



House of Commons
Business and Enterprise
Committee

**Keeping the door wide
open: Turkey and
EU accession:
Government Response
to the Committee's
Seventh Report of
Session 2007–08**

**Eighth Special Report of Session
2007–08**

*Ordered by The House of Commons
to be printed 7 October 2008*

HC 1070
Published on 13 October 2008
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Business and Enterprise Committee

The Business and Enterprise Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Enterprise & Regulatory Reform.

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The current staff of the Committee are: Eve Samson (Clerk), Emma Berry (Second Clerk), Robert Cope (Committee Specialist), Louise Whitley (Inquiry Manager), Anita Fuki (Committee Assistant), Lorna Horton (Committee Secretary) and Jim Hudson (Senior Office Clerk).

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Eighth Special Report

The Business and Enterprise Committee published its Seventh Report of Session 2007–08 on 30 June 2008. The Government’s response was received on 23 September 2008 and is appended to this Report.

Government response

Introduction

1. The Government welcomes the Business, Enterprise and Regulatory Reform Committee’s report on “Keeping the door wide open” Turkey and the EU Accession. It particularly welcomes the Committee’s support for HMG’s commitment to Turkey’s accession and UK Trade & Investment’s strategy for Turkey.
2. The Government believe that Turkish accession to the EU will bring great benefits to both Turkey and the EU across a range of areas, including the economic. In particular, Turkish accession would facilitate further trade integration through the removal of trade restrictions in areas not currently covered in the EU Customs Union Agreement and some other technical barriers to trade.
3. The Committee is supportive of the Government’s efforts to raise awareness of the trade and investment opportunities and the report makes some valuable recommendations regarding the promotion of UK companies of the commercial opportunities in Turkey. We will seek to build on what is already being done in response to the recommendations.
4. We welcome the Committee’s comments on the planned intergovernmental forum, the Joint Economic and Trade Committee (JETCO). The launch of the forum will be the centre-piece of the next visit to Turkey of the UK Trade and Investment Minister. The forum will be an important vehicle for developing the UK-Turkey bilateral relationship and for addressing the barriers to trade in the market. We agree with the Committee that we need to engage with business in this process and the role of the Turkish British Business Council will be an important element in all this.
5. The Government welcomes the backing the report gives to the appointment of a high-growth market adviser, to the focusing of additional UKTI resources on Turkey and to giving greater priority to developing the significant potential of this market.
6. The Government is already acting in many of the areas covered by the Committee’s recommendations as part of the new high growth market strategy for Turkey the aim of which is to greatly improve the trade and investment relationship between Turkey and the UK.
7. These comments incorporate material from BERR/UKTI, FCO, Home Office, DEFRA, and HM Treasury.

Conclusions and Recommendations

The Government's response to each of the Committee's conclusions and recommendations is as follows:-

UK Government View

All too often it is suggested that Turkey does not 'belong' in the EU. However, Turkey has long had a close relationship with the EU and the EEC before it, it is a member of NATO and the OECD, and although the majority of the population is Muslim, it is a secular democracy. We agree with the Government that accession offers strategic benefits to both parties. (Paragraph 7)

8. The UK Government is a committed supporter of Turkey's European Union membership. It will bring great benefits to both Turkey and the current EU. Turkey is a close partner on key global issues and has a growing dynamic economy. On issues including regional stability, climate change and energy security, counter-terrorism, security sector co-operation, the fight against organised crime, improved border security and economic development, Turkey is a valued partner. Turkey's presence within the EU will enhance these areas of co-operation, to the benefit of all. In addition, the changes and reforms driven by the EU accession process are improving the standard of life for those within Turkey, in areas from consumer safety to human rights. Furthermore, the enlargement process in Turkey continues to demonstrate that the EU is a union of shared values and shared vision, rather than being an exclusive grouping of any particular culture or geographical identity.

9. The Turkish Government remains committed to the EU process, and the reforms that this entails. The pace of reforms has been affected by a series of domestic and regional political events over the last year, but the hope is that there will follow a period of relative stability. The Turkish Constitutional Court case to ban the ruling AK Party for alleged unconstitutional activity resulted in a judgment on 30 July 2008 not to ban the party, but rather to impose a fine. But the AKP has responded by restating its commitment to the EU process, and by promising the early publication of a National Plan for the Adoption of the *Acquis* to demonstrate the way ahead on EU reforms.

10. Recent reporting has indicated that after several months of instability whilst the Court considered the case, Turkish markets have stabilised. In order to ensure the stability is maintained, the AKP needs to move ahead with constitutional and legal reforms, particularly to the political party law, and accelerate the pace of EU-related reforms. The European Commission is likely to produce a largely negative annual Progress Report on Turkey in November due to the lack of concrete reform work this year. However the EU must keep to the present rhythm of *acquis* chapter openings as and when the technical requirements are met; slow progress on the EU agenda, and on the Cyprus negotiations during 2009 may risk disruptive discussions on Turkey's progress at the December 2009 European Council.

