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Business and Enterprise Committee

Keeping the door wide open: Turkey and EU accession

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The Business & Enterprise Committee

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

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Roger Berry MP (*Labour, Kingswood*)
Mr Brian Binley MP (*Conservative, Northampton South*)
Mr Michael Clapham MP (*Labour, Barnsley West and Penistone*)
Mr Lindsay Hoyle MP (*Labour, Chorley*)
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The following memoranda have been reported to the House, but to save printing costs they have not been printed and copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Parliamentary Archives, and are available to the public for inspection. Requests for inspection should be addressed to The Parliamentary Archives, Houses of Parliament, London SW1A 0PW (tel. 020 7219 3074). Opening hours are from 9.30 am to 5.00 pm on Mondays to Fridays.

Confederation of British Industry
Chamber Business
Turkish British Chambers of Commerce and Industry
Debenhams

Oral evidence

Taken before Business, Enterprise and Regulatory Reform Committee

on Tuesday 26 February 2008

Members present:

Peter Luff, in the Chair

Mr Adrian Bailey
Mr Michael Clapham
Mr Lindsay Hoyle
Miss Julie Kirkbride
Mr Mike Weir

Witnesses: **Mr Nick McInnes,** Director (Africa, Middle East, Russia, Turkey, Brazil, Mexico) UK Trade & Investment, **Mr Peter Dodd,** Department for Business, Enterprise and Regulatory Reform and **Ms Dianna Melrose,** Head of Enlargement & South East Europe Group, Foreign & Commonwealth Office, gave evidence.

Q1 Chairman: Gentlemen and lady, welcome to this first of our Committee's oral evidence sessions into the prospects of Turkey joining the European Union and the consequences for the UK and what we need to do to prepare for that possibility; and what is happening at present in our relationship with trade and investment relations with Turkey. So thank you very much indeed for coming. Thank you also for the written evidence you have separately and jointly provided to the Committee already; we are very grateful; it has helped us form our thinking at an early stage. Can I begin, as I always do, by asking you to introduce yourselves to understand which one of you comes from which part of the machinery of government?
Mr McInnes: Good morning. Nick McInnes, the Director of the International Group within UK Trade and Investment.
Mr Dodd: Good morning. I am Peter Dodd, the Director of the International Economics Team in the Department for Business.
Ms Melrose: I am FCO, Dianna Melrose, Head of the Enlargement and South East Europe Group, which obviously includes Turkey.

Q2 Chairman: Thank you very much indeed. Can I begin with a question I expect Mr Dodd will probably want to answer? It is a broad-brush macroeconomic analysis of the Turkish situation. Very high levels of growth in Turkey at present, a vibrant economy; how much is that catching up for lost time after the succession of economic crises and how much are the underlying strengths in the Turkish economy?
Mr Dodd: The striking thing when looking at the Turkish economy, even back to the periods of instability, is that it is able to generate very high growth rates. Unfortunately when things go less well it generates very sharp contractions as well. What is striking, I think, looking at the last five years or so, is that there have been positive, good strong levels of growth and a time of also arriving at a more sustainable path of economic progress. The fiscal situation has improved very strikingly really through the efforts of the Government to maintain or to keep a tight grip on public spending—not maybe so much very, very deep reforms, but through relatively strong fiscal discipline. The debt position is much more sustainable than it has been in the past. I do not think they are completely out of the woods yet, possibly in terms of market sentiment towards Turkey being somewhat more vulnerable than some other economies. The exchange rate position is certainly one with which they can weather difficult circumstances much better than in the past. Clearly the trade balance looks rather worrying as it has expanded quite significantly, driven perhaps by high energy prices as much as anything else. I think overall they have not caught up for the unfortunate years, but they are very much moving towards a path which is good rates of growth but sustainable—and the crucial thing is sustainability.

Q3 Chairman: So the fundamentals are really quite good.
Mr Dodd: Much better than they were.

Q4 Chairman: And inflation?
Mr Dodd: Inflation is not as low as we would like and not as low as the IMF would like but it is fundamentally completely different to the 20, 30 years of really unacceptably high inflation from which Turkey suffered.

Q5 Chairman: Can you give us any picture as to the engines of continuing reform and progress, and particularly the whole EU accession process; is that an economic factor as well in the development of the Turkish economy at present? We have had the customs union with Turkey for a very long time now. I have forgotten when it began; it is such a long time back.
Mr Dodd: 1995.

Q6 Chairman: About 13 years, so it is a long time that that has been in place. And the IMF involvement is ending, is it not, so will accession be a really important driver of continuing reform?

Mr Dodd: I think there is a strong linkage between the kind of issues which the accession process covers and the domestic policy objectives of the Government. The reform agenda, I think, is being increasingly internalised within Turkey rather than being something which has been an involuntary response to external pressures.

Q7 Chairman: The merits of reform being seen on their own.
Mr Dodd: I believe so. It is not the universally held view but I think there is a wider consensus between Turkish politics than there has been in the past, and I think this is extremely important in that it is only by internalising the reform process that it can really be embedded and we have to be very clear that the reform in Turkey would be a very considerable challenge; there is a long way to go still. So embedding it into domestic policy making is really critical.
Ms Melrose: May I add to that? I think the accession process itself should be a key driver of reform. The Turkish Government itself—Ali Babacan—has said that the aim is to align Turkish law with the Acquis by 2013 and that should make it a much more business-friendly environment. It would also involve reform of public administration, tax reform, very many areas of concern to UK business.
Mr Dodd: It is interesting just how wide the Acquis are for countries wishing to apply to join the EU, covering such large chunks of the economy and giving, as it were, a kind of flight path into reform. It is a very, very substantial effort for any economy to undertake and we should not underestimate the enormous breadth of things which have to be done. But I think it is very useful and it provides a whole series of clear states where it can be identified how the reform process is going.

Q8 Mr Clapham: My first question is on the friendliness of the business environment. What are the more unfriendly features at the current time of the Turkish business environment?
Mr McInnes: If I may answer that question? Obviously Turkey offers very significant potential for UK companies but, as you have alluded, it is also regarded in many ways as a difficult market for UK companies and part of the reason for that stems from some of the barriers in business that still remain. Also, I think that one of the areas where we are certainly looking and welcoming the Select Committee inquiry's interest in relations with Turkey is the long list of trade disputes that still remain with Turkey, and certainly this is a priority for us at UKTI to try and address this under our new strategy.

Q9 Mr Clapham: Coming to your new strategy, you now tend to focus more on the emerging markets. Just how has this changed the trade support for Turkey?
Mr McInnes: The designation of Turkey as a high growth emerging market has led to both a strengthening of the resource devoted to Turkey—overall we have increased the number of our team actually in the market from 15 to 20 people. We have created a dedicated inward investment team in Istanbul. We have strengthened the resource in Ankara that specifically focused on government relations, so tackling some of the barriers to business; and we have also strengthened our team in Izmir, so we have increased the staff from 15 to 20 people in the market.

Q10 Mr Clapham: Would it be fair to say that Turkey's ranking has increased within the high growth markets programme?
Mr McInnes: Very much so. The very fact of its designation as a high growth market means that it assumes a higher profile within UKTI's activities, and that is not only reflected in the strengthening of resource but also in terms of the high profile we are giving it in terms of activity.

Q11 Mr Clapham: From what you have said, and given that the team has increased from a 15 to 20 resource, activity in Turkey seems to be one of, should we say, getting some priority over some of the other countries with which we are involved?
Mr McInnes: Specifically in terms of the high growth markets?

Q12 Mr Clapham: Yes.
Mr McInnes: In terms of the decisions on resource they were very much taken on the basis of what we felt was necessary, talking to business to deliver the strategies for those particular high growth markets. So in some cases the strengthening of resource has been greater—and I am thinking particularly of China and India—but in other cases it has been less. So in terms of high growth markets like South Africa and Saudi Arabia there has actually been very little increase in the resource in market but we are still obviously giving greater profiles to those markets. We have always said that we would keep the level of resource in our high growth markets and elsewhere under review but we were obviously very conscious in the process to only provide what resource we felt was necessary, given that that resource had to be freed up from elsewhere within the network.

Q13 Chairman: Just a cheap shot, if I may, before I bring in Mr Bailey. Your website information seems to be three and a half years out of date; is there a reason for that?
Mr McInnes: It is a fair point and I think that we are actually in the process of revamping the websites for all our high growth markets. I fear that in the process that has led to a little bit of neglect in terms of the Turkey market; in fact, one of the side benefits, if you like, of this inquiry already is that given your focus we have actually already updated it in advance of the revamp, but it is a fair point!

Q14 Chairman: There you are; it proves the power of Select Committees! This is probably to you, Ms Melrose, just a factual question—the FCO Public Diplomacy Pilot; I could not work out what this was.
Ms Melrose: Specifically in the context of Turkey?

Q15 Chairman: And also what other countries are benefiting from it, to put it in context for me?
Ms Melrose: The Public Diplomacy Pilot covers a number of countries, but specifically which are covered I would have to write with an answer.
Mr McInnes: If I could make a few comments because obviously in terms of Turkey the Public Diplomacy Pilot very much has its objective business objectives in terms of both promoting the UK as an investment location, promoting the strengths of the UK—business environment strengths and innovation in the UK—promoting the strengths of the City of London and the financial services sector more generally; also promoting the legal structure; and more generally professional development and business management. So the objectives of the Public Diplomacy Project in Turkey are very much in line with UKTI's objectives for the market.
Chairman: It is an interesting exercise and it would be helpful to have a bit more detail about what is actually involved. Perhaps we could have a note in writing after this evidence session of what is actually going on, which would be helpful. Adrian Bailey.

Q16 Mr Bailey: Mr McInnes, you mentioned earlier that you have effectively invested more people in your operation in Turkey, and you have also alluded to the obstacles that there were with trade. How would you assess the progress of the UKTI strategy in 2007/2008? What sort of measurement would you have for determining that progress?
Mr McInnes: The first comment I would make is that it is still very early days. Our starting point obviously was the very significant potential that exists within Turkey for UK trade and investment, but also the fact and the recognition that it can be a difficult market and that there are too many trade disputes. Overall the UK's share of the Turkish market is less than our share of global trade and that has led us, in terms of our strategy for Turkey, effectively to have a two-pronged approach. First of all, there is the raising awareness of the opportunities that exist within Turkey, and specifically in relation to the sectors which we consider with business offer the most opportunities, and we have done a number of things in relation to that objective in terms of a series of road shows in the UK. We have set up a regional champion network throughout the UK with people specifically focused on Turkey; and a business adviser has been appointed under the high growth market scheme specifically on Turkey. So we have taken a number of initiatives to raise awareness and that is starting to have some effect and that is being reflected in the growing interest of UK companies in Turkey and the take-up, for instance, of our missions to Turkey. The second strand of the strategy is very much trying to address the market access issues and the specific trade disputes. The key element of this part of the strategy is the setting up of a government to government forum and Andrew Cahn, the UKTI's Chief Executive, on a recent trip to Turkey secured the Turkish agreement to the setting up of this government to government forum, which would meet hopefully for the first time when Lord Jones visits Turkey later this year.
Mr Bailey: You have partly anticipated my next question.
Chairman: And the question after that as well!

Q17 Mr Bailey: I understand that you can identify markets and you can try to demonstrate to businesses at home the potential for those markets, but to a certain extent getting more companies to trade with Turkey depends on the business environment and working practices within Turkey, and is there any way that you can measure progress in that respect?
Mr McInnes: Even before the strategy was launched a role for UKTI and government was to lobby in support of UK business where it was experiencing difficulties in operating in the market, and that has obviously been a characteristic of our work to date. The measurement of success clearly can only be in terms of the resolution of those disputes and whether there is an improvement in the overall operating environment.

Q18 Mr Bailey: What sort of developments can we anticipate in 2008/2009?
Mr McInnes: First of all, just picking up the comments of my colleagues that there is a real commitment on the part of the Turkish Government to the reform process, I think we can continue to expect the continuation of that process. One element of that would be a continuation of the privatisation programme. A number of state agencies have already been privatised; the Turkish Government has a very ambitious programme for this year which includes the privatisation of electricity distribution and generation; it includes privatisation of the Lottery; and also one of the state banks. So this is quite an ambitious programme and I think we can expect progress on that during the course of this year. Obviously in terms of our strategy we see the government to government forum as providing a high level vehicle for very much focusing on some of these more general market access issues with a view to improving the environment, and again were reinforced by the moves towards accession, which will help that process.

Q19 Mr Bailey: Can you give us a bit more information about Lord Jones' visit—what areas he is likely to cover, who he is likely to meet, and for how long he will be there?
Mr McInnes: I think it is very early days in one sense. The visit is planned for September this year. We are expecting the first meeting of the government to government forum during his visit; and it is also quite likely that the Turkish-British Business Council could also meet at that time. In terms of the focus of the visit, in part that will depend on the issues current at the time but it is quite likely that Lord Jones will be accompanied by a business delegation on the visit and obviously the issues that he will be raising will be the issues that are very much relevant to British business, whether it be both in terms of opportunities for British business and lobbying in support of British companies, and also some of the issues that we have been raising on a

regular basis with the Turkish Government. In terms of who he would expect to meet, I would certainly expect him to meet the Minister of State for Foreign Trade, Minister Tuzmen, and also the Minister for Economy, Minister Simsek.

Q20 Mr Clapham: I just have a couple of questions on the forum. Could you say a little bit more about its role and how, for example, it will differ from the Turkey Britain District Council?
Mr McInnes: The government to government forum is, as it said, very much a government forum which we are setting up with a view to providing this high level vehicle, which we have not had in the past for regular ministerial contact on commercial matters, with a view to identifying opportunities where the UK and Turkey can work together, both bilateral within each other's markets but also in third markets; but also critically as a vehicle for addressing some of the issues, some of the problems. Where it differs from the Turkish-British Business Council is that the Business Council is a private sector driven vehicle obviously representing business on both the UK and Turkish sides. UKTI does attend meetings but it is very much a private sector driven vehicle rather than a government forum.

Q21 Mr Clapham: So it is quite different. When one looks at, for example, JETCOs with India and China, is there a great difference there? Is it still such that it will be just developing the relationship between governments rather than looking at economics and trade?
Mr McInnes: I would expect the government to government forum and UKTI through the forum to be working very closely with the Business Council, and I would expect the Business Council to be identifying the issues and feeding through the issues that need to be addressed by governments to improve the overall business environment. So I would expect us to be working very closely and hand in hand with the Business Council.

Q22 Mr Clapham: Given the high priority of Turkey, is the British Turkish Council likely to get any additional resources? I know you earlier referred to the number of people working in your team but is there a prospect of even more help within the UKTI strategy?
Mr McInnes: Business Councils are private sector driven vehicles and they very much depend on the commitment of the private sector in terms of effort, time and resource and independence. They depend on business people for providing that commitment to the Business Councils. Typically UKTI contributes only a very small level of funding to the work of the Business Councils and generally that takes the form of support for activities undertaken by the Business Councils that are in line with UKTI strategy.

Q23 Mr Clapham: That support for private businesses is very important. One of the complaints that we have made to us time and time again by private business is that they are just not getting enough information. Given that sort of criticism are there any plans, for example, to set up a dedicated website where private business could actually access the information that they required?
Mr McInnes: Again, obviously there are a number of channels through which we try to, if you like, promote, publicise the opportunities that exist within the Turkish market for UK companies. The Chairman has already referred to the UKTI website, which does provide specific information on opportunities within sectors and advice on doing business within those markets. I have mentioned the road shows, which have been another vehicle for getting out information to companies potentially interested in the market. We have also produced some publications on doing business in Turkey and on specific sector opportunities, so there are a number of mediums that we use to try and get the message across; and we work closely with the Business Council and one of the areas in which we are working with them is on a specific seminar that they are organising in early April, the time of their next meeting. So we work closely with the Business Council but, as I say, typically the funding that is provided to Business Councils is quite limited.

Q24 Mr Clapham: On the information issue, is there any indication that the Business Council would like to see more information or do they indicate that they are quite happy with the amount of information that is provided?
Mr McInnes: I think it is fair to say that the Business Council itself is going through a period of development. On the UK side a new Chair, Sir Julian Horn-Smith, was appointed last year and I know very much that Sir Julian, with the Middle East Association, and ourselves are very keen to see the Business Council focusing its efforts in the future, so as not to be a talk shop but very much focusing its efforts on specific issues that matter to UK and Turkish business.

Q25 Chairman: Just before I hand on to Mr Bailey, without repeating your answers to questions can I press you a little on the difference between the forum and a JETCO. This Committee has heard evidence in the past from representatives of the Government that there is a limited number of JETCO forums that can credibly be established and keep ministerial commitments at a sufficiently high level. So just rank the Turkey forum alongside the JETCOs for me.
Mr McInnes: I think that the phrase or the term JETCO has become something of a shorthand descriptor for government to government forum and certainly we do not envisage the UK Turkey Government forum being, if you like, as complicated as the JETCOs that have been established for China, India and Brazil. So we envisage a much simpler structure. Part of the reason is that, you have referred to the existence already of the Turkish-British Business Council, with which obviously we will be working closely together. The objective of setting this up is to provide the vehicle for regular dialogue on commercial matters at a high level that has not taken place to date.

Q26 Chairman: Placing a discipline on both governments to maintain that dialogue.
Mr McInnes: It certainly will provide that, yes, Chairman.

Q27 Mr Bailey: We have already alluded to the website. Can you explain the divergence between the sector priorities in your evidence and the UKTI Turkey sector guide on the website?
Mr McInnes: First of all, in terms of the evidence what we are trying to do is to cover not only the sectors that are priorities for UK Trade and Investment but also to cover those sectors that were highlighted in the invitation from the Committee and the terms of reference of the Committee, which also highlighted one or two other sectors that clearly are of interest and are of relevance to the UK-Turkey commercial relationship. In terms of our sector priorities these are reviewed on an annual basis and so there will be change from year to year in terms of what are our priorities. For the most part the sectors will remain the same so you have sectors like environment and water that have remained constant as priorities for UKTI. But, for instance, this year ports in the year 2008/2009 are going to be one of our priorities for Turkey; so that also accounts for some of the change, from constant review.

Q28 Mr Bailey: I do not wish to put words into your mouth but is it fair to say that basically the evidence is just more up to date?
Mr McInnes: It is an ongoing process so, as I have mentioned, ports will not be reflected as a priority for us in the evidence that we submitted towards the end of last year, but will now become so. The evidence was up to date as at the time it was submitted, but clearly things move on.

Q29 Mr Bailey: Are there any other major opportunities that you have identified?
Mr McInnes: Again, I think the areas in which we see particular opportunities are those which we have highlighted in the memorandum, so they are areas like the environment, water, agriculture, ports, power—and financial services is a very important area. These are some of the key areas which we see offering the most potential.

Q30 Mr Bailey: What about energy and related projects?
Mr McInnes: Very much so. Again, as I have mentioned, power. First of all, there are opportunities because there is a crying need for more capacity. Turkey is looking to install between 50,000 and 60,000 megawatts of additional capacity by 2020 so there is a real need for additional capacity. So there are opportunities both in conventional power but also in terms of renewable energies and Turkey is particularly strong in areas like hydropower, solar and wind power. So there are those opportunities. Also—and again as I mentioned in an earlier answer—one of the entities that is going to be privatised in the foreseeable future in the course of this year and over into 2009 is electricity distribution and generation; so again that is going to provide opportunities for UK companies on the power side. More generally of course Turkey has a critical role as an energy corridor.

Q31 Mr Weir: What, from your perspective, are the biggest blockages to a deeper bilateral trade and investment relationship between the UK and Turkey?
Mr McInnes: I think it is quite a long list in terms of some of the issues that are raised with us by UK companies. At a general level some of the issues most commonly commented on by UK companies relate to work permits, the judicial system within Turkey and also taxation. But there are a number of other issues—bureaucracy, IPR, corruption, these are all issues that are mentioned by companies but of course it will depend on which particular sector the companies come from.

Q32 Mr Weir: Ms Melrose mentioned that they were working towards introducing the Acquis by 2013; do you think that requires to be done before British companies would have the confidence to invest in Turkey?
Mr McInnes: I think the very fact of the announcement of the opening of the negotiations themselves and the impact that that has had demonstrates that in the last few years the level of investment in Turkey has increased quite dramatically and that is very much since the time when the negotiations started. The comment has certainly been made to me by UK companies that the process towards accession is as important as accession itself as Turkey addresses some of these issues.

Q33 Mr Weir: In some of our investigations in other areas we have been told that often there is a type of perception or reluctance of UK companies to get involved in some markets; do you find that the case in Turkey or is there interest from UK companies to invest in Turkey?
Mr McInnes: Typically Turkey has not been a traditional market with the UK companies and I think that is reflected in the share that the UK currently enjoys within the Turkish market which, as I mentioned earlier, is less than our share of overall trade. In terms of investment, again we have seen in the last few years some very significant investments by UK companies. They typically tend to be the larger well known companies, obviously HSBC acquiring a major bank in Turkey; then Vodafone a couple of years ago acquiring the second mobile operator, Telsim; and Cadbury Schweppes have made a couple of major investments in the last few years. So we have seen certainly a growing interest on the part of UK companies in investing in Turkey.

Q34 Mr Weir: Is that because of, as we said earlier, the route to accession? Is the very fact that Turkey is now negotiating to join the EU the driver for companies now looking at investing in the market?

Mr McInnes: I think it reinforces it but, again, as comments made by my colleagues earlier, Turkey anyway has embarked on the reform process and obviously that process is making Turkey in itself a more attractive market.

Q35 Miss Kirkbride: We will come back to accession proper in a minute but as there are barriers which presently exist to UK and Turkish trade which ones do you think will be addressed by the move towards joining the EU and which ones will be addressed by the inter-government forum?
Mr Dodd: I think it is quite striking that the process of moving towards EU membership is a really long, slow one with many, many stages. In terms of addressing the values which exist at the moment obviously we would like to address those more rapidly. We can divide them perhaps to those at the border and those behind the border. Of the ones which happen at the border where the customs union is in place clearly there should be ways to prevent those kinds of restrictions being in place. So if customs, for example, are blocking things for a particular reason there is a mechanism, albeit a slow one, to address that. The big raft of behind the border restrictions, the kind of non-tariff barriers, which my colleague from UKTI mentioned, I think there are the opportunities for addressing those on a bilateral basis but there are many more of them which actually are more likely to be addressed by the wider reform process, which is making Turkey into a more open economy. It is really striking how over the last ten years it has started to become a very different kind of economy from one where there were barriers on such a wide range of issues and so many restrictions that it was incredibly difficult for foreign firms to do any kind of business, to a position now which is not ideal by any manner of means but where there is at least an understanding of the need—at least within parts of government—to address many of these restrictions. There are so many different ones that we probably need to address them individually to give you an accurate answer.

Q36 Miss Kirkbride: What is your perception of Turkey as an homogenous country, or not as the case may be, because obviously there is an east-west issue, but also all those holiday resorts the Aegean Sea and everything else are very different—they do not feel like what you would expect Turkey to feel like when you go there. Is there very wide disparity within the kinds of economies within areas of Turkey?
Mr Dodd: I think there are both regional disparities within Turkey, where you have Istanbul as a kind of global mega-city, and some areas of the Turkish countryside that are really very traditional and have a very different kind of economy. The more fundamental difference perhaps even than that is the difference between that portion of the Turkish business community and establishment which seeks to look inwards and to restrict things in order to continue with a previous system and those that are looking at economic reform to generate new opportunities and to generate a more conventional "globalised" economy. I think the role of the customs union has been very striking in that it has opened up competition into bits of the Turkish economy which had not faced it previously and, as a result, has been very popular with some and extremely unpopular with others.

Q37 Miss Kirkbride: But the same rules and restrictions apply everywhere, so even in those areas that feel different there is still a uniform system of rules and regulation?
Mr Dodd: The implementation of rules obviously varies, I am sure, from sector to sector and from region to region; and I am sure the further you get away from the large cities it is rather different.

Q38 Miss Kirkbride: What issues does Turkey raise with us in terms of what they see as our barriers to trade and our issues—businessmen's visas was mentioned a little earlier by someone. What are those issues looking at it the other way around?
Mr Dodd: One of the issues that they certainly mention is the rules of the game of the customs union. The Turkish Government is not comfortable with the way that effectively Turkey has to accept whatever bilateral trade deals the EU signs with other countries and apply those to give their access to the Turkish market on those terms, but Turkey does not have the right to negotiate its own bilateral trade deals. So that is a clear area of discontent. But there are some specifics about doing business as well.
Mr McInnes: If I may comment very briefly on that? Obviously the UK is an open market as far as other countries are concerned. I think the one point that Turkish companies would raise would be costs and certainly that is a factor why there has not been more Turkish investment here in the UK to date—costs.
Chairman: Let us turn now to the current customs union arrangements and Mike Weir.

Q39 Mr Weir: Mr Dodd, you mentioned that the current customs union had opened up competition in Turkey. Do you believe, given what you said before, that this has delivered for UK businesses? Is it a good deal for UK businesses to get into Turkey?
Mr Dodd: I think the customs union as it stands is certainly not perfect and it is certainly not complete. From a UK perspective the big area which is missing is services, but I think that the UK would be perhaps better placed than most to take advantage if there was an expansion of the agreement to cover the service sector. Having said that, we have what we have and it has made a big difference to doing business in Turkey. The scope for negotiating improvement to it I think is unclear on both sides.

Q40 Mr Weir: But given that services are important to UK companies, and there is clearly a demand, in the UK at least, for an extension of the services, you seem to be suggesting that this is unlikely to happen in the near future; is that fair comment?

Mr Dodd: I think on the Turkish side there is the desire to perhaps move from trade policy being something separate and the customs union to be part of the accession process.

Q41 Mr Weir: So it is really dependent on the accession negotiations; it is a bargaining chip, if you like?
Mr Dodd: I believe so.

Q42 Mr Weir: We have heard a number of issues from companies that should never arise within a customs union, for example differential and discriminatory taxation. Can you say what the UK Government is doing either by itself or in concert with EU partners to ensure that Turkey adheres to the full customs commitments?
Mr Dodd: The process for policing the customs union is laid out—it is a legal basis. It is there, I guess, as a backstop—it is not ideal because it is slow. The legal process where there has been an investigation, and ultimately the judgment which would then be put to the Turkish authorities and they would have to implement that judgment, is something which can take many, many months and as a result it is not what we would want as our first choice, but UKTI will always want to seek to represent the interests of UK firms to push for not having to get to that legal stage. Having said that, we are not always successful.

Q43 Mr Weir: Does this behaviour bode ill for accession negotiations or is there a feeling that it is perhaps to put some pressure on accession negotiations that this is happening, and you suggested earlier that Turkey is very keen that the services sector was included in the accession negotiations rather than a separate customs union. Do you have a view on that?
Mr Dodd: I will defer to UKTI on this. My perception would be that when you have domestic firms within Turkey facing vigorous competition from foreign firms there will be a degree of pressure to restrict competition, and I would suspect that there is a real problem within companies not being comfortable with that degree of competition, rather than perhaps it being all about bargaining chips within the accession process.

Q44 Mr Weir: If the accession process was to be seen to speed up with a view of Turkey perhaps joining the EU, do you think there is likely to be less concern about these competition areas? What I am trying to get to is the linkage between the two processes because Turkish negotiations for accession have been dragging on now for three years or whatever and will probably go on for several years to come. I wonder if this is a reflection of Turkey's frustration with the length of the process.
Mr Dodd: I think there is a perception perhaps within Turkey that prospects for accession have slowed rather than speeded up—that is a Turkish perception—whilst at the same time perhaps the business environment certainly, I do not think, has got any worse and probably has improved fairly significantly. So I am not sure that it is a complete manipulation of the system as part of the negotiating process.
Mr McInnes: I very much endorse those comments and I think, as Peter mentioned, it is more to do with concerns for competition rather than it being used as a bargaining chip. The Chairman asked earlier about the Public Diplomacy Pilot. One of the areas the Pilot is very much focusing on is this area where UK legal bodies are working with the Turkish Bar Association to look at the impediments to foreign investment that are actually created by the Turkish judicial system and coming up with areas for possible reform.
Ms Melrose: May I add to that in terms of the services sectors. A couple of the chapters that are under negotiation of the 35 relate directly to services: one is financial services and the other is the right of establishment and freedom to provide services. So, by definition, it should create a more favourable environment; but, as my colleagues have said, across the board this involves painful reforms where you need buy-in and not just from companies but also from the public, and that is where messages from Europe, from the EU are absolutely critical.

Q45 Mr Weir: So would your view be that it is more to do with the tensions of a changing economy rather than specifically linked to EU accession that is going to happen anyway because of the way that Turkey is changing its economy?
Mr McInnes: Yes.

Q46 Mr Weir: You mentioned earlier the question of bilateral deals and you mentioned that Turkey was perhaps unhappy about having to open its markets and yet the EU had concluded it with others. We have heard that Turkey has considered downgrading the customs union to a free trade agreement. Is there any chance of that actually happening, in your view?
Mr Dodd: There are noises being made but I think it seems relatively unlikely that that would happen. I think there have been so many benefits to the Turkish economy that the reformers, who are certainly in a leading position within the Turkish Government, recognise that as being of real benefit to Turkey. Perhaps of all the different elements of the reform process, after the stabilisation of the economy, with the help of the IMF, it is the customs union that has delivered most in terms of setting Turkey on the road to becoming a more outward looking conventional economy.

Q47 Mr Weir: Is there any chance of Turkey being allowed to contribute to the negotiations as a possible accession country to the EU?
Mr Dodd: It is an interesting point; I do not know the answer to that. I could put it to the Commission, if you would like.
Mr Weir: It would be interesting to know their view on that. Presumably if there was a downgrading that would seriously impact on the accession negotiations if they downgraded.

Q48 Chairman: Thank you. Before we move specifically to accession can I invite you to reflect on what is Britain's overall economic position engagement with Turkey, how strongly positioned we actually are, because I am finding it a little difficult to understand the position. The table you provided us with, Mr Dodd, in your memorandum on page 9 shows a picture of our market share for exports to Turkey going down from 4.7% to 3.7% over a five-year period, 2000 to 2006. How much is that because Turkey is importing things like gas, that we simply cannot provide them with, and therefore it is not anything we should be concerned about? How far is that a matter of concern because it does seem that we are slipping behind France, Italy and Germany as well as Turkey?

Mr McInnes: Perhaps if I could comment on that? As I mentioned earlier, Turkey has not been a traditional market for us in the same way that it has for Germany, Italy and, to a lesser extent, France. So our market shares have traditionally been lower than those countries. What has happened in recent years is that whilst our trade has increased, as you pointed out, our share has gone down, but that is very much due to the fact of the surge in exports from China to the Turkish market, so you have seen China significantly increase its share, and obviously Turkey's dependence on energy imports, so you have seen the growing importance of Russia and Iran, those two markets as exporters to Turkey. So as we have gone down from sixth to eighth in terms of being an exporter the two markets that have overtaken us over that period are China and Iran, for these reasons.

Q49 Chairman: But in the evidence of the British Chamber of Commerce in Turkey it was slightly lukewarm about the degree to what we are properly engaged with the market—not enough SMEs, not enough high level political visits. There is a sense that we are not quite playing to our strengths in the market; do you think that criticism is fair?

Mr McInnes: There is certainly an element of truth in that, yes, and I think that that is part of what the UKTI's strategy is designed to address, to give Turkey a greater profile than it has had in the past. The visit by Lord Jones later this year will be the first by a Trade Minister for some time.

Q50 Chairman: So the criticism is fair?

Mr McInnes: I think it is fair. What we have found already this year, as I mentioned, is that Andrew Cahn, the Chief Executive, has already been out to Turkey and Digby Jones will be visiting later this year. So it will move up the scale in terms of profile.

Q51 Mr Hoyle: Just following on, so we can actually see Turkey going up the pecking order as a priority because I think that is what has been lacking. It is very quick for ministers to go on defence visits but never on trade visits and hopefully what you are saying is that the scene is now being set to ensure that Turkey is going to be pushed up the pecking order and it will be given more priority; is that fair to say?

Mr McInnes: That is very fair, and Lord Jones has made it very clear that he sees his role as banging the drum for UK business in overseas markets.

Q52 Chairman: We formed an impression when we were looking at our inquiry into some of the new accession states, A8 and A2, that actually Britain was doing rather better beyond the walls of Europe, in places like Turkey and Ukraine, than its competitors, but the evidence we have had from you suggests that that is not the case and we are actually on a par with those competitors and not recovering any of the ground we have lost, despite the fact that English is the *lingua franca* of Turkey.

Mr McInnes: I think that that again is a fair comment. In terms of what has happened in recent years other western European countries are, if you like, in the same boat as the UK and have seen their market shares also reducing, but it is very much part of the strategy to get greater UK involvement in the Turkish market.

Chairman: This inquiry is driven very much by what might happen over the next few years in terms of Turkey's membership of the EU, so we will turn now specifically to those very important questions about accession with Julie Kirkbride.

Miss Kirkbride: In summary, what are the prospects for accession? Who would like to go first?

Q53 Chairman: I should warn you, we have been briefed by the Director General in Brussels last week about his view of the prospects for accession, so compare and contrast.

Ms Melrose: Let us see how they compare. Basically what we are expecting is continuing steady progress. I want to give you both a technical answer in terms of the negotiations but also obviously a political one. On the technical side, provided the Turks do their side of the work we expect two chapters to open under the Slovenian Presidency, two that are highly relevant to your concerns—that is intellectual property rights and company law. It is possible that we will also see free movement of capital open, again dependent on the technical work. Under the French Presidency we would expect at least a further two chapters to open, including energy but that depends on some movement in relation to Cyprus, which I hope we will get back to. At a political level clearly progress on accession depends on three factors. The most critical, the first is the commitment within Turkey to press forward on reforms and over the last year when the elections in Turkey took place there was a notable falling off of reform. However, just last week we saw the Foundations Law adopted. This is something for which the UK has strongly lobbied and also other EU Member States. What it means is greater freedom for religious minorities, so very important, and an issue in particular of concern to Greece but also Germany and others. So we are very hopeful that you will see a picking up of that momentum of reform such as modification to Article 301, which is about freedom of expression. So there is every sign that with the AKP Government strongly committed to EU accession now back in power with a huge popular mandate that the progress should pick up. The second factor is Cyprus; there is no way that Turkey will ever join the European Union unless it recognises Cyprus as one of the 27 Member States. Most critically that requires a UN settlement to resolve the underlying causes; it also requires Turkey to open its ports to Cypriot vessels. The other factor of course—and this is one that perhaps is more in the public eye—are the attitudes within the current EU Member States, perhaps particularly France and Germany and that obviously is very, very critical to achieve the buy-in to driving the accession process forward.

Miss Kirkbride: Two things about what you have said on that aspect. First of all, what hope do we have of France and Germany changing their minds? Secondly, whilst I fully understand that the Cyprus issue is very tricky the Turks really are in a cleft stick, given that because Cyprus now has EU status, which it never should have done before it sorted out its own problems, the Greek community in Cyprus have a complete veto and there is no reason why they should ever cooperate, thank you very much, so how is the Foreign Office going to cope with that as well?

Q54 Chairman: I am sure you will tell us about the elections in Cyprus this weekend.

Ms Melrose: In relation to key Member States, France and Germany, Angela Merkel has made clear on many occasions that in her position as Leader of the CDU she is against EU membership for Turkey, but as a member of the coalition with the SPD she very much respects commitments that the EU has given, and I should underline that the vast majority of EU Member States are strongly committed to the fact that the EU must keep its commitments to Turkey. Angela Merkel has been perhaps one of the most forceful advocates that the EU must keep the commitments it has made to Turkey, but there will be a German election in 2009, and the issue of the free movement of workers will come up, so it is very hard to predict in terms of German domestic politics. In relation to France, again Nicolas Sarkozy has made his views very clear. We have the high probability of political blocks on some of the chapters. I think there—again very relevant to this Committee—the attitude of, let us say, the French corporate sector could be very, very important, particularly if they perceive some of their interests to be negatively affected, such as perhaps Gaz de France. So there, hopefully, from a European Government perspective we will be doing everything we can to shore up support with, as I have said, the majority of EU Member States that are strongly in favour.

Q55 Miss Kirkbride: And Cyprus?

Ms Melrose: On Cyprus there are encouraging signs. The election results on Sunday means that Christofias is now the President and he is on the record, he campaigned as strongly in favour of UN settlement and re-launching the process. So in fact the two candidates that went through to the second round—Kassoulides as well—both were standing on a platform of moving the settlement process forward. So we are optimistic and very, very clear that there is a window of opportunity now, when we are election-free, in Turkey, in Greece and Cyprus. And that is an opportunity that the parties must seize, and certainly there are plans for the UN to consider sending an assessment mission if they detect real buy-in from the parties, and that could be followed up with nomination of a UN special representative. But of course the speed of progress is entirely in the hands of the parties. We were very, very pleased with the 8 July agreement reached in 2006 where both sides agreed to some clear principles, but the process ever since has just been talks about talks and no movement. So really the key thing here is to seize the opportunity.

Q56 Chairman: So you will not welcome many Communists to election, I imagine, at the Foreign Office.

Ms Melrose: I would have to put Communists in inverted commas.

Q57 Mr Weir: You mentioned France and the position of President Sarkozy. Is it not now the case, however, that under the French Presidency there would have to be a referendum before Turkey joined the EU and that is another considerable barrier to EU accession?

Ms Melrose: That is currently the case and there the French constitution was changed by President Chirac. One of the things, a very interesting development that we picked up early in Nicolas Sarkozy's presidency was that he was considering amending the constitution again to remove the need for a referendum before each new accession. If you think here that there is a strong commitment in Paris to drive forward accession enlargement through the Western Balkans, you can just imagine what it would involve to have a referendum for each of the Western Balkans countries. But of course, any single EU Member State has a veto over any country joining the EU.

Miss Kirkbride: We have talked about a privileged partnership for Turkey or a Mediterranean Union between the EU and countries bordering the Sea, how might the EU's so-called "wise-men" horizon scanning group impact upon Turkey's prospects? And is enlargement off limits for this study?

Chairman: It has several different names.

Q58 Miss Kirkbride: I hope you understand it more than I do.

Ms Melrose: It was the Groupe de Sages—wise persons' group—and now of course the Reflection Group. Its mandate was agreed by the December European Council and the UK and Germany pushed very hard to make sure that borders of Europe were not the focus of this group's work. Indeed, we see it actually as an opportunity for some useful debate around how does the EU rise to the challenges of globalisation. So a lot of the issues in the mandate for the group are very much at the heart of our concerns—energy, climate security, market liberalisation and many of the issues that the Prime Minister has flagged up in his Global Europe pamphlet. But in terms of what is happening, the

Chairman now, Felipe González, former Spanish Prime Minister, is taking this forward. From a Member State perspective we have not seen a lot of activity but that must be going on behind the scenes and the time frame for this is very long—it will not be reporting until after the European Parliamentary Elections in 2009. So from our perspective this is not about questioning in any way Turkey's accession; indeed, quite to the contrary, in terms of the issues it will look at like energy and climate security it should conclude, we think (and in terms of regional stability), that Turkey has a key role to play and will, if anything, enhance the EU.

Q59 Miss Kirkbride: You have probably already answered this because it has been reflected in your other answers, but just in case there is anything else that you would like to add on the accession process for Turkey and what importance is it for their continuing economic and political reform? Is there anything else that you would like to add that had a flavour of that?
Ms Melrose: I think it is clear that Ali Babacan, when Europe Minister but now the Foreign Minister, said very, very clearly that the accession process is good for Turkey, whether it joins the EU or not, and those are reforms that Turkey should be making, that is the narrative that this is really, really important in its own right. So if you look at all the areas it covers and the real challenges, as my colleague said, of aligning to 80,000 pages of EU legislation, this is going to imply some very major reform.
Mr Dodd: I think it is quite striking how it has evolved over time from a political position where joining Europe was a political end in itself and it was not perceived to be part of a reform process at all—it was the objective which was, I suppose, the ultimate extension of the Turkish historical position, but the position now does seem strikingly different to that where EU membership is linked inextricably with economic reforms which will hopefully continue whatever the position over accession.

Q60 Mr Hoyle: It is interesting, is it not, that support for accession by the people of Turkey was about 80% but that is now dropping, is it not?
Ms Melrose: Dramatically.

Q61 Mr Hoyle: It has dropped completely down because they do not believe there is a will, whether it is France, Germany or whether it will be somebody like the Netherlands who will begin to object. It is a strange scenario where we are actually seeing the possibility of Cyprus actually supporting Turkey and yet it is the other nations that are going to object. I think we have this crossroads for Turkey that keeps going through the chapters very speedily, with a government that wishes to see this as the main agenda, yet the people do not have the will that they once previously had. What do you think can be done to try and reinforce that support to the Turkish Government? It is not a carrot but it is in some way trying to hold it up and say, "Your objective can actually be achieved," whereas the truth of the matter is it can never be achieved.
Ms Melrose: There are two dimensions to that. Obviously there is what is actually happening in the progress towards accession and the other is some of the messaging coming out of the EU, because you are quite right that public support in Turkey has declined dramatically. In terms of progress, this is why it is so critical that we see visible progress: that there are good news stories to tell and that Turkey itself is better at actually articulating the vast amount of change and reform that is taking place to show both the benefits to the Turkish people but also in terms of influencing attitudes within the European Union. Then, as you say, if you keep hearing leaders within the EU questioning Turkey's membership obviously that has a very negative impact. That is why more and more you need a countervailing voice, and certainly the Prime Minister, the Foreign Secretary and their counterparts in, in particular Spain, Italy, Sweden and many other Member States, are more and more articulating the importance of Turkey's membership. Because you can look across the board at our foreign policy priorities like stability in the Middle East, Iraq, Afghanistan, look at one after another and you find that Turkey is playing a very helpful role. Turkey is one of the few countries that can talk to both the Israeli Government and the Palestinian leadership. It is, for example, investing in secure economic zones in Gaza; it may well do the same in Basra. So there is a huge contribution that Turkey can make across the board—not just economic but on the foreign policy side.

Q62 Miss Kirkbride: Just as a list, if we say the top three, what are the top three hurdles at present to Turkey's position?
Ms Melrose: I think that the top three hurdles are basically diminution of the political will and popular support within Turkey to drive forward reforms and if they do not you will not see progress. For example, eight of the chapters of the Acquis, which are very relevant to the interests of promoting trade and investment, are suspended because Turkey has not implemented the Ankara Agreement Protocol. So that means that the chapters which cannot be opened are free movement of goods, right of establishment and freedom to provide services—financial services, agricultural and rural development, fisheries, transport policy, customs union, external relations. So you can see what a significant chunk of the Acquis that is. So Turkey will have to open its ports, and this relates directly to the second factor, Cyprus. Turkey will have to take the bold political moves on Cyprus that have proved difficult this year. The other block is, of course, as we have said, the attitude as currently expressed of the French President. At the moment and in the future there are potential French political reserves on the five chapters that he deems to imply eventual full membership of the European Union. So that is agriculture and rural development, which links to CAP payments; economic and monetary policy;

regional policy and coordination of structural instruments; financial and budgetary provisions; and then institutions, which is dealt with right at the end. So those are really the three key areas—Turkey's reform, Cyprus and attitudes in Europe. I think it links to the point that Mr Hoyle was making, that Greece is always saying to us that they want Turkey in the EU more than the rest of us put together. Cyprus is always saying that they want the accession process to continue—obviously it gives leverage to them. And this is where the worry is, that if Cyprus digs in too much the Cyprus issue becomes a political football with other Member States that object to or do not want to see Turkish membership progress. So that is why we must take action on Cyprus.

Chairman: I am very conscious of the fact that everything is related to everything else, inevitably in these matters. Mike Weir was going to ask one of the questions there but I think they have all been comprehensively dealt with.

Q63 Mr Weir: I notice that after the elections in Turkey that one of the first persons to congratulate the new President was the President of Northern Cyprus, which must be seen as a good sign and perhaps some room for negotiation between the two parts of Cyprus. Is that the way forward to dealing with this problem, whether it is through the UN or just bilateral?

