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REPORT FROM THE COMMISSION
ON DEVELOPMENTS IN RELATIONS WITH TURKEY SINCE THE
ENTRY INTO FORCE OF THE CUSTOMS UNION

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Introduction

This report was prepared in response to an undertaking given by the Commission in Autumn 1995 in the course of the debate in Parliament on the assent to the EC-Turkey customs union, being "an annual report on the implementation of the customs union, economic and political aspects, including the democratic reform process and the human rights situation in Turkey."

I. Functioning of the customs union

The opinion expressed by the Commission in the previous report still applies, two years after the customs union came into force: it continues to work satisfactorily in accordance with Decisions 1/95 and 2/95 of the Association Council which underlie its final phase.

Since October 1996 Turkey has continued harmonising its laws with Community laws. It set up a competition authority on 6 March 1997 empowered to enforce from now on the provisions of Decision 1/95 in the competition field. Regarding trade policy, Turkey is obliged to come into line with the EC's preferential arrangements before the end of 2000 and has already made substantial progress. Free trade agreements were signed in 1997 with Hungary, Romania, Lithuania, Estonia and the Czech Republic. Agreements with Latvia and the Slovak Republic have been initialled and negotiations are in hand with Poland, Slovenia and Bulgaria.

As the Commission pointed out in the previous report, most of the problems with the functioning of the customs union arose from differences in tariff arrangements under the respective preferential policies of Turkey and the Community. Complete harmonisation (preferential agreements with all central and eastern European countries, the Maghreb and Mashreq countries and generalised scheme of preference countries) should therefore largely see these problems settled.

Furthermore, in accordance with the undertakings given on 6 March 1995, an agreement reciprocally improving the market access of each party for agricultural products was initialled in April 1997. The agreement should enter into force once adoption procedures are complete, i.e. in the early months of 1998.

With regard to the functioning of the customs union, the Association Council met on 29 April 1997 and approved the recommendations of the Association Committee regarding a number of trade matters under discussion (agriculture, competition, motors, rules of origin, and customs agreements). In all these fields the parties have reached agreement on the steps required for consolidating the customs union.

The Joint Customs Union Committee has met several times and recommended mutually satisfactory solutions to specific problems.

Turkey is to continue its efforts to complete the aligning of its laws with Community laws. Harmonisation is complete in the field of customs (incorporation of the Community Customs Code), competition (alignment with the Community arrangements for State aids and the breaking-up of monopolies), protection of intellectual property (in particular, the adoption of a law on patents for pharmaceutical products before the end of 1998) and technical standards and laws (total adoption and incorporation of the *acquis communautaire* before the end of 2000).

In its communication to Council and Parliament of 15 July 1997 on the future development of relations with Turkey, the Commission made a number of proposals intended in particular to support the completion of the harmonisation of laws under the customs union and to extend it to services and agriculture. In its communication sent to Council and Parliament in March 1998 the Commission presented a working programme for implementing a European strategy for Turkey.

As regards the economic impact of the customs union, it is apparent from the 1996 data that since the customs union came into force there has been a big increase in the volume of trade. Community exports to Turkey went from ECU 13 billion to 18 billion (a 36% increase) and imports into the Community from Turkey from ECU 9 billion to 10 billion (a 10% increase). The trade balance in the Community's favour increased from ECU 4 billion to 8 billion. The net increase in Turkish imports from the Community in 1996 was in response to a rising need for capital goods to sustain the long-term growth of the Turkish economy. The data available on imports of consumer goods from the Community do not show any major increase. Also noteworthy is the fact that the entry into force of the customs union came at a time when the economic cycles in Turkey (enjoying strong growth) and the European economy (suffering a slowdown) were out of phase, which partly explains the less satisfactory performance of Turkish exports to the Community. Statistics for the first eight months of 1997, however, would seem to show a slight recovery by Turkish exports to the Community, though Turkey's trade deficit should be the same in 1997 as 1996. In terms of the impact of the customs union on Turkish business, it seems to have adapted relatively well to Community competition on the Turkish market.