The economic case for membership

The Turkish economy is large and until recently has been growing rapidly. It would be foolish to discount the risks facing the Turkish economy, such as its current account deficit and the possibility that inflation may rise in future. However, we do not believe these risks are an obstacle to continuing accession negotiations, especially when set against the size of the Turkish economy and its rapid growth rate. (Paragraph 16)

11. The Government agree that risks facing the Turkish economy should not be seen as an obstacle to continuing accession negotiations.

12. Turkish accession would increase the size of the EU internal market significantly in terms of population, increasing the market for UK firms, and thus providing opportunities to exploit both economies of scale and gains from increased competition and innovation and better respond to globalisation.

13. Whilst the Turkish economy has been slowing down recently due to global economic fluctuations, loss of competitiveness in large areas of the economy and the threat to economic stability, including the case to close the AKP ruling party, the indications are that the recent decision not to close the party will bring improved political and economic stability in the medium term. This will allow the Turkish Government to continue with the strict fiscal discipline and structural and economic reform programmes which they are committed to.

14. Furthermore, the accession negotiations support and encourage progress towards better economic governance and reform which will assist in attracting further foreign direct investment (FDI) and contribute to increased potential trade and growth rates. Reforms are still needed to strengthen the macroeconomic policy framework, upgrade the competitiveness of industry and its capacity to create jobs and manage inflation expectations. This has also been highlighted in the recent OECD economic survey of Turkey 2008.

15. Finally, accession could also support the transition from IMF monitoring, ensuring that the gains from recent fiscal-institutional reforms and vigorous fiscal consolidation will be preserved and credibly enhanced. There are shortcomings in human capital and the informal economy and the Turkish government need to continue progress with the recently started reform initiatives to improve employment prospects for the growing urban working age population, restore full confidence in its growth prospects, and improve risk premia and its credit rating, thereby accelerating progress.

Migration

The migration of labour from Turkey will inevitably be an important issue in the accession negotiations. The lengthy transition periods that have been suggested— seven years or more after accession—would mean that, even if Turkey acceded in 2014, free movement of labour would not come into effect until at least 2021. Given the understanding and realism that exists on both sides, migration may be the negotiating issue of greatest public interest, but it should not prove an insuperable barrier. (Paragraph 20)

16. As the Committee suggests, it is too early to make any robust assessment of the impact of the free movement of Turkish workers to the rest of the EU. Negotiations between the EU and Turkey on labour market issues will not start in the near future, and only after a full impact assessment. The eventual scale and impact of migration from Turkey to the UK is likely to depend on:

- The relative economic conditions in Turkey, the UK and the wider EU at the time of accession;
- Decisions made on the level of labour market access granted in the UK, and wider EU; and
- The extent to which historical affinities guide migration flows from Turkey (e.g. to countries such as Germany).

17. Nevertheless, it is clear that Europe has prospered by letting people move and trade freely. As the EU expands, the challenge is to minimise any transitional impacts of free movement such as those that can affect local services and communities. In the UK as elsewhere, managed migration is the right approach. We will be working closely with the Commission, other Member States and Turkey to ensure that, if necessary, appropriate transitional arrangements regarding the free movement of workers are available.

18. Others likely to be involved in an assessment of the impact of free movement of Turkish workers include:

- The Department for Work and Pensions and Her Majesty's Revenue and Customs, who will consider the potential impact on the UK benefit system;
- The Migration Impacts Forum, which will be able to advise on the wider impact of migration to the UK; and
- The Migration Advisory Committee, which is advising Ministers on where skilled migration might sensibly fill gaps in the labour market.

Progress in accession negotiations so far

The progress of Turkey's accession talks has been slow—far slower than Croatia's. We believe that with goodwill on both sides it should be possible to speed up the process. We note that Turkey will have to make significant reforms to meet the *acquis communautaire* in many chapters, but we believe that the access negotiation process promises benefits for both sides, provided that each side is confident the other is acting in good faith. (Paragraph 25)

19. The pace of negotiations is determined by the pace of preparations by the candidate countries, including the rate at which the opening and closing benchmarks set by the Council are met. Turkey has made real progress in many areas, but technical opening benchmarks remain to be met in a number of chapters. In addition, in order to open eight chapters directly related to the Customs Union and close any chapter, Turkey will need to comply with the requirements of the Additional Protocol to the Ankara Agreement. We agree with the Committee that the accession negotiations must be conducted in good faith and that they hold many benefits for both parties.

Turkey: internal reforms

All parties understand that Turkey needs to reform both economically and constitutionally before it can accede to the EU. It would be naïve to underestimate the extent of the changes needed or expect them to be accepted without debate or even some resistance. It is extremely likely there will be further political and constitutional difficulties in the years ahead. However, our own experience in Turkey convinced us that there is a readiness to reform among many businesspeople and politicians; Turkey has surmounted political crises in the past. It is important to wait to see how events unfold, rather than to assume immediately that progress is impossible. Only the most extreme events would justify suspension of accession negotiations with Turkey. (Paragraph 32)

20. In the light of the recent decision by Turkey's Constitutional Court not to ban the governing AKP, we would encourage the Turkish government to press ahead with a comprehensive reform process to guarantee the fundamental freedoms of all in Turkey. We welcome the government's renewed commitment to EU accession as outlined by Prime Minister Erdogan and President Gul immediately following the judgement and look forward to the continuation of accession negotiations under this and subsequent Presidencies, and look forward to the publication of the National Plan for the Adoption of the Acquis (NPAA).