Ms Melrose: It certainly has to involve the UN and I agree with you that Mr Talat, the Leader in Northern Cyprus, is well disposed to a UN settlement process, but to do that he needs strong support from Ankara—obviously there are issues that he alone cannot resolve, like the presence of the Turkish troops within Northern Cyprus and other issues; so political buy-in in Ankara is critical. But we are keen to see more and more confidence building measures between the two communities in parallel with movement in the UN. And what we heard from the Turkish Permanent Secretary of the Ministry of Foreign Affairs when he was here in London recently was encouraging, and we are also very hopeful with the change of government in Cyprus that we can move forward now with some momentum. But it is very much what we can do with the other Guarantor Powers to support, also the permanent five members of the UN Security Council—but it is supporting and not trying to dictate the process.

Q64 Miss Kirkbride: So what is the likely impact on Turkey's accession on the UK? What work has been done on that?

Mr Dodd: Fundamentally quite limited to begin with. The existence of the customs union is the opportunity for trading relations to develop before the accession process is complete. We would expect that if there is good progress on the accession process the Turkish economy will be succeeding in growing much more strongly than would otherwise be the case and as a result we would hope to see quite a lot more bilateral trade. However, having said that it is quite a long way away and, without any negative impact, globalisation has changed the role of Turkey somewhat with the European economy. It is not a natural source of low cost labour to the European Union as a place to produce things; it is a competitor with lots of other countries now rather than having a particularly natural role. So whilst we see that there is a good upside in terms of a bigger market that market will continue to be one with relatively low incomes per head for a long time, and it will take many, many years of growth for Turkey—although it has a very large population—to be a big market.

Q65 Miss Kirkbride: So there is nothing specific that you would pick out as any one big impact. It is nicer to have more people to sell things to but better when they are richer?

Mr Dodd: It sounds very general but that fundamentally, I think, is the story. One issue which further down the track is a very important one is the movement of people. If the accession process occurs then that will be a very big issue.

Ms Melrose: I think that could be the single biggest economic benefit with an ageing population in the existing European Union to have better access to the large and youthful labour force within Turkey. There is also the dimension of energy security. Turkey is an absolutely critical crossroads, a transit for gas and oil from the trans-Caucasus and Central Asia, so clearly there are benefits there for the EU and the UK. Also in terms of the justice and home affairs reforms, those will all promote greater security for EU citizens. Hopefully those will lead to more action together to tackle people smuggling, drugs traffic, some of the key concerns of UK citizens. And I have already mentioned some of the very positive contributions that Turkey can make to regional stability.

Q66 Miss Kirkbride: But I think we would be fooling ourselves, would we not, if we did not accept that here in the UK probably the biggest downside is the prospect of considerable migration from Turkey, because there have been issues about the migration that is taking place already with the existing EU accession countries. Have we learnt any lessons from that in the way that we might approach what will probably be the most vexing issue of Turkey's accession on the UK?

Mr Dodd: Clearly that would be a very big policy choice for the government of the day at that stage. There have been many lessons learnt, I think, from the far larger than expected movement of people from Accession 10. Also, looking at the conditions and the reactions of other Member States the strength or weakness of economic activity in other Member States and the restrictions which they place on movement of workers has an impact on what happens to the UK. So I think the calculation which needs to be made in terms of deciding is actually how many people to allow and the form precisely that it takes will perhaps be not an easy one. But also there are very considerable differences between Turkey's historic links with other parts of Europe, particularly Germany, and their links with the UK.

So it certainly will not be a straightforward issue, and you are quite right I sense it will be a very big issue.

Q67 Chairman: I know we cannot push you very much on migration as it is not your specialist subject—in Mastermind terms!—but just to help us form a view, the date of accession is the one thing we have not yet discussed in detail yet. We have a figure of the earliest possible date, if everything went exactly according to plan, of 2014. Does that accord with your understanding because it is very important when we are discussing migration questions?
Ms Melrose: It is very, very hard to predict. Hopefully within a decade but again so much depends on the speed of process and the negotiations and all those factors.

Q68 Chairman: But six years away is the earliest possible date, is it not?
Ms Melrose: Then you still have to have each Member State ratifying membership, so it is likely to take longer. If you finish the negotiations, let us say, in 2014, it would be very, very good progress.

Q69 Chairman: To take a view about migration flow now is a bit premature because the economic situation in Member States could be very different in six or seven years' time?
Ms Melrose: Exactly, the German Government is keen to see the European Commission update its impact study on Turkish accession, which the one they produced was 2004, but the Commission is quite rightly saying, as you suggest, that it is far too early to produce an Impact Assessment as an awful lot can change—Turkey will get richer—and it is difficult to predict that. However, one thing I think we can be absolutely clear on is that Member States will want to see a derogation for free movement of workers in the same way that we had for the Accession 10, that you just would not have everybody opening up their labour markets to Turkey. There would be a period—unclear how long, that would be up to Member States to agree—for phasing in of opening.

Q70 Miss Kirkbride: And Turkey understands that?
Ms Melrose: Yes. It just has to observe what has happened with other Member States that are very much smaller. As my colleague said, Germany is a particular issue with the Turkish population of some two million—German population of Turkish origin—and it is likely to attract the most Turks.

Q71 Miss Kirkbride: Just on the demographics of Turkey, which will not change considerably in the next ten years, how big is the population and how much unemployment is there? What is the profile of young people who are more likely to move than older people?
Mr Dodd: The population I believe is 72 million.

Q72 Miss Kirkbride: Smaller than Germany.
Ms Melrose: It will be.
Mr Dodd: A significantly younger population than the European average and a higher population growth rate than the European average. As a result the critical factor which my colleague mentioned is how rich Turkey gets before it joins the EU.

Q73 Miss Kirkbride: Because unemployment now is?
Mr Dodd: The problem with Turkish unemployment figures is that they are not very meaningful; there is a very high proportion of the population in the informal economy. So under-employment I think is a more accurate thing to think about, which is a very substantial issue—very high.
Ms Melrose: On the population the projection is that Turkey's population would reach 82 million in 2015, which is almost as big as Germany's, and that by 2025 it may have a population of 87 million, which would definitely be the largest in the European Union.

Q74 Miss Kirkbride: Was any progress seen at the December 2007 Turkey Inter-governmental Accession Conference, and are there any new chapters in the accession negotiations going to be opened this year?
Ms Melrose: Yes, definitely. We hope that at least four will open, and in the best case scenario considerably more. I mentioned the economics-related chapters, which are the most likely to open. There are others, for example the judiciary and fundamental rights, but progress on that is very tied up with making progress on information and media (so that is freedom of expression) but also education and culture. So there are some areas that are delaying progress on others and if some issues could be resolved you would see faster progress. But we are also clear that planning for the Association Council, which happens in parallel to accession, is going well and that there is unanimity from Member States about some of the preparatory work going into that.
Miss Kirkbride: The issues of the legal system and corruption, is this still a major block to progress or is the reform process generally helping in that regard as well?

Q75 Chairman: Particularly in the context of what we learnt from A2, Romania and Bulgaria, the issues that we learnt from accession there.
Mr McInnes: If I may make a brief comment on both the judicial system and corruption? As we have highlighted before the judicial system is one of the main barriers with transparency of the judicial system, the overlapping jurisdictions of different courts, and obviously the length of time that it takes for decisions to be taken; so that is obviously a major issue for UK companies. In terms of corruption, corruption is an issue and it is something that is raised with us by UK companies. In some senses it is difficult to get a handle on, gauge exactly what the level of corruption is. Certainly the sense is that the situation in Turkey has been improving and that has certainly been suggested by the Transparency

International Report in 2006, which saw Turkey move up the table quite significantly, but it is still an issue.

Miss Kirkbride: Turkey is a Muslim state; are there any areas of EU law in which Sharia law would also apply in Turkey and does that cause any issues?

Q76 Chairman: In that context, today there is red-hot news from Turkey, is there not, about them attempting to re-interpret Sharia law and the rewriting of Hadith, which is quite a big development politically. It affects the whole Islamic world potentially, not just Turkey.

Ms Melrose: It is a positive development in terms of what is very much a moderate, outward looking approach to Islam. You also saw in the last couple of weeks the Turkish Parliament agreeing to lift the ban on wearing headscarves in universities, so that takes Turkey to the EU norm of, for example, this country where of course you have the freedom to wear a headscarf—it is only in France that that is not the case. So certainly we see it as a progressive government. We are not aware of any areas in which there would be a contradiction with the Acquis, provided that these basic freedoms of minorities are met.

Q77 Chairman: Just pushing on the Hadith a bit because I think the BBC described it this morning as comparable to the Christian Reformation in terms of the potential importance to Islam. It is probably early days to react too much on that but it is obviously a very positive development.

Ms Melrose: Yes, indeed. I am looking forward to hearing reports from the Ambassador in Ankara to see, burrowing into the detail below the press reporting, as to what exactly is involved in it, but it does sound a positive and extremely interesting development.

Q78 Miss Kirkbride: In terms of financial services we hear that the City of London has Sharia-compliant products and all of that, and is there no problem area in terms of what would be an acceptable way of doing business in Turkey versus the rest of the EU, or is this all something with which we can quite happily co-exist?

Mr McInnes: Again, it is certainly an area of opportunity for us, as you say, because of the strengths of the City in terms of Islamic banking. Indeed, one of the areas of activity that is planned for this coming year is a workshop in Turkey specifically on Islamic banking and obviously the links with the City in this area.

Q79 Chairman: This has been a very difficult evidence session for me in the Chair because you have been such good witnesses and you have anticipated half the things we wanted to ask you about later, so you have partly addressed questions and fully addressed others and raised ones we have not thought of. I think there are only two things left on my list which I want to talk to you about before we close, and you may think when answering these questions whether there are things you would like to say to us. I would like to delve a little more into the energy questions—that is a big one for me. We were obviously being briefed to an extent in Brussels last week about the sensitivity and importance of a pipeline, for example, and also there is the whole question—and I do not pretend to understand the details of this—about potential Turkish involvement in the European Energy Community Treaty, which is important too. And what are the prospects specifically for the energy chapter of negotiations? I would invite you to say something about energy, which seems to me to be one of the most important questions for you at present and also for Turkey in its position as a gateway to the stars, and also involvement with Russia. It is a very complex and important area for Britain, Europe and Turkey. That is a very general question which opens up a myriad of possible answers.

Mr Dodd: Your question has identified so many different issues that overlap in this. Turkey's position as, as it were, the gateway to Central Asia is an absolutely fascinating issue, not least in that it provides the opportunity for competition of gas supply into the European market from the east and reduces the pipeline dependency on Russia. It is certainly a very large issue. In terms of whether that needs to be part of the accession process and how much can be done outside of that, I think there is a strong feeling that a very considerable amount can be done outside of that, but the commercial interests for Turkey as well as security interests are very strong in ensuring that pipeline routes run through Turkey. Turkey as a place for oil processing and oil products manufacture has become a natural one, so clearly from that perspective there is a very clear win-win. In terms of a point which had been made in the past, but which you did not raise, that Turkey is a kind of gateway to the Middle East, I think it is rather less convincing from that perspective than it is in its link with Central Asia. It has a very strong interaction with the economies of Central Asia but its links into the Middle East really are not as strong, and the simple process of taking oil around the outside is more economic in terms of energy flow from the Middle East. In terms of progress on the energy chapter the issue of Cyprus is very important, particularly offshore drilling, and there is a real block there and that needs to be addressed and the Turks need to be in a position to arrive at an agreement on that. On the EU's approach to having a more competitive energy market, which involves quite fundamental changes within the Turkish economy, I think there are issues of competition, state aid subsidies, plus transparency, which will all need to be addressed. They do all fit in very much with the overall themes we have been talking about today, but they are issues of very considerable international sensitivity, so there is real energy needed to be put into ensuring that progress is made in those areas and a lot of interaction to address them. The actual progress in terms of legal definition, there has been a framework law adopted in Turkey and a degree of legislative progress is getting there but fundamentally there is a long way still to go in terms of Turkish domestic progress on arriving at both a legal system and practical implementation of the kind of energy market that we would be looking for, which has implications for both the domestic opportunities in Turkey for UK firms and also the flow of energy from Turkey through to the European market.

Q80 Chairman: What levers does Russia have to try and prevent this increased flow of energy through Turkey? What can it do?
Ms Melrose: Buy it all!
Mr Dodd: That is a very big issue. Its interactions with the Central Asian republics starting with giving it a source are very important as well, in that Russia's influence over the Central Asian republics varies from republic to republic, but as Dianna has pointed out the role of Gazprom in some of those republics is very important and not always transparent.

Q81 Chairman: There is one final question from me in the Chair and then an opportunity for you to think of things that we have not talked to you about. That is to ask what Turkey feels are the problems in the negotiations with the EU. We have looked at the EU perspective as to what the problems are but what is Turkey's perspective on the problems? What does it resent in the negotiations that are not going very well and what are its objections?
Ms Melrose: I think it resents the fact that it is now decades since Turkey was given a clear European perspective and to hear that called into question after European Council after European Council has restated a commitment to Turkish accession is clearly frustrating, especially if it appears that after an election, a national policy can change quite strongly. There is also a sense that the EU collectively is not tough enough with some Member States and that we are allowing bilateral disputes to interfere in the accession process. You have just mentioned the energy chapter and there the problem is that Turkey has objected to the Cypriots auctioning or wanting to put up for tender blocks for oil drilling. Clearly that is Cyprus's territorial waters but bilateral issues should not be dragged into technical negotiations which are around Turkey's preparedness to join in that chapter, and clearly public attitudes within the EU; and I think it is primarily a sense that there is not a level playing field in terms of the speed in progressing accession.

Q82 Chairman: Is there any other point that you would like to make from your side of the table? No. The only other question I have is why is it always whisky that is such a problem in our trading relationships with the world? The first people to get a submission in to us was the Scotch Whisky Association! Why is it always whisky, Mr McInnes?
Mr McInnes: It is always a sensitive issue. It is an area where we are very successful at exporting but obviously particularly sensitive in relation to Turkey, an Islamic country.
Chairman: Gentlemen and lady, thank you very much for giving us such interesting evidence. We have asked you for one or two but not very many things to write in subsequently. If there is anything that you think in the light of this discussion that we have got wrong or are missing, do please come back to us again. Otherwise, we look forward to our visit to Turkey in a couple of weeks' time. Thank you very much.

Tuesday 1 April 2008

Members present:

Peter Luff, in the Chair

Mr Adrian Bailey
Mr Lindsay Hoyle
Anne Moffat
Mr Mike Weir
Mr Anthony Wright

Witnesses: **Mr Gary Campkin,** International Group and **Ms Pauline Shearman,** Head, Europe and Eurasia, Confederation of British Industry, gave evidence.

Q83 Chairman: Welcome both of you to this evidence session on our economic relations with Turkey. We are very grateful to you for coming to give evidence; we always value what the CBI does. I think you know that we visited the country the week before last, before Easter; it was a very interesting visit and we met your opposite numbers there. Thank you for what you have already contributed to the Committee. Can I ask you, as I always ask, to introduce yourselves for the record?
Mr Campkin: Thank you, Chairman. My name is Gary Campkin and I head up the International Group of the CBI.
Ms Shearman: I am Pauline Shearman; I am responsible at the CBI for Europe and Eurasia.

Q84 Chairman: Can I begin by asking you a rather general overarching question about the scale of the opportunity in Turkey and the scale of the risk? We were told in Turkey, I think by a number of our interlocutors, if I remember rightly, that it was a high reward, medium risk place to do business—not a low risk but a medium risk place. Do you agree with that analysis and what kind of companies do you think should be taking advantage of those opportunities?
Mr Campkin: I think, Chairman, that that is a fair analysis. It is certainly not the easiest market in the world but it is certainly not the most difficult. There are some good opportunities for companies in a range of sectors; we would particularly identify areas like engineering, financial services and certain types of manufacturing. But, as your trip to Turkey highlighted, there are also some risks and some issues that companies need to think about in terms of strategic access. Pauline might want to add something in terms of her experience.
Ms Shearman: I should probably have mentioned that I am also a member of the Turkish-British Business Council and was at the meeting yesterday with member companies. The overarching feeling there was that the level of business possible in Turkey was not really reflected over here accurately enough and that there was plenty of scope for possibly even the Turkish side to make companies more aware here, and I know that from our colleagues in UKTI that they will be setting out a programme of road shows to alert companies of the opportunities.

Q85 Chairman: We will look at those questions in more detail later, so thank you for those comments; and I think this Committee was certainly struck by the kinds of things you are saying when it was in Turkey. Just the kind of companies—not the sectors—what size companies should be doing business in Turkey?
Mr Campkin: I think, Chairman, if you are looking at a market with these dynamics it is probably not suitable for the very small companies; you are probably looking at mid-caps and upwards—people who have experience of dealing with some of the issues of a market with some of the complexities and some of the barriers that we identified in our written evidence. So I think it is probably mid-caps and above.
Chairman: Thank you very much. We want to look at some sectoral issues in more detail now.

Q86 Mr Hoyle: You have just touched on sectors and I was wondering what do you think are the biggest opportunities and where are they for us?
Mr Campkin: I will ask my colleague, Pauline, to deal with some of that but in general terms, as I have already outlined, they are areas like engineering, areas like energy, financial services—

Q87 Mr Hoyle: Transit of energy as well, do you think?
Mr Campkin: Yes, I do and that goes to the heart of the issue of Turkey as an energy hub and some of the political dynamics which the Committee may want to pick up in further questioning.
Ms Shearman: Certainly other areas that we have identified are particularly power generation—British companies who are already working in Turkey on that; general infrastructure development, which obviously in the pre-accession phase and any post-accession will be subject to considerable funding from the EU, and there are, we feel, probably significant opportunities there; and education and training is another key area—there is a very lively appetite for British education and language skills.

Q88 Mr Hoyle: Why do you think that we have already seen a rollout of privatisation, and we have seemed in general to have shied away—British companies not taking advantage? If we look at some of the power companies that became available; if we

look at infrastructure the Australians are trying to do business out there, they are getting involved, why is it that we are not there?
Ms Shearman: We look after a number of developing markets at the CBI and there is obviously huge excitement about other markets, particularly China and India and there is a possible case for saying that there is a lack of awareness of opportunities in Turkey, but, nevertheless, there are also some issues with companies having difficulties with bureaucracy fundamentally and with processing any disputes.

Q89 Mr Hoyle: Just as a matter of interest, in telecommunications we are meant to be a world leader—there we are and who gets it, the Italians.
Mr Campkin: If I could just add a comment to that; traditionally Turkey has not been seen as a classic slam-dunk British market in the way that some others have, and I think it goes back to some of the comments about which Pauline was talking earlier, about information availability, familiarity with the market and also a trade-off against opportunities elsewhere in the world.

Q90 Mr Hoyle: We went to Turkey—absolutely fascinating and telling us a very good story. They were telling us that it is a gateway country—a gateway to the Middle East, whether it is Iraq or wherever, that you can go through Turkey and they do business that way. Do you think that British business is using that route? Do you think that it is actually a viable way to open into other markets? If so, do we have companies doing it? And if we have not, why not?
Mr Campkin: Again, Pauline can pick up on some of the detail, but in general terms I think our view is that there is a lot of capacity and scope for increasing those links, increasing those dynamics within the market place. As we said in our written evidence, Turkey has a very strong presence not just within its immediate region but with the broader region in which it operates, and certainly if you look at some of the dynamics of the Turkish business community, the contracts that they are winning and the way that they are accessing markets, it should make sense for British companies to partner with them in joint ventures and other business arrangements and bring in the particular dynamics of British expertise. We do know from our contacts with our Turkish colleagues that they are keen and anxious for British companies to do more and certainly it is an important part, we believe, of the UKTI strategy to highlight those opportunities and to help companies find a better balance of doing business and accessing the market in the region.
Ms Shearman: I was going to add to that that we are organising this afternoon with our Turkish counterparts a seminar to explore exactly that, which is based on opportunities for working with Turkish companies.

Q91 Chairman: A seminar you said?
Ms Shearman: Yes, this afternoon with our Turkish counterparts, to look at that very issue looking at opportunities not only in Russia and the CIS but also in the Middle East.

Q92 Mr Hoyle: So there is hope, that is what you are telling me?
Ms Shearman: We are hopeful that this will be fruitful this afternoon.

Q93 Chairman: Will there be an outcome from that meeting or is it just an information exchange?
Ms Shearman: Certainly we would be happy to provide you with some output.
Chairman: You anticipated my question; thank you very much, we would welcome that.

Q94 Mr Hoyle: The other thing is that Turkey keeps saying, "We are the hub, we are going to be the energy hub; this will be the conduit. Across to our country ports are going to be established and that is how we are going to get energy out." Is that really the case?
Mr Campkin: Energy politics is remarkably complicated and I apologise for stating the very obvious. There have certainly been a number of significant moves which have allowed Turkey to develop itself as part and parcel of the energy nexus in the region. There are a number of other plans which would require significant amounts of funding which, if carried through, would enhance Turkey's role. Pauline has done quite a lot of work in terms of the CBI on energy hubs, so maybe I could ask her to give a little more detail.
Ms Shearman: We are very keen to support any initiatives in this area. We realise that obviously the geo-political position of Turkey is very important, not only for southeast Europe but for the Middle East as well, and we believe that pipelines going through Turkey will help to diversify energy supply routes to the EU. I think one of the main issues for us is working with our EU Member partners to ensure that those sorts of initiatives are looked at—clearly there is quite a lot of diversity of interest within other EU Member States as to how these things should proceed, and we clearly will be, through our umbrella organisations, business organisations in Europe putting our thoughts forward.

Q95 Mr Hoyle: So to get it right you actually feel that Turkey is going to be the hub because some of the evidence we have had is that people will bypass Turkey and Turkey may miss out on that. Just suppose that you have it right and it is going to be the hub, you think that there are opportunities for British companies, but what are the risks for British companies?
Mr Campkin: Just to clarify the hub or a hub, it certainly will be a hub whatever happens as we move ahead.

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Q96 Mr Hoyle: You can only have a hub if people are going to put their energy through your country. If they are going to bypass you and go to Greece you have a bit of a problem, do you not agree?
Mr Campkin: That is right but you can have multiple routes and access to the market and that is why I said that what will be critical in terms of developing the full potential of Turkey will be whether some of these other projects come on stream and whether the funding for these other projects come through. It is quite clear that the British energy majors are involved in the market already and they are doing a lot of work in terms of exploring the various projects, and certainly we believe very strongly that if those projects come on stream UK companies will be part of it and will contribute greatly to the realisation of the reserves in both oil and gas within the broader region.

Q97 Mr Hoyle: My final question, the thing that worries me that it may not quite happen is that Turkey are looking to nuclear to ensure that they have supply for their range of requirements, so that shows to me that maybe there is not quite the confidence that all this energy is going to come into Turkey if they moved into nuclear. What can we do to ensure that British companies are involved in that programme—we know that the French are already, we know that discussions have taken place—is there anything that you think we should be doing to ensure that the British are not missing out once again?
Mr Campkin: I think the key thing, as with all of these market opportunities, is to make sure that the British Government through UKTI, through the Foreign Office and through BERR, ensure that they have a handle on the opportunities, make sure that they get information out to companies and to make sure that they have effective dialogue and liaison with the energy companies, and to ensure that they help the process as much as possible. A lot of it is getting information out; a lot of it is helping through some really quite difficult layers of bureaucracy and regulation, to deliver large-scale big ticket projects like this.

Q98 Mr Weir: We have heard a lot about the complexity of the Turkish legal system, particularly with regard to restrictions on foreign ownership of land. Are local representatives in Turkey essential for UK companies that want to invest in it?
Mr Campkin: Again, I will ask Pauline to answer in more detail on the practical side, but in general terms the use of local market representatives in countries like Turkey where things are not always easy does make sense. I think you have to be very careful how you pick your local representative; I think it has to make real business sense to do so; but in general terms it can be an asset to the business. Pauline, you may have something to add.
Ms Shearman: On the legal system I think there are still quite a number of challenges. It was perfectly clear from our discussions yesterday at the Turkish-British Business Council that a number of companies have cases long outstanding for maybe two or three years and the process of resolving them is extremely slow. So disputes are handled at the administrative courts and not only is the process slow but sometimes the outcomes are inconsistent and the interpretations of local legislation differ from region to region. So with the average case taking between 12 and 18 months there is a great deal of variance in some of the regional courts between the understanding of the issues and the way the law is implemented. Our experience in talking to our counterparts at the end of last year was that companies feel that cases are being dealt with but it is a very, very slow process.

Q99 Mr Weir: I have heard about legal systems all over the world, including our own! But is there any evidence that it is improving for British companies as negotiations continue for EU accession?
Ms Shearman: Just judging from the experience of the companies I was talking to yesterday, there was still a certain degree of frustration.

Q100 Mr Weir: But if a company has a local representative is there any evidence that that improves their chance of getting something done quickly? Does it matter? Does it matter with a joint partnership with a Turkish company?
Ms Shearman: It is clear that familiarisation with the administrative and regulatory set-ups is much easier if you do have a local representative, I think there is no doubt about that; but the exact terms whether it has to be working through a Turkish company or employing a local representative to work on these issues for you is up to the individual company.
Mr Campkin: If I can just add, I think what has been interesting in terms of our contacts with our Turkish counterparts is that they recognise that the system is slow and cumbersome and delays them as well. So I think there is a commonality of interest in trying to ensure that legislative procedures are speeded up. If what you are getting at is, is there discrimination in the market place between foreign companies and local companies I think the answer has to be in some cases there is. There is a new law which the Turkish Government is contemplating at the moment, updating their trade law, which is due to be taken through to the Turkish Parliament, we believe some time this spring and summer, which will be fairly substantive in terms of trying to level some of the playing field. Our initial concern would be even if it gets passed will it be implemented effectively because, as Pauline was saying earlier, a lot of the problems are not with the basic legislation but with the implementation.

Q101 Mr Weir: Does the CBI itself provide any help or assistance to its members doing business in Turkey either yourself or your Turkish equivalent, TUSIAD?
Mr Campkin: Yes, we do have contacts with TUSIAD, both bilateral contacts in the context of discussions at Business Europe where they are also a member. But Pauline deals with, if you like, the desk issues in dealing with companies at the sharp end.

Ms Shearman: We tend to deal with the issues on an issue by issue basis in the sense that my trade policy colleagues will be contacted by our member companies who may have an issue on a given activity they have, say, in this instance, in Turkey, and we will collate that information, consult with other members and present that information to our Turkish counterparts but also to committees such as your own, and any other bodies that are relevant or looking at the market.

Q102 Mr Weir: You mentioned earlier that one of the problems is the way that the law is perhaps interpreted differently in other areas of Turkey. Are there areas which perhaps have considerable foreign investment where it is a safer investment opportunity, if you like, than other areas that perhaps are not used to foreign investment? If that is something that comes up with companies do you perhaps say to them, "Go to place A rather than place B because the legal system is more used to dealing with foreign companies and it may be quicker"? Does that sort of thing come up?
Ms Shearman: We do not have that amount of local knowledge, we tend to work directly with our counterparts in the Foreign Office and UKTI based on the ground to advise on those issues, and of course there are other organisations, such as the Turkish Investment Agency, and so on, to explain the benefits of various regions to potential investors.

Q103 Mr Bailey: When we were in Turkey we had a meeting with the Chamber of Commerce and were very intrigued by their set-up there, the compulsory registration, and the fact that they seemed to enter into all sorts of activities which our local Chambers do not do, almost as if it were a devolved industrial policy. I am interested in your perspective on it. Are there any particular advantages or disadvantages that that structure would have that you see?
Mr Campkin: Organised business around the world sets itself up in various forms. We in this country have voluntary membership of organisations like the CBI and like the Chamber movement and we live or die by the quality of the service that we give to our members; we think that makes sense. Germany and France have a different set-up. In terms of the specifics of compulsory membership and that sort of activity it is very difficult to judge from a UK perspective, but our inherent judgment would be that business organisations are best constituted on a voluntary basis and limit themselves to representing business views. But there are different ways of looking at it and we acknowledge that.

Q104 Mr Bailey: Can I move on to UKTI? From your perspective do you think it is doing a good job?
Mr Campkin: Overall or in connection with Turkey?

Q105 Mr Bailey: With Turkey.
Mr Campkin: I think what is important with UKTI and the Turkish strategy is that it has recognised Turkey has a potential for growth of UK exports and a growing business relationship, and from that perspective it is doing a good job. It has fed into the UK Government's strategy with some deliverables which we would support, and the key thing is to ensure that UKTI delivers on those commitments.

Q106 Mr Bailey: Do you think that the recent increase in resources has benefited yourselves? Have you seen any improvement in outcomes as a result of it?
Mr Campkin: I will pass that over to Pauline, if I may.
Ms Shearman: As far as Turkey is concerned we are aware that a programme of events around the UK is being set up to explain the opportunities in Turkey to companies at a regional level, and that is something we welcome, and we have our CBI regional offices who we would be happy to notify of these initiatives as well. So, yes, there has certainly been a clear programme being set out as a result of the additional funding as far as we are aware.

Q107 Mr Bailey: What would you say that your members need from UKTI that perhaps they are not yet getting, or needs to be developed?
Ms Shearman: We will have to see how the road show develops and the level of take-up from companies and so on, but I do think that if we are looking at the whole energy security issue some kind of forum for looking at not only energy security but other options such as climate change and so on might be useful. Those may well be elements that are yet to be rolled out from the strategy but clearly they would provide a focal point as far as we are concerned for key areas of interest to our members.

Q108 Mr Bailey: Have any of your mid-corporate members benefited from the new High Growth Markets Programme specialist?
Ms Shearman: I am not sure that I can comment on that. Companies tend to go direct obviously to UKTI or through FCO or through the Consulate General in Istanbul to talk about their business issues; they tend to talk to us when they have policy issues they would like us to raise, so on the promotional side and take-up side it is rather difficult for us to assess correctly.

Q109 Mr Bailey: Basically you have had no feedback?
Ms Shearman: No. Not yet.

Q110 Mr Bailey: Turning now to Lord Jones' proposed visit in September, how do you think he might be involved and add value to it?
Mr Campkin: What tends to happen is that officials will contact us in advance of the visit by the Trade Minister and ask if we have, from the CBI perspective, specific issues that we would like the minister to raise, and normally we would feed into that process and would expect to do so in terms of the Turkey visit. I am not aware that we have had a direct contact yet.
Ms Shearman: No, we are aware of it being imminent.

Q111 Mr Bailey: What sort of issues would you like to raise, assuming you are given the opportunity?
Mr Campkin: I am sure that we will be and what we will be saying is that it is important to focus not just on the promotional work but also looking at some of the difficult barriers and issues that we outlined in our written evidence. We believe that the visit of the Trade Minister is an important way of highlighting some of the difficulties and some longstanding difficulties in the Turkish market, and at ministerial level it is important that those issues and problems are discussed and raised and that pressure is maintained on the Turkish Government to either meet their commitments or reform in a way which will grow our business relationship.
Ms Shearman: We would be particularly looking at intellectual property rights as an issue and Turkey's obligations under the customs union and where these are letting down our joint business—

Q112 Chairman: I am having a little difficulty hearing you.
Ms Shearman: We would be particularly looking at where Turkey is failing to implement the obligations of the customs union.
Chairman: Which we are in fact going to turn to now. We are now going to a section of questions looking at the customs union and EU membership. We will take the customs union first, if we may, and take the EU membership second. They are obviously going to overlap, I understand that.

Q113 Mr Weir: In your submission it seems that the existing customs union is riddled with holes and beset by issues and you quote many examples of this. With all of these issues, why should a UK company invest in or trade with Turkey? And how significant are these problems for trade and investment?
Mr Campkin: I think one needs to start by saying that commitments that are entered into by any government, including the Government of Turkey, need to be adhered to and it is very important that where those commitments are not being met that they are highlighted, which is one of the reasons why we presented this Committee with quite a detailed snapshot of some of those problems. It does not necessarily mean that you cannot find a way to deal with them or that you cannot continue to do good business, but it is not optimal and I think it is important to continually focus on issues that are problematic. To highlight one issue as an example, if I may, I know this Committee always gets very good input from the Scotch Whisky Association and rightly so, but they have some very difficult issues that certainly contravene Turkey's commitments under the customs union and under WTO obligations, and I believe that the Scotch Whisky Association is leading a European examination of whether there ought to be a trade barriers complaint raised under the EU mechanisms on those very long running and complex issues. So I think it is important to keep the pressure up, to use all the avenues that are possible to ensure that Turkey does meet its commitments under the customs union.

Q114 Chairman: I think it is fair to tell you that as far as I recall I promised the Invest in Turkey Organisation based in the Prime Minister's office that we would send them a copy of your memorandum because they were a little alarmed by some of the issues we raised with them and we invited them to comment on some of the concerns you expressed in your memorandum to us.
Mr Campkin: I am delighted to hear it.
Chairman: We hope it will contribute to that process of keeping up the pressure, of which you just spoke.

Q115 Mr Weir: Do you see any improvement recently in the Turkish attitude towards the customs union?
Mr Campkin: There has been some improvement. In areas where some regulation has been deficient or indeed in areas like financial services they have met some of the requirements, but at the end of the day the important thing is to continue to highlight where the problems exist and to continue to push for compliance. Reform has come a long way in quite a short period of time but it is not enough and that, I think, is the flavour behind the memorandum which we gave to this Committee.

Q116 Mr Weir: Your memorandum does not refer to work permit issues and labour market rigidity. Are these problems that companies find in Turkey?
Mr Campkin: I will ask Pauline to talk about whether she has had any issues relating to work permits.
Ms Shearman: Basically the CBI has not directly received any complaints about work permits. However, in conversation with fellow members of the TBBC I have been made aware of the fact that some of our major investors are experiencing problems in that area; but I do not have the detail.
Mr Campkin: In terms of labour market rigidity, certainly unemployment in Turkey is relatively high. We also believe that there is quite a lot of disguised unemployment in Turkey and certainly some of the rigidities within the labour market we believe constrain the ability of companies to create jobs effectively. So, yes, it is a problem but, as Pauline said in relation to our work permits issue, it is not something that we hear every day is a major burning issue for companies.

Q117 Mr Weir: You say that some of these issues prevent the creation of jobs. What specific issues and what are the main issues which prevent the creation of jobs in Turkey?
Mr Campkin: If you are looking at the ability to have a flexible labour force, to train people, you have to have a pool of people who are trained and have the basic skill sets which a company can then take and develop to meet its own product or manufacturing requirements, and there are some concerns that we have heard about some of the basic skill sets in some areas, so that is an example of where that—

Q118 Mr Weir: But is that a problem with the education and training system in Turkey rather than anything else?

Mr Campkin: Yes. Companies do say that it is sometimes difficult to get hold of suitably qualified people and they do have to do quite a bit of training and education themselves. Of course companies do that all over the world in a range of circumstances, so you can deal with it, but at entry level it can sometimes be a problem, yes.

Q119 Mr Weir: Do you think that the customs union has delivered for UK businesses? And what are the most serious problems that your members come up against in business with Turkey?
Mr Campkin: The customs union has certainly played a part in increasing levels of trade. Whether it has reached its full potential I think is questionable, partly I think because of some of the lack of follow-through in discussion. Pauline may want to say something about the practical perspective, but we would consider that the customs union has been an important step forward but that reform needs to continue and indeed that is one of the reasons why the accession process could be a useful tool for delivering more reform in areas where we think it is needed.

Q120 Mr Weir: You have mentioned the accession process rather than accession itself. Do you think that resolving these problems is dependent upon the process moving forward; and do you think that resolving them would have a significant economic benefit for the UK?
Mr Campkin: If you are asking me about our views on EU accession—
Chairman: We will do EU accession later.

Q121 Mr Weir: Not your views on the accession but whether you think the two things are linked.
Mr Campkin: I think anything that creates circumstances and an atmosphere which promotes reform in Turkey, which continues the process of dealing with some of the rigidities of the market place, some of the barriers to trade and investment is going to be welcomed by British business. So in that sense, yes, and it is important to keep the pressure up, as we said earlier.

Q122 Mr Weir: Do you think that if these problems with the customs union are solved it will have significant economic benefit for the UK—the second part of the question?
Mr Campkin: Yes. Again, if you take the Scotch Whisky example they would say that it is millions of pounds worth of business at stake, and we could also point to other sectors as well; so, yes.
Ms Shearman: I think it is the message that it sends as well that is very important because I think quite a few companies are watching those that are already there to see what the outcomes are before looking at the opportunities themselves.

Q123 Mr Weir: What can be done to ensure that Turkey adheres to its customs union commitments? Is it a case of keep on dangling the carrot of eventual accession or is there anything else that can be done to encourage the Turkish Government to adhere to these commitments of the customs union?
Mr Campkin: At the end of the day I go back to the first answer that I gave when we went into this particular part of the discussion, which is if a country signs up to the commitments it should honour those commitments and obligations and if it does not then ways should be found to ensure that the pressure is brought to bear to make sure that they do. It is about commitments and it is about level playing fields.

Q124 Mr Weir: Do you think it should be the UK Government or the European Union that should be acting to ensure compliance with the customs union?
Mr Campkin: I think both the European Commission and Member States should be taking all avenues possible to ensure that obligations are met.

Q125 Mr Weir: So both. So do you think there would be any greater success then through a bilateral UK-Turkey arrangement or an EU-Turkey arrangement?
Mr Campkin: I am not sure whether I understand the thrust of the question.

Q126 Mr Weir: I suppose another way of asking is, is this all dependent on progress in the EU negotiations? Is that the real stumbling block to Turkey sorting its problems with the customs union?
Mr Campkin: In my view no; it has signed up to a customs union, it has made some commitments, a lot of which it honours but some of which it does not, and that is where we are at the moment. We have to point out, as we have in our evidence to this Committee, as we hope Lord Jones will do when he goes on his bilateral visit, as we hope Commissioner Mandelson will do whenever he talks to the Turks, that there are issues that need to be addressed, and there are ways of doing that—I mentioned the Scotch Whisky trade barriers regulation proposal, which we expect to see developing over the coming months—and that is the way to ensure that some light is shed on where Turkey has failed to live up to its commitments.
Chairman: We will move now to the question of EU membership itself. We have heard conflicting views, and I think the Committee would agree that the consensus among Turkish business was that the process of negotiation was very important to enable Turkey to continue its reforms. We did hear some contrary views but that was the overall consensus. So what about membership? Tony Wright.

Q127 Mr Wright: What we found generally in Turkey was that the vast majority if not all of the businesses put up a strong case for the reasons why they required EU membership, and indeed your equivalent in Turkey, TUSIAD, were very strongly supportive of accession. What is the attitude amongst your CBI members towards Turkey's EU membership?

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Mr Campkin: We do not take a view on the merits of political membership of the EU—members do not take a view on that. Where they do have a view, to follow on from our earlier discussion, is that anything which can be used to help reform in Turkey to create a better economic environment in which to do business and to lock in the reform process and take it forward makes sense. So we will make a judgment on that basis and leave a political decision to the politicians.

Q128 Mr Wright: If there is not a view on that particular issue then is there not a view with regard to the benefits that we have seen in regard to migration from the accession countries—certainly in regard to Poland, for instance, and many of the eastern countries where we have seen migration of workers coming across to fill the job vacancies. In Turkey do your members see that as a positive contribution, that we could actually add value to that, and certainly with the new point system that is being suggested by the Government, in line with what they do in Australia, is that perceived to be a better method to try to capture the skills that may well be required for the UK economy rather than just putting a cap on the levels of migration with regard to an accession country like Turkey? The question really is would your members see that Turkey would add value in regard to the possibility of using some of these skills?
Mr Campkin: If Turkey were to become a member of the EU then the CBI would support free movement in relation to Turkey, as we have done with the A8 and the A2. However, as with the A2 we believe that it would be prudent to assess quite carefully at the point of accession the impact of free movement and to look at ways of addressing any concerns that may arise at that time.

Q129 Mr Wright: So what you are saying is really at that time—because we are some years away from that at that time—it is probably prudent to be more selective in terms of the freedom of movement in that particular rather than saying that we can allow so many thousand to come through and therefore the cap is put on that, and that certainly would not be the best way forward, would it?
Mr Campkin: We do not necessarily believe in caps; what I am saying is that at that moment of possible accession, as with the A2, there would need to be a reflection of the dynamics in play at the time and decisions would have to be made about that. But we support the general principle that within the EU Member States there should be freedom of movement of people.

Q130 Chairman: We heard when we were in Turkey quite a lot of optimism about continuing high levels of growth in the Turkish economy, which may or may not be well founded, but the current rates of growth are really quite high. We were also told about the value to the EU of having a relatively young economy joining it when the EU's economies are largely ageing economies. We were told that the earliest date for membership that anyone was talking about was 2015—and that is an early date—and we heard from our interlocutors in Turkey a willingness to think about a 10-year transition period for migration issues over and above that, means that we are looking at an earliest date of 2025 for an economy which might be significantly more vibrant than it is now and therefore where people are much more reluctant to leave. What is your comment on that analysis?
Mr Campkin: Certainly—and I will ask Pauline to pick up some of the dynamics of the Turkish economy—it does seem to us—and it is the reason why UKTI has identified it as a growth market—that the dynamics are very positive, as you rightly said, Chairman. There is a growing youthful make-up in the economy; the way in which growth rates seem to be locked in and you can plot those quite closely to the reform process is encouraging; and we would certainly hope that with further reform and with continued growth those opportunities will continue to grow. I cannot really comment on the detail of transition arrangements and people.

Q131 Chairman: No, but your common sense judgment is that a vibrant, growing economy, which Turkey is becoming—or has become—with 17 years to membership—if it is 17 years—would mean that the risk of very high levels of immigration—which must concern the Germans, for example—will be significantly reduced?
Mr Campkin: I think that has to be right in principle. If you look at creating greater opportunities in any one country people will tend to want to stay at home rather than travel long distances. The balance of factors is different.
Ms Shearman: I think a lot of that will depend on the education developments within Turkey and the training made available and the scope of that availability to all sections of the population, including male and female.

Q132 Chairman: Thank you for those comments. I think you have answered this question implicitly in several of your earlier answers, but if you want to give me a summary answer of where do you think the most urgent reforms are needed in the Turkish economy?
Mr Campkin: For me and from the view that I have from our members the most important thing is to ensure that laws that are enacted are implemented fairly and uniformly. That is a fundamental issue for business and absolutely vital for us. In one sense a lot of the other problems flow from that, whether that is intellectual property, whether it is in relation to customs procedures and so on and so on.
Ms Shearman: There are a number of issues that we have submitted in our written evidence.

Q133 Chairman: Clearly and I have it in front of me.
Ms Shearman: One of the most important—we have mentioned bureaucracy and possibly issues relating to the informal economy and how to reduce that—I happen to think that attitude to foreign investment is extremely important in Turkey and one has to ask whether some of the issues affecting UK companies

are as a result of local interests being protected. So, again, impartiality and regulation should improve those issues.

Q134 Chairman: That leads me on to the next question I want to ask, about changes in investment law and the progress of privatisation. To take a specific, the recent constitutional court decision, which Mike Weir referred to in one of his questions, appears to end the rights of foreign investors to own property. What view does the CBI take of that specific one?
Mr Campkin: I cannot give you a judgment on that at the moment, Chairman, but would certainly be happy to provide additional written information, if that would be helpful.

Q135 Chairman: That would be helpful. We visited the privatisation authority when we were there and were taken through the process by which privatisations are conducted and the rapidly accelerating pace of privatisation in Turkey—and most recently the Lottery has come up for grabs. What about referral deals to the courts? BAT has seen its acquisition of Tekel referred to the courts, for example. Is that a matter that concerns investors or do they see it as being part of the process of doing business in Turkey?
Mr Campkin: I think it is variable and that is part of the problem; there is no consistency of application. The BAT issue is of concern and has been raised with us; but, again, it is a question of looking at the implementation of effective legal reforms which say that once you have a law it is implemented uniformly across the country and done so fairly, and a lot of the issues like that one do have a very strong element of unfairness within them and could be rooted in ways of restricting access to Turkey for UK businesses.