II. Other aspects of the implementation of the agreement of 6 March 1995

- Financial co-operation:

The financial co-operation undertakings made by the Council on 6 March 1995 covered the provision of support to Turkey under five different instrument headings. The Commission would like to see all these instruments made operational.

The special budgetary assistance in connection with the customs union intended to help Turkey make the necessary industrial adjustments is yet to be adopted by the Council owing to a lack of unanimity. The EIB has been unable to act on the call from the Council to lend Turkey up to ECU 750 million.

The Community has also pledged macro-economic assistance to Turkey, subject to certain conditions. Until now, those conditions (e.g. balance of payments difficulties and an International Monetary Fund programme) have not been met.

The MEDA Regulation was adopted by the Council in July 1996. A sum of ECU 33 million was pledged to Turkey in 1996 in order to finance five co-operation programmes for small businesses, training, education and health. Under the 1997 MEDA programme, the Commission pledged ECU 70.2 million. The 35 selected projects will seek to improve the situation of civil society and human rights in Turkey, promote the small businesses sector and bring about improved living conditions for the most disadvantaged sections of the population.

As a result of the European Parliament's resolution in September 1996, implementation of the MEDA programme in Turkey failed to achieve the financial objective initially set for budgetary year 1997. Moreover, it has unfortunately been impossible to finance an agricultural training project to benefit the poorest population groups in south-eastern Turkey.

The Council's undertakings also included giving Turkey access to EIB loans under the New Mediterranean Policy (1992-1996) to fund certain infrastructure projects. Turkey received ECU 340 million through those channels.

- **Developing co-operation:**

Owing to the financial co-operation situation as described above, it has not proved possible to implement the Association Council resolution of 6 March 1995 on developing co-operation.

On 13 May 1996, the Commission sent to the Council and Parliament three proposals for decisions amending the basic decisions concerning the Socrates, Youth for Europe III and Leonardo programmes in order to make Turkey eligible under these programmes. These proposals are currently before Parliament.

In its communication of 15 July 1997 on the future of relations with Turkey and in its communication of February 1998 establishing a European strategy in respect of Turkey, the Commission indicated that the majority of proposals contained therein to consolidate the customs union and develop Europe-Turkey relations beyond the customs union could not be implemented without funding from the Community budget, during the initial stage at least.

In this context, the Commission considers that the special financial regulation for the customs union should be adopted urgently so that Turkey can make the necessary industrial adjustments in the light of the new competitive situation created by the customs union, set about improving links between its own infrastructure and that of the European Union, and narrow the gap between the Turkish economy and that of the EU.

The communications also note the possibility of mobilisation of the MEDA instrument for financial co-operation with Turkey and express the hope that the necessary conditions will be established to enable full utilisation of this instrument.

- **Political dialogue:**

In the period since the previous report, contacts between the EU and Turkey have been developed at various levels. The then Prime Minister, Ms Çiller, was invited to attend the European Council in Dublin in December 1996, and the subsequent European Council in Amsterdam in June 1997, on this occasion in her capacity as Foreign Minister. A meeting of the Joint Parliamentary Committee was held in Ankara in April 1997. Two meetings of political directors were also held at troika level. Turkey continued to play a major role in the Barcelona Euro-Mediterranean process, with numerous multilateral meetings held at ministerial and government level.

The EC-Turkey Association Council met on 29 April 1997 and took stock of several issues.

However, ministerial meetings between European and Turkish heads of various sectors involved in the functioning of the customs union (trade, internal market, transport, etc.), as laid down by the Association Council's resolutions of 1995, have not yet taken place.

Following the Luxembourg European Council meeting held in December 1997, the Turkish authorities decided to suspend political dialogue with the European Union.