The 'political block'

Turkey began the EU accession negotiations in good faith. It is not prepared to and should not be asked to accept some form of 'privileged partnership'. Existing EU Member States should continue the talks on the same basis as they began. To do otherwise is unacceptable. Given some EU leaders' rhetoric about Turkey it is not surprising that public enthusiasm for EU membership in Turkey has rapidly declined. The issue is not whether Turkey should join the EU immediately, but how vigorously to continue negotiations. Much will have changed in both Turkey and in current member states before any final decision is made. (Paragraph 37)

21. The UK remains a steadfast supporter of Turkey's accession to the EU. Turkey Accession negotiations are by their nature open-ended, but they have the clear goal of full membership for the candidate country. This is a long-term process as the Committee points out, both the EU and Turkey will be very different by the time we reach any final decision.

Cyprus: Chapters frozen

Turkish accession to the EU is impossible while there is continued disagreement over Cyprus, but encouraging efforts are being made to resolve that situation. Although it is inevitable that some chapters will be blocked until then, we support continued accession negotiations in as many chapters as possible. (Paragraph 39)

22. The UK fully supports the negotiation process launched in Cyprus [on 3 September]. As the Committee notes, eight chapters of the acquis cannot be opened until Turkey implements the requirements of the Additional Protocol to the Ankara Agreement and

opens its ports and airports to Cypriot vessels. We hope that this will take place as soon as possible. We commend the encouraging efforts being made in the UN-led Cyprus settlement process. Although it is inevitable that some chapters will be blocked until Turkey complies with the AAP, we support continued accession negotiations in as many chapters as possible until then. (Paragraph 39)

EU-Turkey customs union and trade relations

Whatever the problems with the customs union, there is little doubt that it has led to far deeper economic integration between Turkey and EU countries, to the benefit of both parties, than would have happened without it. (Paragraph 41)

23. We agree with the Committee that the EU and Turkey are important trading partners and that the Customs Union provides a vital underpinning of that relationship.

Although the EU-Turkey customs union has been beneficial, problems remain. The accession negotiations should produce reforms which overcome these problems. For example, we note Turkey's frustration with its exclusion from the EU negotiations that ultimately determine its tariff levels. Accession would obviously resolve this problem, as Turkey would then take part in EU trade policy on the same basis as other Member States. However, this will not address Turkish concerns in the short term. The Government should work with the EU to ensure Turkey is properly consulted on trade negotiations which may affect it, particularly free trade negotiations with countries such as India and South Korea. In its turn, Turkey should address the problems arising from the way in which it has implemented the union, and remove unnecessary barriers to trade. (Paragraph 44)

24. The UK and the European Commission consult regularly with the Turkish government on outstanding implementation issues under the Union. The Commission regularly meets with the Turkish government in the Joint Customs Committee to discuss the implementation of the Union with a view to resolving any concerns on both sides. We understand that the Commission are currently exploring with the Turkish government whether they can develop a mechanism to take into account Turkey's concerns about defending their interests in negotiations with third countries on Free Trade Agreements. This is an area of Commission competence but the UK government supports their efforts in this regard.

Turkish membership of the European Union potentially offers benefits for both sides. There are strategic benefits in co-operation on security. Economically, if Turkish growth is as impressive as predicted, it will be an asset to the EU. The two economies are already highly integrated through the customs union. Further integration would open up markets on both sides. We are encouraged by the UK Trade Minister's view that Turkey has committed to reform for its own sake. Nonetheless, a decline in some EU member states' enthusiasm for Turkish accession has reduced public support for change in Turkey. More positive EU attitudes toward Turkish accession could reinvigorate enthusiasm in Turkey for the reforms necessary to meet the EU's *acquis communautaire*. We wholeheartedly agree with the Government that "Turkey and the EU have a shared destiny". It should be made clear that, as long as Turkey is committed to achieving the *acquis*, the door to accession remains wide open. (Paragraph 44)

25. The UK Government fully agrees with the Committee's assessment of the mutual benefits of EU membership for Turkey. All accession processes are different and all face difficulties. Turkey's commitment to reform remains central to convincing European public opinion of the merits of its membership. Conversely, real progress on reforms which affect daily life and communicating these effectively, as well as more positive signals from Europe, should bolster public support in Turkey and across the European Union.

UKTI resources and strategy

We strongly support the Government's recognition of the opportunities available in Turkey by its priority market designation. We also welcome the consequent increase by a third of staff resources in Turkey, and the appointment of the high-growth market adviser focused on bringing mid-sized companies to the market. (Paragraph 48)

26. The Government welcomes the Committee's support of the Government's policy towards Turkey. The designation of Turkey as a High Growth market for UKTI and the consequent increases in resources is paying dividends. In the first quarter 2008–09, the UKTI team in Turkey exceeded by over 50% the total number of significant contacts it had with UK companies in the whole of 2007–08. It is on course to meet both this and its target for revenue generated by its services.