Q136 Chairman: This Committee has always taken an interest in the government-to-government relations of foreign trade matters and we have seen JETCOs established for a number of countries. Now there is a proposed government-to-government forum for UK-Turkey relations. What do you think of that?
Mr Campkin: As you will know, Chairman, I have been involved in a number of JETCOs and we have spoken about this on other occasions.

Q137 Chairman: Indeed.
Mr Campkin: They are a useful vehicle for highlighting some of the issues that we have been talking about in this Committee today. The fact that they are government-to-government I think gives them a different sort of level—it gives them a different imprimatur—and the JETCO process has had mixed results but nonetheless they have delivered some results and that is important for business because we are looking at ways to get deliverables.

Q138 Chairman: The level of commitment that JETCO requires, theoretically at least, at the ministerial level, is very considerable.
Mr Campkin: It is very considerable.

Q139 Chairman: So what is the difference between a JETCO and a government-to-government forum? You may not know and it is a question I will ask Digby Jones, I am sure, when he comes before us.
Mr Campkin: I think that is really a question for UKTI. What we would be looking for is whether whatever processes or procedures are put in place that they actually deliver. I do know that when the Turkish Prime Minister was here recently some of the access issues and the court issues were raised with him, so at the highest level there is that dialogue. JETCOs and government-to-government contacts are important at, if you like, working minister level as well.

Q140 Chairman: Are there any more comments that you want to make on the structure of what it should be like? How would you like the government to structure this forum?
Mr Campkin: Pauline might have some thoughts but in general terms I think the key thing is that any structure takes effective input from the business community and provides a way for the business community to continue to highlight the difficulties that exist, and indeed find ways of delivering effective results. As you know from our previous evidence, we are not greatly supportive of talk shops.
Ms Shearman: To add I think it rather depends on the level of business that the UK has with Turkey. Clearly it will not be warranted, I do not think, necessarily by the current volume but if we are looking towards the future to increase that share quite considerably then that is a possibility.

Q141 Chairman: I will ask the question I was going to ask first. I got the impression while we were in Turkey talking to business people that there is a huge reservoir of goodwill towards the UK and UK businesses, which is not shown in every market. I think the political situation, the UK is perceived as a good political friend to Turkey as well as a potential economic trading partner. So do you share my instinctive view that actually there are some very real opportunities for the UK which might even have a comparative advantage with other economies?
Ms Shearman: Definitely and I think quite a number of senior Turks in companies and even in government have been educated either in the UK or in the US and who are very favourable towards the UK. But I think any dialogue that exists has to reflect the volume of business that is actually being done in both directions.

Q142 Chairman: I think that is a valid comment. It is a way of asking my last question in a sense because it sums up all the evidence so far, unless there is anything else you want to say. If this government-to-government forum is established because there is a judgment that it is worth doing, what are the top three issues it should address?
Mr Campkin: At the risk of being somewhat repetitive—

Q143 Chairman: Repetition is always good—you make your point by repeating.
Mr Campkin: Certainly at the top of the list is the legal enforcement of existing obligations, I have no doubt at all about that. Secondly would be to look at ways of enhancing the reform process which takes forward the process of creating a better economic circumstance in Turkey from which British companies can benefit. Pauline, do you have a third one?

Q144 Chairman: You do not have to have three, two is fine. Is there anything else you feel that we have not talked about in this evidence session and that you would have liked to comment on?
Ms Shearman: Clearly I met with the Turkish-British Business Council yesterday from whom you will be hearing next, but I think one of the key areas—and this fits into the idea of whether there should be a government-to-government forum—is that we have to ensure, first of all, that if we are going to do that we get commitment from government and that ministers will be available to do it, and that company people at senior level are committed enough to take part in it because Turkey is a country where status is very much observed, and the protocol, and it would be very difficult if we were to undertake to start this arrangement and then find that we cannot actually get the level of support that we require.
Chairman: Thank you very much. You have promised us one or two things which we have made a note of and our staff will be in touch about to make sure it works. I am very grateful for your evidence. Can I also apologise publicly to our next witnesses. I am afraid that competing Committee business means that I have to go elsewhere to do some other business but Mr Lindsay Hoyle will take the chair for the Turkish-British Council and I will look with interest at the transcripts. I am very sorry; there is no discourtesy intended but sometimes you cannot be in two places at the same time. Thank you very much indeed to the CBI.

Witnesses: **Sir Julian Horn-Smith,** UK co-Chair, Turkish-British Business Council (TBBC), **Mr Michael Thomas,** Director General and **Mr Chris Innes-Hopkins,** Director of Trade & Government Relations, Middle East Association (MEA), gave evidence.

In the absence of the Chairman, Mr Hoyle was called to the Chair.

Q145 Mr Hoyle: Could I ask you to introduce yourselves and then perhaps we could go on to the questions.
Sir Julian Horn-Smith: I am Julian Horn-Smith, recent Chairman of the Turkish-British Business Council.
Mr Innes-Hopkins: I am Chris Innes-Hopkins. I am with the Foreign and Commonwealth Office but on a secondment to the Middle East Association which runs the Secretariat of the Business Council.
Mr Thomas: I am Michael Thomas. I am Director General of the Middle East Association. I have been involved with the Business Council since 1994. I have been a former Chairman of the Turkish-British Chamber of Commerce and Industry, and we carry on with the Business Council.

Q146 Mr Hoyle: That is excellent. I would like to go through some questions with you. Could you explain to me the TBBC's role in UK-Turkey relations? What resources do you have at your disposal to further the Council's work and who funds you?
Sir Julian Horn-Smith: The Turkish-British Business Council facilitates high level networking contacts for members of TBBC; this is to say, British companies that do business in Turkey. We interface, incidentally, with our Turkish opposites: I am co-Chairman and we have a Turkish co-Chairman as well. We try to identify, where we can, UK-Turkey collaboration opportunities and we obviously try to contribute where we can to build a strategic partnership with Turkey. However, our resources are extremely limited. Over the last 18 months our funding has been a grand total of £5,000, including VAT, which is not much if this is a priority market. I personally have chaired now two meetings of the TBBC—I am the voluntary Chairman, by the way.

Q147 Mr Hoyle: At that level, you must be!
Sir Julian Horn-Smith: Exactly. One cannot make a living out of it. In short, yesterday I had quite a long discussion with members of how we could raise our game, given the importance and size of the Turkish opportunity. All the people there, including myself, have years of experience of doing business in Turkey.

Q148 Mr Hoyle: Is the £5,000 for the secretariat?
Mr Innes-Hopkins: Yes, for the costs of servicing the secretariat.
Mr Thomas: Perhaps I may interrupt, Chairman, to say it is a contribution towards the secretariat. The Middle East Association is covering the costs. This is a change of circumstances. UKTI used to fund promotion for Turkey when they made it a priority target—not very many years ago—to £250,000 per year and this was a three-year deal. Of course we raised our game very nicely then. Sadly, this money has vanished and we are left trying to hold the fort ourselves with a minimum payment from UKTI of £5,000 which includes VAT.

Q149 Mr Hoyle: What links do you now have with UKTI?
Mr Thomas: Very good. We simply do not have the funds. The funds have been directed in other areas, particularly India, for example, which I believe has £1 million a year.

Q150 Mr Hoyle: The links are good; it is just the funding that is not there.
Sir Julian Horn-Smith: Yes.
Mr Hoyle: I would like to bring in my colleague Anne Moffat now.

Q151 Anne Moffat: I would like to ask about the meeting you had in London yesterday and for a summary of what was discussed.
Sir Julian Horn-Smith: We went through a wide range of issues. We talked about the future role of TBBC, in particular what realistically can be set as objectives for TBBC given that we have very limited resources. Clearly this is against a background of trade with Turkey currently running significantly below our global market share for trade and really wishing to try to double the level of trade we have with Turkey. Secondly, what type of specific specialisms could we have at TBBC. I am thinking here of the problems that British companies have experienced in Turkey—such as some of the legal and regulatory issues that have been alluded to in the previous hearing you had. Possibly some of the financial and fiscal problems—which were not referred to—also need attention. We also talked about how we could strengthen our links on the Turkish side and also how we could raise funds for TBBC to try to raise our game. I believe very clearly that we do need to raise our game if we are to improve our share of trade with Turkey. I personally led the bid for Vodafone in Turkey, which is the biggest British investment today in Turkey, where we bought Telsim. It is my view that Turkey is not a traditional market for British companies and therefore we need to both widen the information about Turkey to British companies that wish to invest there but also give them a little more help, showing them how to be effective there. At the meeting, these are the sorts of issues that were covered, and we also covered some of the problems they are experiencing today and a wide number of other things besides.

Q152 Anne Moffat: In response to one of the questions you mentioned the lack of funding. Does that mean that you are doing less now because of the lack of funding than you used to do? What more could you do if you had better funding?
Sir Julian Horn-Smith: I am not qualified to talk about what TBBC did prior to six months ago because my own involvement, which is voluntary, is only recent. I will put that to my colleagues in a moment. But we could be doing an awful lot more. For example, the collaboration agreement to which you referred earlier, which was signed recently, surely must have as its backbone much stronger trade links with Turkey. After all, a strong economic mutual interest is a driver of all the other things that we would like to do in the future and certainly gives us far more credibility in Turkey. TBBC could provide part of the input to that forum—and in fact would very much like to do so—but of course we cannot do it for nothing. Would you like to say how it was?
Mr Innes-Hopkins: I would prefer to look to the future and what we could do. I think the strategic partnership agreement that was signed by the Prime Minister Erdogan and Prime Minister Brown last October provides a very good framework to which we could input, given some more resources. It is a very wide-ranging document, with co-operation opportunities across the board, and a lot of the activities mentioned there could positively affect the business environment eventually. One example I discussed last night with the Chairman of the Istanbul Stock Exchange is corporate governance. They would like to raise the standards of corporate governance in Turkey for the companies under the stock exchange. So far only eight have met these EU requirements. I think we could do a seminar, for example, bringing in UK expertise on that front and pooling resources. There are a lot of practical initiatives we could take, given a bit more resource.
Sir Julian Horn-Smith: That is precisely in the context of the point we were making right at the beginning as to what is the role of the TBBC. We are capable of picking up particular themes where the UK is very strong. Financial reform is one of them—notwithstanding Northern Rock—and in particular things such as Chris has mentioned, but also some of the stock exchange rules, such as squeeze-out provisions. I am not sure if you are familiar with what I mean by squeeze-out provisions; that is to say, when you take over a public company, if only a small number of shares are still quoted in the company there is a means of squeezing it out and ensuring that you would have full ownership. It is simple things like that, which exist in London, Frankfurt and New York, which do not happen to exist yet in Turkey. Those sorts of things we can help the Turks with but also help promote more trade with Turkey.

Q153 Anne Moffat: Are you going to be involved with Lord Jones's visit in September?
Sir Julian Horn-Smith: I am not sure yet. We would very much like to do so. We have worked with Digby on that one. I am quite convinced that there are issues in Turkey which are capable of being far better.
Mr Hoyle: We hope it will be a successful visit.

Q154 Mr Wright: In terms of the opportunities and the barriers, we certainly saw that there were opportunities over there but how big are those opportunities compared with some of the risks that are involved for the companies? To which types of companies would you recommend Turkey?
Sir Julian Horn-Smith: I think a wide range of companies have opportunities to invest in Turkey. Clearly, as the last witness mentioned, companies involved in the operation of infrastructure and companies involved in provision of infrastructure, such as power generation companies, but also in the private sector, such as retailing. For example, Tesco are beginning to invest; BAT, as was mentioned earlier, are investing there; Diageo are investing there but have a few issues; Thames Water, back to the infrastructure, are an investor there; Vodafone,

as you know, which recently bought Telsim, are an investor there; in mining, European Nickel are an investor there, with some issues.

Q155 Mr Hoyle: A bit of a rough time.
Sir Julian Horn-Smith: And of course the Scotch Whisky Association. There is a wide range. Both manufacturing but also service companies have the potential—and of course Britain is particularly strong in the service sector. That is why we see now people like Tesco and Vodafone becoming involved there. There are plenty of opportunities there. Did you ask about some of the barriers as well?

Q156 Mr Wright: Yes, in terms of some of the risks that may well be involved with the companies. To be perfectly honest, not just in Turkey but when we have been to other European destinations and further afield, we have seen that one of the issues tends to be that British industry is a bit reluctant in some cases to take certain risks that other countries, such as Germany and France, may well take. Some of it is the perception of a risk rather than the reality.
Sir Julian Horn-Smith: Of course, part of it is a lack of knowledge about Turkey and the Turkish market. British companies tend to be more familiar with closer European countries and markets, English speaking countries, and maybe the Middle East, and now of course, after the promotions, India and China. Turkey is a market which not many British companies are familiar with and therefore there is the risk of the uncertainty and not knowing how to do business. Is Turkey in the Middle East? Is Turkey in Europe? What are the business practices that require success in Turkey? As you have observed on your visit there, the structure of Turkish business is utterly different from the way we structure our own, with compulsory membership of chambers of commerce, for example, and the way they structure their foreign trade, so, therefore, there is a difference in perceptions. The slow movement of the Turkish legal system is one area which is problematic for some British investors there. There are also problems with some British investors in the fiscal arena. To take Diageo, they are in dispute—not only the Scotch Whisky Association, as always mentioned, but Diageo are in dispute—about duties. Indeed, Thames Water has a tax dispute as well. It is not unusual to have a tax dispute, even, dare I mention it, in the United Kingdom, and appeals take place and companies and authorities have to come to a conclusion, but the manner in which they are dealt with, of course, is different and perceptions are different as well, and, consequently, a better understanding is needed of how they are dealt with. One of the things the strategic partnership can build on is trying to fast-track some of those disputes and point British investors and perhaps Turks in Britain as well in the right direction to know how to deal with these problems in a more practical manner. There is no question that these obstacles are referred to and of course some of the things that will come into play when Turkey joins the EU, such as intellectual property rights (IPR), and maybe we will benefit from stronger educational links with Turkey as well. Certainly the Turks are very keen for that, which presents us with an opportunity. There is lots and lots to be done. Nevertheless, the big picture is that the opportunity is bigger than the perception amongst British industry today, and, therefore, there is a need to take action.

Q157 Mr Wright: You have touched on an awful lot of sectors. What you would say is that it really is an open market for every single sector that we have within the UK. Obviously energy is not just an issue there; it is an issue across the whole of the European Union and, indeed, across the globe. Is there one sector in relation to which you think the UK is really at the top of the game? Could you say in terms of a particular sector that it is one where we have more to offer to Turkey?
Sir Julian Horn-Smith: I would like to remark a little on what you have said. We have had Minister Simsek along here twice talking about the encouragement of foreign investment in Turkey, and we have had the heads of major fund managers and some of the biggest private equity fund managers looking at Turkish investment possibilities, and very interested to do so. Is there one in particular? There is not, no. There is a wide number of opportunities in Turkey. By and large, I would agree with the previous witness that the medium to large organisations would find it a little easier. A small organisation might find they get lost trying to penetrate the Turkish market—with the exception of tourism, which is quite different, and real estate possibly. The larger sectors are the ones that are likely to be successful. In particular, from the UK, finance and banking is an area where I think we could take a stronger role, given the role of the City of London, where we are highly respected.

Q158 Mr Wright: They are the most protected areas, are they not, finance, banking, consultancy?
Sir Julian Horn-Smith: Yes, of course. They are heavily regulated and to some extent protected; however, the Turkish Government have over the years been allowing the sale of Turkish banks to foreign companies. We see HSBC, for example, as a major investor in Turkey. You cannot fail to have noticed them if you were there. Indeed, there may be future opportunities not only in retail banking but also investment banking in that market from London, and opportunities also for the London Stock Exchange (LSE) and the FSA to help with regulatory rules in Istanbul, which will help to integrate Istanbul into the EU in an open financial market in the future. I would pick on finance, but, frankly speaking, there are opportunities for many others as well besides.
Mr Innes-Hopkins: Could I add on one area: EU funded opportunities. There is massive funding behind the EU accession process. I do not know if you visited the EU delegation in Ankara—I think it is the largest in the world. I think it is extremely important for us to tap into those opportunities, whether they are consultancies or some of the adaptations in the environmental sector. Generally speaking, there is a big opportunity for UK expertise

across the board but it does mean getting abreast of EU tendering requirements and getting early warning of when opportunities are coming up.
Mr Thomas: I do not think we should lose sight of the fact that Turkey is a very important regional export hub, particularly to the Middle East and the central European countries. There are great advantages for British companies to set up their own manufacturing units on a joint venture basis with Turkey locally. They have good employees, who are well trained and up to the mark, and it makes an awful lot of sense to set up a manufacturing outfit down there for onward export.

Q159 Mr Wright: Turkey looks at us as a good export market as well because the balance is in their favour rather than ours. One of the companies we visited was a refrigeration company. Because of their market, it is now setting up a business in the Midlands to assemble refrigerators and creating probably up to 30 jobs. How much of that do you see coming this way? Because obviously it is not going to be a one-sided affair. We need to have the benefits not just for British industry but also for the UK economy as well.
Sir Julian Horn-Smith: I would agree with that. As you rightly point out, it must be reciprocal and, further more, the balance at the moment is something in the region of 2:1, about £2.5 billion to £4.5 billion, so we are on the downside from the UK perspective. I think we are underperforming on the British side. I think we really should be setting an objective to double or possibly treble our position there, at least to achieve our share of world trade within the Turkish market but really we ought to be going beyond that. I think we really ought to have a vision—and would set a vision, certainly, through TBBC and encourage members to do so—of what we wish our position in Turkey to be, and then put in place the resources to enable that to happen which is not entirely from government but is partly from government.

Q160 Mr Wright: That was of concern to us, whether or not you were going to be consulting your own members as well. It is one of the big issues. Going back to what I asked earlier, why is it that British industry and British technology seem to be missing the trick? The now Chairman mentioned earlier about the Italian Government telecommunications being ahead of the field. Why is it that we sometimes appear to be lagging behind?
Sir Julian Horn-Smith: I do not think we are across the board. I can speak with authority on telecommunications because I know that market very well. Vodafone acquired Telsim, which is Turkey's second biggest telecom operator. The leading operator there, which is called Turkcell, is owned partly by a Turkish shareholder, partly by Swedish TELIA with a minority holding and partly, with a small minority, by the Russian ALPHA. Telsim is the only 100% foreign-owned telecommunication company in mobile of substance—also there is a third, which is owned, in part, by the Saudis—nevertheless, it is the second largest there and a British subsidiary (of Vodafone), so that is not entirely the case. However, there are areas, such as atomic power to which you have referred, which is an agenda item for the Turkish Government, and a number of other areas where privatisations may happen in the future, where, unless we raise our game, we will not perform. Why is it so? Partly tradition: British companies have not historically traded in Turkey, so it is something new for them. Partly priorities: of course something new brings with it unknown risks and, these days, public companies, in particular, are under the spotlight and need to be transparent about how they do business and therefore do not want to make mistakes when investing their shareholders' capital. It is a series of reasons but, of course, the familiarity reason is the one, as far as British companies are concerned, that perhaps is more significant than it would be for, let us say, German companies or French, which are more accustomed to doing business there than we are. That does not take away the fact that there is an opportunity in the future and we need to raise our game to put that right. I am firmly of the view, from my own personal experience with a multi-billion pound investment in Turkey, that we are capable of doing that, but we do need to raise our game and we need to be more systematic about how we use bodies such as the TBBC and how we interface with the Turks, maybe learning some lessons from the Jetco example, in order to get that, but we need to put some resources behind it and also persuade industry to do so too.

Q161 Mr Wright: Obviously part of the accession agreement is that Turkey has to go through some significant changes. In terms of the next 12 months, which sectors do you see will be seeing significant liberalisation within their markets? What new legislation do you see coming forward?
Sir Julian Horn-Smith: Currently there are things that have just happened within the pipeline. BAT, for example, in tobacco need now to move forward and execute their auction win. I am not familiar with how serious the legal challenge is but it is not unusual to have a legal challenge after an auction. We had one in Vodafone when Telsim was acquired. There is potential business coming up in the electricity and power generation and the atomic power sectors in Turkey.
Mr Innes-Hopkins: The environment sector, as I said earlier, is very important: there is a massive adaptation they need to do to meet EU environmental norms and investment needed and I think there are big opportunities for environmental technologies on the UK side. Then, as I say, more generally, services, but that does tend to be a somewhat protected area until the Customs Union is extended into that.
Sir Julian Horn-Smith: The opportunities are not confined to privatisations themselves in Turkey. There are also opportunities to invest and grow organically there as well, such as the Tesco initiatives and so on.

Q162 Mr Bailey: Perhaps I could turn to some of the constitutional/political issues and potential obstacles. What do you think is the effect of the constitutional wrangle between the constitutional court and the Government? Also, on the issue of the constitutional court decision on the purchase of property/real estate in Turkey, what effect do you think this is having on the perception of Turkey and the willingness to do trade with it?
Sir Julian Horn-Smith: Before I hand to my two colleagues on that, because I am not a political animal—

Q163 Anne Moffat: Yes, you are!
Sir Julian Horn-Smith: No, I am not.

Q164 Mr Hoyle: Right, let us make some progress. Let us move on.
Sir Julian Horn-Smith: Clearly that type of uncertainty cannot be helpful to Turkey because it creates doubts where people already may have doubts in their mind about the certainty of doing trade with business in Turkey. The reality is they are probably of very little relevance at all. Concerning property and property investment, certainly talking with some Turks and their own Ambassador last night it appears that there is no prohibition for foreigners owning property in Turkey, so I am not too clear where this has come from.
Mr Innes-Hopkins: I understand there is a proposal that would limit the right of foreign companies to own property but we do need to research that further. There did not seem to be undue alarm at our meeting yesterday.
Sir Julian Horn-Smith: No. I was told there is no difference from the rules that are proposed for Turkish companies.
Mr Thomas: The Turks we met thought it was a big misunderstanding.
Mr Innes-Hopkins: We are going to have to look into that.
Mr Thomas: Of course it could do a lot of harm.

Q165 Mr Bailey: It may or may not be a misunderstanding but, certainly, on talking to a commercial developer in Turkey they considered it to be a significant development that needed to be sorted out. Talking to the diplomatic and business staff, it tended to be waved away as one of the peculiarities of Turkey that would be surmounted. The significant thing, whether it is a real obstacle or not, is that potential developers in Turkey thought it was. That is obviously a matter of some concern because, as you say, it will affect people's perception.
Sir Julian Horn-Smith: Yes.

Q166 Mr Bailey: Are there any other legal issues?
Sir Julian Horn-Smith: In relation to those companies that have invested in Turkey to date, notwithstanding we would like there to be more, there are really too many disputes and too many disputes outstanding. They do not seem to be about any one particular issue but a number of them have developed into court cases. Certainly Diageo are currently in court appealing a fiscal matter and they are getting to the point where they are considering whether they really want to remain in Turkey, so I am told by their people—in fact, they asked me if I would mention it to you. You are familiar with the Scotch Whisky Association story. Thames Water over the years have been involved in disputes—mostly now resolved but they still have a tax dispute which will, I am sure, be in time resolved. The European Nickel people also have a dispute, which I think is being resolved, partly through legal process, concerning environmental issues and the impact of mining in Turkey. Consequently there are a number of legal cases in the pipeline; however, one of the things the strategic partnership can take under its wing—indeed, TBBC, if it were in a position to have sufficient funding to conduct its role in a more effective manner—would be to give a little guideline and a little help to companies who are in this position, to help them find resolution of their disputes. Also, maybe the strategic partnership can encourage a fast track review of the position to try to ease the situation for existing investors in Turkey. In short, I mentioned to you much earlier that I felt we were underperforming in Turkey and had the potential to double or maybe treble our position in Turkey, and, while we need to have that vision, we also need to take a realistic view of our point of departure: Where are we today? In that regard, Mr Bailey, your question covered the legal matters but, nevertheless, we need to be open with the Turks and they themselves, perhaps through their inward investment team, could be encouraged to participate in the strategic partnership. This is the team headed by Alpaslan Korkmaz which encourages inward investment into Turkey. He made a long speech when Prime Minister Erdogan visited London encouraging inward investment and also at the CBI conference here in London, but of course they need to help inward investors overcome those issues as well.

Q167 Mr Bailey: Could I change the emphasis from the legal side to the IMF and EU pressure on accession in the context of promoting liberalisation with Turkey. Two different perspectives emerged when we were over there. The first was that it was essential for Turkey to have this pressure in order to justify its continued liberalisation process. The other was a suggestion from some that this was a slightly patronising attitude and that the dynamics of the country's economic growth were, shall we say, pushing this process independent of any pressure from the IMF or EU. What is your perspective?
Sir Julian Horn-Smith: I really have not had any discussions with anybody from IMF or EU about this subject, so I am not sure I am the best candidate for a question there, but I do know from meetings I have had with Minister Simsek during, two long evening meetings, that he believes he is on a mission to address transparency and openness in encouraging inward investment to Turkey. Judging by the input I heard from him, I think those two organisations will have to be quite sensitive in how

they talk to the Turks, who are, after all, a very proud people and believe they are already trying very hard to address this.

Q168 Mr Bailey: This comes to the crux of the matter. Even without this sort of pressure—and you say, quite rightly, the Turks are very proud people—do you think there is a compelling logic arising from their rapid economic growth that would make for this liberalisation?
Sir Julian Horn-Smith: I think so, yes, but it is purely an opinion.

Q169 Mr Bailey: We are asking for your opinion.
Mr Innes-Hopkins: The IMF programme did have very clear targets that were dependent on future financing: if you did not meet the targets, you did not get the next tranche of the IMF programme. It was indispensable at the time: as you know, in 2001 there was an extremely serious economic crisis. The IMF support has provided a framework and certain disciplines for policymakers and I understand that that programme is now pretty well at an end. I think the EU programme really comes on where the IMF finished. The EU programme provides another framework, but perhaps more carrots than incentives: "If you are going to meet the accession requirements, this is what you have to do" but, alongside that, there is considerable practical support and funding that helps implementation. It is certainly an incentive but I think there is increasing evidence that the reform programme is being internalised and there has been tremendous progress over the last five years on that front.

Q170 Mr Weir: We have heard a lot about the potential barriers in Turkey to UK investment. You yourself mentioned a hope of increasing Turkish investment in the UK. Are there any major barriers to greater bilateral trade and investment relationship on the UK side?
Sir Julian Horn-Smith: The matter that is often raised after initial pleasantries is the visa question; in particular, the difficulties both from the British side and the Turkish side of having visas issued for senior business people who wish to trade either in Britain or customers of British companies wanting to visit here. They are required to answer a number of sometimes quite personal questions about their financial situation and all sorts of things. There may be other reasons but it is certainly not helpful to trade and, frankly, all I can say is that I personally would not want to have to go through that process in doing business with a country.

Q171 Mr Weir: Are there any others that you are aware of or is it visas that are the big issue?
Sir Julian Horn-Smith: In Britain?
Mr Innes-Hopkins: I think that is the number one issue.
Mr Thomas: I think there are a number of advantages for Turkish companies coming to Britain, which they recognise. Visas, that is the problem.
Sir Julian Horn-Smith: There are things they would like to have more of, but that is not really your question—although I am happy to answer that if you want to ask it.

Q172 Mr Weir: Is the UK doing enough on education links with Turkey?
Sir Julian Horn-Smith: That is the "more of" question that I was hoping you would ask me.

Q173 Mr Weir: I am one step ahead!
Sir Julian Horn-Smith: You are. The answer to that is yes. Something they have raised with us is the wish to allow more Turkish students to attend British universities. They say not necessarily at degree level but possibly HND level but, either way, they are currently treated as non-EU members and therefore charged fees for non-EU student status. The Turks believe that obviously they would like us in the path to accession to waive the non-EU part of the fee that is charged students when they come to Britain and attend British educational institutions. As far as visas for students is concerned, they have not raised the same concerns—at least I have not heard them doing so—that they have for business people. This is a rather different situation. I think they are happy for their sons and daughters to queue up in the rain—or the sunshine, as the case may be—but the stronger links and waiving of the non-EU element of attendance by students is something that they have mentioned. I would also, incidentally, very much encourage that we take a look at examples of networking and building bridges with other newly emerged European EU members, and maybe some of the more established ones as well. There are things that we do—and I will give you a practical example or two in a moment—which work very well, not purely in the business sector but also in political and educational sectors, for networking, building bridges and getting to know each other which help in business over the longer term. For example, you would be familiar with the Tertulias that we run with Spain or the Colloque with France or the Koenigswinter conferences with Germany. Perhaps that is a bit grand for us today with Turkey but, if we believe they are going to become members of the European Union—which we do, and it is a priority for us which it is—then putting in place some of those processes and some of those institutions today or in the near future, akin to the Tertulias example, is a practical and pre-emptive way of changing our relationship with Turkey—which takes a number of years to do: you cannot do it overnight—as they become a full European member, getting not only business people but educational people, scientists and political colleagues to become far more familiar, as you are clearly after your visits to Turkey, with the opportunity there and vice versa.

Q174 Mr Weir: Specifically as regards education, we find that in India, for example, a lot of the universities are making a lot of effort to get into the Indian market and attract Indian students. Is the same process beginning to happen in Turkey? Are you finding universities coming on board and specifically trying to attract Turkish students to the UK?

Sir Julian Horn-Smith: I should declare that I have just been appointed as Chairman of the Advisory Committee of the School of Management at Bath University.

Q175 Mr Hoyle: This could be a Turkish Bath!

Sir Julian Horn-Smith: Yes. I am not aware that Turkey is specifically targeted but, frankly, it is a question I have not asked, so I would have stumbled across it. They are certainly targeting overseas students at the top management schools now in Britain. Indeed, a large percentage of the students attending, for example for MBA, MSc and doctorates, in other words post-graduate courses, come from overseas now, mostly from outside of the European Union.

Mr Innes-Hopkins: In relation to students coming to the UK, my old university Exeter has been quite successful. President Gul studied there for an MA and they are now taking quite a lot of Turkish administrators on short courses related to the EU Acquis, so that is a growing area. Obviously it is not just a question of bringing students to this country; it is forming partnerships in country and I think the promising area is technical and vocational training, where we have a number of skills, awarding bodies, who could be very relevant to Turkish skills needs. I know Bill Rammell took a delegation to Turkey late last year. We would like to work on the follow-up with the DIUS and see how the Business Council can build on that because it certainly was an area that came up at our meeting yesterday.

Sir Julian Horn-Smith: Yes, and the fees were the number one issue.

Q176 Mr Weir: The CBI told us that many British companies are having a difficulty with technical people. Is that an area where British universities perhaps could set up something in Turkey, as awarding bodies with Turkey?

Sir Julian Horn-Smith: Quite possibly so, yes. Obviously the devil will be in the detail as to where it is and what it is.

Q177 Mr Bailey: I thought you would like to know I am a fellow graduate from Exeter.

Sir Julian Horn-Smith: I have a son there as well. He is captain of the rugby team.

Q178 Mr Bailey: Excellent. Could we turn to the government-to-government forum. The details on this are fairly scarce. Can you shed any light on it? How do you think your organisation can work with it?

Sir Julian Horn-Smith: We have received a copy, obviously, and have been looking at it. We are discussing with our members—we did yesterday at the meeting we had—how we can interface with it and input into it because we see that as a big opportunity to try to raise their game in the export market to Turkey and also TBBC taking on a more significant role, which I am sure it is capable of doing—with proper resource, of course. In answer to questions you have been asking, we have already talked about the sorts of things that we could do as a subset of the strategic partnership. We think it is a positive thing. We very much hope it is not just another thing that is signed and then forgotten about.

Q179 Mr Bailey: Very much so. What potentially do you think are the issues that could be resolved through the forum?

Sir Julian Horn-Smith: First of all, we have touched on having a more formal structure in TBBC. For example, we would like our members now to start paying for membership of TBBC. We would also like to see some financial encouragement from Government, either at the Foreign Office or from BERR, to increase funding in a more systematic way. As mentioned earlier, the funding, for example, in India is £1 million a year and we have had £5,000 including VAT. It seems somewhat disproportionate. By the way this is not intended as a criticism because those who have helped us have been very helpful and very positive, but the money is not there. We would see this as an opportunity to have a more formal, better structure which also can interface with our Turkish colleagues and help British companies as part of the process of improving our market share there. Also, we can specialise, as I mentioned earlier, in particular areas, such as legal, financial reform and so on, where we have several members who could help with the process of improving understanding and fast-tracking some of the issues and problems of current investors. We would also encourage the Turkish side to work in a more systematic way when interfacing with us. For example, the inward investment people under Mr Korkmaz would work more closely with the Embassy people here, so we would have one voice, if you like, from the Turkish side rather than a series of initiatives which sometimes are not joined up.

Q180 Anne Moffat: Have you made a case for more funding anywhere?

Sir Julian Horn-Smith: Not yet, no. We are going to, though, believe me.

Q181 Mr Hoyle: I think we have got that message as well. We understand the £5,000, including VAT.

Sir Julian Horn-Smith: The VAT is important.

Mr Hoyle: Of course.

Q182 Mr Wright: To move on to the EU accession, in your opinion what is the chance of Turkey's accession to the European Union?

Sir Julian Horn-Smith: It is a very big question. If it were up to us, they would be pretty high, 90% plus, but it is not entirely up to us. We would have to second-guess what the attitude of the Germans would be and some of those who have reservations. Interestingly enough, those who appear not to have a reservation are, for example, the Greeks, as you will know, where the relationship is particularly close. Even the Cypriots now seem to be easing their objections. France and Germany are the two who will need to feel more comfortable before it happens, but I think in time it is better than 50% and it would be a great opportunity lost if it slipped through our fingers.

Q183 Mr Wright: You mentioned the Cyprus issue, and obviously Greek, which is quite a significant barrier to their accession. Do you see that a number of the issues—that we looked at ourselves when we were in Turkey—are really in the hands of Turkey? They have moved a long way. I think people would accept that they have moved a long way and are moving very slowly in the right direction. Would you accept that it is really in their hands rather than anybody else's to move in that direction?

Sir Julian Horn-Smith: If one could wind the clock back, one would have perhaps preferred to have dealt with the Turkish accession before the Cypriot accession. However, that is not where we are. Of course it is in the Turkish hands primarily—but not exclusively—but I think the situation there is improving quite significantly. Certainly the Turks I know tell me they are very much focused on trying to find a way through this.

Q184 Mr Hoyle: This Committee went out eight years ago and everybody wanted to be part of the EU, the population out there was absolutely convinced. That has waned. That has gone away. It is not top of the agenda any more. What do you think we can do to try to move it up the agenda for them?

Sir Julian Horn-Smith: Do you mean public opinion in Turkey?

Q185 Mr Hoyle: Public opinion and also in business, because they think it is never going to happen.

Sir Julian Horn-Smith: That is really a question of leadership in Turkey. The Turkish Government will need to show leadership and show direction to encourage people. What can we do about it? We can be sensitive in our handling in our relations with Turkey but, particularly, both at UK and EU level. We have already talked about the fact that they are a proud people with a rich history who have put their hand up and said, "We would like to join," and so therefore obviously rejection or objection and negotiation need to be handled very delicately and in a sensitive manner. Public opinion is of course fickle. They have other issues, of course, that we have all read about in the press but are well-known in the east of Turkey, but to be patient, to be sensitive but focused, and strong committed leadership by Mr Erdogan and his team are what is required.

Mr Hoyle: Thank you.

Q186 Mr Weir: I think you have answered most of this question. I take it from your previous answers that both wings of the Council Turkish and British are very strongly in favour of Turkey's accession to the EU.

Sir Julian Horn-Smith: Yes.

Q187 Mr Weir: What are the key economic issues in accession?

Mr Innes-Hopkins: Clearly the economic reform agenda. I think the Turkish side as well sees a very strong link with their experience of operating in Turkey: the sooner they can meet the EU Acquis, the better the business environment, which will benefit both UK and Turkish companies. There is very much a common cause there. I think there is an open door for UK plc to contribute to the process. It is very much a win-win situation. There is obviously still a body in Turkey that resists change and that probably will continue, but up until now they have found a way to move forward and to get the momentum necessary. But, as we all know, implementing the EU Acquis is a major challenge, thousands of pages, and it is going to take years. I think the political will is there.

Sir Julian Horn-Smith: And the prize is worth it.

Q188 Mr Weir: What about the migration? Obviously that has been quite controversial, with the new East European states that have joined the EU. We see a report in the House of Lords this morning which seems to cast some doubt on all this. Do you see that as a serious issue as far as the UK is concerned?

Sir Julian Horn-Smith: We are obviously going beyond the remit of TBBC but, nevertheless, relations with Turkey are very important to us and that is part of it. The answer of course is, yes: it is bound to be an issue, given that half the population of Turkey are under the age of 25, so the demographics are very different from ours. Although we often hear about the issues that Germany has, the fact is that even if Turkey has economic growth at a level significantly higher than our level of economic growth it probably will not be sufficient to fulfil the aspirations of all young Turks certainly. I think we will need to address that, and probably have to take into account the concerns, particularly in Germany, and maybe France to a lesser extent, when we negotiate the terms with Turkey. However, notwithstanding that, we must be careful not to shoot ourselves in the foot in that process, first, by irritating the Turks unnecessarily and, secondly, by putting in controls that are heavy-handed and harm economic relations between us and Turkey. It would not be realistic to have a completely open door on day one. It would just, I am afraid, create another problem.

Anne Moffat: And you say you are not political!

Q189 Mr Hoyle: I will just get into a couple of other issues. We did touch on the balance of payments. Do you think we are not getting the true picture; that it is not as bad as we think; that British business is doing better because of the way that accountancy takes place? We are a major part of Airbus, which is a major export to Turkey—wings, engines and everything—and yet the accounting figures will go to France rather than to the UK, and it is the same with the petroleum industry, where some of that accounting is being done in the Netherlands. Do you think that is distorting the true picture, where actually we are in a much better position?

Sir Julian Horn-Smith: That would distort the picture of course everywhere and not just in Turkey. But there is another element to the picture which may distort it and that is of course the service industry and inward investments there. Looking simply at trade often under-sells the UK position The UK has become a very successful source of service industry companies, such as Tesco, such as Vodafone, such as some of the banks, which of course do not export items but export services. Of course these are not shown in the numbers. Notwithstanding that, however, there is no excuse in my view—well, there are reasons but not real excuses, why trade with Turkey is less than a global average. It should be higher than our global average. Therefore, even despite the distortions I think we are still under-hitting, frankly.

Q190 Mr Hoyle: We have touched on Turkish workers coming to the UK but we have also heard about UK companies that wanted to get people in to work for them in Turkey, and they were having great difficulty because it is about protecting Turkish nationals.

Sir Julian Horn-Smith: I have heard about that in the last couple of days but I do not know of specific examples.

Mr Innes-Hopkins: We probably would not be the right body to get involved in the fine detail of that but we have heard that there are problems.

Q191 Mr Hoyle: It is an issue we have got to look at.

Sir Julian Horn-Smith: Yes. We are not really the group for that one.

Mr Hoyle: My final question is: if you could have one recommendation included in our report, what would it be?

Q192 Anne Moffat: Funding.

Sir Julian Horn-Smith: Give us the money! No, it is not that. I really would recommend that we seek to dramatically increase our trade position with Turkey. In that regard, both in outward investment and trade exports with Turkey, by having a more structured approach from the British side to do that. If we were to do that and to achieve that objective, then many of the other things we would like to do in the world of education, in the world of culture, and in the world of diplomacy and so on would be far, far easier for us because we would have a lot more credibility.

Mr Hoyle: Thank you for that, Sir Julian and thank you to your team as well. Thank you very much for your time.

Anne Moffat: That was really interesting. Thank you very much.

Monday 28 April 2008

Members present:

Peter Luff, in the Chair

Mr Adrian Bailey
Roger Berry
Mr Brian Binley
Miss Julie Kirkbride
Mr Lindsay Hoyle
Mr Mike Weir

Witnesses: **Lord Jones of Birmingham**, a Member of the House of Lords, Minister for Trade Promotion and Investment, **Mr Peter Dodd**, Head of International Economics, Department for Business, Enterprise and Regulatory Reform, and **Mr Nick McInnes**, Director, UK Trade and Investment, gave evidence.

Q193 Chairman: Welcome once again. I apologise but we always seem to get this big room. However, you fill up any room you are in, metaphorically speaking, so that is all right!
Lord Jones of Birmingham: Flatterer!

Q194 Chairman: As I always do, can I begin by asking you to introduce yourself and your colleagues for the record.
Lord Jones of Birmingham: I am Digby, Lord Jones of Birmingham, Minister of State for Trade and Investment.
Mr McInnes: Nick McInnes, I am Director within the International Group of UK Trade and Investment.
Mr Dodd: Peter Dodd, I am the Director of International Economics in the Department for Business.

Q195 Chairman: All three of you are familiar to this Committee for various reasons. I begin by putting on the record publicly our gratitude to UKTI staff at the Embassy and Consulate General in Istanbul and Ankara for the excellent way in which we were looked after during our visit to Turkey which was an extremely productive and engaging visit of which we were very appreciative. I begin with a public apology to you, my Lord, not only for beating your team in the Premiership a few weeks ago and also for the rather gloating text I sent you from the ground, but also for not being able to be with you when you come to the ground for a charity fund-raising visit in a few weeks' time. The Committee will be abroad then again (we are almost doing as much globe-trotting as you) but I hope you raise a lot of money for your chosen charitable cause.
Lord Jones of Birmingham: Thank you. It will be ten years to the day since I finished John O'Groats to Lands' End on a bike, so I thought we would do your club to mine for a day, rather than 14 days, to raise a few bob.

Q196 Chairman: That is the mutual self-congratulation over and done with but thank you very much. We will begin by asking a few general questions. The focus of this Committee's inquiry is of course the economic consequences, particularly for the UK, of Turkish membership of the EU, and that is the context, but obviously this rears across into politics from time to time as well. This question, though, is perhaps more economic than political (but has political consequences) and it is to ask you what your judgment is of the extent to which Turkey itself needs the EU accession process to maintain the progress in its own domestic reform programme now that the IMF programme is drawing to a conclusion?
Lord Jones of Birmingham: The whole British drive for Turkish membership is multifarious from an economic and trade point of view. Of course Brits enjoy wider markets full of people who are getting richer every day to whom we can sell our goods and services and from whom we can attract inward investment, so the economic rationale for why Britain wants Turkey in Europe is very similar to the other way round which is that, be it from Germany or France or Italy or Britain or anywhere else, Turkey would clearly benefit enormously economically from a trade and investment point of view, creating employment and increasing the rate of growth of their economy. Also they would benefit enormously because of the current problems and situation with their infrastructure in their public realm from the money that would be invested in the country by the European Union Structural Funds, so that drive has for many years now sustained the drive of economic reform in Turkey. Over the last couple of years we have noticed this, and actually I am quite pleased, because I visited Turkey twice when I was Director-General of the CBI and the second time I went they were mentioning this to me, which there was a shift in emphasis from, "We have got to do this if we want to be in the European Union" more to, "We have got to do this because it is a very good thing because economic reform is going to make for a more stable and wealthy Turkey, period." I have seen that shift so I think that that is good to see as well and I think that is the biggest change of all.

Q197 Chairman: But all is not going terribly smoothly just at present in Turkey. We will turn in a few minutes to the economic problems facing Turkey, which my colleague Brian Binley will ask you about, but can I look a little bit more specifically at the politics. There has been quite a lot of concern expressed about the constitutional court case with the AKP, the ruling party. People describe it as Turkey "shooting itself in the foot" once again. People have said that that case could actually freeze a lot of political progress that is needed in the country over the next months and perhaps longer.

How much impact do you think the case is going to have on Turkey's economic development and reform process?
Lord Jones of Birmingham: In a formal process of trying to meet with the Acquis and trying to get membership moving along, it does nothing to help, and indeed it feeds the prejudices and the views of the opponents to Turkey joining the European Union. In terms of economic reform, I do not think it has any effect. In terms of British businesses' attitude towards Turkey on trade and investment I have heard not one company say to me that it would make a difference.