III. Economic situation in Turkey

As emerged from the previous Commission report, the Turkish economy is undeniably buoyant. GNP growth for 1997 should remain high at 6% (compared with 7% in 1996), being sustained by high domestic demand, private investment and export-oriented business. The private sector, especially, has been able to take advantage of the new opportunities on offer in the countries around the Black Sea. It has also proved itself able to adapt to the increasingly tough competition in the customs union.

Although Turkey's foreign trade balance is still in the red, 1997 should see the country hold its current account deficit at levels similar to 1996 thanks to high tourism earnings and large transfers from Turks working abroad. Foreign currency reserves too remain healthy at around USD 19 billion in December 1997.

The main worry is that Turkey is still finding it hard to break out of the spiral of inflation, public deficit and currency depreciation. In 1997, consumer price inflation hit 99%. The public deficit should be around 10% of GNP, mainly because of the excessive share of the national budget taken up by public debt. The result is that the currency continued to fall over the year (down 60% against the ECU).

Turkey has not yet managed to develop a credible economic strategy to control public finances, stem inflation and stabilise the lira while still ensuring sustainable economic growth. Moreover, medium-term stabilisation would require a set of structural reforms (reform of welfare and taxation, restructuring of state-owned concerns and privatisation) that successive governments have failed to implement. That said, in its budget for 1998, the current ruling coalition has set economic policy targets for inflation and public expenditure, which must be encouraged. In addition, talks with the IMF are continuing.

Macroeconomic stabilisation is also vital for Turkey's performance within the customs union. Although its economy is adapting to competition from EU industries, it would benefit even more if its macroeconomic stability could be sustained and if the necessary structural reforms were seen through. As a result of the customs union, Turkey has a chance to modernise its economy and to align the way its market works with Community rules. However, this would require major foreign investment, which has sadly fallen well below expected levels since the union came into being.

IV. The political situation

1. Domestic politics

The coalition Government of the Refah (Welfare) Party of Mr Erbakan (Prime Minister) and the DYP (True Path Party) of Ms Çiller (Deputy Prime Minister and Foreign Minister), which came to power in June 1996, lasted one year. On June 13 1997, after several weeks of crisis, this coalition was succeeded in government by a minority coalition of the ANAP (Motherland Party), the DSP (Democratic Left Party) and the DTP (Democratic Turkey Party). Mr Yılmaz, leader of the ANAP, became the new Prime Minister. Since the coalition does not have a majority in Parliament, it relies on the support of the CHP (Republican People's Party), led by Mr Baykal.

The present Government's main piece of legislation to date extended compulsory schooling from five to eight years. Islamic groups hotly opposed the draft law, which was the subject of intense debate in Parliament. It was finally adopted on 15 August 1997 and led to several Islamic high schools closing down because of a lack of pupils.

On 16 January 1998 the Turkish Constitutional Court dissolved the Refah (Welfare) Party, confiscated all its property and banned its principal leaders from belonging to any political grouping for the next five years. On 21 January 1998 the UK Presidency issued a statement on this event on behalf of the EU, with the Commission's full endorsement. While recognising that the Court's decision was in accordance with Turkey's Constitution, the Commission regrets it and is concerned about its implications for democratic pluralism and freedom of expression. The Commission hopes that Turkey will demonstrate its continuing adherence to these basic principles of democracy.

2. The Aegean question

The situation in the Aegean is still very tense. The efforts of the Irish Presidency to reconcile the positions of the two sides were continued by the Netherlands Presidency in the first half of 1997. The General Affairs Council of 15 July 1996, which approved the MEDA Regulation, adopted a statement declaring that certain principles (i.e., good neighbourly relations and respect for international law) were essential to EU-Turkish relations. Turkey responded to the positions set out in this statement in a letter of 21 February 1997 from Ms Çiller, the Deputy Prime Minister to Mr van Mierlo, the Netherlands Foreign Minister. The Turkish reply did not, however, solve the problems. This persisting conflict of views has continued to mar Turkey's relations not only with Greece, but also with the EU.