27. The high-growth market specialist from the private sector has extensive experience of working in Turkey. He is working with mid-corporate companies (companies that have a turnover of £20–£100 million and/or employees of between 250-1,000) providing business development advice and market intelligence to a carefully selected list. At present he is assisting several companies providing them with advice and help on various issues ranging from ways of improving their market share to providing market information.

28. The specialist is also sharing intelligence on customer needs and barriers to doing business in the market and this will feed into the work of the Inter-Government Forum.

Raising awareness

We strongly support UKTI's efforts to raise awareness of opportunities in Turkey. We expect that an evaluation of the extent to which this has worked will be produced and request a copy of the conclusions. We would be particularly interested in an evaluation of the relative effectiveness of the web presence, the programme of road shows and the network of "Turkey champions" for different sized companies. Up-to date market information is essential, particularly where there is a need to raise awareness of the opportunities available. (Paragraph 51)

29. The Government welcomes the Committee's support of UKTI's efforts to raise awareness and sees the Committee's report as a significant contribution in its own right. UKTI will further develop current plans in response to the Committee's recommendations.

30. To date we have supported four awareness-raising events in the UK attracting some 200 companies. UKTI are now planning a broader based campaign.

31. Our network of regional champions is key to our nationwide awareness raising efforts. We work closely with them, briefing them on new developments in the market, exchanging

information and supporting them to stage Turkey events and with other market specific initiatives. We also use them to identify suitable success stories that will be a regular feature on the redeveloped UKTI Turkey web site.

32. A programme of visits will be undertaken to the UK to promote Turkey by senior UKTI team members from Istanbul and Ankara. During the first visit, planned for October, the Head of UKTI in Istanbul will speak at, and conduct one-to-one meetings with UK businesses, at five awareness-raising seminars all of which have been arranged through the regional champion's network.

33. UKTI will generate greater publicity about the opportunities in Turkey through articles in regional and national trade publications supported by success stories and case studies involving UK companies whose success was supported by UKTI services.

34. UKTI are re-developing the information on the Turkey pages of the website to deliver better and more relevant information to UK companies.

35. A 'Turkey Business Guide' will be published shortly and the Turkey Sector guide will soon be completely revised and reprinted.

36. UKTI will review the effectiveness of promotional activities at the conclusion of the current programme and will make our findings available to the Committee.

37. UKTI will also be monitoring each quarter the impact of and satisfaction with our services through the Performance Impact Monitoring Survey (PIMS).

We support the aims of the Public Diplomacy Pilot, and the additional funding of around £300,000 over two years. We note that evaluation is central to the pilot, and look forward to the results of that evaluation. (Paragraph 52)

38. The Public Diplomacy Pilot in Turkey concludes in March 2009. Contracts have been established with a media tracking company and with analysts to evaluate on an on-going basis, the impact in the Turkish media of events and campaigns conducted under the pilot. In addition there is a contract with an influence tracking company who have completed a first wave of interviews with key opinion formers in Turkey to gauge their perceptions of the UK in specific sectors. A further wave of interviews will take place in 2009 which will enable us to evaluate any change in perceptions of the UK and provide a further measurement of the success of the pilot. The findings will help inform future public diplomacy activity. The Public Diplomacy team will share the concluding evaluation of the pilot with the Committee.

Small and medium-sized enterprises (SMEs)

We agree with the CBI and TBBC that Turkey is not necessarily a natural market for 'small' SMEs in particular. However, given Turkey's strong links to Europe, it is in many ways a more familiar market than India, China or Brazil. There are undoubtedly barriers and risks facing SMEs in trade with Turkey, but there remains ample scope for involving smaller businesses in niche areas, or in supply chains. Turkey may be a promising market for companies which already have experience of exporting their goods. We welcome UKTI's regional road show programme and regional champion network as means to achieve greater SME involvement in Turkey. (Paragraph 54)

39. The Government agrees with the Committee's assessment that there is scope for SME engagement in certain niche areas of the Turkish economy. UKTI teams in Turkey, London, and the UK regions will work together to identify and broadcast these opportunities. The planned awareness-raising seminars will play a key role in disseminating information about opportunities in Turkey to SMEs (statistics show that the majority of companies attending Turkey awareness raising events are SMEs and of the 314 companies or organisations which have had contact with UKTI about Turkey in the last 11 months 87% were classified as SME's).

40. The network of International Trade Teams in the English regions and their equivalents in the devolved administrations are there to help companies take their first steps in the market. Size is not necessarily a barrier to entry but preparedness or the lack of it certainly is. UKTI's role is to build capacity in our customers to enable them to tackle the challenges of markets like Turkey.

41. One of the ways that we have been doing this is through The Passport to Export Scheme. This is designed to assist SMEs enter new markets. In 2007, 38 companies in the English Regions availed themselves of this scheme for Turkey and for 2008, 26 companies have, so far, received assistance.