Q198 Chairman: But the Government's view of the court action is that it is unsatisfactory and illustrates a problem in Turkey's constitutional arrangements and is contrary to the kind of provisions that we have in the Council of Europe and the European Union itself.
Lord Jones of Birmingham: Yes it is a distraction, is it not, it takes the eye off the ball, and it means that people in Turkey are not concentrating on the things that members of the European Union wish they were, but I do not see it in any way as fatal, I do not see it as anything other than delaying, and I do repeat I think it certainly feeds into the prejudices of some members of the European Union who do not want Turkey inside.
Chairman: Looking at economic questions, Brian Binley?
Mr Binley: I hope you will give me just a little leeway. I am delighted to see Lord Jones with us again because his background is very solidly a background of great record in terms of British business, and that is my sector and it is the area that we are both very proud of, quite frankly, and we have met on a number of occasions and made that point in our different ways. You will have seen the report published in the *Telegraph* of the British Chambers of Commerce survey which really underlined the fact that there is very little confidence in the Government in terms of acting on behalf of the business sector, and from my perspective hardly any more with regard to the Opposition, and that concerns me enormously. Part of your role was not only to promote British business abroad but to promote it within the Government, in truth, Digby. I just wonder whether you feel it has been such hard work hitting your head against a brick wall on the basis of having so little effect (and I have been here longer and had much less effect, I might tell you!)

Q199 Chairman: I am giving leeway on subject but not length of questions. That was far too long a question. I want you to get away by 4 o'clock for your train so we must all be more economical with our questions and our answers.
Lord Jones of Birmingham: Can I just ask you was that a question to which you are expecting a reply in relation to the United Kingdom or Turkey?
Mr Binley: Yes, from both of our perspectives in view of the fact we are massive supporters of business and business seems to have little regard for government, quite frankly.

Q200 Chairman: You have made your point.
Lord Jones of Birmingham: In terms of the UK, as you know, I get a long haul, a short haul and a regional visit in every single month. I came back from Romania and Bulgaria last week and I am going up to Liverpool tonight. On that part of the question, I have to say the support I have received from the UK Government in me doing this job differently and getting me enabled to get round the world and bang the drum and attract inward investment and also promote British values in the wider sense has been incredible because it has been a change and a lot of people, the media especially, do not like change. I have to say I have had no problem whatsoever from inside Government on this. From the point of view generally of you saying has this Government gone away from supporting business and do I find that frustrating, I have not seen this Government do anything from my point of view which has in any way harmed UKTI. In fact, if anything, we had a very good settlement in the Comprehensive Spending Review, better than a lot of other departments did. We have had more people. Number 10 itself has been very supportive of my drive in Britain for what UKTI does and also of course in terms of the Department for Business, Enterprise and Regulatory Reform and what it is trying to do. From a wider point of view, do I find they have been supportive in the way that I am trying to do this job? I have had 100% support from the Prime Minister which is why I am 100% supportive of him. What we agreed we would do last July he has kept his word and I have kept mine.

Q201 Mr Binley: Forgive me, but you have raised the Prime Minister and you will know what *The Times* said about your ability to stay with this Government up to the next election and through it. I believe that you being there is a very important factor. Can you clarify whether what *The Times* said was true or not?
Lord Jones of Birmingham: I was incredibly surprised to see what I said given the front page headline in *The Times* that day. It was old news and I had been saying it publicly ever since I got the job, and there was nothing new in it whatsoever and there was nothing that in any way was a change of anything at all. I had always said that I would have a finite position. I had always said that I would go before the next election. That was when I had started the job, it was not anything I had changed my mind or anything else. At the same time I had always prided myself, and I still do, on my ability to take this job away from the factionalism of party politics, and I have found that very popular with the business community. I have to say the Prime Minister's decision to allow me to do this job in a non-party political way is one of the great things he has done to show support of the business community. That was always how we agreed to do it and I have to say he has kept his word and I have kept mine. I was just amazed, it must have been a slow news day or they had prejudices of their own they wished to fulfil, but to say I had said it in a private meeting (and that implied that for some reason it was secret), no. It was in April and even they said it was a lunch in January.

Get real, this was not sensational news, this was not front-page news. I have to say if the person who had rung up *The Times* and told them all about it had been true to his word in terms of telling the whole content of what I have said, I actually said what I have just told you, which is that the Prime Minister has been very supportive of the way I am doing this job, and I am 100% behind the Prime Minister in what he is doing at the moment.

Q202 Mr Binley: But are you going to be here after the next election if the Government gets returned?
Lord Jones of Birmingham: I do not know. At the end of the day whether I am here in the morning is down to the Prime Minister; he can hire you and sack you, and I suppose the same would apply then.
Mr Binley: Digby, at our age, whether either of us is here is a question, quite frankly! Can I move on to the question of Turkey. You would want to get back to that, Chairman.
Chairman: I would. Lord Jones likes talking Turkey.

Q203 Mr Binley: I know he does and he likes talking Turkish delight as well, I am sure that is the case. There is a view amongst some in Turkey that it has shot itself in the foot and you have already referred to that. Indeed, some commentators have highlighted Turkey as a high risk amongst the current world economic turbulence. Can Turkey weather the storm of the global credit crunch? If so, does that show that the country has arrived as a market choice and how do you consider Turkey compares with India, China and the other BRIC countries in that respect?
Lord Jones of Birmingham: From the point of view firstly, if you take a snapshot today of where it has come from and where it is going to, it has made huge progress over the past few years, it has reduced inflation to single digit levels, it has reduced its fiscal deficit, it has certainly cleaned up its banking system, which was crisis-ridden every year, and it has had a very successful IMF programme. It is showing all the signs of putting in place the shock-absorbing capability to deal with global economic crises that start from things outside their control. So do I think they are in shape to weather the storm? Yes. Will it be difficult? Of course it will. By the way, it will be difficult for every economy, China as well. Have I confidence that they will be in a position to weather the storm? Yes, better than most. Will it be difficult? Yes. Looking forward, it will only continue to be in a position to deal with further problems successfully if it continues with its economic reform and if it continues with opening up and being a place where it is easier to do business than it is today and more welcoming to inward investment than it is today. It is on its way and that is good to see, and Britain is very supportive of it, but it is not a perfect picture. In terms of comparative to other economies, I think the jury is out on several of these economies, and by the way, the jury is out on several of the economies of the developed world as well as the emerging markets. America is entering a period when she is going to have company at the top table. Her omnipotence economically over the last six decades is basically over. That does not mean she is falling off the top; it just means people are going to join her. China obviously comes to mind and could be there. I want the European Union to be there as a group which can wield serious economic clout at the top table. The current economic issues facing the economies of the world, developed and developing, will force some fall-out, will force change, and will change the pecking order as we go through into the second decade of the 21st century.

Q204 Chairman: Can I just push you on that because I saw a hugely pessimistic quote from one expert saying: "I wouldn't want to keep any money in the Turkish lira and the puzzle is how long it has stayed so high for so long. There are huge imbalances in the economy. The current account deficit is nearly 8% of GDP, and the chief prosecutor is trying to shut down the Government" and Standard and Poor's rating is BB-. It is not quite India, is it?
Lord Jones of Birmingham: No, and apart from that, how was the play Mrs Lincoln? I could paint a picture that is pretty bad for an awful lot of economies at the moment. All of that is probably factually accurate but for a moment I thought you were describing one or two economies of the developed world. Of course current account deficits often are products of swift and immediate inward investment and a private sector catching up and capacity catching up, so that is a snapshot, but I would tend to say you ought to ask me that question and I should give you a considered answer in about a year or two's time.

Q205 Miss Kirkbride: Minister, forgive me, I will have to leave early from your session but I did want to come along and see you a little bit. I am off to campaign for Boris and I wonder as the Minister for Business Investment whether you have any advice to offer Londoners?
Lord Jones of Birmingham: I will tell you one thing I have got advice to offer on Thursday, and I learned this going round the world, at the moment London is the capital of the world. I do not say that with any degree of arrogance, it is just factual, that wherever I go in the world people look to London as the current capital, financially yes, if you want raise your money, insure your risk, get your advice, borrow your dosh, you come to London, so financially for sure, but also creative industries and also with the Olympic Games coming up and everything else, and I would just say to any Londoner, have a bit of confidence, understand the place you are in the world at the moment and think accordingly when you vote on Thursday. Past that I am not saying a word to you today.

Q206 Miss Kirkbride: So no advice on who should be the leader of the greatest capital city in the world?
Lord Jones of Birmingham: I knew that is what you were asking me and the answer is I keep that to myself.

Q207 Miss Kirkbride: How disappointing and so rare that you disappoint us! I am absolutely gutted but let us come back to the EU. You will be aware that France and Germany and other European countries are hostile to the idea of Turkey joining the EU. How damaging do you think this is to their prospects of coming in and what impact do you think it is having on Turkey? Do you think there is anything that the UK can do to help the cause along a bit more?
Lord Jones of Birmingham: I think not only is that an extremely responsible question but I wish that that issue was elevated more in our public domain, and more often, because we have got to keep this issue on the front foot, and I am really glad that you have raised it. Let us first distinguish between France's attitude and Germany's. Chancellor Merkel basically has expressed her opposition to Turkey coming in but is not hostile and has said she will respect the decision that was taken previously, so hers is a more "I wouldn't do it but we are where we are" attitude. President Sarkozy is definitely hostile and has definitely said no. Indeed, there is an argument that it was one of the promises and pledges he made on his manifesto for getting elected so I would say there is a distinction between France and Germany on this. The second issue is that is directly against where Britain is. We have a track record—and I was in Romania last week and I said it there and I will repeat it now—where we are the only major economy in the European Union that from beginning to end never waivered in our support of the accession states coming in, the first ten, then the next two, and we are in favour of Turkey, and all the way through we are the one nation that has always been supportive. I find as I get round those countries that it has borne us in extremely good stead when it comes to trade and investment and therefore I believe it is in Britain's best interests from a trade and investment point of view, as I have described already, but I do believe it is in the European Union's best interests geopolitically, location-wise, reaching out and trying to deal with a 21st century that has fundamentally changed. The 21st century belongs to Asia and how the European Union deals with that in all respects is going to define whether our children and their children in the next 100 years are successful in so many ways or not—security-wise, economically, culturally—and we have to as the European Union become more competitive. We have got to put our turnover over a wider market to increase our productivity, increase our home market, have a more mobile workforce and have all the transport infrastructure abilities that, say, the Americans get from being big and putting their people across that turnover, so in that respect I think that France's attitude is wrong. I think if we keep Turkey out, our children and their children will rue the day economically because their size will give us clout, their getting wealthy will give us clout, they will be a skilled workforce, but also from the point of view of security, because it is important that one of the great enduring commercial geographic supply lines of the world, which is the Bosphorus, is in the hands of a friendly nation, a nation that looks West, sees Europe as their natural home and is on the page of democratic capitalism, and that is what Turkey offers Europe. They also are a secular nation and in a century that belongs to Asia and in a world that is embracing different religions more than ever before, the way to kill prejudice, the way to stop evil men on both sides of the argument from influencing and having their way is to embrace those who are moderate in the different religions of the world. Turkey represents that and therefore while my job is to promote the economic connection between the European Union and Turkey, if France's opposition means that we put up a wall against a friendly, member of NATO, secular nation then we will be paying the price for a long, long time.

Q208 Miss Kirkbride: Do you know whether the issue of France's objections was raised privately with President Sarkozy when he came to London recently?
Lord Jones of Birmingham: I do know and it was not.

Q209 Miss Kirkbride: It was not? That is rather a disappointing opportunity missed, is it not?
Lord Jones of Birmingham: People can ask away all they like; it is whether they know they are going to get an answer or not.

Q210 Miss Kirkbride: Do you think Turkey will soldier on and hope that the political landscape changes in Europe?
Lord Jones of Birmingham: Yes I do actually. I think that the economic reforms that are needed for Turkey to meet the provisions and criteria of the Acquis will have a double good effect. One is they will get themselves into better shape to join and, at the same time, it all goes in the right direction for economic reform which leads to a more successful economy and a self-fulfilling prophecy. So do I think they will carry on? Yes, a little bit more in hope than expectation, as we speak, but I am very hopeful that as the world changes so quickly and as the European Union sees especially in the next decade of the 21st century, this changing world with America still at the top but having company with so many different nations in the world growing in their clout, I do hope that France will see that a stronger European Union is one with Turkey in it.

Q211 Miss Kirkbride: What about the other vexed issue of Europe at the moment, that of Cyprus and the resolution of issues there certainly with regard to Turkey, where do you stand on that?
Lord Jones of Birmingham: I can see why—and rightly too—it is important that we have Cyprus resolved; that is obvious. I am quite hopeful now that the Turks and Cypriots seem to be talking more than ever before and I am hopeful of a speedy resolution. Should that get in the way? Yes it should; I think it does need to be resolved, for many reasons, not just in Brussels but for the people. Do I think it will get in the way at the end of the day? No, I do not.

Q212 Miss Kirkbride: Do you think the issue is more for Turkey or more for the Greeks in Cyprus?

Lord Jones of Birmingham: When you say 'the issue', is that your shorthand for who gives in?

Q213 Miss Kirkbride: The stumbling blocks.
Lord Jones of Birmingham: I am not going to start commenting on who should be giving way; I do not do that side of life.

Q214 Mr Hoyle: You do not do politics!
Lord Jones of Birmingham: Quite. It is a prescription I can recommend to many people actually.

Q215 Miss Kirkbride: A second disappointment.
Lord Jones of Birmingham: I do see, with respect, why it is an issue not just for lawmakers but also for people who live every day out there and have to deal with it. I am just very confident that it will come to fruition and have a successful resolution; I do not think it will be speedy but in time.

Q216 Chairman: In time to facilitate the accession talks?
Lord Jones of Birmingham: Spot on but I do not mean next week.

Q217 Mr Binley: Could we push you a little further on this, Digby, because we recently visited the Commission and we were given the impression that, crudely, one chapter had been closed and another two were hopeful of being closed shortly. Anyway, a lot of chapters had not been closed, that is the fact of the matter, and a number of them had not been opened, and the impression I got was that there was not a great deal of urgency, a great deal of concern. They said all the right words but they did not find underneath that there was a great wish to hurry this process along. I may be wrong and you may have a different view. When do you think that we might be talking about for the accession of Turkey in real terms?
Lord Jones of Birmingham: Firstly, can I just finish off on one other point on Cyprus which is that in June there are fully-fledged UN-based negotiations starting so that is one more step on the road which I am quite pleased about. Have I noticed in the last year/18 months a distinct slow down or maybe just not as quickly going forward in trying to comply with the Acquis and indeed just with negotiations? Yes I have and I think that your comment that it is going off the boil is fairly said. It is brought about by two or three reasons. I think the lawsuit with the ruling party has been a diversion. If you were trying to get into a club and you saw one of the major voters in that club say they cannot stand you, what would you do?

Q218 Mr Binley: Join another club.
Lord Jones of Birmingham: Exactly, which would be very worrying, or you would at least think, "I will go and do a few more things while they make up their minds." If I were democratically elected in Turkey, does it resonate in the same way when France is sitting there saying what they have said? Of course it does not, that is human nature. Have I seen it going off the boil over the last couple of years? Yes. To answer your third question then about where does that put it in terms of the timing of accession, I personally am so much in favour of Turkey coming in, I would like to see it get back on the front foot, keep going, keep the faith in Turkey's terms and get to a point where it is all done. Do I think that will happen in short order? No. Britain's role in this is to keep it at the front. That is why when the Chairman rang me up and said would you come and do this, I jumped at the chance because we have got to get this issue back on the front foot and back on the radar screen in Brussels and indeed in the newspapers and in Ankara as well. So we are talking years, are we not? I hope we are not talking decades. I would sincerely hope inside the next decade but we are talking years, and it is very important, for instance, if you see President Sarkozy saying, "I promised this in my election promises," well, I think there will be another Presidential election in France before Turkey get in, and on that basis there is a role for Britain and there is a role for others to start trying to influence public opinion in France during this time. It is a very long haul but it does not mean for a minute that we should take our foot off the gas, it really does not.

Q219 Mr Hoyle: You have mentioned France and a change of government there but what about Austria, Germany, Holland, Greece, how do we persuade the rest? I think we are in the minority. I know Greece is conciliatory at the moment but the reality is when it came to a vote we have got to just hope that they do hold the line. If we look at the Dutch, look at Austria and look at Germany there is no great will to support Turkey. What do you think we could do with those countries?
Lord Jones of Birmingham: I think that point is very well made in terms of we must hope that even a country whose policy it is to support holds the line if it ever came to a vote, and Greece is a classic example, I think you are right. I had a lesson on this when I was at the CBI when I visited Vienna and I did a Q&A session with a load of small business people, and I had a businessman stand up and say, "You are so supportive of Turkey coming in," "Yes I am." "We turned them back at the gates of this city in 1683 (or whatever the date was) and they are not coming back now." This guy said it in public to me in a business session. I tried to loosen it up by saying, "I would like a written apology from the Italian Government for what the Romans did to us," and I got absolutely nowhere.
Chairman: What did the Romans do?
Mr Hoyle: The rule of law—
Mr Weir: At least they did not get to us!

Q220 Chairman: Can I ask you just one question on timing before we move on to Mike Weir's questions: does the Government have a view of how long any transitional arrangements for freedom of movement of labour might be in any accession?
Lord Jones of Birmingham: No, not yet.

Q221 Chairman: But there would be a period?
Lord Jones of Birmingham: There would have to be. Actually, Chairman, quite apart from the whole immigration and the Bulgarian and Romanian issue—forget that for this purpose—we are talking about the most populous nation in an enlarged European Union.

Q222 Chairman: And a very young one.
Lord Jones of Birmingham: And 50% of the population is under 28 years old today and they are 70 million today and they will be past Germany's 80 million by 2012, so it would not be about a view on immigration in terms of Bulgaria which has only got seven million, it would just be the sheer size of the place. When I saw that prejudice in Vienna it taught me a lesson about the fact that I can concentrate on the Frances of this world, as you have just said, or Greece, but there will be quite a few small countries that for different historical reasons have serious prejudice about all this, and what do we do about it? The answer is you just keep your foot on the gas and you keep the door open and you keep going. There is another reason for doing this, you know. I hope all of us are here today with an interest in the trade investment and the economic consequences of all of this understand that there is a much bigger reason which is that of course I believe that business can make a serious difference to people's lives around the world, especially in developing nations, if we are allowed access and we behave responsibly, but if you are going to get the young of Muslim countries (and, remember this: as the developed world countries get older the Muslim countries in their demographics are getting younger) and if we have a prayer of reaching out to them with the benefits of democratic capitalism, with the benefits of freedom of speech and freedom of worship and freedom of assembly, and the values we hold dear, if we have a prayer of getting anywhere near this, then the world will see and watch how the European Union deals with Turkey. Of course I will say to you that means let them in, but even if it was not let them in, the grounds have got to be because of proper rational thought and not because of prejudice, and that businessman in Vienna was exhibiting prejudice here because it is in his best interests for economic reasons to have them in when they are just down the road. In fact, Austria will benefit far more than Britain because of its proximity, and it was prejudice and I think, whether it is Holland or France or Austria or Greece, if we show it from a prejudicial point of view then we will reap a whirlwind in decades to come.

Q223 Chairman: I would just caution the young people watching this evidence that if they have got their foot on the gas they should then close the door!
Lord Jones of Birmingham: And no naked flames!
Chairman: Mike Weir?

Q224 Mr Weir: We seem to have gone from the Romans to the invasion of the Turks at the gates of Vienna. The Romans never got to Scotland—
Lord Jones of Birmingham: What about the Antonine Wall?

Q225 Mr Weir: We will get there!
Lord Jones of Birmingham: 142 AD; it was Antonine and he was north of Glasgow in 142 AD.

Q226 Chairman: I am anxious you should catch your train!
Lord Jones of Birmingham: I am sorry, Chairman.

Q227 Mr Weir: Going back a step from the accession, the Customs Union exists at the moment and obviously it has helped promote UK-Turkey trade but we have heard there is a great many issues in the implementation of the Customs Union. How much greater could the trade be if these issues were overcome?
Lord Jones of Birmingham: The issues in the Customs Union?

Q228 Mr Weir: Yes.
Lord Jones of Birmingham: Significantly. The first thing about the Customs Union to say is that it has been a success in two ways: it has knocked down tariff walls and it has increased trade and activity already. It was signed in 1995 and went into operation in 1996. We are 12 years on and there has been a significant increase. There is another way of course where it has talked about where and how Turkey trades with other nations outside the European Union. That is one aspect of the Customs Union and it has been a useful way in which the trading relationship between Turkey and third parties and the European Union can be regularised, and I think that has had an effect. There have been significant problems with it. It does not deal with services, it does not deal with base agricultural products (not added-value agricultural products but base ones) and that is a big thing especially with services in Britain, and France would argue of course it is a big thing for their agriculture, so there are certain areas that are outside the Customs Union which it would be nice to see inside, to be fair, and that would change things significantly for Britain with services. Secondly, there are special things where Turkey has basically not implemented aspects of it. The problem we have currently with spirits is a good example. How much would that change? It would do two things: a) it would increase the volume significantly; and b) it would put up a very big sign of the fact that both sides are serious more then they are just playing at it.

Q229 Mr Weir: Do you think that the difficulties with the Customs Union are linked to the lack of progress, if you like, in the accession negotiations? Do you think if there was more progress and the EU was seen to be pushing further forward the accession negotiations that some of the difficulties of the Customs Union might be more easily overcome?
Lord Jones of Birmingham: I think that is an excellent point and the answer is yes.

Q230 Mr Weir: You mentioned also that the Customs Union deals with how Turkey deals with third parties. One of the concerns expressed by Turkey is that it is forced to adopt the EU's tariff

levels with third countries even though it has no formal role in negotiating them and that seems to be a matter of some concern. As Turkey's economy expands, the implications of the problem grow, so is there any prospect of Turkey being able to participate in these negotiations prior to joining the EU?
Lord Jones of Birmingham: Prior to joining? I was going to say no but I would guess that if we were on the short strokes of joining I cannot see any reason why they would not be allowed to then.

Q231 Mr Weir: But that would mean that it is not until they are on the point of joining?
Lord Jones of Birmingham: Two or three years before, yes.

Q232 Mr Weir: You have already said that it could be many years in implication before they join, so this situation is not likely to be resolved in the near future?
Lord Jones of Birmingham: I agree.

Q233 Mr Weir: Has it the potential to derail relations between the EU and Turkey?
Lord Jones of Birmingham: No.

Q234 Mr Weir: You do not think so?
Lord Jones of Birmingham: No, it is in Turkey's interests that she continues to reap the benefits of the Customs Union and it is in Turkey's interests that she keeps her bat at the crease in terms of negotiation on joining the European Union. I just think that if the European Union were to accelerate the negotiations for membership there would be a bit more moral high ground when we then ask Turkey to comply with certain aspects of the Customs Union.

Q235 Mr Weir: The CBI said to us that there is movement on change in the Turkish trade laws and in fact they thought there could be a more level playing field for foreign businesses operating in Turkey compared to domestic ones. Do you know anything about this? Can you tell me any more about it?
Lord Jones of Birmingham: I have been told what the CBI has said. I do think that that is not the only issue. We need a legal system in Turkey that is certainly more speedy, certainly more easily understood, and certainly more dependable on consistency. I think that is as big a problem. If the CBI were talking about that when they were talking about trade, then I am with them. Trade is one issue but it is not the one that everybody should concentrate on; there are one or two others as well.

Q236 Mr Weir: Is the implication of what you are saying about consistency that there is a problem irrespective of what the law is in Turkey about it being implemented on the ground in a consistent manner?
Lord Jones of Birmingham: If you talk to a business about getting wrapped up in a contractual dispute involving the courts in Turkey, the first word they will say is 'slow'; the second word they will say is 'inconsistent', so the answer to you is, yes, there is a problem. This is one of the issues you always have if a country ever gets to this stage. I am sure that people will say, "I did not have a problem here," so what you have got is perception. You might have reality but you have certainly got perception. Either way it is damaging to a country.

Q237 Mr Weir: According to the CBI the new bill in the Turkish Parliament encompasses a scrapping of double taxation for foreign investors, more transparency and justice as regards competition, as well as strict adherence to European Union regulations on auditing and clearer means of launching companies and a clearer definition of legal status and holdings I get the impression from you that irrespective of what that says it may not work that way on the ground in Turkey. Is that a fair comment?
Lord Jones of Birmingham: Turkey has made enormous strides in the last few years and she continues to and that is good news. Firstly, does it take longer to implement and get it working than when they pass the laws? Yes, and business of course deals with it day-to-day on the street. Secondly, even some of the things when they are done and they are working, does it throw up a perception that it is not the place to go because it does not work? Yes. Is it unfair on Turkey? Probably yes, but they are the ones who created it in the first place by needing to change. There is one thing I find when I talk to Turkish businessmen—and I do a lot—and that is we must be very careful (I do not mean we Britain, I mean we the European Union of sitting there saying, "You put this, this, this and this right and you can come into our club," and at the same time, as we all arrogantly say things like that, they are too polite to say what they should say which is, "And of course you are perfect, aren't you?" whether it is Romania and Bulgaria who have a long, long way to go to start complying with everything that Brussels asks them to do, frankly, we all know it and there are certain very, very major developed members of the European Union who still think that compliance is a voluntary event, and far be it for me to tell you who they may be.

Q238 Mr Weir: I think we can all guess!
Lord Jones of Birmingham: Even we—and we are better behaved than most—are not perfect and we still need to do better as well. It worries me sometimes that we all sit there in our ivory castle as members of the European Union saying, "You do all this," in our arrogant way, and Turkey sometimes could turn round and say, "Actually, have we got a mile to go, yes we have, but you have got a fair few yards to go as well."

Q239 Mr Weir: Given your previous comments about the Customs Union, is it also the case that the paper changes might become more real if there was real progress towards actual accession to the EU?
Lord Jones of Birmingham: Absolutely right.

Q240 Roger Berry: What are UKTI's sector priorities in Turkey in the new financial year and have they changed at all from last year?
Lord Jones of Birmingham: We have shifted the emphasis on a couple and I will come back to that. There will be what I would sometimes call the 'usual suspects', which is supporting one or two champions in sectors. Vodafone comes to mind and HSBC comes to mind, mobile telephony and banking, where they are doing really well and we are there to help all we can, and other banks and ICT companies as well. However, there are a couple where we have shifted the emphasis and shifted the sector effort more in the last year. Environmental technology comes to mind. All round the world at the moment we are seen as one of the leading nations for providing technological solutions to climate change, to issues of pollution, to energy conservation, and it is a reputation that has been hard won by universities, by businesses and by the Government stimulating and helping that, putting taxpayers' money into things which are getting a meaningful return, and that is good to see. UKTI is pushing that around the world at the moment and Turkey is no stranger to that. Linked to that is water management and the whole issue of stopping wastage of water and also how you handle the stuff coming into the tap and how you handle the stuff going out of the house or the factory, so there is water as well. One that I feel particularly both pleased to champion and also keen that we get seen as a proper sector the whole world of education and training, the stimulation of our growth in universities around the world. We have four universities in the top ten in the world— UCL, Imperial—

Q241 Chairman: We want to ask about education at some length later.
Lord Jones of Birmingham: —and Oxford and Cambridge. Those four are in the top ten. Only America has got more in the top 50 than us. It is a really good emblematic British success and linked to that is then training and professional qualifications. The world wants to see our professional qualifications on their CVs and then also linking in with businesses, training people on the ground in technical subjects. We can sell that into Turkey as she grows and develops hugely and that is a sector where we have shifted our emphasis in the last 12 months.

Q242 Roger Berry: You were quite bullish about UKTI resources overall in your earlier remarks. What is your view about the current level of UKTI resources in place for Turkey given that it is a priority market and so on?
Lord Jones of Birmingham: Last year we increased the number of people on the ground from 15 to 20 and that is significant. We designated it one of our emerging markets. We have really put the money where the mouth is in terms of not just saying it is important to us but have put more people in to stimulate it. I am going in September for a visit and I will take a business delegation with me. I would point out that I will be the first Trade Minister from this country to go to Turkey for at least 15 years, so that spans two party political governments so it is not a party political point. If you have got at ministerial level increased clout and representation, at resource level more people, and we have specifically strategically designated it one of the markets where we are putting more effort in, then the businesses of Britain respond, you see. A lot of the businesses of course deal in other markets as well and know us quite well and know how we can help them in this one. A good example would be airports; another example would be ports; and PPPs in which we are acknowledged as the world's best. How you get that working in Turkey is not your normal "Let's go in and help them sell widgets." There is another sector where I intend to beef it up in this 12 months where you say has it changed from the last 12 months: from 1 April I took over as Minister in charge of Defence and Security Sales, and I am delighted and thrilled that I have got the chance to champion one of Britain's great manufacturing sectors. Defence equipment manufacture is something of which Britain should be enormously proud. It employs hundreds of thousands of people; it generates an enormous amount of corporation tax which pays for a lot of schools and hospitals—

Q243 Chairman: I think we are getting a bit beyond Turkey.
Lord Jones of Birmingham: No we are not and I will tell you why: because we do not anywhere near punch our weight in selling defence equipment to Turkey by a mile. We sold about £40 million worth last year and that should be increased substantially. One of the jobs I want to do is to make sure that UKTI/DSO, gets into Turkey and does the business there more than it does today.

Q244 Roger Berry: I might have some views about what Turkey does with some of the military equipment but we will not go into that, although Azerbaijan springs to mind!
Lord Jones of Birmingham: One of the things I would say is I would rather see a country with our set of values, a country with our degree of transparency and governance as better placed to sell some of this stuff than some other countries. If anybody ever says to me if we ever stop selling this stuff, for some reason the French and the Americans and the Chinese and everybody else will stop; I say, "Get real."

Q245 Roger Berry: I was not suggesting that. I am just well aware of the Government's attitude on end use controls and there are end use issues in relation to arms exports to Turkey.
Lord Jones of Birmingham: That is a good point and I accept that.

Q246 Roger Berry: Turkey is obviously one of the High Growth Market Programme target countries. You have given a very positive picture of the priority given to Turkey. Where does it rank amongst those priority markets?

Lord Jones of Birmingham: In terms of 17 emerging markets, we do not sit down and go, "Who's going to be number one this week? Where did India rank last week? Does Turkey come in at tenth or 14th?" You do not even get a bonus point for scoring four tries. We intentionally do not rank it because we do not want competition for resources within the 17. One thing I would say is that it a big untapped market for this country and it needs more time in the sun than it has had in the past. Putting 15 up to 20 in its resource capability is evidence of our intention.

Q247 Roger Berry: Some degree of ranking must be necessary to determine resource allocation. You have got to make some decisions about which of these markets get how much money. There has to be some system of prioritising where UKTI resources go and I was just curious to know whether Turkey was high amongst the 17 or whether Turkey was low. They cannot all be the same.
Lord Jones of Birmingham: We do not willy-nilly next week decide let's put a few people into Mexico and take a few out of India, we do not do that.

Q248 Roger Berry: That is why there must be priorities.
Lord Jones of Birmingham: I am not hiding it from you; we genuinely do not rank in amongst the 17. I promise you we do not. Do we look strategically at how we spend the money and where we spend it? Yes, of course we do.

Q249 Roger Berry: Okay. As I understand it, we have got a new High Growth Market Programme adviser who is intended to attract UK medium-sized corporations to Turkey. Has he or she delivered results thus far?
Lord Jones of Birmingham: It is a very early appointment so the answer is at the moment I have not made a judgment yet so I cannot tell you.

Q250 Roger Berry: Okay. What has the network of regional Turkey champions and regional roadshows delivered?
Lord Jones of Birmingham: I am, as you may imagine and knowing where I come from, very pleased that we are getting UKTI out on the road round the regions of England and the three Celtic nations more than has happened in the past. I do not mean presence, they have been there forever, but in terms of getting specific roadshows, and for that programme again it is early days. I cannot tell you we produce this or that, but it is just a delight to see that we are putting more emphasis into stimulating small businesses. I mentioned Vodafone and HSBC and I could have mentioned Ove Arup, I could have mentioned loads of companies, and it is easier with them, it is a different job to be done. You hit the nail on the head when you talked about SMEs. How do you get an SME in Manchester or Birmingham or Newcastle or Cardiff to want to bet their ranch in Istanbul? It is just extremely difficult. I understand why because would you do it, would I do it? There is a human equation in a way that does not happen in a big business. To get them to put their toe in the water needs more then UKTI, it needs more than the local chamber of commerce. I think it often needs involvement in the supply chain, to be honest, it needs a bit of help from their mates down the road. There are a lot of different impacts to get a small business to do it but one way at least we can make them aware is have a UKTI roadshow sitting in their town.

Q251 Roger Berry: Finally, Chairman, may I be devil's advocate, the whole SME argument is based on this notion that SMEs are disadvantaged more than large companies and they need the extra support but they will grow and become major companies and so forth—
Lord Jones of Birmingham: I do not agree with all of that.

Q252 Roger Berry: Let me ask the question and not ramble: do you not think sometimes that the resources put into promoting SME activity specifically geared towards a country like Turkey might be money better spent on backing larger companies that can make substantial economic benefits much more quickly and much more easily, like some of the defence manufacturers you were referring to earlier?
Lord Jones of Birmingham: Sure, when you say backing—and I feel very strongly about this and it is also in the stated aims and objectives of UKTI—we do not back any company if backing means we give them money. If you mean build capacity for them and knock down doors and give them publicity and bang the drum, of course we do. If that is what you meant by backing, then I am with you, for two reasons, the temptation is what you say which is that you do that job for a few big'uns and you let the rest to fend for themselves. The upside of that is that it is easier because you are dealing with fewer people and you are dealing with more sophisticated overseas traders and investors and it is easier because the people you are dealing with tend to do it themselves more anyway. The downside of it is you would not achieve employment growth in Britain in the same way—by a mile you would not. But seriously, the great employment growth in a developed economy, and certainly in this economy, comes from small business, not large business, and, secondly, you will not achieve the wish for smaller businesses given that you have got the employment growth and the need to employ skilled people and you therefore will not drive the skills equation in the country. The way to get a small business to do better in Britain and to succeed in employing more people is to expose them constantly to overseas competition, and the way to do that is to get them to trade with places like Turkey. To do that you hope what they then do is employ more people but you hope they see the need to train their people to do it. The real training equation in this country to make it fit for purpose in the 21st century is to get the employer (and, by the way, the employer might be the public sector as well) to understand the need for training people. In that, UKTI's capacity-building should be directed just as much at small businesses. By the way, it cannot just

be us. I would say with respect to you guys with your constituencies, it cannot just be you either, and I am sure you every day support small business, of course you do, it has got to be all the different component parts of an economic society because unlike the big boys the small guys need help from everybody.

Chairman: It is not entirely surprising that at the mention of small businesses, Mr Binley has jumped up and down.

Roger Berry: I did say I was being devil's advocate, Brian!

Chairman: I think the Minister has already anticipated your supplementary but I will let you have it nonetheless.

Mr Binley: I am sure he has and I hope he has because he will know that running small and medium-sized business is a very lonely business. You just have not got the support and all of the strength around you and that means two Ps are very important—piggybacking and partnership—and that is where success will come from, piggybacking on the back of large industries. 400 small companies support the Airbus—

Chairman: This is a discussion on Turkey more than economic issues.

Mr Binley: One more point—piggybacking is important but so equally is getting people on the other side of the water, wherever that may be, to work with people, hold their hand and give them comfort, and I wonder what UKTI is doing about those two Ps?

Q253 Chairman: In relation to Turkey, please.

Lord Jones of Birmingham: One thing I found frustrating at the CBI about small business, and I have found it in this position as well, is the very reason as to why they succeed is because they are, and rightly so, intensely focused, and they have got to focus because if they do not focus on their business in 30 seconds they fail. The trouble with focus is that it does not allow room for all the other stuff and it is a problem that anybody wanting to reach out to small business has, from government, to an RDA, to a trade union, to the CBI. It is more difficult to get a small business to give you time and effort and energy than it is a big business. Moving on to the specific with Turkey in terms of what are we doing to stand by their side. Why we need to is because if you can get a small business to understand that it is as important to focus on the Turkish market as it is to focus on their customer down the road, you have to, firstly—in the proper use of the word, not a patronising use of the word—educate them. In other words, they have got to understand a wider market. We are 60 million people on a lump of granite in the North Atlantic and the market out there, especially in a globalised economy, is enormous. If a small business can see, especially with all the communication aids that exist today, that Turkey, especially if Turkey was in the European Union, could be as much its home market as five miles down the road, if you can get a small business to understand that and educate them to that point, then hold their hand when they put their toe in the water, be there from the embassy through their local bank, through their advisers, through us making sure they get access, making sure they get a fair deal, making sure they are not jumped on from a great height as they make one or two mistakes, as they surely will, welcome to life, then UKTI will have done its job. It starts with getting them to understand what their home market is in a different century. It is very difficult for the small business but it is absolutely essential.

Q254 Mr Bailey: Certainly from the experience I have talking to small businessmen in West Bromwich everything you said is absolutely correct, but can I focus for a moment on the Turkish-British Business Council. We had a meeting with them earlier when we went to Turkey. On the surface it is ironic that British/Turkey trade is at a lower level than trade between Turkey and France and Turkey and Germany, who politically are far less sympathetic to Turkey and the TBBC said it wants to double trade. How realistic is that?

Lord Jones of Birmingham: Firstly, and it is a source of acute frustration for me but it happens in most developing economies, Turkish Airlines buy an Airbus. That has got wings made in North Wales, it has got undercarriages made in Gloucester, it has got aero engines made in Derby and some avionics made in Bristol, but it is booked as an export from France to Turkey. We have fabulous trade figures between Britain and France because of that but not British/Turkish figures and yet half of the aircraft that is flying around, for which Turkey have traded with the European Union, is made in Britain. One of the real frustrations I have is that Airbus, every one of them, is a huge big item, Turkish Airlines buy one, it does the monthly figures, it is big stuff and we do not get that. Secondly, America sells Turkey an F-16 Fighter and you have got a sizeable percentage of that Fighter made in America that has got British gear made in Britain on it, yet that is booked as an export to America, not as an export to Turkey. The figures frustrate me. I am not hiding behind them. Could they be better, of course they could. Could we get this awareness up, yes, we should. There is a lot of stuff we do, especially clever stuff, which goes into Turkey via another country. I notice with interest the number one export nation into Turkey is Holland. I had a look at that thinking is that right and of course it is because what they are booked as is where is the headquarters of the company that is making the sale and they go through Holland for tax reasons. You have got stuff made in another country in the European Union through Holland and back into Turkey because the exporter gets a tax break. They are no more made in Holland than you or me but those are the figures. I ask you to look at the figures with a degree of circumspection but the overall emphasis, you are quite right, it could be better than it is today. We, with the Turkish-British Business Council, have put a quarter of a million pounds of your money in the last two or three years in building it up, getting it help. Last year we even paid £5,000 towards secretarial support, so we are with them. We are helping them in an overall capacity. Is it realistic that they will double their trade figure in the next couple of years? I would say yes. I have to say, I want them to go for it, I do not want them to limit their expectation or their aspiration.

Q255 Mr Bailey: I do want to raise a point apropos what you just said, but just on the funding issue, could you clarify this because you anticipated my next question which said the TBBC just received £5,000 of government funding, you say that is for secretarial support.
Lord Jones of Birmingham: We gave them £11,000 last year, £5,000 of the £11,000 was for secretarial costs and £240, 000 in the last two years.

Q256 Mr Bailey: Previously it was nearly a quarter of a million. I believe India gets something like a million and we are not knocking the million that India gets, but in the circumstances do you think that should be improved?
Lord Jones of Birmingham: The facile answer to you is of course it should, but everybody should be improved and if I improve that figure, I am going to have to cut it off somewhere else unless someone gives me more money in the round, which they will not do and, by the way, nor should they do. The answer to success in our Department is how we use our skill and judgment to maximise return on the money we have, not give us more money. The facile argument is give us more money, of course, but it is more about how we apply the resource we have. We make a judgment and say, "Well, that's what India is, that's what Turkey is and no we haven't ranked them".

Q257 Mr Bailey: Is there any prospect of the UKTI match-funding the TBBC member contribution?
Lord Jones of Birmingham: No.

Q258 Mr Bailey: That is a straight answer! My colleague raised some matters in the context of support for SMEs. I am interested because you are a forceful advocate for industry as a whole but for the West Midlands in particular and as a West Midlands MP I go around and mention Turkey and I get a look of incomprehension from the SMEs I talk to. What would you be saying to the SMEs in the Black Country to try and broaden their horizon?
Lord Jones of Birmingham: Interestingly, I was talking to a company in your constituency this morning, Hadley Industries, in a wonderful named street in West Bromwich called Downing Street, which I thought was quite funny. I am pleased to hear you say a degree of miscomprehension, not hostility.

Q259 Mr Bailey: No,
Lord Jones of Birmingham: It is one borne of innocent ignorance more than anything else. Let alone what would I say, I do say "You have got one of the biggest, getting wealthier by the day markets on your doorstep and what is more they like you, and what is more you are part of a country that says, 'We want you in our club more than the others, now go and put the ball in the net'", and UKTI should be there to help them put that ball in the net. The first thing we have got to do is get them out there to see it, kick the tyres, feel it and understand it. I often say to them, "Your customer base—" in other words, the bigger companies that they supply, "—find out if they deal with Turkey. You will find one or two of them do and then if you want me to help, because one of the reasons I have been asked to do this job is I know a lot of people in business, and you want me to ring up one of those bigger companies and say, 'Can you put him on your back as you stomp in next time and let them learn'", that is what I often say. I think this is the way to do this because you cannot ask a small business to risk the money on day one. Also, you cannot ask them to spend an awful lot of time which they would consider a waste, but you can ask them to link in with the people they know and trust and therefore have their best interest at heart. I hope they know that I have. I am sure their customers have. I often say to them it is a market which, unlike any other in Central Europe, which is where the other accession states have come from into the European Union for instance, is populous and they are young and they are going to want the value-added goods and services that you provide and we, UKTI, should be there to help them. Can I say one other thing about this, given that your question was specific about the West Midlands, which is they are also secular Islam, in the West Midlands we have got the biggest propensity of Muslims in Britain per capita of the West Midlands' population. It would do racial integration and religious integration in Britain no harm at all if a few businesses that employed a lot of Muslims in Britain were seen to be trading even more with a Muslim country on good quality equal terms. I would say that if I was in the North West, I would say it if I was in Yorkshire and Humberside, anywhere where you have got big Muslim populations. I want them to know that we trade with people in the world because of the potential for making money, not because of the colour of their skin or the God they worship.

Q260 Chairman: I would add to that the West Midlands has the strength in the automotive sector, which is one of the emerging strongest growing sectors in Turkey, of course, as well.
Lord Jones of Birmingham: That is for sure.

Q261 Chairman: This Committee always looks at trading with different countries and always will lament the lack of British engagement and we always want it to be a higher priority in businesses' mind and government's mind and not everywhere can be a priority, but what you have just said is that Turkey should be one of the higher priorities in British businesses' minds because, as you put it, there is an open goal there because there is a lot of political goodwill towards this country and Turkey because of the position taken towards their membership. Is it not a bit odd to have cut the TBBC funding so heavily?
Lord Jones of Birmingham: Business funds the TBBC.

Q262 Chairman: You were making a higher contribution.
Lord Jones of Birmingham: I am sorry, you mean cut our funding to the TBBC?

Q263 Chairman: Yes.
Lord Jones of Birmingham: You say it is odd, Andy Cahn and I have priorities. We have to make judgments, we have to be judged on those judgments and we made a decision. You say, "Isn't it a bit odd", we have increased the salary bill which looks after Turkey by 25%, I mean, give us a break.