At the meeting of the EU-Turkey Association Council on 29 April 1997, Turkey and Greece agreed to appoint a "Committee of Wise Men" to study the Aegean issues.

However, since the two sides have not been able to agree on the rules and procedures of this Committee, it has not yet met.

On the fringes of the NATO summit in Madrid in July 1997, Greece and Turkey agreed on a joint statement in which they declared their commitment to maintaining good neighbourly relations and trying in good faith and through peaceful means to resolve their differences (e.g. over the Aegean issues).

As it has stated in Agenda 2000, the Commission supports these aspirations and endorses the view of the EU-Turkey Association Council of 29 April 1997 that solutions to the tensions in the Aegean can only be found through respect for international law, and in particular through recourse to the International Court of Justice. The European Council of Luxembourg, held on 12 and 13 December 1997, upheld this principle.

3. Cyprus

In Agenda 2000 the Commission confirmed that talks on the accession of Cyprus would start six months after the conclusion of the IGC, in accordance with the timetable envisaged by the Council since March 1995. The Commission feels that the accession negotiations would be easier if adequate progress were made through the contacts between the two sides initiated under the aegis of the UN. In a statement of 22 August 1997 the Commission expressed its regret that the talks held that month at Glion under UN auspices had made no progress. The Commission attaches great importance to the resumption of these negotiations.

The Commission hopes that ways can be found to involve the Turkish Cypriot community in the accession process. The Luxembourg Council called for the Cypriot Government to act upon its commitment to include representatives of the Turkish Cypriot community in the delegation to the accession negotiations. It called on the Presidency and the Commission to initiate discussions to this end. A number of approaches are being made.

V. Human rights

An assessment of the period that has elapsed since the previous report makes it clear that no substantial progress has been achieved as regards human rights and the democratic reform process in Turkey. The programme of Mr Yilmaz's government emphasises the need to improve the human rights situation in the country. Setting this goal has not yet resulted in any appreciable improvement in the situation. The constitutional reform undertaken in 1995 is only partly reflected in Turkey's legislation although an *ad hoc* Parliamentary Committee was entrusted with the task of preparing it. The only significant step forward in this area on the part of the Turkish Parliament has been the enactment of the law governing police custody in March 1997.

Official recognition by the Turkish leadership at the highest level of the shortcomings in Turkish democracy and acknowledgement of the need to put right and/or eliminate practices incompatible with democratic principles are positive developments. In his address at the opening of the parliamentary session, President Demirel referred to the need for Turkey to comply with the Copenhagen criteria. The minister responsible for human rights, Mr Hikmet Sami Türk, recently acknowledged the existence of human rights violations in the country. Foreign Minister Cem has condemned human

rights violations and the imprisonment of prisoners of conscience in Turkey in a newspaper article.

The High Co-ordinating Committee on Human Rights (chaired by Mr Hikmet Sami Türk and made up of representatives of the PM and the ministries of foreign affairs, the interior, justice, national education and health), set up by the previous government in April 1997, is still operational. Its role is to co-ordinate and monitor implementation of the measures aimed at improving the human rights situation; it may also submit proposals to that end to the government. Representatives of Turkish NGOs are regularly invited to attend meetings of the High Committee. It is still too early to assess the impact of the activities of the High Committee on the democratic reform process.

Shortly after the new government took office, Parliament passed a law on 13 August 1997 granting an amnesty; this allowed the release of seven newspaper editors who had been convicted of "separatist propaganda and promoting terrorism". The law suspended their sentences on condition that they do not re-offend during the next three years.

Article 8 of the anti-terrorist law, which was rendered less stringent in 1995, is still used as a basis for prosecuting journalists, publishers or persons who have issued public statements expressing dissenting views. As in the previous report, it can be seen that Articles of the Penal Code (Arts. 312 and 315) are still used as a basis for prosecutions that are identical to those formerly based on Article 8.