Turkish-British Business Council (TBBC)

UKTI's Turkey strategy highlights the need to address institutional weaknesses: a stronger TBBC could help. Our inquiry into Trade with India demonstrated the extent to which business councils can play a significant part in promoting bilateral relationships between the UK and particular markets. We believe there is potential for far greater involvement of the private-sector in UK-Turkey relations. The Government should work with UK businesses operating in Turkey to establish what is needed for the TBBC to flourish. It may be appropriate to offer it seed funding or a degree of match funding. However, in our India report earlier this year we expressed concern about the independence of business councils as a result of their receipt of public funds; consequently we believe that whatever public support it receives, the TBBC should remain autonomous from Government. (Paragraph 58)

42. The Turkish British Business Council provides an important additional dimension to the bilateral trade and investment relationship. Its independence is a valuable asset which the Government does not want to see diluted. However, UKTI recognises that there are areas where we can usefully add value to each other's work. This is the approach that we have adopted and it has been agreed with the UK Chairman of the TBBC that funding could be made available on a case by case basis for specific activities which align with UKTI objectives.

43. As the intergovernmental forum on trade issues develops, the TBBC is encouraged to play an active role as a conduit for business input into the process. It is expected that this extra activity will encourage greater participation in Council activities by a wider selection of the private sector.

Trade Minister's visit, September

While it is unfortunate that it has been at least fifteen years since a UK trade minister went to Turkey, it is extremely encouraging that this oversight will be addressed this September. Ministerial involvement is essential to help overcome barriers to trade in Turkey, and so enable greater British economic involvement. We hope that the cycle of visits from UK ministers with portfolios of interest—not least education—becomes more regular after September and look forward to receiving the report on the visit. (Paragraph 61)

44. Unfortunately, due to pressure of ministerial business, the Minister of Trade and Investment's visit planned for September 2008 was postponed. The Minister and UK Trade & Investment are keen to ensure that an alternative date for a visit is agreed at the earliest opportunity. There are plans for other visits to Turkey including by the Lord Mayor of London in 2009. Ministerial engagement is a key part of UKTI's strategy and will underpin the inter-governmental forum.

A new inter-governmental forum

We welcome the planned inter-governmental forum between the United Kingdom and Turkey. It should both help to resolve bilateral problems and enable discussion of wider problems which are unlikely to be resolved early in the accession process. Rather than functioning as a general 'talking shop', the Forum might best demonstrate its effectiveness by first dealing with a limited number of the most significant barriers to increasing the economic ties between the United Kingdom and Turkey. The Forum needs to engage properly with the private sector to be effective. The TBBC, as the 'voice of business' in UK-Turkey relations, must have an important part to play in this. We look forward to further details of how the Forum will function in the Government's response, along with details of how practical outcomes will be measured. We agree that the multi-faceted JETCO model is—as yet—unsuitable for Turkey. (Paragraph 65)

45. The first meeting of the intergovernmental forum will be held when the Minister for Trade and Investment's visit is rescheduled. A number of issues will be tabled for discussion. It is anticipated that these will include:

- Activities of the Turkish Investment Support and Promotion Agency and UKTI to promote the commercial opportunities in Turkey;
- UK/Turkey co-operation on forthcoming projects and trade opportunities, including identifying productive sectors for collaboration both in Turkey and in third markets;
- Issues influencing the environment for trade and investment, such as enforcement of existing measures and consistency and clarity of legal procedures; and
- Energy issues and Climate change, including security and energy market regulation and UK capability in provision of environmental goods and services.

The meeting will be informed by the activities and concerns of business on both sides. For example, there will be an opportunity for the Turkish British Business Council to feed in any recommendations.

46. Following the forum meeting a joint communiqué will be issued which reflects both the Government and business discussions and identifies a number of workstreams which would be pursued in the ensuing months. One example of work we are planning is that we will commission research to help improve our understanding of how to succeed in Turkey and to encourage greater involvement in the market by relevant UK companies. Qualitative and quantitative research will be conducted with companies active in Turkey and also those with potential. The following key issues will be explored in depth:

- Challenges, issues and barriers to trade and investment in Turkey;
- Current and future opportunities in these markets;
- Strategies to overcome barriers and to best benefit from opportunities;
- Perceptions of UK companies not yet operating in these markets.

The acronym JETCO is used in the Turkey context as a simplified shorthand term for bilateral ministerial exchanges on trade and investment issues. It is not meant to imply that the Turkish JETCO is in any way similar in structure to those which operate in other emerging markets.

Opportunities in the Turkish market

We were concerned to hear views expressed in Turkey that the UK is losing out to its competitors in Turkey—although we have not seen conclusive data to support this—just as we have previously seen the UK losing out to competitors in India and Brazil. The Germans and the French have certainly benefited from historical links with Turkey, and are more accustomed to doing business there. However, it was abundantly clear from our visit that Turkey is very open to doing business with the UK, not least because of the UK’s unwavering support for Turkish membership of the EU. As this report outlines, there are numerous opportunities available in Turkey. These opportunities are not risk-free, but businesses could benefit greatly from pursuing them. (Paragraph 67)

47. Whilst the Government agrees with the Committee that some of our competitors have benefited in the past from their historical links, it is important that the UK increase its focus on raising awareness among the business community of the opportunities in Turkey. We are intending to do this by our activities in promoting Turkey in the regions and the Devolved Administrations (see answer to 2 above).