Q264 Chairman: We welcome what you are doing with UKTI. We are a little bit confused with what you said about the TBBC funding because you made a claim to a figure earlier on which is different from ours. Could we have a note of government funding for TBBC over the last five years, just to clarify that.
Lord Jones of Birmingham: I have been corrected for the record, which I think is right, we did not give £240,000 over the last two years to the TBBC. I said we did, we did not, we spent it on the Turkey trade effort in the round.

Q265 Chairman: That is what I thought.
Lord Jones of Birmingham: I would like to make that correction.

Q266 Chairman: That is helpful. Last year's UKTI strategy for Turkey, which has just run out says, "We shall aim to strengthen institutional weaknesses in key networks, eg the TBBC". I would love a copy of the 2008/09 UKTI which must now be available. If we could have a copy of that, it would be really helpful.
Lord Jones of Birmingham: Sure, I will get you that. By the way, Chairman, when you or somebody said it is a little odd that our trade effort there is less than what Germany do and yet we are more in favour of them joining the European Union, one of the things we must remember is there is an enormous historical link with Germany—historical in terms of 30 years not 300 years—because of all the guest workers who came in for the German automotive manufacturing miracle of the 1960s through to the 1990s. There are a lot of second generation Turks who have a familiarity relationship with Germany which they do not possess with Britain.

Q267 Chairman: I understand that. Inter-governmental forum, can you explain to us a little more what this is all about? When will it be launched? Is it going to be for the first time when you go to Turkey in September?
Lord Jones of Birmingham: Yes and yes.

Q268 Chairman: Thank you very much. Describe it a little.
Lord Jones of Birmingham: We have kick-started it again. It was announced last year and then it did not get off the ground, mainly due to inactivity at the Turkish end but it did not. I wrote to the Foreign Minister of Turkey earlier in the year and Andrew Cahn went to Turkey in February and we have had a response and it is going to be formally launched at the first meeting when I go in September.

Q269 Chairman: Obviously your commitment to it is considerable.
Lord Jones of Birmingham: Yes.

Q270 Chairman: You think the Turkish commitment is now there as well?
Lord Jones of Birmingham: I do, and if you had asked me that six months ago, it is not something I could have said yes to.

Q271 Chairman: There are quite a lot of specific issues affecting British companies in Turkey, is that not so?
Lord Jones of Birmingham: I want to do one thing well with that initiative in September, get it launched properly, get one or two things that we agree both sides have got to do in, say, 12 months, what gets measured gets done, so get a couple of things done and done well rather than say, "Let's go and do 20 things", and find we have done nothing. One or two are those trade obstacles to which you refer. We have still got this big issue with spirits. There was a little bit of progress. There was the double-header of the two consents they needed, that has now come down to one, great stuff, and the other one they have just got to say, "We've done this", so they do not need to ask for consent, they can just report. There is still one that is needed, and are we any further in getting them to progress that and not have all the delays, no, we are not. That is big for Britain, remember, because we have some big drinks companies, especially up in Scotland.

Q272 Chairman: Scotch whisky is always the big issue in trading relations in all this. The IGF sounds remarkably like a sort of mini JETCO to me, like we have with India, Brazil and China. Ministers have not got completely free diaries. There is a limit to the number of high level engagements they can have. What is the difference between an IGF and a JETCO? Is there enough ministerial time to make it work?
Lord Jones of Birmingham: JETCOs have been going quite a while now, so this is not hope, this is reality. You and I might look at it, Chairman, as at ministerial level and the big meeting that happens every year or every six months, there is an awful lot of JETCO which goes on in all different strands of relationships between two countries on an economic basis, that will not happen with the inter-governmental one with Turkey. This is going to be just one moving forward at one level. I am not saying in three or four years' time it will not spread its tentacles down into other areas of economic activity. It is not a mini JETCO because it has the same origins at the top, but what JETCO then does is it spreads its tentacles throughout.
Chairman: We shall adjourn for the division.

The Committee suspended from 3.42pm to 4.02pm for a division in the House of Lords

Q273 Mr Hoyle: Obviously, as you have informed us, it is 15 years since we have had a trade minister out in Turkey, so it is good news you are going and you want to make a big impact. You mentioned defence and I think the defence budget is about £40 billion a year and you are absolutely right, we have not even touched the surface there. I wondered, you mentioned about the American F-16, there is not that much on the F-16 for us but there is a lot more on Typhoon or Hawk. Does that mean you might land in a Typhoon or Hawk as a good way to start your tour!
Lord Jones of Birmingham: If there was an offer to land in a Typhoon in Turkey in September I would jump at the chance or a Hawk Trainer for that matter. The plane that the Typhoon should go up against is the F-35, not the F-16.

Q274 Mr Hoyle: But they are building F-16 under the licence at the moment.
Lord Jones of Birmingham: Also, you find that America will sell the F-16 as an interim stop-gap before the 35 comes on line. The Typhoon is going up against the hope of a 35, but there is more British kit on a 35 than a 16, that is for sure.

Q275 Mr Hoyle: We have still got to hope that you might be landing in a Typhoon or Hawk?
Lord Jones of Birmingham: Put it this way, if you would like to use your influence and I can use mine and I got on the back seat of a Typhoon to land in September, count me in!

Q276 Mr Hoyle: That is excellent news. The only thing I might say is you may have to get on to BAE about reopening an office because I think that is the other downside. Here we have a huge budget being spent and yet absolutely no office being occupied by BAE out there, so maybe that is something you ought to take out as part of your trade delegation.
Lord Jones of Birmingham: Tomorrow morning I will get on that case because I did not know that. I will try and sort that out.

Q277 Mr Hoyle: That is good.
Lord Jones of Birmingham: We should say that will not just be about aircraft.

Q278 Mr Hoyle: No, it is about all the things that BAE represent.
Lord Jones of Birmingham: That will be about ships BAE do as well.

Q279 Mr Hoyle: Absolutely, maybe Thales as well, so there are huge opportunities and I know you will be flying the flag, may it continue. Since your Department submitted their evidence, have you seen any progress in addressing any of the plethoras of barriers to trade investment in Turkey? Which issue will you personally raise as the one that you perceive as the continuing barrier?
Lord Jones of Birmingham: The factual answer to you is we have seen a little bit of progress in the spirits one that I mentioned just now, but I am scratching at the surface.

Q280 Mr Hoyle: That is what you keep telling us, but my understanding is there is such frustration that Diageo may walk away, is that true?
Lord Jones of Birmingham: I guess we have been listening to the same input, but my understanding is exactly the same as yours. As always with trade barriers, we look at it, "Would that be good for Diageo, the people Diageo employ in Britain, the tax Diageo pays in Britain?", of course is it good for the Turkish people? The wealth that Diageo creates in Turkey, the tax Diageo pays in Turkey, it is a two-way street trade, always. The answer to your question is, no, we have not seen much progress. Are we trying very hard, yes. As some of you know, when I got this job I called together representatives of all government departments and said, "If trade really works in a nation, it needs engagement across the piece and, secondly, we have to get brand Britain understood across the piece". That means if an education minister goes to, for example, Turkey, I want to know about it. If an environment minister goes to Turkey, I want to know about it and obviously prime ministers, chancellors and foreign secretaries also. What we can do is have a concerted effort in trying to get these barriers knocked down by everybody. I will not have it that some department says, "Oh well, my minister does X, that's nothing to do with trade". Everything that a democratically elected capitalist government does is about trade and enhancing Britain's brand across the world, trade can dip into that reservoir of goodwill all the time. We try very hard to get a bit more of a cohesive approach to visits, to the intelligence gathering on visits and then using a visit by a minister, which on the face of it might have nothing to do with trade, to try and knock down some of these barriers of which you spoke, to get them to understand why knocking down these barriers helps on the face of it only trade, but really all parts of our society.

Q281 Mr Hoyle: When we visited India we found the same problems, and as the TBBC highlighted in respect of Turkey, banking and finance are heavily regulated and are closed to trade, yet these are the areas where we have got real expertise and we ought to be maximising our influence there. Which sectors will you be promoting during your visit and, more importantly, which ministers will you be speaking to while you are out in Turkey?
Lord Jones of Birmingham: When the Prime Minister of Turkey came to Britain back in November I met with him at the lunch and I did say I was going to come and if I could meet with him I would be grateful, I am hopeful I can. Certainly I am going to meet the Trade Minister and the Defence Minister and I would hope the Education Minister as well because of the training aspects of what we do. The other thing I do—and I think you know I have a reputation for this which I am very pleased about—is I do go to countries and I am polite but I do not

gild the lily. I do tend to say it as it is, so you will find me doing that again for sure. You are quite right, if you look at financial services, it is a real jewel in our crown and it is an area where it is very difficult to break into that market, so we need to put a bit of effort in there as well.

Q282 Mr Hoyle: I am glad to hear you are going to rattle the bars. How do you expect the private sector, the TBBC, CBI *et cetera*, to be involved in the visit? Are you going to take a delegation of business people and, if so, who might attend?
Lord Jones of Birmingham: I will definitely be taking a delegation of businessmen and women. I want quite a few of the smaller businesses to come, not just the big companies that everyone would know. I also have no problem if the TBBC and the CBI, for instance, wish to come. One thing I do want is to encourage active chambers of commerce in Britain—Birmingham, Manchester, Newcastle and Leeds come to mind—to start sending more trade delegations specifically sector focused to Turkey and not always Istanbul and Ankara, Izmir and other places as well. If some of those people want to come and dip their toe in the water during my delegation in September, they are more than welcome.

Q283 Mr Hoyle: Will the RDAs be involved?
Lord Jones of Birmingham: I hope so, I really do. The relations between UKTI and the RDAs in Britain are better than they have been for quite a while, which I am rather pleased about, and the relationship between RDAs' embedded offices around the world, and UKTI and overseas markets are better as well. That might have something to do with the fact that I am a huge fan of RDAs and everybody knows it, so I am rather pleased about that. If they would like to engage in my visit, they are very welcome.

Q284 Mr Hoyle: Finally, can I congratulate you on you using the Jaguar and getting rid of the foreign car. I do hope that you can persuade other ministers to start buying and backing British business like your good self.
Lord Jones of Birmingham: Thank you very much. On that, I think the word you meant to use between foreign and car was "built".

Q285 Mr Hoyle: Built in the UK.
Lord Jones of Birmingham: I have got no problem that it is a Japanese manufacturer that gives me a car, I have a problem that it is not made in Britain.

Q286 Mr Hoyle: That is right and you have learned from your mistake!
Lord Jones of Birmingham: I thought it was made in Britain.
Mr Hoyle: Well, that proves that you do not know!

Q287 Chairman: Speaking as a great fan of India, I am glad you have got an Indian car, Minister.
Lord Jones of Birmingham: That is very good news for the British Midlands.

Q288 Chairman: We will not go there today, this is Turkey we are dealing with.
Lord Jones of Birmingham: By the way, do you know, you probably do know because the Chairman of this Committee knows everything, the only two places on earth that make a Transit are Southampton and Turkey?
Chairman: We did hear that when we were in Turkey, but I had forgotten.

Q289 Mr Hoyle: And the British Police buy Mercedes!
Lord Jones of Birmingham: Do not wind me up!
Chairman: Do not wind each other up!

Q290 Mr Weir: Obviously energy is a huge issue politically and industrially at the moment. What do you feel is the scope and role for Turkey in energy, particularly in terms of UK involvement in the market and perhaps supply of energy to the UK?
Lord Jones of Birmingham: Firstly, in terms of security of supply, that is one of the reasons why I am very, very keen that Turkey joins the European Union as quickly as possible and why I am very keen that people who oppose Turkey's membership understand what they are playing with in terms of both Turkey being a conduit for other people's fossil fuels that are coming through the Bosphorus and pipelines and also, of course, for Turkey herself as a producer in years to come. There is a wider aspect to this membership issue rather than just the conventional one from a minister like me about wider markets of getting richer people. Secondly, in terms of the other side of energy, which is carbon emissions, as Turkey starts falling foul of the problem of every single developing economy, which is pollution and carbon emissions, I think we would have a much better chance of getting her to walk the path of responsibility if (a) she is inside the tent and (b) if countries like us work with her and do not preach to her. I think it is extremely arrogant for us or the Americans or the Japanese or the French or the Germans to turn around to your Indias, your Chinas, your Turkeys, it does not matter who, and say, "We got rich by fouling the planet, you can't". It is arrogance of the most acute sort. What we should be saying is, "We have some technological solutions here to enable you to get rich without causing the mayhem that we did. Let us share this technology with you, let us partner with you and let's be a genuine partner in this and not somebody who just wants to exploit the situation"

Q291 Mr Weir: Is there any evidence of UK business doing that at the moment?
Lord Jones of Birmingham: Yes, there is. One of our strengths is environmental engineering in its widest definition. Again, we were talking earlier on about small companies, a lot of small businesses do a little bit of this and the more UKTI have got quite a push. I think somebody asked me if our sectorial priorities this year are different from last year. One of them where it is different is we are putting a lot more energy into supporting smaller companies to get over to Turkey and sell some of their environmental

expertise and some of their technological solutions to climate change. We must win the argument that you can pull it off, you can have sustainable economic growth without burning carbon into the environment in quite the same way we did years ago.

Q292 Mr Weir: I understand Turkey has a nuclear programme. Are UK companies involved in that at the moment? What has your department had to do with involving UK companies in that?
Lord Jones of Birmingham: I do not know enough about that and I will not pretend to and say something of which I am not sure. I promise you, I will get straight back to you in the next two or three days. I will ask the question, I will get the answer and let you know. Sorry, Peter has just handed me this and I will give you this evidence now. "Privately owned nuclear power plants, corresponding to a total installed capacity of 5,000 megawatts, will be commissioned by 2020". That is privately owned in Turkey will be commissioned by 2020 giving about 5,000 megawatts of capacity. "The tender of the first of these two plants is in process and will be finalised by September this year. We believe that UK companies will be particularly well placed to bid for the engineering consultancy side of that and specialised hi-tech equipment". There is a nuclear research centre planned in the north of the country and we will be bidding to help with that. They are going to be building privately owned ones and some of the consultancy work and some of the hi-tech equipment will be opportunities for us. I am sorry I did not say that before.

Q293 Mr Bailey: Earlier you alluded to education and we have a situation in Turkey where, as you mentioned, it is a very young population thirsting for education, but ironically the actual number of Turkish students in FE is declining at the moment and it would appear that their preference is in the United States and Germany. When we visited Turkey one of the reasons that was put to us for that was the extra expense for Turkish students coming to this country. The figure I was given, it costs about £3,000 for another EU student to come here to learn but Turkish students have to pay the full whack, considerably more. Is there anything we can do to change this?
Lord Jones of Birmingham: Get them to join the European Union I suppose is the answer.

Q294 Mr Bailey: But before they join.
Lord Jones of Birmingham: I guess one way of doing it is to try and get them treated differently. I am a huge believer in the benefit to the United Kingdom of getting overseas students to come here so that in 20 or 30 years' time when they are back in their countries and at the top of their tree, whatever their tree may be, public realm or media or companies or whatever, we will have a friend to call, will we not, and that has to be a good thing for our country. We make an investment if we make it as easy as possible for these people to come in and get a degree in a British university and that is both facilitation of entry and also the cost. A lot of people, including a lot in the media and, indeed, may I say, some of the Members of your House, will say that they do not understand that aspect, they do not understand the investment side of it for the good of our country, they all think of it as all they are doing is going back to take our education to their country. We have got a bit of a public opinion battle to win and also then, yes, we have got to somehow get the fees down for them. How we can get the fees down, I have not got any bright ideas today.

Q295 Mr Bailey: We have certainly seen it in the context of India. Would you possibly recommend extending the EU rate to candidate countries like Turkey, that would provide one rationale, or a preferential rate for Turkey?
Lord Jones of Birmingham: I certainly would. I can take that up and I will do so for you. There are one or two areas where Turkey benefit, for instance in airport landing fees and flight tax, they benefit from a European rate and not from an outside EU rate. Could that be extended to this type of operation, why not.

Q296 Mr Bailey: Could we look at some sort of mechanism for educational collaboration between the countries, a working group? One idea that was put to us, and I believe it has been floated, is a British university in Turkey.
Lord Jones of Birmingham: Yes, I noticed that and I think to get British universities to think of opening up in Istanbul or elsewhere in Turkey would be an excellent idea. When I visit countries, which, as you know, I do nearly every week, I always try and get to see a British university that has opened up to give them encouragement and so I can learn about where it is going well and where it is not. There is not one in Turkey and I think to get one open would be a fabulous advertisement for what we do and, at the same time, would reach out to them. One thing I notice, which concerns me a little bit, is one of the initiatives from the Turkish Government is a state university. One of the great, in fact I would probably say "the" greatest aspect of a British university is its independence and no matter how much we might not like some of the things they do, one thing I know for sure is they are free as they do it and free in their thought and free in their speech and independent of interference. I would hope we would not see state interference if it was state funded. We take that for granted in this country. There is an element of state funding of British universities by the British Government, of course there is, but somehow they are independent of it and it is good to see. We take it for granted, our bit in it, I think in other countries they would do the same.

Q297 Mr Bailey: Could you briefly comment on the potential collaboration between the UKTI and the universities and the working group which has been set up?
Lord Jones of Birmingham: Yes. From the universities in Britain, I am personally very engaged and very pleased that the working group is up and running. I intend to meet with them before I go in

September and I intend to bang their drum when I am over there. In fact, I would quite like to take one or two of them with me, to be honest.

Q298 Mr Bailey: How do you think specifically this could help in the context of Turkey?
Lord Jones of Birmingham: There are many ways but two I can highlight. One is it would do enormous good for the goodwill between the two countries. Do you remember right at the start of this I talked about how we have got to keep this subject right at the forefront of people's minds all the time, that will help. Secondly, as Turkey gets richer she is going to need to become more productive because she will suffer wage inflation for sure, look at China now. As that happens she has got to have access to a better skilled workforce. That comes out of having totems and emblems of education, skills and training, no better one than having a university in your neighbourhood. I think it will develop a more productive Turkey over the next generation. You would also hope it would mean that one or two British universities would see the opportunity to succeed and make money by being in Turkey. To get that moving, you need one to start with, do you not.

Q299 Chairman: One of the issues which so often comes up when we go abroad with the business community in particular is visas. It is always a sensitive issue because obviously we want to be tight on immigration controls but, equally well, there is a need for the business world to move fast and make quick decisions on travel arrangements. Is there anything to be done on the visa question which is worrying the Turks?
Lord Jones of Birmingham: The issue rate for the 2007–08 financial year was 93.2%, so we are talking about problems for 6.8% of everybody who applied for one.

Q300 Mr Hoyle: Can I say, that sounds good, that statistic, but what it does not tell you is how long people had to wait to actually get them issued.
Lord Jones of Birmingham: I know you and I tend to think more alike than we ever thought either of us would because I was about to say that. We handled 79,000 applications in that year. The issue, and I have had experience of this a lot over the last few months, is the speed. More than always it is about, "Can you get involved to speed it up?", not "Can you get them to change their decision?". Lindsay, you are absolutely right, the issue is about getting it speeded up. There will be a significant improvement to that speed issue with the introduction of digital photographing and, of course, digital finger scans. That came in on 6 December 2007 and I hope we are going to see the figures reflect that this coming year. We have got five offices now opening in Turkey to receive applications, not just Ankara and Istanbul but also Bursa, Gaziantep and Izmir, so hopefully that will also help speed it up. We see the speed as an issue. I do not in any way apologise for the 6.8%, I think that is a totally different issue. The treatment of Turkish applications for visas is no different from anywhere else.

Q301 Chairman: Can you assure us on that because the TBBC were worried about some of the sensitive personal questions applicants had to answer and they said it is not helpful to trade. Frankly, all I can say is personally I would not want to have to go through that process for entrance to a country. They are the same questions that Turkish applicants are asked as anyone from any other country is asked?
Lord Jones of Birmingham: I am quite convinced in my indecision on this. Do I like being asked a question that I get asked by Americans when I go in there, probably not. Does somebody from Japan like getting asked the questions they are asked?

Q302 Chairman: You think they are the same questions? You do not think the Turks are singled out on particular questions?
Lord Jones of Birmingham: No, the Turks are not singled out, categorically not singled out. Are they intrusive, I think they probably are.

Q303 Chairman: It is a general problem.
Lord Jones of Birmingham: It is a general point. Although in the long-term I am a huge believer that with business engagement in opening up and trade and investment guaranteed to grow, you are going to get a safer society in the long haul because you are going to get more prosperous people with access to clean water and better health care and better education. That has to be where we have got to take this, but on the way through, every time you engage with another country with commercial intercourse you will have a security issue, period. Do I want a safe society, of course I do. On the way through I acknowledge that it is not an easy part.

Q304 Chairman: It is a frustrating subject always looking at the future because we do not know when Turkey is going to join the EU. The earliest possible date is 2014. I think in procedural terms it is likely to be beyond that. Full membership will take a period beyond that because of the inevitable transitional arrangements, particularly for migration of labour, so a full membership is a long way off yet. We are trying to make sure Britain is as well positioned as possible when that day dawns, like this Committee it hopes it will as soon as possible so that the questions are in the present rather than the future. One issue we have not talked about at all so far is Turkey as a gateway to new markets. It struck us that Turkey is, for example, uniquely well placed in relation to Palestine and Israel, which is an unusual combination to get on well with. One of your colleagues, Jim Murphy, was speaking recently at the Wilton Park Conference on Turkey Accession and said, "We should look to Turkey to act as an economic bridge to Central Asia and the Middle East". Do you think Turkish membership means more for Britain than just Turkey? Does it open up other gates as well and other markets?
Lord Jones of Birmingham: Yes. Firstly, at a geo-political and globalised level, in five to ten years from now if you drew a line down which you would fold the world it is going to go straight down the Middle East. One of the great weather vanes of

where you think intercourse is going to happen in the next 15 years is look at which airlines are buying what type of aircraft and where they are basing their hubs because they are the guys who have to make the judgment calls on where they think the activity is coming. Dubai is the obvious hub that you always hear about but there are many others. The airlines that are buying them are the Asia airlines and the Middle East airlines, and where are they looking to go, eastwards and the Middle East. If you look at some of the purchasing decisions from your Lufthansas and your British Airways lately, they have been looking at the Atlantic almost as short haul, not quite, but very much, not where it used to be when we were kids which was the big adventure west. The first thing to say is Turkey will be placed on that line. If you look at that line where you would fold the world, Turkey would be there or thereabouts, so she has a role to play in being the European Union's most eastern hub, that is the first thing, in pole position to exploit where that fold in the world will be. Secondly, if you look at her geographically from an energy point of view, everybody talks about climate change as being the enormous challenge of the 21st century, of course it is, but where we get our energy from is going to be as important, whether it is nuclear, whether it is sustainable or whether it is fossil fuel. Wherever it is going to come from, we need our friends in and around the places where you will find fossil fuel. Turkey is absolutely in the place for Central Asia and also for the Middle East. She is secular, moderate Muslim. That has to be a place where we want to engage if we, as democratic nations in the European Union, believe in them having the freedom of worship in a moderate tolerant way and we having the same. Again, that will give them great leverage in a changed century. As you rightly said, if you look down at Palestine to Israel to the Gulf and then if you look up to the emerging and enormous power of Russia from a wealth point of view in the next 50 years, Turkey is in and around there as well. I think she is strategically placed for a British business in different sectors to get in there, use it as a platform to exploit everything I have just talked about, but I think from a geo-political point of view, if you were a government in the European Union you would be thinking, "I need some friends in that part of the world to lever off in various ways", all of which will help business in the long run because it will all lead to a more stable predictable environment, which is what business needs and for all of that Turkey is in poll position and, as a European Union, we would be so foolish to ignore that opportunity.

Q305 Chairman: I would like to ask you a question on what we could learn from Turkey, particularly on compulsory membership of chambers of commerce, but your train summons you!

Lord Jones of Birmingham: I will end with this, Chairman. TUSIAD were good friends of the CBI and they came to Britain often, we went there often, and it really did annoy me that, rightly in a competitive economy, I had to go out every day and justify membership with my organisation and they just used to say, "Well, you're a business, you've got to join". I did envy them that, that is for sure.

Chairman: I envy your trip to Liverpool, the city of culture. Thank you very much indeed.

Written evidence

Memorandum submitted by the Department for Business, Enterprise and Regulatory Reform (BERR)

THE ECONOMIC CONSEQUENCES OF TURKEY JOINING THE EU

EXECUTIVE SUMMARY

1. The UK remains strongly committed to Turkey's accession to the European Union, which we believe to be in the strategic interests of a prosperous and secure Europe.

2. Continuing to promote and support the progress and momentum of the accession process for Turkey will be a key part of the Government's strategy on Turkey, given the benefits gains for Turkey and EU Member States in fulfilling the legislative alignment criteria.

3. Based on current EU policies and knowledge, the direct net economic benefits of Turkey's accession to the EU would be positive but asymmetric: Turkey would gain proportionally more than the rest of the EU because of the relative sizes of the Turkish and EU economies. However, it is likely to take Turkey a decade or so to fulfil all the rules and obligations of EU membership and, with Turkey at an early stage in its preparations, its economy growing rapidly and the EU evolving at the same time, there are obvious difficulties in predicting the precise economic impact of Turkish accession.

4. Although it can be a difficult market in which to do business, Turkey also represents a sizeable and growing market for British goods and services. It is a country of strong economic potential with one of Europe's fastest growing economies with a predominantly young population of 72 million people that could help balance Europe's ageing population. The current Turkish Government sees reform and modernisation as a genuine priority (and not only for EU accession reasons).

5. From the economic point of view, Turkish accession will increase the size of the EU internal market and will enable further trade integration through the removal of trade restrictions in areas not currently covered in the Customs Union, eg agriculture and services, and the abolition of customs controls and some other technical barriers to trade. Turkey has a potentially large role in the EU's future energy security since it borders some of the richest hydrocarbon territories in the world and is already a key transit state for gas into the EU. Turkish accession would provide a stable market framework within which EU companies can transit gas to customers in the EU at competitive prices. Turkish accession could help improve access to these resources and their safe transportation into the rest of the EU by further securing the sections of the routes which transit Turkey.

6. Turkey's accession would also have an important impact on several transport modes. Its role as a corridor for road, rail, air and maritime pipeline connections between Europe and its southern neighbourhood would be strengthened.

7. Labour migration is another area where implications would arise from accession although it would be premature to attempt to assess the impact of Turkey joining the EU on the UK's labour market. The eventual impact would depend on the economic situation in the UK, Turkey, and the wider EU at the time of accession; the level of access granted to the UK labour market; decisions of other Member States on labour market access; and historical patterns of migration from Turkey to the UK and other EU member states.

8. A major part of the Government's strategy in Turkey is to deepen our trading relationship.[1] The proposed high level government to government forum will have a potentially important role to play in working towards this aim and addressing current market access disputes. Even with such a mechanism, we need to utilise all avenues to develop the necessary relationship with the Turkish Government. Lobbying by UK business and ourselves will remain an important element in this. The objective remains to support the Turkish Government in their aspiration to modernise their economy by:

- reinforcing key messages that simpler regulation and lighter government are good for trade;
- helping ease tension between protectionist elements and 'free traders'; and
- raising a number of specific dispute cases.

9. Another part of the Government's strategy is to challenge potentially inaccurate perceptions in the UK that Turkey is not a sufficiently attractive market-place to warrant interest or perseverance. This perception is a significant factor in holding back stronger British interest in Turkey. Our major competitors show far less reluctance and have consequently enjoyed greater success than ours. Competition from developing economies such as China, Iran and Russia is also affecting the relative market share of all developed countries in Turkey including the UK's. It is notable that whilst there has been healthy growth in our trade overall, with bilateral trade having increased from £3.8 billion to £6.5 billion between 2002 and 2006, our relative market share has declined in the past five years from when we were in third place to now where we sit eighth in the table.

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[1] Selected sections of the UK-Turkey Partnership document are included at Annex A (*see Ev 68*).

10. In addressing this perception, UKTI have already embarked on a programme to raise awareness of the opportunities in modern Turkey among the business community around the UK. While Turkey remains a difficult market because of the issues discussed in chapter 2 of this paper, the attractions of doing business there are considerable and will grow further as economic reform and preparations for EU accession progress. The economic figures make clear that business prospects have improved considerably. FDI interest in Turkey has grown rapidly as political and economic stability becomes more assured. It is no longer true to claim that it is not worth persevering. Yet the challenge remains for us to reach into UK boardrooms to understand and counter the caution that business appears to exhibit towards Turkey.

11. This memorandum incorporates material from BERR/UKTI, the FCO, Home Office, Defra and HMT.

Introduction

1. The road to integration with and accession to the EU has been a protracted and convoluted one for Turkey.

2. Turkey first applied for associate membership of what was then the European Economic Community (EEC) in 1959, and on 12 September 1963 signed the "Agreement Creating An Association Between The Republic of Turkey and the European Economic Community", also known as the Ankara Agreement. This agreement came into effect the following year on 12 December 1964. The Ankara Agreement sought to integrate Turkey into a customs union with the EEC whilst acknowledging the final goal of membership. In November 1970, a further "Additional Protocol" established a timetable for the abolition of tariffs and quotas on goods traded between Turkey and the EEC.

3. There was a temporary freeze in Turkish-EEC relations in 1980, following a military coup in Turkey. Relations were re-established in 1983 following multi-party elections and Turkey applied for full membership in 1987. The European Commission responded in 1990 by confirming Turkey's eventual membership but declining to begin accession negotiations immediately on the basis of concerns about Turkey's economic and political situation, including poor relations with Greece and conflict with Cyprus. This position was reaffirmed in 1997 when accession negotiations began with central and eastern European states but not with Turkey.

4. In 1995 a Customs Union between Turkey and the EU was established and took effect in 1996 which removed tariffs and quantitative restrictions on industrial goods. Since then there has been a significant increase in Turkey's share of the EU's foreign trade and Turkey is now the EU's 7th largest trading partner (2006).[2]

5. In 1999 Turkey was officially recognised as a candidate country and in 2004 the European Council concluded that Turkey sufficiently fulfilled the criteria agreed at the Copenhagen European Council in 1993 ("the Copenhagen criteria") to open accession negotiations. The negotiations were opened in October 2005 but in December 2006 the EU decided to suspend accession negotiations on eight chapters of the EU body of law (the acquis) because of Turkish refusal to meet its commitments under the Ankara Protocol to open its ports and airports to ships and aircraft from Cyprus. However, in practice this has not prevented steady, if slow, progress on the technical negotiations requesting opening positions and setting opening benchmarks in respect of the frozen chapters (those relevant to the Ankara Protocol) and opening others.

6. The UK has always been a strong supporter of enlargement as one of the EU's key tools for achieving stability and prosperity in our continent; securing agreement to start accession negotiations with Turkey was one of the notable successes of the UK's Presidency of the EU in 2005 and the Government is very keen that the current progress and momentum should continue.

7. The arguments for Turkish accession are strong and span a number of spheres, including the strategic political, security and economic, all of which are linked and will impact on each other. But Turkey's accession process promises to be more difficult than that of the Central and Eastern Europe countries and the necessary preparations are likely to last well into the next decade, with both Turkey and the EU evolving during this period and the climate for enlargement becoming unpredictable.

8. There are therefore uncertainties in assessing the impact of Turkish accession across the range of issues. This memorandum focuses specifically on the economic implications where, notwithstanding the uncertainties, there are clear benefits and opportunities, as well as challenges, in Turkish EU accession.

9. The Government commends the Portuguese Presidency's continuing progress on accession negotiations with Turkey and Croatia, a process that Member States committed to at last year's December European Council, and hopes this progress will continue under the Slovene Presidency. We hope the screening of applicant countries' compatibility with the acquis will continue at a steady pace in 2008. The UK will work to ensure that Turkey's accession process remains on track, with technically ready chapters being opened, building on the June accession conference during which Turkey opened two chapters.

[2] http://ec.europa.eu/trade/issues/bilateral/countries/turkey/index_en.htm

10. In this context we note the Conclusions of the December 2006 European Council:

> *"Enlargement has been a success story for the European Union and Europe as a whole. It has helped to overcome the division of Europe and contributed to peace and stability throughout the continent. It has inspired reforms and has consolidated common principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law as well as the market economy. The wider internal market and economic co-operation have increased prosperity and competitiveness, enabling the enlarged Union to respond better to the challenges of globalisation."*

11. Turkish accession also offers great benefits both to current EU members and Turkey in areas such as Justice Home Affairs co-operation on migration, drugs and terrorism, as well as increasing engagement on military co-operation, energy security, regional economic development, and dialogue between Islam and the West. Within the Customs Union, Turkey is already an important economic partner for many European countries. Full accession will reinforce the application of EU standards across the Turkish economy.

12. The current state of play on the negotiations in relation to the individual chapters of the acquis is summarised in Annex B.

Overview of Turkish Economy

13. Turkey established an industrial base through state intervention and import protection in the post-war period. Policies shifted towards liberalisation in the 1980s. IMF-backed reforms since the 2001 financial crisis have improved macro-economic stability. The IMF stand-by agreement is due to expire in early 2008. A large current-account deficit and heavy reliance on short-term capital inflows could leave the economy vulnerable to sharp changes in investor sentiment. Increasing employment and income equality are key policy concerns, but the resources to tackle them are limited.

14. Turkey has experienced impressive growth over the last six years. Its dynamic economy is a complex mix of modern industry and commerce along with a traditional agriculture sector that still accounts for about 26% of employment. It has a strong and rapidly growing private sector, yet the state still plays a major role in basic industry, banking, transport, and communication. The largest industrial sector is textiles and clothing, which accounts for one-third of industrial employment (though facing stiff competition in international markets); other sectors, notably the automotive and electronics industries, are rising in importance within Turkey's export mix.

FIGURE 1: REAL GDP GROWTH RATE (%)

Country	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007 (est)*	*Average (98–07)*
EU27	2.9	3.0	3.8	2.0	1.2	1.3	2.5	1.8	3.0	2.9	2.4
UK	3.4	3.0	3.8	2.4	2.1	2.8	3.3	1.8	2.8	2.8	2.8
Turkey	3.1	−4.7	7.4	−7.5	7.9	5.8	8.9	7.4	6.1	4.9	3.9

Source: Eurostat, ECFIN forecast Spring 2007

15. As a result of strong overall GDP growth, consumers in Turkey are becoming wealthier and better able to afford the higher value added goods and services that are produced in the UK and elsewhere in the EU27. GDP per capita in Turkey is, at €5,000, still considerably lower than in the EU27. Turkey's GDP per capita was in 2006 only 19% of the EU27 average. Furthermore, wealth in Turkey is not evenly spread, with huge regional variations between the more industrialised west and the generally more agricultural and poorer east, as well as variations between urban and rural areas.

16. Even if Turkey were to continue the impressive growth rates of the last six years—and they are likely to slow—it would have no prospect of catching up with the EU in terms of GDP per capita in the run up to accession.

17. Although the IMF programme is scheduled to end in May 2008, the Turkish Government's own economic strategy has highlighted their commitment to continue a programme of reform. Working with the IMF has led to a strong budget performance. According to the Commission autumn 2007 forecasts, there was a budget deficit of 0.3% of GDP in 2005, and a surplus of 0.4% of GDP in 2006 (compared with −33% in 2001). However, Turkey still has a sizeable but stable current account deficit and a significant government debt, although according to the Commission autumn forecasts, the debt ratio will be 54.1% in 2007, so is now within the Maastricht criteria of 60%. Bouts of financial instability occurred in May and September 2004, in March 2005 and during May–June 2006 which show that Turkey may still be vulnerable to volatility and sharp changes in global investor sentiment, but at the same time the combination of healthy growth, falling inflation and a tight fiscal policy has made the Turkish economy more robust and resilient to shocks.

18. State interference in the economy has been reduced in recent years. Political influence on state banks has declined and important markets, such as electricity, telecommunications, sugar, tobacco and petroleum have been liberalised. Turkey is still undergoing a transition from an agriculture based economy to a service oriented economy, although the share of employment in agriculture is still high.

19. Inflation has been drastically reduced, having come down from 65% in 1999 to 7.7% by October 2007. The reduction in inflation to single digit figures also made it possible to introduce the "New Lira" (the Turkish lira was converted to the New Turkish lira as 1,000,000 = 1), which has been the only legal tender since January 1, 2006.

TISC AREAS OF INQUIRY

1. *Bilateral Trade and Investment Opportunities*

(i) Trade

1. Turkey is a significant market for the UK and the UK is a major destination for Turkish exports, particularly for clothing and other textiles. There is a strong entrepreneurial culture in Turkey and despite regular economic downturns, business has a good track record of successfully riding out these setbacks.

2. There are 1,420 UK companies currently doing business with Turkey, with close to 500 having resident offices there. Some 220 Turkish companies are working in the UK. Significant British investors include Vodafone, Tesco, BP, Shell, HSBC, Aviva and Cadbury Schweppes.

BILATERAL TRADE FIGURES: (£ MILLION)

	2002	*2003*	*2004*	*2005*	*2006*
UK Exports	1,379	1,705	1,974	2,225	2,484
UK Imports	2,315	2,732	3,370	3,617	4,037
Balance	(936)	(1,027)	(1,396)	(1,392)	(1,553)

(*Source:* HMR&C/UKtradeinfo)

Average Percentage change over previous year:

Exports: +11.6%/ Imports: +11.6%

(ii) Exports to Turkey

3. The UK's market share has been falling in recent years. The UK is reasonably well placed in overall terms of market share and trade volumes although it has been declining along with other countries in the west in the face of imports from Russia (energy related exports) and China.

LEADING EXPORTERS % OF TOTAL

	2002	*2003*	*2004*	*2005*	*2006*
Russian Federation	7.5	7.9	9.3	11.1	12.7
Germany	13.7	13.6	12.8	11.7	10.6
China	2.7	3.8	4.6	5.9	6.9
Italy	8.1	7.9	7.0	6.5	6.2
France	5.9	6.0	6.4	5.0	5.2
USA	6.0	5.0	4.9	4.6	4.5
Iran	—	—	—	—	4.1
UK	4.7	5.0	4.4	4.0	3.7
Switzerland	4.2	4.3	3.5	3.5	2.9
Spain	2.7	2.9	3.3	3.0	2.8
South Korea	—	—	—	3.0	—
Japan	2.9	2.8	2.8	—	—

(*Source:* UN statistics)

MAJOR OVERALL EXPORTS TO TURKEY(2006) % OF TOTAL

Machinery, appliances & parts	20.1
Chemicals & chemical products	15.0
Mineral fuels & oil	12.2
Basic metals	11.7

(*Source:* UKTradeinfo)

TOP EXPORTS FROM THE UK TO TURKEY (VALUE £M)

	2002	*2003*	*2004*	*2005*	*2006*
Vehicles (other than rail and tramways)	147	241	405	438	503
Metalliferous ores and metal scrap	45	94	70	84	246
Power generating machinery, equipment, parts	70	102	142	151	209
Medicinal/Pharmaceutical products	157	164	169	186	164
Specialised industrial machinery	51	81	80	133	140
Organic chemicals	50	72	90	81	107
General industrial machinery and equipment	59	68	82	82	87
Electrical machinery and equipment	79	88	74	78	83
Miscellaneous manufactured articles	52	46	56	75	71
Plastics in primary forms	42	53	69	76	70
Office Machines and ADP equipment	60	54	47	74	63
Telecomms and sound recording equipment	48	51	45	55	58
Professional scientific and control instruments	42	43	45	48	53

(*Source:* uktradeinfo)

(iii) Turkish exports 2006

4. Turkey is a growing source of manufactured exports. In addition to traditional textile products, a developing manufacturing base in the telecommunications, electronics and automotive sectors dominate Turkey's exports. The UK is the second largest destination for Turkish exports.

LEADING TURKISH EXPORT MARKETS (2006)

	% of total
Germany	11.4
UK	8.0
Italy	7.9
US	5.9

(*Source:* UKtradeinfo)

MAJOR TURKISH EXPORTS (2006)

	% of total
Clothing & textiles	25.5
Road vehicles	13.9
Basic metals	9.4
Electrical machinery	7.6

(*Source:* UKtradeinfo)

TOP TURKISH EXPORTS TO THE UK

			Value £m		
	2002	*2003*	*2004*	*2005*	*2006*
Articles of apparel and clothing accessories	1,028	1,164	1,222	1,314	1,317
Telecoms and sound recording and reproducing apparatus	177	189	379	408	483
Road vehicles	151	219	351	324	278
Electrical machinery, and parts thereof	129	157	171	206	340
Textile yarn, fabrics, made-up articles	231	223	237	229	243
Vegetables and Fruit	123	132	156	174	171
Iron and steel	68	82	117	89	145
Power generating machinery and equipment	30	53	71	98	126
Prefabricated buildings; plumbing, heating and lighting	40	65	96	92	111
Non-metallic mineral manufactures	52	69	102	99	109
Manufactures of metal	32	43	58	63	76
Miscellaneous manufactured articles	41	51	63	74	65
Other transport equipment	5	39	20	77	59

(*Source:* uktradeinfo)

(iv) Sectors of Specific Opportunity

5. Details of the Government response to opportunities in specific sectors are included in the edited version of UKTI Strategy document at Annex C. Not all sectors which offer opportunities will have specific programmes of the UKTI activity associated with them. It is the case that some sectors are not a good fit for UK exporters of goods or services and, in other cases, better opportunities exist elsewhere in other markets which are accorded a higher priority. However there are significant specific opportunities in the following sectors:

Agriculture

6. Turkey's economy is still proportionally highly dependent on agriculture and is a producer of a wide range of agricultural products. Many of Turkey's exports are in the food and drink sector and Turkey enjoys a comparative advantage in a number of products. Turkey is among the largest producers of hazelnuts, figs, raisins and apricots and grows tea and tobacco. Opportunities exist in livestock, equine, crop development, fisheries, post harvest technology, research and development.

Chemicals

7. Turkey is a producer of many basic and intermediate chemicals and petrochemicals. The production value of the Turkish chemical sector is in excess of $11 billion, export revenues are worth $2.9 billion, and imports account for $17.4 billion, which is a striking 15% of total Turkish imports. Often these products are derived from available raw materials in Turkey. Others manufacture for industries already present there, such as auxiliaries for textiles and leather, paints and coatings for the construction and automotive sectors or additives for the plastics sector.

8. There are opportunities for export of specialist products and for the provision of services into the sector. For many companies in this sector, R&D and technical services are the best areas to investigate.

Education and Training

9. There are 10 million primary school children, three million high school students and over 100 universities covering all disciplines in Turkey. Education and Training receives over 10% share of the national budget, worth £7 billion in 2007. There is a new Government programme for the expansion of the vocational training system and IT and high tech education and training equipment and material is being widely used, starting from primary education.

Engineering (Advanced)

Automotive

10. Turkey is Europe's largest bus and coach manufacturer and 3rd largest light commercial vehicle manufacturer with 17 companies manufacturing motor vehicles in Turkey. 2006 was a record year for the industry with vehicle production over 1m units and the sector's overall exports exceeding USD14 billion. There are over 700 companies manufacturing a wide variety of automotive components. The industry is becoming more and more competitive, characterised by increasing globalisation, industry consolidation and diminishing margins. One notable feature of the Turkish auto industry is the prevalence of imports within overall sales figures. By the end of 2005, the industry imported over US$7.5 billion worth of components for use by vehicle manufacturers and the aftermarket.

11. In the short and medium term, as the Turkish automotive manufacturing is largely assembly, there are business opportunities for UK suppliers of not only parts and components but also component production equipment. More components are inevitably going to be sourced locally and this will lead to opportunities for UK investment in the country to meet the purchasing requirements of their customers.

Other Engineering

12. Turkey is a major manufacturer, exporter and importer of miscellaneous mechanical, electrical and process engineering products. As for advanced engineering products, ie components, equipment or machinery that require high precision and high technology, Turkish companies source these from abroad. A wide variety of motor vehicles, engines, pumps, metal working machinery, foundry equipment, textile machinery, mechanical handling equipment, ship and marine equipment and electronic automotive components are imported into the country.