In November 1996 the Turkish authorities set up a missing persons search unit within the Ministry of the Interior. There is, as yet, no evidence of its effectiveness.

On 6 March 1997, under the previous government, the Turkish Parliament passed a law reducing the duration of police custody. This is the most significant legislative development in the field of human rights since the previous report was published. The most important provisions of the law concern the rights of persons held in police custody for crimes committed jointly (i.e. by three or more persons) which fall within the jurisdiction of the State Security Tribunals (all crimes against the State, including crimes connected with terrorism). Such persons must be brought before the court within four days of their arrest (instead of fifteen previously) with the possibility of an extension up to seven days. In the provinces in which a state of emergency has been declared (six out of a total of eighty), the period was reduced from thirty to a maximum of ten days.

Although the new periods of police custody stipulated by this law are still longer than is general in the European Union, Turkey has thus moved closer to European standards in this area. The Council of Europe's European Committee on the prevention of torture has described the content of this law as an "important step in the right direction".

The way in which the new provisions of this law are applied in practice will have to be monitored. In this connection, it is important to note that persons held under procedures dealt with by the Security Tribunals are also afforded access to a lawyer. However, a person held in police custody under such a procedure is not allowed access to a lawyer from the start of his detention but only from the time at which the court decides to extend his detention, i.e. after four days of police custody.

As the Commission indicated in Agenda 2000, in combating terrorism in the south east, Turkey needs to exercise restraint, to make greater efforts to uphold the rule of law and human rights and to find a civil and not a military solution. On a number of occasions, Mr Yılmaz's government stated that it intended to terminate the state of emergency in the south-eastern provinces. On 6 October 1997 the state of emergency was lifted in three provinces (Batman, Bingöl and Bitlis) out of nine. The state of emergency in the remaining six provinces was extended for four months.

Mr Yılmaz's coalition government has, moreover, stated that it intends to support the social and economic development of that region. Measures have been announced which should, *inter alia*, encourage private investment, improve education and thus promote an increase in agricultural and manufacturing output. The government is also said to be preparing a law concerning decentralisation, which would maintain central government control only of justice, security, national defence and foreign policy. It will be possible to assess the real impact of the relevant legislative provisions only when they have been drafted.

During the period that has elapsed since the last report, the Commission has stepped up significantly its financial support to Turkish NGOs working to promote and protect human rights in Turkey. More than ECU 3 million has been committed to finance around thirty projects. These were selected from the following priority topics: the status of women, children's rights and their protection, information, education and training, improving the management skills of the NGOs and rehabilitating victims of torture. In this connection, the Commission has, *inter alia*, made grants to the Umut Foundation, the Society for Prevention of Child Abuse and Neglect, the Turkish Democracy Foundation, the World Academy for local government and democracy, the Antalya Bar Association and Helsinki Citizens' Assembly (Turkey branch).

CONCLUSION

The Commission described Turkey's economic and political situation in Agenda 2000, adopted on 15 July 1997. The conclusion drawn from the assessment in Agenda 2000 is that the European Union must continue to support the country in its efforts to resolve its problems and establish closer ties with the Union. The Association Agreement and the customs union provide the foundations for building an increasingly close political and economic relationship which should evolve in parallel with the democratisation process inside Turkey, progress towards lasting good-neighbourly relations towards Greece and the achievement of a just and lasting settlement in Cyprus.

While recognising that the political and economic conditions that would make it possible to envisage accession negotiations with Turkey are not satisfied, the European Council took the view that it is important to determine a strategy to prepare Turkey for accession by bringing it more closely into line with the European Union in all areas. The Commission has been asked by the European Council to submit proposals to that end. The Commission accordingly put forward a communication in March 1998 aimed at implementing a European strategy for Turkey.

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