48. UKTI will also focus on those sectors where there are both opportunities in country and a propensity for UK business to supply those opportunities. UKTI will regularly review these priorities but the current sectors are: Agriculture, Environment, Ports, Water and opportunities are also being studied in other sectors such as Airports, Education and Skills, Financial Services and ICT.

49. Already in 2008/09 we have, for the water/environment sector, arranged an inward mission of Turkish companies to attend a major exhibition and conference organised by the Chartered Institute of Waste Management. We have also arranged an inward mission to an electronics exhibition in London and in November this year we will be bringing a

group of Turkish businesses to the UK to attend Technology World, a major ICT exhibition in Birmingham.

The presence of a number of large and high-profile British companies operating in Turkey, and the growing investment interest, should encourage other companies considering this market. As noted above, it may be a market more suitable for medium to large companies, but opportunities exist across the board. (Paragraph 68)

50. UKTI recognises that the benefits may be of more interest to medium to large size companies and have targeted this group of companies with support through the High-Growth Market Programme. However, the Government also agrees that there are likely to be opportunities for smaller companies as well and with the right preparation and support they can do very good business in Turkey. UKTI are therefore continuing to target this group of companies. See answer to 4 above.

Sectors of interest

The strategic partnership document refers to a memorandum of understanding between DESO and the relevant Turkish authorities, although it is unclear whether this is proposed or signed and we seek clarification on this point. (Paragraph 75)

51. The memorandum of understanding referred to in the strategic partnership document is the “Memorandum of Understanding between the United Kingdom of Great Britain and Northern Ireland and the Government of the Republic of Turkey regarding Co-operation in the field of Defence Industry”. It was signed on 15 September 1998 between the then Secretary of State for Defence and the Turkish Minister of National Defence. It remains in effect for ten years and expires in September 2008. The MOU remains in effect for a period of ten years but may be extended by mutual consent. As part of the work that UKTI DSO is undertaking to produce a new strategy for supporting defence exports to Turkey, the future of the MOU will be reviewed.

The sheer range of opportunity sectors raised in evidence and during our visit demonstrates the ripeness of the Turkish market for British business. We welcome the regular reassessment of UKTI priorities in the market, and agree that the priority and opportunity sectors chosen broadly reflect the evidence we have received. We expect sectors that are not prioritised, but where significant opportunities exist, will continue to benefit from the general support and information awareness functions of UKTI. In general we would support an expansion of the priority markets in Turkey, but accept that this would require additional resources. (Paragraph 76)

52. The Government accepts the views expressed by the Committee that sectors with opportunities should be periodically reassessed. A review of these priorities made in consultation with industry partners has taken place every year as part of UKTI’s business planning round. New sectors such as Ports were added to the list of priorities for Turkey for 2008/09. In addition, a three year forward planning process is now going to be put in place. UKTI has ensured that there is sufficient resource across our operation in Turkey to offer a full service to any company irrespective of sector.

53. UKTI also work closely with sector industry representatives through our sector advisory groups to both promote the opportunities in the Turkey market and identify our sector priorities in Turkey and across the rest of the world.

Energy

The energy sector clearly offers many opportunities, ranging from those offered by the domestic market to plans for international transit into the EU. The UK has much expertise to offer in this sector. We recommend that the Government pushes for the energy chapter of the accession talks to be opened this year, and to be rapidly progressed. (Paragraph 81)

54. The Government recognises that the Turkish energy sector offers many opportunities, ranging from the domestic market to the potential for international transit from the Caspian region and Middle East into the EU. The UK has much expertise to offer in this sector and UKTI will be including the energy sector in their awareness raising activities.

55. We agree that the energy chapter should be opened quickly. Opening the energy chapter should encourage Turkey further along the market liberalisation route. South-East Europe is strategically important for increased diversity of gas supply sources and routes over the longer term. It is important for the EU generally for the market in the region to function properly. We would want to see Turkey making more progress on technical issues once the chapter is open and ensuring that implementation of the acquis keeps pace with the legal changes that Turkey is already in the process of making.

56. The Government also supports Turkey's accession to the Energy Community, which expands the EU Single Market in energy to cover the states of South-East Europe. Turkey at the moment has observer status although we expect accession negotiations to the Energy Community for Turkey, Ukraine and Moldova to begin soon.

Education and training

We are pleased that the Minister saw a British University in Turkey as “an excellent idea [...] a fabulous advertisement for what we do”. We were also encouraged to hear that the Minister would be meeting the new UKTI/university working group before his visit. (Paragraph 83)

57. The Government is pleased that both Liverpool University and Westminster University have responded to a call by the British Council for expressions of interest in working with the Turkish side to set up a British Turkish University.