Environment/Water

13. The Environment Heavy Cost Investment Planning organisation (EHCIP) of Turkey has led to the allocation of €68 billion for the infrastructure needs of the sector to be spent by 2023 (or EU accession). Half of this has been allocated to the water sector, mostly covering much needed wastewater treatment facilities and solid waste investments. The EU allocated €1.5 billion of IPA (Instrument for Pre-Accession Assistance) funds to Turkey covering 2007–09, 40% of which will be used by the environment sector. The World Bank is also supporting the municipalities by loans for their environmental investments through Turkey's Bank of Provinces.

14. Opportunities for UK companies exist as consultants and technology providers with the much needed investment in sanitary landfill sites, hazardous waste incinerators and sludge drying/incinerating facilities providing the biggest impetus.

Financial and Legal Services Sector

15. In the Financial and Legal Services Sector, Turkey is experiencing the launch of new products and services. Profitability in the sector has increased considerably. There is also particular foreign interest in the field of insurance, with FDI in that area reaching US$1 billion. Turkey offers numerous major project opportunities with supplier financing the key to winning such projects. Opportunities exist to provide Public Private Partnership (PPP) solutions, which are recognised as a British-designed tool and have become of interest to the Ministries of Health, Transport, Energy and Finance and the State Planning Organisation.

Giftware

16. The fine jewellery manufacturing industry in Turkey has undergone enormous expansion within the past 15–20 years, focusing particularly on the production of gold jewellery. Turkey is now the world's third largest producer of gold jewellery, its third largest consumer, and also second largest exporter of gold jewellery (source: UKTI post report). Turkish exports of gold jewellery were worth US$ 1,031 million in 2006, and it is estimated that the Turkish jewellery manufacturing industry employs around 250,000 people. Against this background, opportunities may exist for UK companies in the following areas:

(1) For UK manufacturers/suppliers of machinery, tooling, chemicals, packaging, and other equipment to supply product to Turkish jewellery manufacturers.

(2) For UK jewellery designers to supply design services on a consultancy basis to Turkish manufacturers, or to enter into other co-operation agreements with Turkish manufacturers, including outsourcing of jewellery production for sale by the designer.

Healthcare and Medical

17. Turkey has over 1,220 state, university, private and foundation hospitals and spending on healthcare receives a 4% share of the national budget worth £70 billion in 2007. Turkey increasingly acts as a regional health hub for the Caucasus, Central Asia and the Middle East with patients travelling to Turkey to receive treatment. New programmes funded by the EU and WHO have been introduced standardising healthcare across Turkey.

18. Turkey offers many trade opportunities to the healthcare industry, the UK's fourth largest area of exports to Turkey in 2006. As the country grows more affluent opportunities will remain strong for the sale of products into the healthcare sector. There will also be opportunities which are funded through IBRD and EU Accession funds for consultancy and management services. www.worldbank.org; www.deltur.cec.eu.int.

ICT

Telecommunications

19. The telecommunications sector in Turkey is amongst the most attractive and potentially lucrative anywhere in the world. Sector analysts all agree that the market is booming. Conservative estimates suggest the size of the sector is approximately US$ 22 billion and growing at about 20% pa. Mobile carrier services show the greatest rate of growth at 66% with software also showing growth rates of 25%.

20. Opportunities exist in the supply of goods into the sector and services and consultancy related to the increased amount of foreign direct investment there.

Software

21. The Turkish software industry is one of the fastest growing sectors of the economy claiming 25% growth in 2006 and double-digit growth rates in the past five years, estimated to be approximately US$700 million pa. (2006). Products of the local software industry range from packaged programmes (accounting, payroll and other business applications) to customised applications in, for example, financial services, telecommunications, manufacturing processes, retailing, healthcare, and education. Public sector companies in particular, almost always require custom-built software for their specific needs.

22. Opportunities exist for UK companies as local software companies, many of whom operate to internationally recognised methods and standards such as CMMI, SPICE: ISO 15504, ITIL and COBIT, are actively looking to form partnerships with companies overseas in order to gain international recognition and to expand their activities in new markets.

MARINE

23. Turkey is one of the largest producers of mega yachts in the world. Turkish production of other marine craft creates a number of good opportunities for UK companies seeking to supply marine equipment, communications and navigation equipment and design into the market.

OIL AND GAS

24. Turkey's geographical location makes it a natural land bridge connecting Europe to Asia. Therefore, it has an increasingly important role to play as an "energy corridor" between the major oil and natural gas producing countries in the Middle East and Caspian Sea and the Western energy markets. Expansion of the national gas grid, international gas pipeline projects like Nabucco and Turkey-Greece-Italy Interconnector and the Samsun-Ceyhan crude oil pipeline, along with Turkey's aspirations to be an energy corridor and an energy hub in Ceyhan also provide short-term opportunities in pipeline equipment and services along with equipment and services for the three planned refineries at Ceyhan.

25. The Turkish energy sector needs a total estimated investment figure of USD128.5 billion through to 2020, with the following breakdown as provided by the Under Secretariat of the Ministry of Energy and Natural Resources: USD 104.7 billion for power generation, USD16 billion for oil and gas exploration and production, USD 5.1 billion for coal exploration and development and USD 2.7 billion for the expansion of the Turkish natural gas grid. With the liberalisation of the market, privatisation of urban natural gas distribution is continuing at full speed, with the complete coverage of the 81 provinces to be completed by 2010. Section 6 covers energy transit issues.

POWER

26. Primary energy demand in Turkey has been growing at a rate of 6% per annum as a result of rapid urbanisation and industrialisation. This trend is expected to continue, with an additional 56,000 MW of new capacity required by 2020, with an investment of USD 7 billion per annum. Turkey aims at full utilisation of indigenous coal and lignite reserves along with hydro and renewable resources. Integration of nuclear energy into the Turkish energy mix will also be one of the main tools in responding to the growing electricity demand while avoiding dependence on importing fossil fuels. Privately owned nuclear plants corresponding to a total installed capacity of 5,000 MW will be commissioned by 2020. New laws and regulations are being enacted, including the recent Renewables and Energy Efficiency laws.

27. Although the regulated part of the Turkish electricity market is currently under the control of government companies, this will change drastically with the privatisation of the generation and distribution assets which will start early in 2008 and is wide open to foreign investment.

28. There are opportunities for British companies to provide services in areas of process management systems, advisory services including legal and regulatory frameworks, market structure and system development.

TEXTILES

29. The textile and clothing industry contributes significantly to the Turkish economy accounting for 10% of the GDP, 17.5% of total manufacturing and 20% of the manufacturing labour force. One of the major drivers of Turkish exports, the clothing sector produced £6.8 billion worth of goods in 2006, while the textile sector generated export revenues to the tune of £3.0 billion. Although a net exporter of textiles and clothing, imports have also been rising steadily. There is a growing demand for technical textiles, eg geo-fabrics, conveyor belts, non-woven tyre cord etc, in the Turkish market particularly in automotive, protective clothing and healthcare end-use industries.

Tourism

30. Turkey is a major tourism destination and is among the world's top ten in terms of revenue generated. In 2006 Turkey was 11th in terms of numbers of visitors following a small dip after the record numbers set in 2005.[3] Turkey is host to both leisure based tourists in resorts along the Mediterranean and to cultural tourists exploring Turkey's rich ecological, religious and historical sites.

31. Many opportunities exist for investors and UK citizens are purchasing property on and around the Mediterranean coast. Trade opportunities for UK business tend to be on a small scale.

(II) Investment

32. Turkey attracted 5.5% of total FDI inflows to developing economies in 2006 ($20 billion) and 30% of total FDI inflows to emerging Europe in 2006. The estimated FDI inflow for 2007 is $30 billion.

33. Foreign interest in the Turkish market has increased rapidly since 17 December 2004 when Turkey was given a date to start negotiations with the EU, and inflows accelerated further with the start of accession negotiations on 3 October 2005 reaching $8.6 billion in 2005 and around $20 billion in 2006. Despite a perceived slowdown in EU negotiations, foreign interest remains strong, particularly in financial and retail sectors. Standard and Poor's investment Grade rating is BB- indicating that Turkey is more prone to changes in the economy.[4] Issues that may impact on FDI in connection with EU accession are covered in section 6.

UK investment in Turkey

34. The number of UK owned businesses in Turkey has increased strongly in recent years to represent approximately 10% of all foreign owned businesses in Turkey over the period 1954–2006, as shown in the following table.

35.

	1954–2002 (cumulative)	*2003*	*2004*	*2005*	*2006*	*1954–2006*
UK	42	67	144	341	487	1,420
Total	5,560	1,105	2,095	2,845	3,350	14,955

(*Source:* Turkish Under Secretariat for Treasury)

36. The level of UK investment in Turkey is shown in the following table. UK investment in 2006 was 6th according to Turkish Treasury statistics above the US, Germany, France and Italy. The increase in investment from the Netherlands, UAE and Austria is particularly noteworthy, representing in the latter case sizeable mergers and acquisitions activity. Figures here for the UAE and Greece reflect annual payments for the acquisition of Turk Telecom and the acquisition in 2006 of Finansbank by the National Bank of Greece respectively.

US$ million	*2002*	*2003*	*2004*	*2005*	*2006*	*2002–06*
Netherlands	72	50	568	381	5,171	6,242
Belgium	5	54	25	1,088	3,456	4,628
Greece	0	24	38	11	2,787	2,860
UAE	1	0	0	1,625	1,548	3,174
Austria	0	0	1	9	1,108	1,118
UK	8	141	126	165	883	1,323
USA	2	52	36	88	693	871
France	22	120	34	2,107	444	2,727
Germany	86	142	73	391	366	1,058
Italy	241	1	15	692	209	1,158
TOTAL Incl. other countries	622	745	1,291	8,534	17,817	29,009

(*Source:* Central Bank of the Republic of Turkey –www.tcmb.gov.tr)

[3] UNWTO Tourism Highlights 2007. http://unwto.org/facts/eng/pdf/highlights/highlights_07_eng_hr.pdf
[4] Standard and Poor (July 2007).

Major UK investments in Turkey

- Aviva and Ak Insurance merged in June 2007. The merged company will become the biggest individual pension and the third largest life insurance company in Turkey.
- Cadbury Schweppes (CS) purchased the biggest chewing gum company in Turkey (Intergum Group) in June 2007. Intergum Group's market share in Turkey is estimated at 46%. Cadbury Schweppes had acquired 51% of Kent, the largest confectionery manufacturer in Turkey in 2002. CS now has a leading position in Turkey's confectionery market.
- Vodafone purchased Turkey's second biggest GSM player Telsim in 2006 for $4.5 billion. Vodafone has invested $1 billion to extend the Telsim network and increase the quality of communication. This is Vodafone's biggest investment project in Europe. The number of Vodafone subscribers in Turkey increased by 32% between May 2006 and June 2007.
- Since purchasing Izmir-based supermarket chain Kipa in 2003, Tesco has been expanding in the Turkish market, increasing the number of stores under the name of Tesco-Kipa from five in 2003 to 15 by the end of 2006 and 70 by the end of 2007. The medium-term goal is to become one of Turkey's top three retailers. Total investment in Turkey is likely to reach $1 billion by the end of 2007.
- Turkey's retail property sector is also attracting increasing British investment. A number of British companies (some with foreign partners) have invested in Turkey, including Saint Martin's (which bought Cevahir Mall in Istanbul, Europe's largest shopping mall), Parador Properties, Financial Dimensions, King Sturge, and Jones Lang Lasalle.
- HSBC purchased Demirbank in 2001, then Turkey's sixth largest bank. HSBC accounts for 10% of total consumer credit market and 7% of credit card market in Turkey. HSBC's business plan is to record a 100% growth in Turkey by 2010 and increase the number of branches from 159 to over 350 in the coming five years.
- BP is one of Turkey's largest foreign investors. The company is active in distributing and marketing fuel, oil and lubricants, LPG and the exploration of petroleum and gas. BP is also the operator of the $4 billion Baku-Tblisi-Ceyhan oil pipeline project, which is the biggest energy project in the world, so far carrying 10 million barrels of oil per year. BP is the biggest shareholder in the BTC holding 30% of the company shares. BTC launched "Community Investment Programme" and "Environmental Investment Programme", which involved a total of $12 million funding to mitigate the negative impacts of the construction and long term presence of the pipeline.
- Shell (Anglo Dutch) is among the major gas producers in Turkey. Shell holds around 2% of Turkey's biggest oil refinery, Tupras.
- Unilever (Anglo Dutch) has been active in Turkey for years. In terms of turnover, Unilever Turkey is among the top 10 Unilever companies in the world (out of 151). The company's 2007 turnover target is Euro 1 billion with a growth rate of 15%. Unilever Turkey has also become a training centre of global Unilever.

Turkish Investment in the UK

37. Turkish outward investment is rising; figures from UNCTAD show that levels of outward investment rose from $175 million in 2002 to $499 million in 2003 and $859 million in 2004, reaching $1,078 million in 2005 before falling back to $934 million in 2006. Turkish investment in the UK is currently more limited. In 2005 inward direct investment from Turkey amounted to only £140 million and currently only 221 Turkish companies are investors in the UK; traditional Turkish manufacturers do not consider the UK as a manufacturing base because of high manufacturing costs. However, UKTI believes there is considerable scope for more Turkish investment.

(III) Conclusion

38. Turkey offers a range of opportunities across many sectors. To reflect the potential of Turkey, UK Trade and Investment (UKTI) has included Turkey in the group of 17 High Growth Emerging Markets for which extra resource is being made available (see section 3 on HM Government support for business).

2. *Difficulties faced by UK businesses wishing to trade, or forge investment links, with Turkey*

1. Although Turkey aims to create a business friendly environment, there are still some significant concerns and impediments faced by UK businesses wishing to trade or forge investment links with Turkey, principally in the following areas.

Taxation

2. The top income and corporate tax rates are relatively high, at up to 55% and effectively 45-55% respectively, and overall tax revenue collection is relatively low as a percentage of GDP compared with other OECD countries. There is a large informal economy.

Corruption

3. There remain some challenges from corruption, although there has been some improvement. The Transparency International report of 2006 found that Turkey was one of a number of countries that showed a significant improvement in perceived levels of corruption. However Turkey remains 60th out of 163 in the corruption index and there is still no centralised strategy to tackle corruption within the country.

Market Distortions

4. Another main concern is government interference in the economy which creates distortions in the market. An example of this is direct subsidy by government of a variety of agricultural products. Total government expenditures equal more than a third of national GDP. Monetary controls remain a problem with state involvement in the availability of credit and the operation of some state banks.

The Labour Market

5. Turkey's labour market flexibility is exceptionally low, being one of the 20 least flexible in the world. A recent World Bank study found that it is very costly and legally difficult to dismiss workers. Severance pay is typically 20 months salary; in the UK it is often much less and is based on years of service. There are also rules in place that give priority to recently dismissed workers when filling new vacancies, restrictions on night work and work at the weekends, and problems in the temporary work market—as term contracts can only be used in certain specified situations, again reducing opportunity.

Legal Transparency

6. One of the biggest disincentives to trade remains a lack of transparency in the legal system and inefficient and lengthy dispute resolution procedures. There are some serious outstanding problems for UK businesses that result in significant loss of business, inhibit business prospects and hamper further investment in the market.

Customs Union Non-compliance

7. A number of barriers to trade are caused by Turkey's non-compliance with its obligations under the Customs Union. Such difficulties relate to divergent rules for external trade, standardisation, import licences, and technical trade barriers, as well as intellectual property rights (IPR), food safety and public procurement.

Commercial Disputes

8. Despite the undisputed improvement in the business environment in Turkey, there remain a number of commercial disputes that are damaging, result in significant revenue loss and could potentially deter future investment. Specific cases are listed below.

Spirits

9. Leading UK exporters of alcoholic spirits to Turkey, such as Diageo, Maxxium etc, have encountered a number of significant problems including a protracted and potentially crippling dispute over supposed dual pricing. They also face difficulties over certification and labelling, customs bureaucracy and discriminatory tax treatment. An EU trade barrier regulation complaint against Turkey is currently being raised. The decision over dual pricing currently sits with the Danistay (Turkey's Supreme Court).

Aviation

10. Although the UK has enjoyed significant success in introducing new carriers into Turkey, including BMI, EasyJet, GB Air, BA, Thomsons etc, there remains a reluctance on Turkey's part to adhere fully to the existing UK/Turkey Air Services Agreement and to increase competition in the market. EasyJet have applied to extend their routing from London-Gatwick to Istanbul Sabiha Gokcen in addition to their existing Luton/Istanbul business but still await formal authorisation from the Turkish CAA. BA do not

enjoy fast track facilities for their VIP/business class passengers in Istanbul. In contrast, THY enjoys such services at London Heathrow. BMI continue to experience difficulties over the cost of introducing additional security at Esenboga from the monopoly provider and code sharing.

Telecommunications

11. There are significant British interests in Turkey's telecommunications sector with Vodafone being the largest single investor in the market with the purchase of Telsim for some US$4.5 billion in 2006. BT are technical advisers to Saudi Oger who purchased 51% of Turk Telekom. Vodafone remain concerned about plans to introduce a 3G system before the introduction of full "number mobility" between GSM operators. Number portability is a key requirement for a truly competitive GSM market place. Heavy taxation also remains a burden and is a major barrier to competition.

Pharmaceuticals

12. Pharmaceuticals is a growing sector for both the UK and Turkey. Major UK pharmaceutical companies continue to do significant business in Turkey, but although encouraging improvements have been made with Data Exclusivity (DE), there remains poor IPR enforcement, lack of adequate DE and difficulties over pricing and reimbursement. Further improvements are needed to ensure full compatibility with Turkey's EU and WTO commitments. Over-protection of Turkey's generic industry leads to significant revenue losses each year.

Power/Transport

13. There are several Balfour Beatty issues in Turkey. The outstanding balance (US$40 million) for the Ankara/Istanbul highway remains unpaid and is currently awaiting international arbitration. Balfour Beatty Networks are still owed some US$18 million by Turkiye Elektrik Ilisim AS (TEIAS) for the completion of the World Bank funded 380Kw Borcka Kalkandere energy transmission line. Non payment of these projects is discouraging further BB involvement and investment in Turkey.

Media

14. ECGD have negotiated terms with the Turkish Bankruptcy Administration (TMSF) for the settlement of a seven year old debt to a UK company arising from a Turkish Media Company (Sabah) that went bankrupt. The process now requires Halk Bank and the TMSF to agree to the monies being released.

Agri-Business

15. UK/Turkey signed a bilateral Memorandum of Understanding in March 2007. This centred on the development of collaboration in three main areas: animal husbandry, equine and organic farming. Although significant progress has been made in all these areas over the past two years, difficulties still remain over the requirement for health certificates for all agri-business products, perceived protectionism over certain produce (including black tea—Twinings) and over burdensome bureaucracy for the importation of general products.

Education and Training

16. Turkey has a wide manufacturing and educational base, much of which does not currently meet EU standards. There is a significant requirement for improvement in education, training, design, innovation and research and development in a number of key areas. The UK is looking to significantly improve collaboration in these key areas. There remain a number of concerns, however, including Ministry of Education directives preventing the use of foreign produced publications in Turkish schools, the encouragement of duplicated materials and the lack of intellectual property rights and enforcement in the publishing industry. These restrictions and failings create difficulties for a number of British publishers, including Longmans and Oxford Publishing. More broadly, legal restrictions make it very difficult for foreign education providers, including for vocational training, to operate in Turkey. Relaxation of these restrictions would enable a swift expansion of education provision in Turkey, which is strongly in its economic interests.

Retail Industry

17. A growing number of British interests are looking to establish retail outlets in Turkey. These include Harvey Nichols, Debenhams, and British Home Stores etc. There remains concern over Turkish restrictions on imports from China which inhibit Istanbul flagship stores from maximising their opportunities and establishing a presence as high quality international brands.

Conclusion

18. There has been progress on the Turkish side in addressing some of these problems, in particular in reducing domestic protection, tax reform and speedier resolution of commercial disputes. But there are still too many disputes creating significant barriers to trade that need to be resolved. Otherwise, we have been in regular contact with the industry and have regularly raised the issues with the Commission and at the highest levels with the Turkish Government, including PM Blair to Erdogan. We also pushed hard in the accession process to secure appropriate benchmarks for the relevant chapters requiring Turkey to remove the discriminatory measures before they can be opened.

19. As Turkey makes further progress on the accession process, fulfil the benchmarks being set and align with the Acquis on the individual chapters, more of these outstanding problems will be addressed. Our work with Turkey to support their accession preparations, together with our work to assist economic reform and the enhanced dialogue and co-operation represented by the Turkey/United Kingdom Strategic Partnership, will all support efforts to resolve the existing barriers to trade and the trade disputes.

3. The role of the UK Government in assisting businesses, through UK Trade and Investment (UKTI)

1. In July 2006 a new strategy was launched providing for a refocus of UKTI resources to emerging markets. One of its main objectives is to maximise the UK's ability to win market share in the new high growth economies by achieving a step-change in our performance in these markets. The strategy is supported by a comprehensive marketing strategy emphasising the UK as a place in which and with which to do business under the banner "hit the world running". Turkey was one of 17 countries categorised as a High Growth Emerging market. Other high growth emerging markets include China, India, Brazil, Mexico, South Africa, Saudi Arabia, Indonesia, Thailand, Singapore and Malaysia.

UKTI Strategy for Turkey

2. An edited version of the UKTI Strategy for Turkey is attached at Annex C. Its key objectives include:

(a) raising general awareness of the market characteristics and opportunities for doing business in Turkey;

(b) increasing the level of UKTI resources in Turkey;

(c) identifying more proactively opportunities for business in particular priority sectors;

(d) increasing the UK's effectiveness in the marketplace by working with companies with potential to enter the market;

(e) engaging with Turkish companies through the Turkish-British Business Council and

(f) working with UK stakeholders to influence the Government of Turkey to improve the competitive playing field for British companies.

3. In Turkey, an additional objective is to build a greater understanding and appreciation of the benefits of trade with the UK. A programme of awareness seminars is now in place with a number of events underway. These are listed in the strategy document at Annex C.

4. More than £5 million of UKTI resources are being transferred from mature markets to focus on emerging markets like Turkey. An Inward Investment Team has been established in Istanbul, a Marketing Officer appointed and enhanced capacity placed in Izmir and in Ankara. The overall strength of the team in Turkey has been raised from around 15 to 19. In London the Turkey team, which numbers five, also has responsibility for Russia, the Caucasus and Central Asia.

5. The enhanced team in Turkey will allow for more targeted identification of potential opportunities. They will also be responsible for delivering a range of UKTI services to help UK companies enter the market and develop their business further once there.

6. In addition to the awareness seminars, a High Growth Market Adviser has been appointed to increase the UK's effectiveness in the marketplace. The UKTI High Growth Markets Programme helps UK companies to capitalise on major commercial opportunities in some of the world's fastest-growing markets by targeting mid-corporate companies with the potential to enter or expand in the designated high-growth markets and aims to:

(a) develop and deliver support services tailored to the needs of individual companies;

(b) enable the sharing of experiences and lessons learned from exporters in these markets and

(c) provide intelligence about specific opportunities in particular high growth markets;

7. The Turkish-British Business Council (TBBC) is being refocused. Its aim is to strengthen the trade and investment relationship between Turkey and the UK by:

(a) identifying the most promising sectors and business opportunities for Small and Medium-Sized Enterprises from the two countries;

(b) encouraging investment in both directions;

(c) encouraging co-operation in third markets between the private sectors of the two countries;

(d) enhancing networking between the private sectors of both countries and

(e) creating specific opportunities through which companies and their organisation in both countries can develop a greater understanding of their respective strengths and potential areas of co-operation.

8. The TBBC is a joint council with a UK side consisting of predominantly UK companies, many of them major UK plcs, which has been chaired since 2007 by Sir Julian Horn-Smith. Members on the UK side include Balfour Beatty, HSBC, Denton Wilde Sapte, Imperial Tobacco, Allied Domecq, Vodafone and the Scotch Whisky Association. The Turkish side comprises a secretariat provided by DEIK, The Foreign Trade Board of Turkey and an Executive Board, made up of a number of senior Turkish industrialists. The Turkish co-Chairman is Metin Mansur, appointed in 2006.

9. UKTI aspires to begin a dialogue at ministerial level with the Government of Turkey, with the aim of raising outstanding market access issues at the highest levels while underlining the UK's commitment to developing further trade and investment links with Turkey.

10. The bulk of services for Turkey are delivered by UKTI's regional network in England and their equivalents in the devolved administrations. The Devolved Administrations for Scotland, Wales and Northern Ireland are directly responsible for the provision of international trade support. UKTI's regional network comprises International Trade Advisors (ITAs) based in International Trade Teams. ITAs work closely with Commercial Staff overseas and market and sector desks within UKTI headquarters.

11. UKTI's trade teams provide a range of export related services including: one-to-one help, advice and counselling, including help to determine whether exporting is in the client's best interest, and strategic advice to help the client plan and implement an export strategy.

12. The Devolved Administrations for Scotland, Wales and Northern Ireland have their own networks of advisors (both at home and overseas) and support programmes. They also draw on the resources of UKTI posts in the majority of overseas markets, including Turkey, and also can access most of UKTI's national services eg the Overseas Market Introduction Service and Tradeshow Access Programme. As partners they also have access to internal information on the UKTI website.

13. Delivery of the UKTI strategy on Turkey in the regions and devolved administrations is assisted by a network of regional "Champions", whose role is to provide communication links for posts in Turkey and with UKTI HQ in London. They have been instrumental in helping to organise the programme of regional information seminars.

Conclusion

14. By 2012 UKTI expects to have delivered improvements in the business performance of our international trade customers in Turkey, with an emphasis on innovative firms. We will do this by improving the networks that support business, enhancing the availability of information which allows business to make informed choices, and influencing the market conditions, where possible, to be more receptive to UK trade and investment.

4. Turkey's potential as a gateway to markets in the Middle East and the Caucasus and the Central Asian Republics

1. There is little specific empirical evidence that Turkey represents the best gateway to markets in the wider region. In some cases the markets involved represent areas with limited current opportunity for British business, while in others such as the Gulf States the UK is already a strong bilateral trade partner. Such evidence as there is for influence in nearby markets can be contradictory. For example a paper prepared by the Turkish Foreign Economic Relations Board (DEIK) points to significant contact and influence by Turkish business with the Turkish speaking republics of the Former Soviet Union and with other countries in the region.[5] Investment flows from the Arabian Peninsula are increasing according to DEiK. However, the 2nd International Turkish-Asian Congress organised by Turkish Asian Centre for Strategic Studies (TASAM) in Istanbul on 23–24 May 2007 asserted that Turkey's failure to establish very close links with the former Turkish republics, meant that bilateral economic relations remained well below their potential. The report further concluded that Turkey was neither benefiting from the great economic potential of the Gulf countries nor engaging more with these countries politically.

[5] TurkeyTurkey and beyond,prospects for cooperation in Central Asia/Caucasus,Asia/Caucasus, Afghanistan and Iraq: (Paper produced by the Foreign Economic Relations Board of Turkey—DEIK Sept 2007).

2. However, as a potential transit route for hydrocarbons to Europe, Turkey does offer a different option to established alternatives through Russia (see paragraphs 4 to 8 on energy below). There are also examples of business which Turkey has won in the Central Asian region in conjunction with British companies from the late 1990s. For example John Laing, together with Alarco from Turkey, constructed the international airport in Ashgabat, but there has been little more recent evidence of co-operation since then. Furthermore, Turkey has strong regional partnerships in the Middle East including Israel and enjoys good bilateral trade and investment relations with the Gulf States, Levant and North Africa.

3. Bilateral trade figures with some of the region are as follows with a brief explanation.

TURKEY'S TRADE RELATIONS WITH REGIONAL ECONOMIES (2004–06 in $m)

	2004 exports	*2004 imports*	*2004 Trade balance*	*2005 exports*	*2005 imports*	*2005 Trade balance*	*2006 exports*	*2006 imports*	*2006 Trade balance*
Russia	1,859	9,033	−7,174	2,377	12,906	–10,529	3,238	17,645	–14,300
Kazakhstan	356	441	−85	460	558	–98	697	971	–274
Azerbaijan	404	136	+268	528	272	+256	695	333	+692
Georgia	200	307	–107	272	303	–31	408	342	+72
Turkmenistan	215	176	+39	181	161	+20	281	189	+81
Uzbekistan	145	99	–33	151	261	–110	176	406	−230
Iran	813	1,962	−1149	913	3,470	−2,557	1,066	5,624	–4,558
Iraq	1,821	468	+1353	2,750	459	+2291	2,589	376	+2,213
Egypt	473	255	+218	687	267	+420	709	391	+318
Saudi Arabia	769	1,232	−463	962	1,889	−927	983	2,247	−1,264
UAE	1,139	183	+956	1,675	205	+1,470	1,986	351	+1634
Kuwait	266	26	+240	210	42	+169	219	56	+163
Israel	1,309	714	+495	1,467	803	+664	1,529	774	+755

Russia: Turkey's huge trade deficit with Russia is largely attributable to gas imports. There are also non-tariff barriers such as visa obstacles and long clearance procedures for Turkish trucks.

Caucasus: There are strong political and economic ties with Azerbaijan and Georgia. But these are not fully reflected in trade relations. Around 1,800 Turkish companies are active in Azerbaijan. Main Turkish investments in Georgia include two airport contracts (Tbilisi and Batumi) at $90 million and a number of tourism projects.

Central Asia: Kazakhstan is the most popular investment destination for Turkish business in the Central Asian region followed by Turkmenistan. Turkish companies have undertaken around $6 billion contracting business in Turkmenistan.

Iran: Economic relations between Turkey and Iran are limited; bilateral trade only accounted for 5% of Iran's trade volume. Iran is the second largest oil and gas exporter to Turkey and in 2006 became a top 10 supplier to Turkey overall.

Egypt: There are a few Turkish textile companies moving production to Egypt to benefit from cheap labour and energy. Egypt also has a qualified industrial zone agreement with the US which is a potential area of partnership.

Gulf Countries: Gulf countries are recording huge capital surpluses, and are seeking profitable investment destinations. The AKP government established close links with Saudi Arabia in particular. Turkish contractors have won $3.5 billion worth of business in Saudi Arabia. Gulf countries are particularly interested in Turkey's energy, property and financial markets.

Israel: There are significant links between Turkey and Israel including a free trade agreement. Israeli companies invest in Turkey and are strong trading partners with the Turks. In the first six months of 2007 figures released by the Israeli Embassy recorded bilateral trade worth $1.3 billion. Israeli exports to Turkey increased 24.7% to $512m, while Turkish exports to Israel increased 29.6% to $782m.[6]

[6] Israel Times, 3 August 2007.

[7] European Commission Energy Green Paper: *A Strategy for Sustainable, Competitive and Secure Energy*, COM (2006) 105 final; pg 16; http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document—en.pdf

[8] Commission Communication to the Council and the Parliament, *Europe An Energy Policy for Europe* COM(2007) 1 final; pg 25; http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0001:EN:NOT

[9] HMG's submission can be found as a link from here: http://www.berr.gov.uk/energy/policy-strategy/international/eu/page28034.html

Energy

4. As noted above, Turkey's proximity to some of the richest hydrocarbon territories in the world mean that it has a potentially large role to play in the future of EU energy security of supply. This has already been recognised by the EU Commission in their 2006 Energy Green Paper[10] and 2007 Strategic Energy Review *An Energy Policy for Europe;*[11] by EU Heads of State at the March Spring Council; by endorsing the Nabucco pipeline project; and by HMG in submissions to the Commission and Council on a European Energy Policy in January 2006.[12]

5. The EU is in a unique position whereby 75% of the world's known natural gas reserves are within pipeline distance and form an arc around the Union. The EU, including the UK, is a net importer of gas and, as such, is reliant on both producer and transit countries for the safe delivery of our piped gas. In order to mitigate the risk of supply interruption, for whatever reason, we need to strive for diversity of transit states and for the development of the world LNG market. Turkey, with its unique geographical position, has the potential to develop its infrastructure and as an even more significant transit country for gas into the EU than it already is. The EU already imports the majority of its piped gas from Russia—some of this already comes through Turkey, via the Blue Stream Pipeline.

6. But Turkey is also a bridging state for the EU to access to other sources of Caspian Gas, from Azerbaijan and Turkmenistan in the first instance. The EU Heads of State and Governments have supported the proposed Nabucco Pipeline project as the key vehicle for transporting gas from the Caspian to the EU. This would link Turkey and Austria through Romania, Bulgaria and Hungary. The Turkish transmission company BOTAS is a partner in project. The Nabucco project has been given the status of a project of special European interest and the European Commission has appointed Mr Jozias Johannes van Aartsen, the former Dutch Foreign Minister as a political co-ordinator for the project.[13]

7. The value to the EU of Turkey's possible role as an energy "hub"—importing sources of gas for transit on to the EU, depends largely on the model followed by Turkey—ie whether it becomes an aggregator or operates according to market rules—(ie allowing multiple commercial entities to procure, trade and supply gas). While Turkey could benefit from transit revenues under either approach, it is in its own and the EU's interests for them to adopt a market approach so that companies are exposed to competitive pressures, prices are transparently set, and investment in energy infrastructure can flow in.

8. Turkey has shown an inclination towards a market approach, for instance setting up a regulator along the lines of Ofgem, and has indicated willingness to join the Energy Community Treaty in the future (which extends the EU Acquis communitaire in gas and electricity plus parts of the competition and environment Acquis into the nations of the Western Balkans). However, Turkey has held back from joining the Treaty at this stage, preferring instead to try an open the energy chapters in the wider accession negotiations.

5. The impact of EU trade policy, such as anti-dumping policies, on UK trade with Turkey

1. Some of the difficulties and market access issues with Turkey have been mentioned in section 2 above but in general there are few bilateral trade policy issues between the UK and Turkey.

Trade defence

2. As far as trade defence is concerned, there are currently only two EU anti-dumping measures in place against Turkish exports (both related to certain steel products), both of which are currently subject to review.

3. In the other direction, as at the end of 2006, Turkey had six trade defence measures (all safeguards. Of these two (voltmeters/ammeters and activated earth and clays) are directly targeted against the UK (along with three other EUMS) with the balance (4) against the EU as a whole. Four of these measures were introduced in August 2006 and will remain in place (early accession aside) until at least August 2011.

4. Post-accession trade between UK and Turkey will of course be subject to internal market and competition disciplines not trade defence.

[10] European Commission Energy Green Paper: *A Strategy for Sustainable, Competitive and Secure Energy*, COM (2006) 105 final; pg 16; http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document—en.pdf

[11] Commission Communication to the Council and the Parliament, *Europe An Energy Policy for Europe* COM(2007) 1 final; pg 25; http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0001:EN:NOT

[12] HMG's submission can be found as a link from here: http://www.berr.gov.uk/energy/policy-strategy/international/eu/page28034.html

[13] Announced in a Commission Press Release on 12th September 2007; http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1317&format=HTML&aged=0&language=EN&guiLanguage=en

Steel

5. Steel is one sector where concerns are raised from time to time, both in the unfair trade field but also a current, long-term concern about implementation of a restructuring plan for the Turkish steel sector. This has wider industrial as well as trade policy concerns and echoes similar concerns in relation to steel industry restructuring in other recent accession countries.

6. Expected changes in the economic, trade and investment relationship that might result from the accession of Turkey to the European Union

1. Enlargement of the EU to include Turkey would increase the size of the Union 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.

2. The economic benefits of Turkey's entry into the EU stem from factors which have a direct positive impact on the economic environment (trade, FDI, migration flows and better economic governance), and from political factors which have indirect economic benefits. Although other factors such as globalisation and internal reform may lead to increasing alignment with EU economies independently of the accession process, the EU accession negotiations provides important incentives for Turkey to continue in its current direction and pursue sound economic policies.

3. The accession process not only has a direct effect on Turkey's economic development but will assist in attracting foreign direct investment (FDI). Progressing towards accession would help Turkey push through their economic reforms contributing to increased potential growth rates. EU membership can be an aid to the Turkish Government because it establishes a framework for peer review amongst member states on micro-economic reform (Lisbon process) and also at the macro-economic level through the review of national Stability and Convergence programmes.

4. During the accession process, Turkey will need to tackle some significant challenges. Anticipating and managing the associated risks will influence the way that the trade and investment relationship develops. Among these issues will be labour and migration, trade barriers, the Common Agricultural Policy (CAP) and energy security.

5. In terms of the potential economic impact of accession, in assessing this account has to be taken of the extent to which the accession process encourages the momentum for reform. Were the prospect of accession for Turkey to be removed, there could potentially be a range of risks. For example, macroeconomic stability in Turkey could deteriorate. This is a particular risk as Turkey's current IMF programme comes to an end next year, potentially increasing the role of the EU as an external anchor. There is also a risk that relations with the EU could also worsen if Turkey turned eastwards for its partnerships, and economic barriers to for example trade with the EU could increase. Against this scenario, which would have negative economic consequences for both Turkey and the EU, the impact of EU membership could be large.

6. Another scenario however is that even without the accession process encouraging certain reforms, Turkey could slowly move closer to Europe even without accession as its aim. Political stability could be maintained, the economy could be well managed and economic reforms could continue. If this were the case, the effects of EU membership would be smaller.

7. It is, however, important to be aware of the potential economic costs of stalling or reversing the accession process, in particular:

— Calls within Turkey for an amendment of the current Customs Union Agreement, or its replacement by a Free Trade Agreement, could grow, which in turn could reduce trade levels; signing up to the CUA was seen by Turkey as step along the route to accession and if the prospect of accession were removed or reduced Turkish commitment to it could be weakened. This might particularly be the case because the CU is asymmetric; causing there to be some opposition to it in Turkey, in that under its terms Turkey cannot enter into any new preferential trade agreements with third countries without EU agreement. On the other hand the EU can enter into such agreements without Turkish agreement. The asymmetry also partly stems from Turkey being an automatic counterpart to any new preferential trade agreement signed by the EU. Another source of asymmetry is that if Turkey faces a trade dispute with the EU, the last legal resort is the European Court of Justice, causing the EU to be both a party and the arbitrator in trade disputes with Turkey.

— FDI could also decrease; FDI flows to Turkey increased following the start of the accession negotiations, and if the accession process stalled, there is risk that these flows could be reversed. In other words, if part of the increase in FDI visible in recent years is part of an already occurring "EU effect", there is a potential for these flows to be reversed.

Labour Migration

8. Before the EU opened negotiations with Turkey, the EU Commission[14] assessed the effects of Turkish membership on the EU including migration. They noted the existing population and that migration would be affected by the imposition of transition periods and permanent safeguard clauses.

9. There is already labour migration from Turkey to the EU, especially to Germany. It is likely that the accession of Turkey to the EU would lead to an increase in labour migration at the point of accession. However, enlargement and the prospect of enlargement—should over time reduce the incentives for economic migration as EU membership will boost growth, create job opportunities, and improve the quality of life in Turkey. Accession will also make return and temporary stay easier for Turkish nationals moving between current EU Member States and Turkey.

10. The impact of accession on labour migration, and the impact of any increase in labour migration on the UK labour market, will depend crucially on the circumstances at the time. Given the uncertainties over timing at this early stage in the negotiation process, it would therefore be premature to make any quantitative estimates of the possible impact. Any assessment would need to take into account the following key factors:

— the economic situation in the UK, Turkey, and the wider EU at the time of accession;

— the level of access granted to the UK labour market;

— decisions of other Member States on labour market access; and

— wider social factors, such as historical patterns of migration from Turkey to the UK and other EU member states.

11. The UK Government is taking a gradual and managed approach to workers from the new EU states, taking account not only of the impact on the labour market but also the wider social impacts. It is generally recognised that A8 migration has benefited the UK labour market and wider economy. The UK Government has also introduced new initiatives to assist in assessing and understanding the impacts of migration, including labour migration, to the UK more broadly—including;

— The Migration Impacts Forum (MIF): This forum will help build the evidence base for the effects which migration is having on communities and public services throughout the United Kingdom and advise on how these challenges can best be met.

— The Migration Advisory Committee (MAC): This is initially advising Ministers on where migration might sensibly fill gaps in the labour market with respect to skilled workers.

Trade and Foreign Direct Investment

12. Turkey is already a relatively open economy with trade in goods and services equivalent to 61% of its GDP. The EU is Turkey's biggest trading partner and is the destination of nearly 55% of Turkey's exports in goods and services and the source of 48% of its imports. This has increased vastly over the last 10 years due to Turkey becoming a member of a Customs Union with the EU in 1995. In 2006 the UK was the second largest export market for Turkey and over the same period the UK has seen imports from Turkey rise 462%. in nominal terms. In 2006 Turkey imported nearly £2.5 billion worth of goods and services from the UK. The UK's trade with Turkey is about 1.0% of our total.

13. The already existing CU limits the extent to which the trade could be expected to increase following Turkish accession to the single market. However, there is still some scope for trade to increase as certain non-tariff barriers still exist in manufacturing, and as both the agriculture and service sectors are excluded from the CU. De Mooij and Lejour (2004)[15] find that Turkey's trade with the EU15[16] would increase by 34% following Turkey's accession to the single market. This corresponds to an increase in exports over the longer term of 0.2% for the EU15, and for the A10, exports would increase by 0.3%.[17] Another study by Flam (2003)[18] has results of similar order of magnitude; he finds that trade with the EU could increase by almost 50% over the longer term. Such trade increases would be important for Turkey, but would only have small positive effects on the EU's GDP.

14. Whilst Turkey is not the UK's most important trade partner for a range of reasons including geography and history, an increased EU market would provide increased FDI and export opportunities for UK businesses. As Turkey's services market opens up, UK firms will benefit from increased levels of exports and more opportunities for FDI. The EU Services Directive would also ensure increased market opportunities are not just felt in goods but also services, the latter potentially having a higher impact.

[14] As set out in their published Staff Working Document titled "Issues Arising From Turkey's Membership Perspective" dated 6.10.2004 [SEC(2004) 1202, COM(2004) 656 final].

[15] Lejour, A M and de Mooij, R A (2004), Turkish Delight—does turkey's accession to the EU bring economic benefits? CESifo working paper 1183 (also published in Kyklos, vol. 58, 2005).

[16] The EU15 are the 15 countries that were members of the EU prior to the 2004 enlargement round.

[17] The A10 are the ten countries that joined the EU in 2004.

[18] Flam, Harry (2003), Turkey and the EU: Politics and Economics of Accession, Seminar paper no 718, Institute for international economic studies, Stockholm University, February 2003.

15. As Turkey adopts the Acquis, improves its institutions and governance and combats corruption, Turkish companies' competitiveness will grow which should further enhance the prospects of increased trade. However, the effect on the UK and the EU is likely to be small.

16. As Turkish consumers become more affluent there will be more scope for exporting high-value added goods and services. If UK firms wish to exploit these opportunities they will need to invest time and energy establishing a profile in their markets of choice. This is especially true for services providers.

17. Foreign Direct Investment (FDI) to Turkey increased significantly in 2005 and 2006. Net FDI doubled to reach around 5% of GDP between 2005 and 2006.[19] This growth in FDI was driven by such factors as improved macroeconomic stability, recent legal changes and notably, the FDI law passed in 2003 which lowered barriers to FDI. A further driver of increased FDI has been privatisations, eg Turkish Telecom. The majority of the total 14,955 companies with foreign capital are in the wholesale and retail trade sectors, followed by manufacturing, real estate renting and other business activities. Textile goods production leads the manufacturing sector investments followed by chemicals and food and beverages. However, FDI stock still remains low for an economy the size of Turkey's. Enlargement could lead to more investment as Turkey would have to undertake reforms that would stimulate investment, including improving its infrastructure and reducing some of its bureaucratic barriers to trade.

18. Certain competition constraints still exist in Turkey that have to be overcome as Turkey adopts the Acquis; Turkey has to move forward with its privatisation programme and, for the public enterprises that are not privatised, state aid has to be reduced. Other reforms that will follow from the adoption of the Acquis relate to improvements in bureaucratic processes and the rule-of-law. These changes could increase FDI in Turkey.

