single financial framework for pre-accession assistance to Turkey by the end of the year at the latest.

As for all other candidate countries, the proposal focuses on financing the priorities of the Accession Partnership, mainly through institution building and investment support. Given the fact that Turkey has not yet complied with the Copenhagen political criterion, it was stressed that special attention will be given to the implementation of the program to support political reforms.

The proposed regulation will be the legal base for the new budget line for Turkey and will cover three different types of financial assistance to Turkey. These are MEDA, and the two European Strategy programmes regarding the implementation of measures to intensify the EC-Turkey Customs Union and the

implementation of measures to promote economic and social development in Turkey. However, Turkey, as part of the Barcelona process, will remain eligible for financing under the MEDA regulation concerning regional operations.

The implementation of the projects will be decentralized. For the implementation, it will be necessary for Turkey to set up structures like National Aid Coordinator, Central Financing and Contracting Unit, National Fund, National Authorizing Officer, Implementing Agencies, etc.

The proposal will also finance the participation of Turkey to the EU Programs. Currently, Turkey is participating in LIFE, 5th Framework Program on Research and Technological Development, Entrepreneurship Program, social programs like Fight against Discrimination and Gender Equality, Information Society, Customs, Media Plus, programs related to health and Daphne. Following the Helsinki Summit, preparatory arrangements are at the last stage for participation in programs on education like Socrates, Leonardo and Youth for Europe. A National Agency in Turkey needs to be established to benefit from these programs. Within this context, the EU Council of Ministers should without any delay adopt the European Parliament's proposal on Turkey's eligibility for structural assistance programmes (ISPA) and for agriculture and rural development assistance programmes (SAPARD) currently available to Central and Eastern European Countries.

TUSIAD expects that the difficulties encountered particularly by the Turkish private sector in using the European Investment Bank funds and in accessing aid grants be eliminated.

TUSIAD calls for the rapid establishment of the institutional structure in Turkey to manage the coordination of financial assistance and to increase the usability of such assistance by the private sector in Turkey.

## **7. CONCLUSION**

In an era of rapid transformations marked by the new economy and information technologies, the EU membership gains much more importance. For Turkey it is vital to establish political and macro-economic stability. Progress on the way to EU membership will definitely help stabilizing efforts and increase Turkey's international competitiveness.



The project of EU membership raises challenges in political, economical and social areas, which will affect all levels of the society. It should be always kept in mind that it is not sufficient to adopt the EU acquis. Turkey has to prove itself that it has the necessary capacity and willingness to implement them. Consequently, for the success of the membership process, it is crucial to ensure strong cooperation between public and private institutions, the representatives of private sector, trade unions, civil society, the media and academia. The continuing support of the Turkish public opinion is the determinant factor for the integration with the EU.

Turkey has no time to loose to start negotiations with the EU. Majority of other candidate countries are already close to completing all chapters of the acquis. Those who complete the process are expected to be member in 2004, so that they will be able to participate in the next European Parliament elections. Moreover, another intergovernmental conference will be held in 2004 in order to complete institutional restructuring in an enlarged EU. Briefly, there is a risk for Turkey to be left behind from the enlargement process unless it starts negotiations.

We should also keep in mind that the European integration process needs a broader and more coherent vision for the future in order to meet the challenges of peace, universal democracy and economic dynamism.

One cannot deny the significance of a closer forward-looking dialogue supported not only by the public authorities but also by both communities in Turkey-EU relations. This dialogue will be to the benefit of both parties. Turkey has started undertaking fundamental reforms and needs the European Union's support to sustain and deepen these reforms. In this respect, it is important that the EU unambiguously includes Turkey into its policies, official statements and communication and information initiatives on the enlargement and the future of Europe and that it adopts a constructive and solution-oriented approach to support Turkey's efforts to overcome the problems of integration.

We wish to believe that the European integration process will be an inclusionary one true to its universalistic values and principles. Turkey has a lot to gain from EU membership but it also has a lot to give to the formation of a multicultural, inclusionary, prosperous, peacefull and socially conscientious Europe.