58. The British Council are now brokering two meetings for mid October, where the representatives of these two universities will meet with the relevant Turkish authorities to try and map out a way of taking this initiative forward. HM Ambassador Ankara remains very much involved and sees the creation of such a joint institution as a crucial symbol of the cooperation between the UK and Turkey.

59. In parallel with this the Turkish Higher Education Council are seeking to form partnerships with colleges in the UK and other English-speaking countries for the

development of vocational routes to Higher Education and initial negotiations have taken place on behalf of UK colleges with the support of the British Council in Turkey.

60. There are some substantial issues that need to be addressed but this initiative has the potential to be an important development in relation to UK co-operation on Transnational Education (TNE) with Turkey. The British Council Istanbul have been working with the Association of Colleges who have sent out a call for expressions of interest from the UK FE sector. It is envisaged that the co-operation will commence with an event in Turkey in October 2008, during which UK and Turkish colleges will have a chance to meet and undertake initial planning. UKTI will be helping appropriate colleges to attend this event.

61. Although the Minister was unable to meet the new UKTI/University Working Group before his planned visit to Turkey he will be looking to meet them at a later date.

We strongly support UKTI's recognition of education and training as an opportunity market in Turkey, particularly given the enthusiasm for greater co-operation on education and training expressed during our visit. We hope that interest generated from the opportunity market designation by UKTI this year can lead to education and training becoming a fully-fledged priority sector for Turkey in 2009/10. We believe that the British University in Turkey initiative, which had the full support of the Trade Minister, should be pursued, as this could act as an effective signal for other UK entrants into the Turkish market. (Paragraph 84)

62. UKTI is actively exploring the opportunities in the education and skills sector—a recent scoping visit revealed that the private sector skills market could have excellent potential for UK training companies, colleges and universities. Further, detailed, market research is to be commissioned. If this and other areas of interest prove positive, Turkey could become a priority market for education/skills next year.

We are encouraged by the Minister's positive reaction to our suggestion of a reduction in costs for Turkish students coming to the UK based on Turkey's EU candidate country status, which would increase the attractiveness of United Kingdom higher education and send a powerful message of the importance we attach to Turkish membership of the EU. Investing in education links, at both individual and institutional level, should increase and affirm the bilateral ties between the countries, and be to the long term benefit of the UK. We recognise, however, that reducing fee income from students from specific countries may have a disincentive effect on university admissions policies and so a perverse outcome. We also emphasise the need for greater activity by UK higher education institutions in Turkey. The Government should develop a clear strategy to ensure that the mutual benefit to both countries of deepening education links is fully realised. (Paragraph 86)

63. With regard to the reduction in costs for Turkish students wishing to study in the UK, this is a matter for individual universities to consider—but UKTI will raise the Committee's comments and concerns with Universities UK and advise the Committee of the outcome of our discussions.

Turkey as a gateway

While there are differing views about the scale of Turkey's potential as a gateway to other countries in the Middle East and Central Asia, there are certainly links between Turkey and the wider region. Businesses and investors looking at Turkey should consider the potential wider opportunities in these areas that basing themselves in or investing in Turkey may bring. We are pleased that the inter-governmental forum is going to look at co-operation in these third markets. (Paragraph 89)

64. There is scope to investigate further the benefits which UK business can gain from working with Turkey in third markets. This is an area which will be explored within the inter-government forum and through the private sector.

Barriers and issues in the Turkish market

The difficulties being experienced over alcoholic drinks are long-standing, unhelpful and disproportionately damaging for bilateral economic relations. We appreciate the sensitivities involved for Turkey, but the evidence we have received indicates that Turkey may well be in breach of its customs union and WTO commitments. We hope that a combination of pressure from UKTI, fast-tracking through the new inter-governmental forum, and the potential EU trade barrier complaint will help produce a resolution. (Paragraph 95)

65. We agree that the resolution of the problems facing the spirits industry is long overdue. We therefore welcome the recent news that industry-led negotiations are now underway aimed at resolving the disagreement on customs valuation methodology for alcoholic drinks. We understand that changes are proposed to the existing structure but we will wish to be sure that these remove the current discriminatory excise regime and achieve compatibility with the Customs Union Agreement and WTO rules. There are other issues at stake for the industry, including discriminatory excise duty treatment between imports and domestically produced products such as raki, the ban on imports of ready to drink spirit beverages and dual import permits and market access difficulties. BERR remains in close contact with industry representatives and, whilst the preferred outcome is a satisfactory negotiated solution, have expressed support should the industry file a request with the European Commission to open an investigation into offending Turkish practices under the auspices of the Technical Barriers to Trade Regulation.

66. These issues will be covered in the discussions about improving the environment for trade and investment, under the intergovernmental forum.

It is unfortunate that the dispute resolution mechanisms for the EU and Turkey customs union have proved to be slow and inadequate. It seems reasonable to assume that the problems with the customs union would be eased if more progress was made in accession negotiations, but it is unlikely that any major changes can be expected in the short-term, not least because of the blocking of related chapters due to the Cyprus issue. We hope that Turkey and Britain can work bilaterally to deal with these issues more speedily, and that the new inter-government Forum will be an avenue for this. (Paragraph 97)

67. We agree with the Committee's assessment that whilst the EU accession process and Customs Union Agreement provide mechanisms to address these issues, the prospects of early resolution through these routes may not be great. Nevertheless we continue to press for progress in these fora, as well as addressing the issues in the new intergovernmental forum and other bilateral contacts.