CAP

19. The prospect of Turkish accession could well spur further reforms to the Common Agricultural Policy (CAP) and redirect the focus of the budget away from CAP towards innovation and entrepreneurship. Current discussions are focusing upon changes that will come into effect in the next spending period, from 2013 onwards, although many of these will be agreed in the forthcoming CAP Healthcheck and EU Budget Review. Turkey may therefore benefit from CAP reform upon accession, depending on what arrangements are agreed for New Member States. This should be welcomed, as the benefits stemming from such productivity enhancing activities would be far greater and more evenly distributed across the EU than those from CAP. The budgetary cost of Turkish accession from structural funds (and CAP if it is not reformed by then) is also likely to increase pressure on the UK to give up its rebate.

20. Providing an exact estimate of the post-accession budgetary costs is extremely difficult—Turkey's economic environment will have changed by accession, as will the rules governing the CAP and structural funds. Yet it is safe to assume that even by the time Turkey accedes, its GDP per capita will be low relative to the EU-27 average, and its dependence on agriculture and regional disparities in income still high. Richer existing Member States will incur a net annual budgetary cost and relatively poorer regions in existing Member States that are currently in receipt of Structural Funds may lose out from Turkey's accession.

EU as an Anchor Improving Turkish Institutions

21. As Turkey adopts the Acquis, it has to improve its institutions, improve governance and combat corruption. Chapter 24 on *Judiciary and fundamental rights* covers 10 principles for improving the fight against corruption. It stresses the importance of anti-corruption laws, integrity, accountability and transparency in public administration. Other chapters are also relevant for improving institutions; public procurement policies are covered by chapter 5, intellectual property rights are covered by chapter 7, competition policy and state aid are covered by chapter 8 and financial control is covered by chapter 32.

22. Recent economic literature supports a positive link between the quality of institutions and economic growth. Some economists even go as far as suggesting that institutions trump everything else in contributing to growth.[20] Furthermore, empirical work finds a positive relationship between institutional quality and trade flows, implying that Turkey's trade partners as well as Turkey would directly benefit from improved institutions in Turkey.[21] If the adoption of the Acquis leads to improved institutions, this could therefore lead to increased growth and trade.

23. The study by de Mooij and Lejour (2004)[22] estimates the effect of improving Turkey's institutions. They do this by assessing the impact of corruption on trade relations, and by looking at how much trade would increase if Turkey's ranking on the Corruption Perceptions Index improved. They find that an

[19] Barysch, K, Hermann, R, (2007) EU business and Turkish accession Centre of European Reform essay. CER. London.

[20] Altug, S; Filiztekin, A; and Pamuk, S (2006), Sources of Long-Term Economic Growth for Turkey, 1880–2005, October 2006. Lejour, A M, Solanic, V and Tang, J G (2006), EU accession and income growth: an empirical approach, CPB discussion paper No 72, October 2006.

[21] Lejour, A M, Solanic, V and Tang, J G (2006), EU accession and income growth: an empirical approach, CPB discussion paper No 72, October 2006.

[22] Lejour, A M and de Mooij, R A (2004), Turkish Delight—does turkey's accession to the EU bring economic benefits?, CESifo working paper 1183 (also published in Kyklos, vol 58, 2005).

improvement from Turkey's current level to that of Portugal would lead to a 57% increase in Turkey's aggregate trade. They also find that the EU would benefit from this, with exports increasing by approximately 0.5%, and welfare increasing by $9.4 billion.[23] If Turkey's ranking improved less, to the level of Hungary rather than to the level of Portugal, they find that Turkey's trade would increase by 28% rather than by 57%. Looking at the experience of the New Member States, the improvements on the Corruption Perception Index have not been as large as the improvement required by Turkey to reach the level of either Hungary or Portugal. As such, the estimate by de Mooij and Lejour can be considered as an upper bound estimate.

Distributional Effects

24. In the longer term, we could see some distributive effects whereby some countries and sectors are affected more than others. The sectors with the largest trade barriers at present would be expected to see the largest trade increase. In terms of countries, a study by Adam and Moutos (2005)[24] on the effect of the CU on the EU15 finds that the "southern"[25] EU15 countries, whose export structure is the most similar to Turkey's, saw a relatively small increase in exports to Turkey being offset by decreasing exports to other European countries a as result of increased Turkish competition. The "northern"[26] European countries, on the other hand, experienced a larger increase in their exports to Turkey, and did not suffer from a decrease in exports to other European countries, causing them to be better off. The distributional impact of Turkish accession could be similar, with the southern European countries as well as the NMS experiencing a possible decrease in certain exports as competition from Turkey increases, whereas the northern European countries could see an increase in their exports.

25. The comparative advantage of the UK is quite different from that of Turkey. This implies that UK exporters on aggregate are not likely to receive significant additional competition from Turkey as barriers to trade are removed. Instead, exports from the UK are likely to increase, and consumers will gain from cheaper imports.

Conclusions

26. Apart from the political benefits of improved peace, stability and security, the Government believes that Turkish EU accession will bring potentially significant benefits and a range of economic impacts stemming from increased trade and FDI, improved institutions in Turkey, free movement of labour, dynamic gains and other political impacts such as energy security and the promotion of peace and stability in the region.

27. The channels with the largest economic effects are likely to be dynamic gains over time and benefits stemming from the political impacts of accession. Migration could also have an economic impact, though the magnitude of the flows and level of impact will depend on the level of economic development in Turkey at the time of accession and on whether transitional measures on labour mobility are put in place. Globalisation, Turkey's own modernisation and economic reform programme and gradual alignment with the acquis in the run up to accession will all combine to increase the bilateral trade and investment opportunities with Turkey.

Annex A

TURKEY/UNITED KINGDOM STRATEGIC PARTNERSHIP 2007–08

The British and Turkish Prime Ministers met in London on the 23 October 2007. On this occasion they agreed that the relationship between Turkey and the United Kingdom is of crucial and growing importance. The two countries share close ties and common perspectives on a wide range of international issues and global challenges. They commit to six monthly consultations to take forward work on the following key strategic priorities of mutual benefit in 2007–08:

- Support and maintain the momentum of Turkey's EU accession talks, through continuous dialogue and co-operation at all levels, advice on accession negotiations, help with promoting Turkey in Europe and more twinning and bilateral projects.
- Help end the isolation of the Turkish Cypriots—and encourage others in the international community to join us in our efforts.

[23] They find that the EU15's exports would increase by 0.5%, the A10's exports would increase by 0.4%, Romania's exports would increase by 1.2% and Bulgaria's exports would increase by 3.7%. Welfare would increase by $8.5 billion for the Eu15, by $0.2bn for the A10, by $0.2 bn for Romania and by $0.5bn for Bulgaria.

[24] Adam, A and Moutos, T (2005), Turkish Delight for Some, Cold Turkey for Others?: The Effects of the EU-Turkey Customs Union, CESifo Working Paper No 1550, September 2005.

[25] Adam and Moutos include Greece, Italy, Spain and Portugal in their definition of "South 1". An alternative version of the Soutehrn Eruoepan countries, "South 2", includes France. Their conclusions are starker when "South 1" is used, but they are still significant when "South 2" is used.

[26] Adam and Moutus defines the "North" as all EU15 countries not included in their definition of "South".

— Deepen the UK-Turkey defence relationship, including within the framework of NATO and through support for Turkish participation in ESDP operations. Further promote the transatlantic partnership.

— Improve our co-operation on global security, in particular the fight against terrorism, counter-proliferation and aviation security, the illegal drugs trade, illegal immigration and other organised crime.

— Promote regional stability and peace, especially in the Middle East and Afghanistan, including partnerships to promote economic development.

— Tackle climate change and cooperate on developing secure energy supplies.

— Increase our bilateral trade and investment, promoting Turkey as a high growth, high priority market, raising awareness of mutually beneficial business opportunities, supporting economic reform and stimulating co-operation on R&D, ICT and other areas of business innovation.

— Increase our ties in education and culture, including through establishing a British University in Turkey.

Turkey's EU Accession Process

— Close dialogue and co-operation in support of Turkey's preparations for EU accession. We shall hold regular consultations between our Foreign Ministries on Turkey's accession process and wider developments within the EU, backed up by periodic review at Foreign Minister level.

— Advice on the negotiating process. Assistance and co-ordination in troubleshooting on individual chapters where further cooperation is needed. Help with continued compliance with the political criteria, including through resumption of our human rights dialogue.

— Joint work on promoting Turkey in Europe, improving the understanding in governments, the public and the media of the strategic importance of Turkey's accession bid, and demonstrating that Turkey is capable of and prepared to take the bold reforms necessary for accession. Further EU-Turkey networking and relationship-development projects such as the Bosphorus Conference. A public diplomacy campaign to give improved visibility to Turkey's contributions to the EU in eg the field of CFSP.

— More—and more strategic—EU twinning and bilateral projects to help Turkey fulfil the priorities in its Accession Partnership and reinforce its administrative capacity to assume the obligations of membership. Help to ensure the effective use of IPA funds. More work on political reform and human rights, through Whitehall visits and exchanges. English language training for officials working on Accession issues. Use of the Foreign Office Global Opportunities Fund—Reuniting Europe project budget, and greater involvement in the Commission's Civil Society Dialogue (eg through city twinning, university and NGO links).

Climate change and energy security

— Joint work to support Turkey's ambition to be a global energy hub, through an enhanced UK/Turkey Energy dialogue, with an emphasis on diversifying energy sources and transport routes. Shared best practice on issues surrounding energy market liberalisation, to ensure transparency and market pricing. UK involvement in regional energy conferences and regional groupings in the Middle East, Black Sea and Caspian.

— Joint work on Climate Change, especially on renewables, technology transfer and climate change agreements. Cooperation on the effects of climate change on human health. Further cooperation on the basis of Turkey's First National Communication on Climate Change to the UN.

— Greater technical co-operation on maritime safety and security, especially in the Turkish Straits. Co-operation on marine and coastal research and management including pollution reduction, remediation, prevention and control. Continued monitoring of environmental and security concerns of oil transit through the Turkish Straits, and promotion of pipelines that help to reduce the pressures on this route. Further coordination on issues with regard to activities carried out by IMO and EMSA, and support for Turkey's effective participation in activities originated by EMSA.

— Joint work on the energy and environment chapters of the EU accession process. UK involvement in future EU environment twinning projects.

— Work with UK companies, to ensure future investment on energy and climate change projects, building on the success of the BP-led consortium's BTC pipeline.

— Joint programmes in support of these objectives, including the Foreign Office Global Opportunities Fund.

Increasing our bilateral trade and investment

— Stronger trade and economic ties, through two-way ministerial visits, a meeting of the two sides of the Turkish-British Business Council in 2007. Greater investment in both countries.

— Raise awareness of business partnership opportunities in key sectors such as energy, education and training, the environment, financial and legal services. Seminars and sectoral trade missions, targeting top businesses to understand their needs and interest in investing in each country. Trade collaboration in the UK and in the wider region (eg Middle East, Central Asia and the Caucasus). Defence Export Services Organisation MOU with relevant Turkish authorities.

— Continued support for economic reform and an environment conducive to foreign investment, including through the early resolution of contractual and market access disputes. Promoting interest in the business opportunities offered by Turkey's privatisation programme. Public Diplomacy project on business and the economy. Advice on improving the functioning of Turkey's job market. Capacity building for commercial courts. Co-operation on Lisbon/Hampton Court agendas.

— Better technological co-operation by signposting help and advice about EU and other international research programmes and supporting UK-Turkey scientific links.

— Aim to establish a high level Government to Government forum to lay stronger foundations of economic partnership for mutual benefit.

Annex B

EU ACQUIS CHAPTER NEGOTIATIONS: CURRENT STATE OF PLAY

Accession negotiations between the EU and Turkey opened on 3 October 2005. Slow but steady progress continues.

As of 3 September 2007:

One chapter has been provisionally closed:

— Ch25 Science & Research (June 2006).

Three chapters are open:

— Ch18 Statistics (June 2007).

— Ch20 Enterprise & Industrial Policy (March 2007).

— Ch32 Financial Control (June 2007).

Under the Portuguese Presidency (until 31 December 2007) it is hoped that Ch21 Trans-European Networks and Ch28 Consumer & Health Protection could open, and good progress should continue on other chapters including Ch26 Education and Culture and Ch23 Judiciary and Fundamental Rights.

Under the December 2006 Council Conclusions, eight chapters were frozen until Turkey implements the Ankara Agreement Protocol (AAP), which deals with policy areas relevant to Customs Union and Turkey's restrictions on the Republic of Cyprus.

These are:

— Ch1 Free Movement of Goods.

— Ch3 Right of Establishment and Freedom to Provide Services.

— Ch9 Financial Services.

— Ch11 Agriculture & Rural Development.

— Ch13 Fisheries.

— Ch14 Transport Policy.

— Ch29 Customs Union.

— Ch30 External Relations.

As part of the revised screening process, Member States can agree opening benchmarks for individual chapters based on the recommendation of the Commission. These benchmarks set out steps that the candidate country must take before the chapter can be considered ready for negotiation. For Turkey, opening benchmarks have so far been set for thirteen chapters:

— Ch 1 Free Movement of Goods.

— Ch4 Free Movement of Capital.

— Ch5 Public Procurement.

— Ch6 Company Law.

— Ch7 Intellectual Property Rights.

— Ch8 Competition Policy.

— Ch9 Financial Services.*

— Ch11 Agriculture & Rural Development.*
— Ch12 Food Safety, Veterinary & Phytosanitary Policy.
— Ch16 Taxation.
— Ch19 Social Policy & Employment.
— Ch27 Environment.
— Ch29 Customs Union.*

Three of these chapters (asterisked) include implementation of the Ankara Protocol as an opening benchmark under the December 2006 Council Conclusions.

Annex C

UKTI STRATEGY FOR TURKEY 2007–08

Turkey—High Growth Market Strategy

Strategic Objective

By 2011 deliver measurable improvements in the business performance of UK Trade & Investment's international trade customers in Turkey, with an emphasis on innovative firms; and deliver a measurable improvement in Turkish investment in UK.

High-level objectives

— To achieve a step-change in the UK's profile in Turkey by raising general awareness of the market characteristics and opportunities for doing business there.
— To enhance the effectiveness of the UKTI effort in Turkey by identifying more proactively opportunities for business and engagement with Turkish companies.
— To foster an ever-improving environment for business in Turkey which enhances business prospects and opportunities and levels the competitive playing field.
— To build a greater understanding of and appreciation of the benefits of Trade with the UK, ostensibly through the Public Diplomacy Pilot on business and the economy.

Methodology

We will address these objectives in a variety of ways, working closely with key players in the UKTI network and other third party multipliers, as appropriate:

1. Demonstrably deepening and strengthening our trade and economic relationships and networks: (eg contact-building, door-opening and encouraging the Turkish government to see the benefits of policies that allow UK companies to compete and win business there)

— With Government—we aim to establish in 2007–08 a high level government to government forum to address weaknesses in the macro-economic environment, to tackle barriers to trade and to resolve trade disputes between UK companies and Turkish counterparts. Ensure appropriate cross-Whitehall contribution (particularly FCO) to the strategy by setting up a form of Liaison Group for periodic meetings / updates on progress.
— With NGOs—we will engage with leading Turkish NGO actors (eg TBBC, TUSIAD etc) to stimulate greater dialogue with government and the private sector with the aim of increasing their influence over commercial interests and the business environment.
— With EU representative offices—with the appointment of a new C4 2 Sec Commercial in Ankara we will engage the EU Offices here to help in identifying ways in which the Turkish business environment can be improved and in securing any commercial opportunities that arise from this work.
— With Turkish Business—we will aim to develop key relationships with the top 100 companies in Turkey to sell the "compelling proposition" and to emphasise the benefits of involving the UK as a strategic business partner in their corporate strategies. We should identify the strategies they intend to adopt for the period ahead. We should seek to insert UK partners, projects and solutions into their strategies. We should approach the business development and/or strategy managers on our target list and we should build, develop and sustain relationships with each of these key personalities.

— With UK Business—Working with our network in the English Regions and the Sectors Group and Posts to identify our target audience in the UK (ie in which sectors). Also identify who our primary customers should be [the expectation being that these will primarily be middle-to-larger size businesses who are existing exporters/investors].

— Others: eg Trade and Business organisations, academia, Chevening Scholars, the Media—through the Public Diplomacy Pilot we shall aim to widen understanding and awareness of the compelling proposition offered by the UK and to build consensus towards an improved business environment in Turkey.

2. Identifying the challenges and barriers to market access and putting in place strategies to tackle them: (eg work on economic, regulatory, energy, sustainable development and trade policy issues)

— Market/ institutional barriers—we will carry out an analysis of the key barriers inhibiting trade, engaging stakeholders to help identify these and the solutions for overcoming them.

— Weaknesses in supporting networks—we shall aim to strengthen institutional weaknesses in key networks (eg the TBBC) and to build a wide community of stakeholders to help press for reforms and change to improve the business environment.

— Information failures—we shall both improve the presentation of information about business in Turkey through our local and UKTI websites and seek to market more effectively (eg using the PD Pilot), and through a widened audience, the potential for greater business between the UK and Turkey.

3. Identifying opportunities and providing UK business with timely access to information and opportunities:

— Sectors—A re-focused and re-energised effort on fewer key sectors promoting in particular opportunities that reflect the new UKTI strategic targets (high value, high tech, R&D, Inward Investment or creative/innovative).

— R&D and S&T—We will devise a new initiative designed to strengthen awareness and co-operation on key R&D and S&T areas and to report regularly on Turkish projects and activities in these disciplines.

— Through the provision of UKTI services including the High-Growth Business Advisors, and UKTI's English Regional Network, the RDAs and the Devolved Administrations—we shall carry out a targeted programme of activities to increase awareness of Turkey and Turkish opportunities amongst our target audience in UK business, the ITA (eg an ITA Seminar) and RDA networks and other key stakeholders such as interested Trade Associations and Chambers.

— Within the UKTI regional trade teams and the responsible bodies in the Devolved Administrations (SDI, IBW, INI) a number of individual "Champions" will be identified to help:

    — provide a focal point within each region for queries relating to Turkey;

    — be a contact point for Posts;

    — facilitate collaboration between regions on market specific;

    — events/missions etc; and

    — be well placed to lead missions to Turkey.

— These networks will help bring together the activity which the regions are already doing or considering. By working together in this way UKTI expects that the improved communication between Posts and regions will bring other benefits—for example, a better mutual understanding of Turkey and a more productive environment for generation of effective support for business through our services and use of our Customer Relationship Management system.

4. Measurably improving the perception of the UK by marketing the UK's Business Strengths:

— To market UK as the preferred choice for business partnerships.

— To market the success of the UK economy and the strengths of the UK business community.

— To market our high-tech and R&D success and potential.

— To market the unique skills and expertise of the City of London.

— To market the UK as the single best location for Turkish Investment.

— Embedding in all activities the 'UK's compelling proposition': Business UK.

— Public diplomacy: working with others eg British Council and FCO and in particular on the PD Pilot theme *Promoting British Business*.

— Pay particular attention to the design and content of market web pages and websites to ensure they reflect the strategy.

Priority Sectors

UKTI sector groups decide which markets should be given priority. These decisions are always reached in close consultation with the UK business community, principally through the Sector Advisory Groups. Those markets we target are those where we can make the most impact by government supporting business, and while the list below is an indication of where we are targeting resource for Turkey this financial year, it does not mean that companies are not assisted on the Turkish market in other sectors. UKTI services can help companies access market opportunities across the range of sectors. An explanation follows of the major sectors where UKTI is active:

Priority Markets: (about 75% of available resource devoted to them)

Environment.

Water (incl waste water).

Agriculture (led by International Agriculture Technology Centre).

Marine (led by UKTI South East).

Security (led by UKTI South East).

Opportunity Markets (approximately one key event per year).

Mass Transport (Airports only).

Jewellery and Giftware (in partnership with Advantage West Midlands).

Financial and legal services.

Information and communications technology.

Advanced engineering.

Power.

Other Sectors with no Direct SG Support Include:

Education skills and leisure.

Priority Sectors

Environment/water

UKTI activity

1. Turkey has been a priority market for the environmental sector for the past three years. The UKTI Advisory Group (Environmental Sector Advisory group—ESAG) has identified Turkey as one of seven markets world-wide that offer huge business opportunities for UK companies supplying environmental technologies and solutions. As a result Environmental Industries Sector Unit (EISU) has been working with our colleagues at posts in Turkey (Istanbul and Ankara) to facilitate meetings between UK environmental sector and interlocutors in and from Turkey. For, example, in each of the past three years UKTI has sponsored seminar missions to Turkey. During these visits UK companies have had the opportunity to interact with potential business partners in Turkey. UKTI has also sponsored a number of business delegations to visit the UK from Turkey, which again offered the opportunity for business partnerships to be established.

2. The Turkish Government has estimated that it will take total investment of more than €68 billion to bring the state of their environmental infrastructure up to the standard required for EU membership. Hence, ESAG is keen for UK environmental companies to exploit this huge market.

Agriculture

3. Turkey has been identified by UKTI as a new destination for British Agri-business. There are already well-established bilateral relations between the UK and Turkey Ministries of Agriculture which signed a Memorandum of Understanding in March 2007 to develop co-operation in Livestock, equine, crop development, fisheries, post harvest technology, research and development.

Marine

4. Turkey was identified as a priority by the Marine Sector Advisory Group in 2005. In three areas Turkey is seen as having potential for exporters:

i. For more experienced exporters there is likely to be opportunity for leisure boats and marine equipment;

ii. In the longer term opportunities are going to exist for ship equipment;

iii. A special case is made for experienced exporters to tackle opportunities associated with the niche super- yacht sector.

Fire, Police and Security

5. UKTI South East lead on this sector and have organised a seminar on opportunities in the security market in Turkey in October 2007. An outward mission to Turkey is planned to follow this up in 2008.

Opportunity Sectors

Mass transport (airports only)

6. Some work in the airport sector has been undertaken under UKTI programmes but this is now tailing off.

Jewellery and Giftware

7. Turkey was identified by the giftware, jewellery & tableware sector as an "opportunity" sector in 2006–07. As a result, the sector has supported or undertaken the following actions:

— A visit to Turkey in March 2007 by representatives of the British Jewellery, Giftware & Finishing Federation (BJGF), the leading trade association, to research the jewellery market, including a visit to the Istanbul jewellery show.

— A programme of market research visits by Istanbul post representatives to leading Turkish jewellers in order to investigate the above opportunities in more detail.

8. At the same time, the London Jewellery Export project, a separate regional scheme (funded by London Development Agency) has also been investigating potential for London-based manufacturers and designers, specifically focusing on UK design

Financial and Legal Services Sector

9. Although potentially of interest to the UK financial sector, Turkey is a long way off from being seen as an open market, with the state still prominent in the financial sector and the retail sector not yet mature.

10. Turkey has positioned itself as an attractive and promising investment destination. Turkish reform efforts receive technical and financial support from the IMF, the World Bank and the EU. Turkey has restructured its banking sector and harmonised its legislation with European Union laws and international standards.

11. However, while post-crisis progress is recognised, a substantial reform agenda is still ahead. The 3 large state banks are yet to be sold to private investors. Supervisory frameworks are still building capacity while adapting to EU and Basel II. Credit markets need institutional support, auditing and accounting, credit information systems, collateral regime, enforcement of contracts and development of a mortgage market. Transaction taxes are still distorting financial mediation.

ICT

Telecoms:

12. Joining the EU will have positive implications on standards and regulation which will benefit UK companies. However, given the UK's competitive edge in Telecommunications technology, there are good opportunities for Communication companies irrespective of Turkey's EU status,

13. An inward mission from Turkey is due in January 2008 as part of a Central/Eastern European combined mission.

Software:

14. The focus of UKTI activity in software will be in retail and logistics with some activity to assess specific opportunities in the fields of Communications, Enterprise Systems, Financial Services and Healthcare.

Advanced Engineering

15. A programme of activity has recently come to an end. A report on opportunities in the automotive sector in Izmir has been completed and is now available on the UKTI website.

Power

16. The Power sector team has produced a report on the Turkish market which is on the UKTI portal or available direct from UKTI. A sectoral mission of six companies visited Turkey in November 2007.

Other Sectors

Education and training

17. UKTI held a two day Education and Skills Forum in Istanbul in 2006. Although the forum was positively received, there has been little follow-up from the Turkish side in the areas that were highlighted to improve their development of this sector. This will be reviewed periodically and some work is anticipated in support of the ministerial visit by the Department of Innovation, Universities and Skills with a trade mission in December 2007.

UKTI Supported Turkey Events

2007

24 April

Meeting of the UK side of the Turkish-British Business Council.

31 July

Turkey Investors meeting at the Foreign and Commonwealth Office.

Opportunity for government to engage with stakeholders.

17 September

Meeting of the Caspian and Turkey Business Information Group.

Round-table of regional champions from the UK regions and devolved administrations.

8 October

Meeting of the Turkish-British Business Council (TBBC) in Istanbul.

12 October

Turkey breakfast briefing, Aston Business School, Birmingham.

UKTI West Midlands Seminar exploring opportunities in Turkey. Speakers with in-depth knowledge and experience of the Turkish market provided the key information necessary for any company entering Turkey.

16 October

Turkey—Positioned for Business (Multi-Sector).

Seminar with the London Chamber of Commerce exploring Turkey's recent government transformations and unprecedented levels of development.

17 October

UK—Globalisation Breakfast Seminar, Bristol and Poole.

The HSBC and UK Trade & Investment series of globalisation seminars in October and November in Bristol and Poole focused on high growth markets with particular emphasis on meeting the challenges, embracing the opportunities and managing the threats in rapidly growing markets such as China, Brazil, Turkey, South Africa etc.

18 October

Winning Business in Turkey seminar.

UKTI South-East hosted a seminar on doing business in Turkey in preparation for a trade mission addressing opportunities in the Security sector in Turkey in early 2008.

21 October

Turkey—Water Sector Fact Finding Visit.

UK Trade & Investment undertook a fact-finding visit to Ankara and selected Eastern Turkish towns in the week from 21 October to 26 October 2007.

11–16 November

Power sector mission.

Organised by UKTI Power Sector Team. Contracted to EA Technology. 6 companies to Turkey. 2 Centre—Ankara and Istanbul (Also participating in STEAM Conference.)

15 November

Banking on Turkey:

FT and DEIK organised conference on the banking and financial services sector in Turkey.

28 November

Turkey—TUSID (Food & Drink):

TUSID is the largest regional hospitality event in EURASIA. Attendance supported by UKTI via the Tradeshow Access Programme (TAP).

5 December

Turkey—Plast-Eurasia 2007 (Mechanical, Electrical & Process Engineering):

Plast-Eurasia 2007 is the 17th International Istanbul Plastic Industries Fair, with around 900 exhibitors and 30,000 visitors. Attendance supported by UKTI via the Tradeshow Access Programme(TAP).

6 December

Turkey seminar, BERR Conference Centre, London:

UKTI Seminar exploring opportunities in Turkey. High level seminar with presentations by Nick Baird, HMA Ankara, and the Ambassador of Turkey provided the key information necessary for any company entering Turkey.

2008

24 January

Turkey Seminar, Leeds:

UKTI Yorkshire and Humberside seminar on exploring opportunities in Turkey.

25 January

Turkey seminar, Swindon:

UKTI South West Seminar exploring opportunities in Turkey. Speakers with in-depth knowledge and experience of the Turkish market.

February 2008

Outward Trade Mission organised by UKTI South East focusing on security.

23 April

Turkey Seminar, East Midlands:

UKTI East Midlands together with East Midlands International Trade Association present a seminar on exploring opportunities in Turkey.

Tba

Turkey Seminar, Newcastle:

UKTI North East presents a seminar on exploring opportunities in Turkey.

December 2007

Memorandum submitted by BERR/UKTI

PUBLIC DIPLOMACY PILOT (PDP): TURKEY

BACKGROUND

The Public Diplomacy Pilot is an initiative of the Public Diplomacy Board, which was set up in 2006 following the review of Public Diplomacy completed by Lord Carter of Coles. Bringing together representatives of the principal FCO-funded PD players—the FCO itself, the British Council and the BBC World Service—the Board is chaired by the Minister for Europe and includes two independent members. The Board decided to pilot a new, more strategic approach to public diplomacy and the evaluation of its impact in a small number of Posts. Public diplomacy partners in these countries are focusing activity on the delivery of specific priority objectives in two-year pilots which were launched from April 2007. Additional resources have been directed to these pilots to support this work. The priorities are:

— Climate Security.
— Supporting democratic development.
— Promoting the UK economy and British business.

There are two objectives behind the pilot Posts initiative:

(i) to concentrate efforts on priority issues in priority countries in order to deliver the UK's foreign short and long term policy objectives; and
(ii) to test public diplomacy approaches to see what works and what doesn't, as a means of informing decisions on future activity.

Two Posts were selected to pilot the UK Economy and Business theme—Turkey and India. Strategies for each have been jointly developed and agreed by the FCO, British Council and UKTI. The Turkey strategy was approved by the Board in July 2007.

The FCO allocated a total of £150,000 spread over 2007–08 and 2008–09 for the implementation of the initiative in Turkey. This was matched by a similar amount from the British Council.

Its Aim

Its aim in Turkey is to promote the UK and what it has to offer in particular:

- its business environment including the innovative attitude of business;
- the city of London as the finance centre of the world;
- our legal structure; and
- our professional development and business management expertise, focusing in particular on corporate social responsibility (CSR).

How it Relates to UKTI Activity

It is fundamental to UKTI's strategy to strengthen and deepen our economic and trade relationship with Turkey.

By working with Turkey on these issues and showing what the UK has to offer, it will provide both opportunities for British business to work with Turkish authorities in these areas and ultimately provide a better environment for British business to flourish in Turkey. An integral element of the pilot is to ensure that effective evaluation measures are put in place to assess the impact of pilot activity. All activities under the pilot must therefore build in evaluation.

Activities and Outcomes: Past and Planned

- Two specialised Turkish economic journalists were sent to the UK for a Financial Services Press Tour. They returned highly enthused and wrote positive articles for their magazines.
- UK legal bodies, including the Law Society of England and Wales, are working with the British Turkish Lawyers Association to identify areas where the Turkish legal system works against foreign investment. They aim then to develop three projects to address these problem areas, of which will focus on alternative dispute resolution.
- Establishment of a CSR working group at TUSIAD (equivalent to CBI) to offer the UK's experience of ethical business practice. Among other things a mission of TUSIAD members to London is planned in March.
- William Oulton, a strategic adviser to the London's FTSE4Good index, visited Istanbul and is currently preparing a proposal with support from FTSE and the London Stock Exchange to develop the concept of a Turkish FTSE4Good Index. The aim of the Index is to measure the performance of companies that meet globally recognised corporate responsibility standards and to facilitate investment in those companies.
- A Press Tour to Newcastle and Manchester to promote investment in the technical textile and renewable energy sectors.
- Training on ethical reporting of Turkish media on economic, energy and environment themes through the UK media NGO, the Thomson Foundation.

March 2008

Supplementary evidence submitted by BERR/UKTI

TURKEY—HIGH GROWTH MARKET STRATEGY 2008–09

Strategic Objective—Five Year Horizon

By 2011 to deliver measurable improvements in the business performance of UK Trade & Investment's international trade customers in Turkey, with an emphasis on innovative firms; and deliver a measurable improvement in the level of Turkish investment in UK.

High-level objectives

- To achieve a step-change in the UK's profile in Turkey by raising general awareness of the market characteristics and opportunities for doing business there.
- To enhance the effectiveness of the UKTI effort in Turkey by identifying more proactively opportunities for business and engagement with Turkish companies.
- To foster an ever-improving environment for business in Turkey which enhances business prospects and opportunities and levels the competitive playing field.

— To build a greater understanding and appreciation of the benefits of trade with the UK, ostensibly through the Public Diplomacy Pilot on business and the economy.

Methodology

We will address these objectives in a variety of ways, working closely with key players in the UKTI network and other third party multipliers, as appropriate:

1. Demonstrably deepening and strengthening our trade and economic relationships and networks (eg contact-building, door-opening and encouraging the Turkish Government to see the benefits of policies that allow UK companies to compete and win business there)

— With Government—we aim to launch in 2008/09 the high level government to government forum (provisionally referred to as the "JETCO") to address weaknesses in the macro-economic environment, to tackle barriers to trade and to resolve trade disputes between UK companies and Turkish counterparts. We will continue to ensure appropriate cross-Whitehall contribution (particularly FCO) to the strategy.

— With NGOs—we will engage with leading Turkish NGO players (eg TBBC, TUSIAD etc) to stimulate greater dialogue between government and the private sector with the aim of increasing their influence over commercial interests and the business environment.

— With EU representative offices—with the appointment of a new C4 2 Sec Commercial in Ankara we will engage the EU Offices in Turkey to try to identify ways in which the Turkish business environment can be improved and to secure any commercial opportunities that arise from this work.

— With Turkish Business—we will aim to develop key relationships with the top 100 companies in Turkey to sell the "compelling proposition" and to emphasise the benefits of involving the UK as a strategic business partner in their corporate strategies. We should identify the strategies they intend to adopt for the period ahead. We should seek to insert UK partners, projects and solutions into their strategies. We should approach the business development and/or strategy managers on our target list and we should build, develop and sustain relationships with each of these key personalities.

— With UK Business—Using our network in the English Regions, the Sectors Group and Posts to identify our target audience in the UK (ie in which sectors). Also identify our primary customers [the expectation being that these will primarily be middle-to-larger size businesses who are existing exporters/investors].

— Others: eg Trade and Business organisations, academia, Chevening Scholars, the Media—through the Public Diplomacy Pilot we shall aim to widen understanding and awareness of the compelling proposition offered by the UK and to build consensus towards an improved business environment in Turkey.

2. Identifying the challenges and barriers to market access and putting in place strategies to tackle them (eg work on economic, regulatory, energy, sustainable development and trade policy issues)

— Market/ institutional barriers—we will carry out an analysis of the key barriers inhibiting trade, engaging stakeholders to help identify them and find solutions for overcoming them

— Weaknesses in supporting networks—we shall aim to strengthen institutional weaknesses in key networks (eg the TBBC) and to build a wide community of stakeholders to help press for reforms and change to improve the business environment

— Information failures—we shall both improve the presentation of information about business in Turkey through our local and UKTI websites and seek to market more effectively (eg using the PD Pilot), and to a wider audience, the potential for greater business development between the UK and Turkey.

3. Identifying opportunities and providing UK business with timely access to information and opportunities

— Sectors—A re-focused and re-energised effort on fewer key sectors, promoting in particular opportunities which reflect the new UKTI strategic targets(high value, high tech, R&D, Inward Investment or creative/innovative)

— R&D and S&T—We will develop a new initiative designed to strengthen awareness and co-operation on key R&D and S&T areas and to report regularly on Turkish projects and activities in these disciplines.

— Through the provision of UKTI services including the High-Growth Business Advisors, UKTI's English Regional Network, the RDAs and the Devolved Administrations—we shall carry out a targeted programme of activities designed to increase awareness of Turkey and Turkish business opportunities amongst our target audience in UK business, the ITAs (eg an ITA Seminar), RDA networks and other key stakeholders such as interested Trade Associations and Chambers of Commerce.

- — Within the UKTI regional trade teams and the responsible bodies in the Devolved Administrations (SDI, IBW, INI) a number of individual "Champions" will be identified to help:
- — provide a focal point within each region for queries relating to Turkey;
- — be a contact point for Posts;
- — facilitate collaboration between regions on market specific events/missions etc.; and
- — lead missions to Turkey.
- — These networks will help bring some coherence to the activity which the regions are already doing or considering. By working together in this way we anticipate that the improved communication between Posts and regions will bring other benefits—for example, a better mutual understanding of Turkey and a more productive environment for the generation of effective support for business through our services and use of our Customer Relationship Management system.

4. Measurably improving the perception of the UK by marketing the UK's Business Strengths
   - — To market the UK as the preferred choice for business partnerships
   - — To market the success of the UK economy and the strengths of the UK business community
   - — To market our high-tech and R&D success and potential
   - — To market the unique skills and expertise of the City of London
   - — To market the UK as the single best location for Turkish investment
   - — Embedding in all activities the 'UK's compelling proposition': Business UK
   - — Public diplomacy: working with others (eg British Council and FCO in particular) on the PD Pilot theme "Promoting British Business"
   - — Paying particular attention to the design and content of market web pages and websites to ensure they properly reflect the strategy.

PRIORITY SECTORS

UKTI sector groups decide which markets should be given priority status. These decisions are always reached after close consultation with the UK business community, principally through the Sector Advisory Groups. The markets targeted in this way are those where we can make the most impact by government supporting business. The list below is an indication of where we are focusing proactive resource in Turkey in this financial year; it is not meant to suggest that companies in other sectors are not assisted in their efforts to develop business opportunities in the Turkish market. UKTI services are available to companies operating across the entire range of sectors. The following are the major sectors in which UKTI is active in Turkey:

PRIORITY MARKETS: (about 75% of available resource devoted to them):

ENVIRONMENT

WATER (incl WASTE WATER)

AGRICULTURE (led by International Agri-Technology Centre –funding confirmed only until June 2008)

MASS TRANSPORT (PORTS)

OPPORTUNITY MARKETS (approximately one key event per year):

MASS TRANSPORT (AIRPORTS)

FINANCIAL AND LEGAL SERVICES

INFORMATION AND COMMUNICATIONS TECHNOLOGY

EDUCATION AND TRAINING

Turkey: planned activity 2008–09

Date 2008	*Sector*	*Activity*	*Location*	*Sponsor*	*Resource implication*
12 April	Leisure & Tourism	Istanbul Stationery Office	Istanbul	SG-TAP	£1,000
20-25 April	Oil & gas	BDV	Derby & Glasgow	SG	£1,500 devolved
23 April	Multi-sector	Awareness Seminar	Nottingham	IG/Region	0

Date 2008	*Sector*	*Activity*	*Location*	*Sponsor*	*Resource implication*
1-2 May	Financial Services and PPP	Launch Seminar of International PPP Platform Turkey	Ankara Istanbul	SG Public Diplomacy Team	£10,000
8 May	Construction	ISK Sodex 2008	Istanbul	SG-TAP	£1,000
19-22 May	Agri-technology	Visit by IATC Director with the Camden and Chorleywood Food Research Association	Istanbul and Ankara	SG-IATC	Tbc
20-24 May	Environment	Sustainability Live Exhibition	UK	SG	£2,750
21 May*	Oil & gas	BDV & inward mission. "All Energy"* exhibition & conference	Aberdeen	SG	Tbc
4 June	Agri-technology	Inward Business visit around the Camden Open Day on the 4th June. There will be a visit programme arranged around the event to which Commercial Officer from the British Embassy in Turkey is be invited	UK	IATC	Tbc
9-12 June	Environment	Commercial officer and buyers to the Chartered Institute of Waste Management	UK	SG	£3,250
12 June	Chemicals	Beauty Eurasia	Istanbul	SG-TAP	1,000
23-25 June	Environment	Inward Mission of 5 Companies to "Towards a Low Carbon Global Economy"	London	SG	£2000 app
12-16 September	ICT	BDV-Inward mission to "IBC 2008" (& Technology World)	Amsterdam & Birmingham	SG	£1,500
September	Airports	Inward visit and BDV to the UK with the State Airport authority	UK	SG	£5,000
13-17 Oct	Water/ wastewater	Seminar-Mission	Ankara	SG	£8,800
16 Oct	Advanced Engineering	Ankiros	Istanbul	SG-TAP FESA	£7,410
17-18 October	Education	Meet the buyers, National Association for Special Needs and the TES.	UK	SG	Tbc

Date 2008	*Sector*	*Activity*	*Location*	*Sponsor*	*Resource implication*
26-30 Oct	Construction	BDV & inward mission	London	SG	Tbc
October	ICT	Market visit & seminar	Ankara Istanbul	SG	£13,350
10-14 November	Environment	Workshop Seminar mission on Waste Management	Istanbul Ankara	SG	£8,800
10-13 Nov	Tourism	Inward mission World Travel Market	London	SG	Tbc
17-18 November	ICT	Visit to Technology World	UK	SG	£1,500 devolved
27 November	Advanced Engineering	Plast Eurasia Exhibition	Istanbul	SG-TAP British Plastics Federation	£9,880
1 December	Agriculture	Growtech Eurasia	Antalya	SG-TAP Commercial Horticultural Association	£9,810
Tbc	Airports	Commercial officer to the Routes airport/ airline conference	Kuala Lumpur	SG	Tbc
Tbc	Financial Services	Seminar on alternative dispute resolution	Istanbul	SG	£4,405
tba	Education & training	Market visit Scoping visit Inward mission (CAT1)	Ankara Istanbul London	Post	Tbc
Feb 09	Financial Service/Energy	Workshop on Renewable Energy Finance	Ankara	SG	£4,405
Jan 09	Financial Services	Seminar on Islamic Finance	Ankara		£4,405
Tba	Multi-sector	Awareness seminar	Swindon	IG/Region	£2,000
Tba	Multi-sector	Awareness seminar	Newcastle	IG/Region	£2,000
Tba	Multi-sector	Awareness seminar	Barnsley	IG/Region	£2,000
2009					
14-17 January	Education and Training	Meet the Buyers at the British Educational Teaching Technology Show	UK	SG	NA
February	ICT	BDV to "Mobile Comms World"	Barcelona	SG	Tbc
26-28 March	Education and Training	Meet the Buyers at the Education Show	UK	SG	NA

Date 2008	*Sector*	*Activity*	*Location*	*Sponsor*	*Resource implication*
Tba	Ports	Market visit	Ankara Istanbul Romania and Bulgaria	SG	£5,400
TOTAL (incTAP)					£113,165

NOTE: Regional Awareness and future publicity activity not included unless known.

March 2008

Supplementary evidence submitted by BERR—UKTI

UKTI EXPENDITURE ON TURKEY PROGRAMMES

SUMMARY

Please note that the figures are indicative and not necessarily exhaustive. Some activities covering multiple markets do not appear as these were not exclusively devoted to Turkey. The costs of the High Growth Market Advisor have similarly not been included as the programme involves other support activities as well as the immediate costs of the seconded advisor.

UKTI PROGRAMME SPEND

Turkey	*£ GBP*
2003–04	118,799
2004–05	166,782
2005–06	177,417
2006–07	122,416
2007–08	103,381
2008–09	143,000

2007–08 figures are provisional
2008–09 are approximate commitments

TBBC funding

TBBC was supported in-house by the market desk until 2005 and any support to the Council before 2005–6 is not available. However, some non-UKTI funding was provided by Thames Water at the time; the UK Chair of the Council was Bill Alexander (CEO of Thames Water). An example of the support Thames provided is that they employed a local representative as a TBBC co-ordinator in Istanbul in 2003–0 MEA were awarded the secretariat role from 2005. There was some support for the Council in 2005–0(£3,452) to organise a seminar on Turkey but more support was provided in 2007–0as their programme has developed (£10,814).

March 2008

Supplementary evidence submitted by BERR—UKTI

UK TURKISH TRADE AND FOREIGN DIRECT INVESTMENT 2003–07

UK Trade in Goods with Turkey 2003–07 (£ million)

	2003	*2004*	*2005*	*2006*	*2007*
UK Exports	1,705	1,974	2,225	2,481	2,334
UK Imports	2,732	3,370	3,617	4,038	4,754
UK Balance	−1,027	−1,397	−1,392	−1,558	−2,420

UK Trade in Services with Turkey 2003–06 (£ million)

	2003	*2004*	*2005*	*2006*	*2007*
UK Exports	395	360	498	521	n/a
UK Imports	788	818	1,048	1,169	n/a
UK Balance	−393	−458	−550	−648	n/a

UK Foreign Direct Investment in Turkey 2004–06 (£ million)

	2004	*2005*	*2006*
UK Net Book Value (1)	1,351	2,587	2,580
UK Flows	103	151	446

Note: (1) UK net book value (stock level) at year end.