We are positive about the opportunities in Turkey, but also mindful that there are significant barriers and difficulties. If, as we expect, Turkey continues to reform to meet the EU *acquis* we are confident progress will be made in resolving difficulties. This underscores the importance of rapid progress in the accession talks. (Paragraph 102)

68. We agree that despite undeniably difficulties there are also great opportunities available in Turkey. The EU, and the UK government, continue to develop means of developing timely resolution of these difficulties. Opportunities to address market access concerns with Turkey have been taken under the EU's Market Access Strategy that is intended to tackle trade barriers. Specifically, in partnership with industry Working Groups have been established under the Market Access Strategy to identify and then to address through negotiations with Turkey trade barriers affecting medical devices and affecting trade in the Information and Communications Technology sector. Further Working Groups may be established should industry make a strong case.

69. We also agree with the Committee that continued reforms to align Turkey with the EU *acquis* as part of the accession process provide the best means of sustainable resolution of many of these problems. We continue to support rapid progress in the accession negotiations—based on Turkey's progress in meeting the *acquis*. In this context, we look forward to the publication of Turkey's National Plan for the Adoption of the *Acquis* (NPAA) in the coming weeks.

UK visas

We agree with the British Chambers of Commerce in Turkey that the UK must ensure the concerns of visitors to this country are heard. The visa issues raised with us were not specific to Turkey, but we think it is important that the process should be as straightforward as possible. We welcome the opening of five new visa processing offices in Turkey. (Paragraph 104)

70. In April 2008 the UK Borders Agency opened a new visa application centre in Istanbul, providing better located and much-improved facilities. The centre dealt with over 6,000 applications in June 2008. Turkey-wide the Agency dealt with 78,960 visa applications in 2007-08. Around two thirds of visa applications are issued within 2-3 working days and the majority of business travellers fall within this category. The Borders Agency encourages business travellers to take advantage of the long-term premium visa. The Agency is working with its commercial partners to introduce additional services such as the optional return of passports by courier which will further reduce turn around times.

Conclusion

We agree with the Trade Minister's view that if Turkey is ultimately not allowed to join the EU "we will be paying the price for a long, long time." (Paragraph 105)

71. The size of the Turkish market and the country's strong economic potential mean that the benefits of accession could potentially be great. Accession will open up new bilateral trade and investment opportunities in areas not currently covered in the Customs Union Agreement (CUA) as well as addressing the current problems with the CUA that create barriers to trade.

The economic consequences of Turkey's accession cannot be forecast with any precision. Turkey is a large country and—at present—relatively underdeveloped compared with its EU counterparts. But it should continue to grow rapidly. Any accession agreement is almost certain to include appropriate transition periods and/or safeguards for the implementation of free movement of labour. (Paragraph 106)

72. We agree that it is indeed difficult to forecast the economic consequences of Turkey's accession. However, we are confident that it will bring benefits. Furthermore, if Turkey continues to strengthen the macroeconomic framework and upgrade the competitiveness of industry and its capacity to create jobs it should resume a stronger growth course and thus continue to show the same high growth as we saw in the years from the crisis up until 2007.

As this Report makes clear, we fully support Turkey's bid for full membership of the European Union. We believe that the EU's door should remain wide open to Turkey. The barriers are surmountable, and accession can and should happen when the time is right. We recognise this cannot take place before 2014, and that much reform is needed before accession can take place, but we believe that Turkish accession is ultimately politically and economically right for the UK, and for Europe. (Paragraph 107)

73. The Government agree fully with this assessment and our support is very much based on that premise. We believe that Turkey and the EU will benefit from Turkish accession and that there is a real commitment within Turkey to the reform and accession process that will allow them to meet the criteria and accede.

The Trade Minister observed that the UK alone has "from beginning to end never wavered" in support for accession and now Turkish EU membership. We congratulate the Government on its consistent support for Turkey's membership, and hope that it will continue to make the case for Turkey as a future EU member state—and that it will do so both within the UK and throughout the EU. Our strong support for Turkey's EU membership gives us a competitive advantage over some of our European competitors, just as ties of history and culture gives us an advantage in India. We believe it prudent to strive for a greater UK market share in Turkey now, in advance of accession and further economic reform, to avoid 'missing the boat' in Turkey as we only narrowly avoided 'missing the last train' in India. (Paragraph 108)

74. The Government welcomes the Committee's endorsement of our consistent support for Turkish accession and can assure the Committee that we will continue to support

Turkey's EU aspirations and promote the trade and investment opportunities for UK businesses now and in the future.

75. UKTI is committed, through its strategy, to ensure that UK business takes full advantage of the commercial and investment opportunities in Turkey. The consistent support for Turkey's accession to the EU should put the UK in a strong position to fulfil its potential in the Turkish market.

23 September 2008