Source: BERR analysis of data from the ONS, and HM Revenue and Customs.

16 May 2008

Memorandum submitted by Black & Veatch Ltd

We are a major engineering company specialising in the water, wastewater and energy sectors and have been associated with Turkey for over 30 years. We have played a leading part in projects such as Izmit water supply which at the time was the world's largest privately financed water supply project (£36 million) and the first BOT contract in Turkey. We have provided professional services on many other projects including over a 10 year period in Joint Venture with Taylors (now Hyder), the Istanbul Sewerage project which had a construction value of over £100 million. We currently have a Turkish business development representative based in Istanbul and approximately one year ago we identified Turkey as one of the countries that should be given future priority for our overseas business. To maintain our Turkey/UK business links I am a member of the Business Council.

However there are certain issues which unless resolved could seriously inhibit our plans to expand our interests in Turkey namely: (a) contractual conditions pertaining to professional service providers bidding for EU funded contracts and (b) the archaic procedures of the Turkish commercial court system.

In the former, the conditions are quite clear namely that "contractors" will be allowed to revert to international courts of arbitration in the event of a legal dispute whereas a "consultant" providing professional services is restricted only to a Turkish commercial court. This is clearly unacceptable to us as you will see from the attachments. We have taken this issue up with the UK Reps office in Brussels who is very supportive and has been lobbying the key persons in the relevant DG. She is also gaining support in this matter from her German and Austrian colleagues and hopefully other country representatives will also join. At the same time and working in conjunction with the UK Reps office we are also lobbying through British Expertise which is the most appropriate UK Trade Association and who is also very supportive and who are also lobbying on our behalf in Brussels. The EU's position in this matter is that they introduced this differential as in their opinion consultants would not need to revert to international courts of arbitration as their fees were small in comparison to the construction costs and they would not believe it financially viable to follow that route. Though EU officials now understand the inappropriateness of their restrictions they have indicated to the UK Reps office that they are reluctant to make Turkey a special case. We will continue to press for change and from a commercial risk point of view will not bid for EU funded projects in Turkey till we are allowed to process any contractual dispute through the international courts of arbitration.

In the latter case, you will see from one of the attachments that our Joint Venture consortium has had a court case before the Turkish commercial courts for the past 13 years!! That every time the case has come to court it has been found in our favour yet every time the other party has been allowed to appeal. We feel that this is a clear case of the other party deliberately using the failings of an antiquated legal system to wear us down. With costs and outstanding interest included the figure claimed is now not far short of £1 million and the Joint Venture is determined to continue to fight. In this respect I sought authorisation and obtained permission from the legal teams to show the summary attachment to a third party, the UK government. I have discussed this attachment with Nick McInnes, International Director of UKTI, with a view that he discuss it further with Lord Digby Jones who might be able to take it up directly with his opposite number in Turkey. I have also given a copy to the UK Reps office in Brussels as an example of why we are not prepared to go through Turkish commercial courts in any future dispute. I can assure you that in other circumstances we are not by nature a litigious company.

17 December 2007

Supplementary memorandum submitted by Black & Veatch Ltd

A PRACTICAL CRITIQUE OF DISPUTE RESOLUTION PROCEDURES SELECTED BY THE TURKISH CENTRAL FINANCE AND CONTRACTS UNIT IN SERVICE CONTRACTS FUNDED BY EUROPEAN UNION EXTERNAL AID

The Issue

The Turkish government has decided that any disputes arising between it and consultants it engages in connection with European Union (EU) funded infrastructure projects, shall be adjudicated in the Turkish public courts. Credible evidence indicates that the Turkish public courts suffer from corruption and cannot be relied on to determine disputes expeditiously or fairly. Consultancies from EU member states which have much to contribute to these projects, may therefore be deterred from taking part in these projects. The Turkish government's decision contrasts with its approach to contractors whose disputes will be adjudicated by international arbitration.

The Background

The EU has agreed with the Government of Turkey that the EU will provide finance from its general budget for external assistance, to projects aimed at improving environmental protection and ensuring compliance with EU directives on control of water pollution. These projects, and the EU's financial contributions to them, are being administered by a Central Finance and Contracts Unit (CFCU) established within the Government of the Republic of Turkey.

CFCU will engage contractors and consultants to deliver projects. In the terminology of the procurement procedures under which the EU requires these projects to be tendered and administered, contracts awarded to consultants are called "service contracts" and contracts for construction works are known as "works contracts". CFCU establishes the terms of service contracts and works contracts using template forms of contract prescribed by the EU but, unlike other development aid agencies, the EU is not prescriptive in relation to the procedures for resolution of disputes under service contracts.

CFCU has resolved that works contracts shall provide for resolution of disputes by international arbitration, but that disputes under service contracts shall be resolved by the Turkish public courts. CFCU is aware of non-Turkish consultants' concerns about the involvement of the Turkish courts in the resolution of disputes arising under these contracts, and that service contracts do not align with works contracts in this regard.

Objection is taken to the choice of Turkish courts for service contracts because the Turkish courts are not free from corruption and have not established a reputation for the expeditious and impartial adjudication of the kinds of disputes which arise from contracts for the type of professional services required by CFCU. Objection is also taken to the differing treatment afforded to services contracts when compared to works contracts for which there seems to be no discernible rationale.

This paper considers the importance of providing an expeditious and impartial mechanism for the resolution of disputes which produces awards or judgments which are readily enforceable. It also considers the performance of the Turkish courts by reference to the EU's assessment of Turkey's progress in preparing for full EU membership. Finally it contrasts CFCU's position on dispute resolution mechanisms with positions taken by other Turkish public sector clients administering projects financed by development agencies.

Why is it important that contracts between the Contracting Authority and Consultants should include dispute resolution procedures which are fair and expeditious?

All projects, especially projects involving the construction of complex treatment plants and infrastructure, involve a significant degree of uncertainty. Contracting Authorities change the objectives of a project or their strategy for procuring it; initial concept designs prove impractical to execute; other consultants or contractors fail to perform or become insolvent; or force majeure events interfere. All these factors, and others, delay projects and while reputable consultants will always try to accommodate a degree of change without seeking extra fees, the extent of change is sometimes so great that consultants cannot accommodate it without applying extra resources.

Under the "General Conditions for service contracts financed by the EC" modifications to the total contract amount must be negotiated by the Contracting Authority and the consultant. However, these General Conditions set out no specific principles or criteria to assist in determining essential issues such as whether any particular circumstances which may have arisen justify a modification, or by what amount the total contract amount or contract duration should be modified. There is therefore a distinct possibility that the parties will reach widely differing positions on these issues, and that negotiation will not succeed in achieving a mutually acceptable compromise. The resulting dispute will be determined by whatever dispute resolution process is stipulated in the contract.

Significant disputes can also arise between the parties over the adequacy of the consultant's performance, with Contracting Authority and consultant unable to agree what the Terms of Reference require of the consultant, and what compensation the Contracting Authority is entitled to when these requirements are not met.

It is critical to the efficient management of the project that disputes which cannot be settled amicably, are resolved fairly and expeditiously by a court or tribunal which is neither open to nor under suspicion of corruption or undue influence. If the selected dispute resolution mechanism does not possess these features disputes will not be resolved, or they will be resolved in an unsatisfactory way. This will adversely affect working relationships between the parties, and the Contracting Authority's objectives in commissioning the project may not be fully achieved. The impact on the consultant's solvency of a failure to resolve financial claims satisfactorily could be disastrous.

The performance of the Turkish courts in commercial disputes

The "Practical Guide to contract procedures for EC External Actions" published on 22 August 2006 places great emphasis on the need for tendering processes to be transparent, and for contractors to behave ethically both during the tendering process and when executing contracts. It is equally important that others who have a part to play in the effective administration and execution of the contract, such as the Contracting Authority, its Project Manager and the dispute resolution tribunal, adhere to similar ethical requirements.

The Commission of the European Communities' Staff Working Document entitled "Turkey 2006 Progress Report" (COM (2006) 649 final) ("the Commission Report") has looked at the civil justice system in Turkey. The Commission Report acknowledges current efforts to improve the integrity, independence, competence and efficiency of the judges and the civil justice system, but notes some serious reservations about the situation which prevails at present.

Foremost amongst these reservations is the concern that corruption remains a widespread problem in the Turkish public sector and judiciary, despite recent efforts to eliminate it. Additionally perceptions remain that the independence of judges is undermined by a number of factors. Judges are attached to the Ministry of Justice which is controlled by the elected government, the Ministry of Justice and the High Council of Judges (the governing body of judges) are too closely interwoven, and judicial inspectors who appraise judges' performance are attached to the Ministry of Justice not the High Council of Judges.

Disputes which arise under service contracts can fairly be categorised as commercial disputes. In relation to the ability of the Turkish courts to deal with commercial disputes the Commission Report notes that Turkish courts work relatively slowly, that swift resolution of commercial disputes is hampered by inadequacies in the training of judicial personnel, and that difficulties persist in enforcing courts' decisions.

Concern among the international business community about the ability of the Turkish courts to resolve commercial disputes expeditiously and fairly has existed for many years. Istanbul Water and Sewerage Authority implemented a major project in the 1990's, but disputes between the Authority and its consultants which have been before the Turkish courts since the late 1990's, have yet to be resolved.

These concerns led to calls on Turkey by the International Monetary Fund and the World Bank to improve arrangements for determination of commercial disputes. Turkey responded by implementing the International Arbitration Law (Law No. 4686) which came into force in July 2001. This law allows the parties to commercial contracts to keep their disputes out of the Turkish courts and opt for dispute settlement by arbitration in accordance with international rules. In addition it limits the grounds on which Turkish courts may refuse to enforce international arbitration awards.

What arrangements have been made for resolution of disputes by other Turkish public sector clients administering aid funded projects?

The table attached to this paper summarises the dispute resolution arrangements included in five contracts for professional services put out to international tender in connection with aid funded infrastructure projects.

A number of comments arise from this table. CFCU is the only contracting authority which requires both Turkish and non-Turkish consultants to submit to the Turkish courts. This contrasts with CFCU's position on works contracts where disputes are to be resolved by international arbitration. The Turkish authorities have produced a standard form contract for public procurements. This requires Turkish consultants to submit to Turkish courts, but non-Turkish consultants are offered international arbitration under the Turkish International Arbitration Law. The contracts terms prescribed by the European Investment Bank and the World Bank provide for international arbitration of disputes whether the consultant is Turkish or international. Moreover, the contract for the Eskisehir project funded by the EIB and the World Bank's form of contract, provide that arbitrations involving non-Turkish consultants shall take place wholly outside Turkey.

Conclusion

There is credible evidence to doubt that the Turkish public courts will determine disputes between CFCU and consultants expeditiously or fairly. This appears to have been accepted by CFCU in relation to works contracts, but overlooked in relation to service contracts. CFCU's decision to place disputes arising from service contracts in the hands of Turkish courts is inconsistent with the practice of other development aid funders, and creates a significant deterrent to participation by EU consultancies which are entitled to share in the opportunities created by EU external assistance.

TABLE

Analysis of dispute resolution procedures under various forms of services contract being used for aid funded projects recently awarded, or currently being tendered, in Turkey.

Contracting Authority	*Funding Agency*	*Project*	*Form of Contract*	*Dispute Resolution Procedure*
Eskisehir Water & Sewerage Administration	European Investment Bank (EIB)	Consultancy Services for Non-Revenue Water Reduction + Operational Capacity Strengthening—tender document issued Feb 2006.	EIB's standard form contract for Consultants' Services (a derivative of the World Bank form)	International arbitration in Paris under UNCITRAL rules in the English language with neutral country arbitrators. Awards shall be final and binding and enforceable by any court with jurisdiction over the parties.
Bursa Water & Sewerage Administration	EIB	Consultancy Services for conceptual design for new SCADA system, preparation of tender documents and provision of assistance during tender process. Tender documents issued Jan 2005.	World Bank Contract for Consultant's Services (Complex Time-Based Assignments)—July 1997	For non-Turkish Consultants procedure is same as for Eskisehir except that arbitration proceedings are to be held in Turkey. Where the Consultant is Turkish, disputes are to be resolved in accordance with the Turkish International Arbitration Law 2001 (No. 4686), not by the Turkish courts.
Procurements of Services conducted under Turkish public procurement laws.	Not applicable.	Not applicable.	Turkish Standard Contract for Procurements of Services conducted under Turkish public procurement laws.	Where the consultant is not Turkish there shall be international arbitration in Turkey in accordance with the Turkish International Arbitration Law (No. 4686).
Republic of Turkey, Istanbul Project Coordination Unit	World Bank (IBRD)	Consultancy Services for Municipal Services Project—tender issue dates various commencing 2006.	World Bank's Joint Lump Sum and Time Based	For non-Turkish Consultants procedure is same as for Eskisehir except that arbitration proceedings are to be held in Geneva, Switzerland. Where the Consultant is Turkish, disputes are to be resolved in accordance with the Turkish International Arbitration Law 2001 (No. 4686), not by the Turkish courts.

Contracting Authority	*Funding Agency*	*Project*	*Form of Contract*	*Dispute Resolution Procedure*
Turkish Central Finance & Contracts Unit	EC General Budget + Turkish Govt.	Works contract for construction of Cannakale Regional Solid Waste Management Project—tender documents issued—Spring 2007	FIDIC Red Book	International arbitration in Turkey under ICC rules
Turkish Central Finance & Contracts Unit	EC General Budget + Turkish Govt.	Consultancy Services ie: Technical Assistance + Supervision for Cannakale Regional Solid Waste Management Project—tender documents issued October 2006.	EC General Conditions allow Contracting Authority to select the dispute resolution arrangements.	Turkish Courts

UNCITRAL = United Nations Convention on International Trade Law
FIDIC = Federation Internationale des Ingenieurs-Conseils
ICC = International Chamber of Commerce

Memorandum submitted by British Business Group

INVESTMENT ISSUES: A NOTE ON ISSUES ARISING WITH RESPECT TO WORK PERMITS FOR FOREIGN PERSONNEL IN TURKEY

Background

The British Business Group ("BBG") is an informal group of British Businessmen and women or businessmen and women working with British businesses in Turkey. It gathers monthly for networking and lunch meetings in Istanbul and occasionally in Ankara.

The aim is to share experiences and provide a networking environment for British business persons in Turkey. The British Consulate commercial section supports these lunches and many of the lunch members are also members of the British Chamber of Commerce in Turkey (BCCT).

The BBG has no formal status, but participants are drawn from a cross section of businesses, some multinational and some SME's. Some of the participants have lived in worked in Turkey for many years, some have just arrived. This lunch forum provides an opportunity for the sharing of views about the business environment in Turkey amongst people currently active in that environment.

As a group many of us have been greatly impressed by the tremendous steps taken by the current Government to improve the business and investment environment in Turkey. All of us have benefited from these developments and we are pleased to see Turkey taking its place as a major player in the region and the world.

It is in the interest of helping Turkey become even more attractive to investors that we wanted to take this opportunity to share some observations from members of our group on the issue of work permits.

Whilst initially one might not make a link between the issue of work permits and the level of foreign investment, in practice allowing foreign managers and business people to come freely to Turkey to work in large multinationals or even international SME's, enables smoother investment and quicker sharing of experience—both of which will benefit Turkey as it continues to grow. It is in this context which we have prepared this report.

The Work Permit Regime

In 2003 the passing of the Direct Foreign Investment Law was intended to open Turkey's doors to more extensive foreign investment, without the need for prior permission and minimum investment restrictions, placing Turkish and foreign investors on an equal footing.

In parallel, the "Law Concerning Work Permits for Foreigners" (the "Law") was also passed in 2003, introducing for the first time a complete law to regulate work permits in Turkey. The purpose of this Law is to set out principles for granting foreigners' work permits. The specific procedures were set out in regulations issued together with the Law. A second set of Regulations was also issued, to be applied to "Key Personnel" under the Direct Foreign Investment Law. This was to benefit high level employees of major multinational entities, to enable them to obtain work permits more easily.

The Law placed the responsibility for the administration of foreigners' work permits into the hands of the Ministry of Labour and Social Security (the "Ministry"), who thereby took over the role from the various departments dealing with permits at that time. Understandably the priority of the Ministry has been to ensure that there is sufficient justification to grant a foreigner permission to work in Turkey. They also ensure that foreign personnel are meeting the requirements of Social Security and other legal obligations. However over the past three years it has become a matter of concern that the Ministry's negative approach to the granting of permits is having an increasingly adverse impact on foreign personnel in Turkey and the foreign investment environment in general.

Work Permits—A Summary of the Problem Areas

Consultation within our community and with companies engaged in obtaining work permits for foreigners has revealed several areas of difficulty which we strongly believe need to be addressed in relation to Work Permits in Turkey. These include the following:

— It is taking an increasingly long time to obtain permits.[27]

— Once granted, permits are often for short periods.[28]

— Conditions not set out in any laws are imposed by the Ministry.[29]

[27] A period of more than nine months is not uncommon
[28] It is unusual to see permits for more than one year
[29] There have been examples of the ministry requiring companies to make more profit!

— Submission of additional documents is frequently required with applications.
— The Ministry is very inaccessible and information is very hard to obtain.[30]
— Sections of the law granting possible preference to certain categories of foreigner are almost totally ignored.
— Foreigners with many years' experience Turkey are treated like brand new applicants when applying for extension of their work permits.
— The Ministry uses wide discretion to reject work permits applications[31].

MAIN ISSUES OF CONTENTION

— Approach and Attitude of Ministry of Labour.
    — Foreign personnel, their employers and agents are increasingly frustrated by the lack of logic and unclear rationale employed by the Ministry in the way it handles applications and the decisions it makes. Despite there being a comprehensive law and regulations in place, in the majority of cases additional documentation is requested.
    — Rejections of Permits are generally based on Article 14a[32] of the Work Permits Law. No further explanation is provided, and so the employer or potential employee has no way of understanding the actual criteria being applied. Therefore they do not have the information necessary to make an effective appeal—thus appeals are almost always unsuccessful[33]—and the Ministry feels no need whatsoever to give any justification for its decisions.
    — The Ministry has very cumbersome internal bureaucracy, which involves application files being circulated internally to several departments. Where the process of granting a one year work permit takes nine months, an applicant has less than three month of working under permit before having to reapply. In short the process takes far too long.
    — Inaccessibility of staff—Applicants are granted the opportunity to make personal enquiries about progress of applications for only 1 hour every second week. No other consultation is accepted. It is rarely possible to reach relevant staff by telephone:
        — The Head of Department is frequently unavailable, and in her absence there is no-one available to deputise—for example while on a long vacation any files waiting for signature wait unattended until her return.
    — It is supposed to be possible to track applications on-line. This system does not work, other than an initial e-mail to confirm that documents have been submitted—which fact of course the applicant already knows!
    — No urgency is shown by the Ministry in processing applications. Applicants do not get the impression that the Ministry is providing an efficient service or presenting a good image for Turkey. The overall impression from some officials is that they would rather not grant permits to foreign applicants.
    — Despite provision in the Law allowing long term permit holders to apply for long term work permits the Ministry seems reluctant to grant these. Upon every application for extension the same documents need to be submitted each time, even older historical ones which do not change.
    — Lack of interest or understanding by Ministry staff. Because they have no direct contact with foreign personnel, whilst this may enable equal treatment of applications, Ministry staff have negligible understanding or appreciation of foreigners and the needs of their businesses. For example they have no appreciation of the impact of refusing to renew the permit of a foreign businessperson who may have been living and working legally for years, paying taxes, and having set up home and family in Turkey.
— Documents, Diplomas and Certificates:

    It is (and always has been) a requirement for applicants to submit their university degrees or other relevant certificates to demonstrate their qualifications to perform the job for which they are seeking permission. However in certain situations this requirement causes major problems.

    — Those applying to work as engineers in Turkey require to demonstrate that they are qualified to practice engineering in their own country, and obtain a certificate of equivalence from the Union Of Chambers Of Turkish Engineers And Architects (TMMOB). TMMOB appear

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[30] Telephones unanswered. Personal visits not accepted. Refusal to deal with enquiries or provide documents referred to as the basis for rejection
[31] From feedback it appears rejections are becoming increasingly common and this is a concern.
[32] Article 14- The request for work permit or work permit extension shall be rejected under the following conditions:
a. Where the state of business markets and the developments in the working life and where changes in sectoral and economic factors related to employment are unsuitable for a work permit to be granted
[33] The Ministry has specifically stated that it has a policy of never reversing its decision once it has given a rejection

reluctant to grant this certificate, and often demand certificates from overseas that do not exist due to differing conditions in different countries[34]. Apparently efforts by the Ministry to encourage TMMOB to soften its approach have been unsuccessful.

— For example engineers on a highly specialised high profile government sponsored engineering project have been unable to obtain permission because of strict equivalency document requirements. As time is of the essence in such a project these engineers often find themselves working without proper permission, even though in effect they were invited by the Turkish government to provide necessary expertise unavailable in Turkey.

— Foreign personnel with engineering degrees, but who are not working in Turkey as engineers, are required to submit notarised undertakings that they will not practise engineering in Turkey[35].

— In some cases foreign companies choose to appoint senior personnel who may not have university degrees, but who have many years of experience which more than qualifies them for the job[36]. This lack of understanding among officials about the importance of experience and their excessive concern with paper qualifications hampers the inflow of experience into Turkey and harms investment.

— The onerous documentary requirements in work permit applications often put undue pressure on individuals and companies, which are being forced to sign undertakings that can cause them difficulties from a personal or a corporate governance point of view. Local or overseas management naturally have difficulty seeing the relevance or necessity of some of the documents being requested.

— Lack of Commercial Understanding

— Service companies, management and consultancy firms—foreign businessmen with experience in Turkey often establish consultancy businesses to advise foreign investors on how to invest and operate in Turkey. The added value they bring to the economy can be significant. However since they are often small specialist businesses with no or minimal local support staff, applications for work permits are generally rejected on the grounds that there are no or too few local employees, and therefore in the eyes of the Ministry no contribution is being made to the local economy. Advisory companies who help the establishment of factories and larger investments in Turkey should be encouraged not penalised. If their foreign staff cannot get work permits the benefits they could bring will be lost.

— Where permits in such businesses are granted, there have been conditions that a permit will not be renewed unless evidence of "contribution to the local economy and local employment" is provided.[37] The Ministry's understanding of a "contribution to the local economy" is too narrow.

— Liaison Offices—these are permitted under the Direct Foreign Investment Law to enable foreign entities to have a representative or non-commercial presence in the country. By the nature of these they are very often small, but it may be the desire of the parent entity to appoint a foreigner to represent them. Where there is deemed to be insufficient local employment permits are refused—thus creating a potential barrier to foreign entities establishing that initial presence in Turkey, which means a loss of potential investment.

— Job descriptions—many large corporations appoint personnel to certain positions with non-standard job descriptions to fit unique posts. This often causes confusion and delay with the application, as the Ministry seem only to understand simple titles.

— It is often not easy to meet the conditions imposed by the Ministry as they are not commercially realistic; even so where a condition is not met the permit is almost always refused.

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[34] For example one agricultural engineer was required to produce a certificate demonstrating he was not restricted from practicing engineering in his home country. However there is no such certificate in that country, and even no professional body of agricultural engineers which could issue one.

[35] An executive with a major Turkish company was asked to produce an engineering certificate, as he had a first degree in engineering. However he has never worked as an engineer, does not belong to any engineering body, and his current role is not related to engineering.

[36] For example, the General Manager of a German Bank in Turkey was in fact a graduate in History. He had 30 years experience in banking, working all over the world. When he applied for a work permit in Turkey the officials took no notice of his skills as a manager and experience in the bank. Rather they wanted to see a degree in finance or economics, not having such a degree led to trouble in getting a work permit. Often in such situations the Ministry seeks a "high school" certificate, when the person may have left school over 30 years previously, the school may no longer exist, and in any case no such certificate may ever have existed

[37] A foreign consultant was given a conditional permit in 2005, but when the situation in the small company being worked in had not changed after two years, information was submitted about the business itself, including companies established through its services, foreign investment attracted and general contribution to the Turkish economy. In 2007 a conditional renewal for 1 year was granted, with a clear statement which can clearly be understood to mean that the Ministry is really interested in seeing local employees in that company itself—regardless of whether or not this is in fact practicable or sensible. The prospect of this being renewed is minimal.

  - The value of years of business experience is placed far below the formal education or a degree of a candidate, when in practice suitability for the appointment of a foreigner is almost always determined primarily by that person's work experience. This was illustrated in footnote 4 above. The question is surely, "Is the Ministry or the company itself better placed to judge who is the best employee for the purposes of the foreign company's business?"
- The "Social Security Trap"
  - When setting up a new company the Ministry requested from its foreign shareholder evidence that he had registered for "Bağ-Kur", the Social Security system for the self employed. After this has been done the Ministry then rejected the work permit application. However the Bağ-Kur registration cannot be cancelled or premiums stopped since the person, as a company shareholder, continues to be liable. The following year, upon re-applying for a work permit, the "Bağ-Kur" records were submitted to show compliance, but the Ministry questioned why the premiums had continued to be paid, and asserted therefore that the foreign person was working illegally through the year. To this end, they sent out an inspector to verify this, and imposed a fine on the company and the foreigner for working without a proper work permit. The inconsistencies in this approach are plain to see.
  - A similar situation arose when an extension was applied for on behalf of an employee. While awaiting permission the employee continued on the payroll of his employer, paying Social Security. The application file was returned as incomplete. Again an inspector was appointed, and upon noting that the employee had been working following the expiry of the previous permission, a fine was imposed on the company and employee on the basis that he had been working without permission. However the reason for his working without a permit was purely due to the delays of the Ministry in processing the application.
- Application time periods
  - Applications are never accepted earlier than 60 days prior to the expiry of the current permit. However none of those providing feed back have ever had a permit issued within 60 days. It is usually not until 60 days after the application that the first response comes from the Ministry, and this is usually to request additional papers. The Ministry only gives the applicant only 15 days to collate and send the requested documents. Once the additional papers are received into the file, the Ministry has by law a further 90 days from submission of the additional documents to respond. Therefore most applicants find themselves caught in between the expiry of one permit and the granting of the next. This has led to people being fined for working illegally, or fined upon leaving the country whilst waiting for a permit because they not longer have a valid residence permit.
- Independent Work Permits (Bağımsız Çalışma Izni)
  - The Work Permits Law envisages the granting of "Independent Work Permits" to those who apply for these, if they have been living legally in Turkey for more than five years. This should be granted independent of any place of work, with the foreign person notifying the ministry when they have established a business. From our research there are no examples of this permission having been granted. It appears that the Ministry always wants to see information about the business in which an applicant works, so the concept of an independent permit contradicts the general approach taken; thus this type of permission, even though found in the law, is not really available.
- Professionals (Lawyers/Architects/Accountants)
  - Recently it seems that foreign professionals, particularly those with law degrees are not being granted permits. We are aware that the Turkish Bar Association is concerned about foreigners practising law in Turkey, and although there is now scope for foreign law firms to enter into partnership with local firms[38] work permits for any foreigner having a law degree are automatically refused. However in rejecting such an application, the reason given is still Article 14a of the Work Permits Law. The Ministry fails to understand that in most countries it is common for foreign lawyers to work in international companies (or local companies with a significant international client base), and generally rather than hindering or threatening the legal profession in these countries the presence of foreign lawyers brings an additional dimension to the local profession. Similar problems face other professionals despite the fact that as part of the EU accession process Turkey will be required to open up its markets to European professionals.
- Exceptions
  - The Law and Regulations set out a number of possible situations whereby permission might be more easily granted. Although there is no obligation to grant a work permit on the basis of these exceptions, they seem to be completely ignored by the Ministry even if referred to in

[38] On condition they only provide advisory services on international law matters

application. The law envisages that those subject to exceptions may be granted indefinite period work permits or independent permits, as they are people who would be expected to be staying long term in Turkey for reasons other than just work.

— In particular those married to Turkish citizens should be able to benefit from the exceptions, but in practice seem to be given no preference in obtaining Work Permits.

Proposals for an Improved System

It is certainly not the intention of this paper merely to list a series of complaints. The British Business Group recognises with deep appreciation the giant steps taken by the current Government to improve the business and investment environment in Turkey. However it seems that the area of work permits needs some serious attention, if it is not to hamper the investment environment. If international businesses cannot get permits for the people they want to run their businesses in Turkey, why should they stay?

In addition the BBG is not looking for help with individual applications; rather the BBG is asking the Government to consider looking at improving the system and practices, so that they work more efficiently for the long term benefit of the country and future investment.

We believe that the system of work permit application would benefit from some change and in this light we wish to make suggestions for the improvement of the processing and approving of work permit applications.

1. Understanding the business of the applicants: It would assist greatly if the personnel in the ministry were given training to enhance their understanding of foreign businesses or just business generally. Language training would also help. Establishing an office in Istanbul where the majority of foreign businesses are located would also help this process.
2. Interview with applicants or agents: Rather than just submitting an application file, an initial interview with an official to check the adequacy of papers straight away would help to ensure that papers were in order, rather than being left to await a formal letter requesting that papers be corrected. An Istanbul office of the Ministry would also help the process of interviewing and understanding the business of the applicant company.
3. Reduction of time period for processing: There should be a distinction between first applications and extensions. A file with the basic documents (degrees etc) should be maintained and the extension application should only require a form which states any changes to the status of the employee. If the job is the same then a form referring to the file with the basic documents should be enough to allow processing. This would cut down the work of the ministry and enable faster processing.
4. Increase Staffing: It seems currently that too few officials are handling the applications. There seems to be a need either for staff levels to be increased, or for the system to be streamlined much more effectively.
5. Reduction of Documents: It seems the ministry requires more and more documents as time goes on. If the ministry were to meet with business representatives and agree to a limited number of critical documents (passport, letter from employer confirming suitability and experience etc.) then again the process of dealing with applications could be reduced dramatically.
6. Online tracking: Online tracking of applications should be made properly effective with interactive electronic communication to accelerate the application period. It should be possible for applicants to communicate by e-mail with the departments handling applications, and even to be able to send electronic versions of required documents to expedite the application process.
7. Long Term Permits: We would suggest a much more accommodating approach to those who have been living and working legally in Turkey for more than say five years. This could be through the granting of independent and indefinite time permits, perhaps requiring only an annual statement of activities and tax paid by the person for ongoing compliance, rather than the need for constant submission of the same documents for renewal of permits. These criteria should be sufficient to warrant extension. This would enable such people to have a type of "permanently resident working foreigner" status—and significantly cut down much waste and duplication created by the current need for regular renewals.
8. Commercial Awareness: Staff handling applications need to be much more commercially aware, and thus be able to see the commercial implications of proposals being presented to them. There should be training in these areas, or those recruited should come from a business background and have foreign language skills.
9. Multinational Applicants: Criteria should be set for very large foreign companies investing in Turkey so that they can more simply install the key personnel of their choice into key positions. The choice of the foreign company's senior manager should be left with the company, whatever the nationality. It should not be for the ministry to decide who is suitable or not for the company's business.
10. Clearer Reasons for Refusal: Application rejection letters need to contain specific reasons for the rejection. The current basis for rejection is stated so broadly that it gives little or no opportunity

to appeal effectively, or to make a more informed application in the future. In addition supporting documents must be provided since reference to a document as a basis for rejection without providing that document to a rejected applicant is a breach of the basic principles of Justice and the Turkish Constitution.

The British Business Group would be happy to meet with the relevant Government agencies to discuss further these recommendations and would be glad to provide its full assistance in clarifying any of the points raised in this report.

February 2008

Supplementary memorandum submitted by British Business Group

Subject: Property Ownership in Turkey

Another issue has arisen very recently which could also have a potentially negative impact on some aspects of business in Turkey, affecting foreign owned businesses here. This relates to the ownership of property.

Basically it is possible for foreign individuals to own property in Turkey, subject to reciprocity. There are certain limits with regard to the amount of property which can be owned and military approval is required of individual purchases.

Following changes set out in the law relating to foreign investment, foreign investors (both corporate and individual) could establish companies in Turkey and own property in Turkey via these companies. Many investment and property development projects were established using this legal framework.

The main opposition party raised an action in the Constitutional Court to cancel the provisions of the foreign investment law allowing foreign capital companies to own property in Turkey (Art 3.d)), and the Court recently ruled in favour of cancellation of this provision. This is a potential source of difficulty for some foreign companies which are engaging in the property business—we have one such UK client at present. While the court decision is not yet published, and from statements by the court its effect will be postponed for six months to allow the government time to rectify the anomaly which it causes, there is understandable concern on the part of businesses who have now committed time and resources to projects which have potentially been put at risk. Property already owned is unlikely to be taken away from its owners, but future registrations will be very difficult to achieve and sale of property to other Turkish foreign capital companies will be a problem. Many major Turkish businesses will also be highly concerned about the effect this ruling could have on their ability to bring foreign equity partners into their important real estate projects.

It would be critical to learn from the Government directly what steps they intend to take in order to solve this problem and provide security to investors in the property market. If they do nothing projects worth millions may fail and the foreign investment climate in property will be irreparably damaged. Assurances should be sought that the Government will act to secure this important source of investment for the foreseeable future.

March 2008

Memorandum submitted by British Council, Turkey

1. This note sets out a broad analysis of the Turkish demand for UK higher education (UKHE) and the opportunities for the British Council over the next few years.

Background

2. Stringent economic policies since 2000 have helped bring economic stability to Turkey. In the first 3 quarters of 2007 the economy grew by 4% whilst the inflation rate was kept at 8.5%. In the first half of 2007 the GDP growth was 5.3%

Increasing Demand for Higher Education

3. The increase in wealth and living standards for a small but significant element of the Turkish population has allowed a growing number of Turkish parents to take more responsibility for the education of their children through private school education, extra tuition and overseas study.

4. This is in part a response to the significant salary differential between those who complete higher education and those who complete only secondary level education. The former achieve 80% higher disposable annual income—a larger differential than most developed countries.

Problems with Supply

5. In addition, there are around six million people aged 17–21. This group represents a huge demand on a higher education system which is already significantly over-subscribed. In 2007, 1.5 million students applied to enter Turkish Higher education of which less than half a million were actually placed. This shortfall represents a considerable potential market for UK institutions.

6. There are currently 120 universities in Turkey, 85 of which are state universities and 35 of which are private foundation universities. More universities are being planned and developed but it is a relatively slow process as there has to be the parallel development of qualified teaching staff. It is unlikely that Turkey will be able to absorb the number of young people seeking higher education in the foreseeable future.

7. 65% of Turkey's 71 million population are under 35. These young people have the potential to support workforces in Western European, but only if they receive the education and training to equip them for the modern work place.

Turkish Students in the UK

8. Turkish demand for UK higher education has seen a 50% growth over the last three years. There are currently 1,515 Postgraduate students and 845 Undergraduate students from Turkey studying in the UK. The number of Turkish students studying in the FE sector in the UK peaked around 2000 but has seen a sharp decline since this appears to be the result of the increased provision of vocational training in Turkey.

9. The USA is undoubtedly the market leader in the provision of higher education and a high proportion of Turkish Ministry of National Education scholarships are awarded to students choosing to study in there. Turkey has had strong political ties with the USA since the 1950s, when many Turkish high schools and universities adopted the US education system. Germany's close ties with Turkey mean it is the second-most popular study destination. The UK is third in terms of market share.

10. Turkey is primarily a word-of-mouth recruitment market where a long-term commitment is required from UK institutions to establish a presence within the market place. The most successful UK institutions are not those highest in the rankings—but those that have been active in Turkey.

British Council in Turkey

The British Council was established in Turkey in 1940. Now we operate centres in Ankara and Istanbul and a contact point in Izmir. We employ 53 country-appointed staff and nine UK staff. The total turnover for last year was £6 million comprising £3.85 million of grant-in-aid from the FCO and £2.15 million contract and customer income. Our activity in-country includes:

- administering more than 30 Chevening awards each year;
- managing £200,000 of FCO Global Opportunities Fund projects;
- online training for Turkish educational agents to promote the UK as the destination of choice;
- briefings for UK higher and further education institutions exhibiting at education fairs;
- creating a web-based training package for teachers of English in primary schools which meets the training needs of 40,000 teachers in Turkey;
- managing a vocational English skills project reaching 65,000 students in 100 schools;
- coordinating a series of summer schools for 700 teachers of English in Turkey's provincial cities; and
- delivering 20,000 English and professional exams a year.

Opportunities for the UK Education Sector

11. Whilst the Higher Education Council in Turkey is unlikely to allow open access to trans-national education (ie UK education being offered directly in Turkey) there are increasing opportunities for UK institutions to develop joint and dual diplomas with UK institutions and the British Council is committed to encouraging the development of the partnership arrangements.

12. For example, the University of Abertay Dundee and Izmir University of Economics will launch a dual diploma Masters programme, MSc in Computer Gaming and Technology, in October 2008. This will be based on a two-year programme with two terms spent at each university, and incorporating student internships over the summer months. Other course areas are being explored for joint delivery at both postgraduate and undergraduate levels.

13. The Turkish Government is also seeking to expand opportunities for Higher Education via the development of joint ventures with a number of EU countries. The Turkish Ministry for Foreign Affairs (MFA) has approached the British Embassy to express interest in a joint venture UK-Turkey university, a key proposal of the UK-Turkey Strategic Partnership signed by the Turkish and British Prime Ministers in October 2007.

14. There is likely to be an increased demand for UK educational goods and services in the area of vocational education and training as Turkey seeks to address its systemic problems. This issue is particularly crucial for the development of skilled workers in an increasingly globalised economy, where Turkish industry is in direct competition with India and China. There is likely to be increased government and EU spending on projects around the development of vocational education and training.

15. One example of the value of the UK expertise is the fact that an Izmir Vocational School will be established in 2009 to provide Scottish Qualifications Authority SQA endorsed vocational qualifications delivered in Turkish. This project has taken shape over the last year and is driven by the recognised need for Turkish young people to gain transferable skills to be employable.

16. The British Council is doing considerable work in the area, linking with UK awarding bodies, authorities and institutions to support the aspirations of Turkish government and industry and to further position the UK in terms of this important potential market.

17. Turkey is a strong market for English language provision—either through language schools based in Turkey or for courses of a variety of lengths in the UK. English UK are active in the market and attend education fairs and provide familiarisation tours for student counsellors and education agents.

23 March 2008

Memorandum submitted by Business for New Europe

Introduction

— Business for New Europe (BNE) welcomes the opportunity to respond to the House of Commons BERR Select Committee inquiry on the subject of the economic consequences of Turkey joining the EU.

— BNE is an independent coalition of UK business leaders. Our aim is to support the UK's active engagement in Europe, and to promote a reformed, enlarged and free-market EU. We recognise the benefits that cooperation with our European partners brings. Since our launch in March 2006, we have become a leading pro-Europe organisation in the UK, gaining a good deal of press coverage for our views. We have a number of leading business figures serving on our Advisory Council (for more information, see www.bnegroup.org).

— This response has been prepared by the BNE Executive.

BNE's Views on Enlargement, Migration and Turkish Accession

— One of BNE's principles is as follows: "We support the{enlargement of the EU including Turkey, and recognise the benefits that the recent wave of enlargement have brought".

— Free movement of people, enshrined in the Treaty of Rome (1957), is a fundamental principle of the EU, and this should be encouraged. It is part of the EU's overall vision of free movement of goods, services, capital and people.

— BNE has taken the clear and consistent approach of advocating a wider single market and open labour markets, because in the long-run this approach will lead to greater economic growth, productivity and entrepreneurship.

— Migration following previous enlargements has contributed to UK economic growth. In 2006 the highly respected Ernst and Young item club reported that the 2004 migration "has proved remarkably positive for the economy, keeping interest rates a 0.5% lower than they would otherwise have been".

— Therefore BNE supports Turkey's membership of the EU, and believe that it would bring economic benefits as well as political and strategic advantages. In time, we believe that the future accession of Turkey to the EU will be beneficial not only for Turkey but also for the UK and the rest of the EU.

Themes Relating to Turkish Accession

1. *Single Market*

— As a result of Turkish accession, the single market will increase by 70 million people (Turkey's population is projected to grow from 70 million today to 85 million in 2030).

— The EU's single market is already the largest in the world, accounting for approximately 40% of world trade and spanning a population of 500 million.

- Turkey signed an "association agreement" in 1963 with what was then the EEC, which was strengthened in 1995 by the creation of a customs union, abolishing barriers to trade in goods. However the move to a fully-fledged single market encompassing Turkey would be a significant further step, moving from trade in industrial goods to free trade in services, capital and labour.

2. *Foreign investment*

- The accession process itself has benefited foreign investment, and this continue if Turkey entered the Union.
- Foreign investors have been attracted to Turkey by its dynamic domestic economy and other factors such as its location and relatively low labour costs.
- There are very strong economic ties between the Turkey and the rest of Europe. EU countries account for 60% of FDI in Turkey.
- Following the customs union agreed in 1995, the EU's trade with Turkey has increased significantly. This has culminated today in a situation whereby the EU is Turkey's biggest trading partner, being responsible for 42% of Turkish imports and 52% of its exports.
- As a result of the reforms preparing Turkey for EU membership, business has been given confidence to invest in Turkey. The EU's recognition of Turkey as a candidate country in 1999 gave a very positive signal to business, as did the EU's decision in 2005 that accession talks were ready to start.
- Foreign business would be likely to invest more once Turkey joined the EU. Businesses would be able to invest in Turkey in the knowledge that they could reach the entire European single market.
- The last three years have seen a huge upsurge in foreign direct investment (FDI), coinciding with the beginning of accession talks in 2005. Annual FDI was $1 billion or less until 2004 but by 2006 it had increased to a staggering $20 billion. In the course of the Turkish economic boom which started in 2004, it is estimated that two million jobs were created outside agriculture.

3. *British business and Turkey*

- British and other Western business has been investing in the rapidly-expanding Turkish economy.
- Whilst Germany is Turkey's biggest investor, the UK's economic ties with Turkey have been increasing.
- The UK government has recognised this, identifying Turkey as one of 17 markets on the UKTI High Growth Markets Programme.
- It is estimated that there are approximately 430 British companies operating in Turkey, including some very large companies such as Vodafone and Aviva. Furthermore Turkish investment in the UK is also growing.

4. *Turkey's economic dynamism*

- Turkey's economy is one of the success stories of the modern era, and its entry into the EU would have a galvanising impact on the European economy.
- The Turkish economy has been growing at 7% per annum (annual average GDP growth of 7.4% since 2002).
- Its rapid economic growth has made Turkey the sixth largest economy in the EU One trend that illustrates Turkey's rapid economic growth is the increase in GSM users from 15 million in 2003 to 58 million in 2007.
- Turkey's economy has been reforming, including moves to make the central bank independent and a privatisation programme of state-owned companies.
- The nature of the economy has been changing rapidly, with moves to high tech sectors and to the manufacturing of certain goods, such as car and televisions.
- With an average age of 29 and 65% of the population below 34 years of age, Turkey has a disproportionately young population, which offers exciting economic opportunities in the future.

5. *Migration*

- Migration from Turkey would offer opportunities for UK business and be positive for the UK's economy as a whole.

- Once turkey has jointed the EU, some Turks would look for economic opportunities in the UK and elsewhere in Europe, as was the case with previous enlargements, most notably 2004.
- This migration could be timely, considering the demographics of the European continent, which has a low birth rate and an ageing population.
- However, we should bear in mind that Turkey's recent economic success means that they are more economic opportunities domestically. In addition many Turks would be likely to go to Mediterranean countries for climate and cultural reasons. Therefore we should not over-estimate the number of Turks who would be likely to come here, though it is important that the UK government be well-prepared for new arrivals.
- Current projections of Turkish emigration range from 0.5 million to 4.4 million, which would be only 0.7% of the EU-28 population.
- An influx of migrants from Turkey would be likely to have positive economic effects. In general the UK has an ageing population and just as young migrants from eastern Europe have plugged crucial gaps in our labour market, young Turks would be likely to do the same.
- Turkish migrants could help fill low-skill jobs and public sector jobs but also highly skilled posts too. It is estimated that Turkey produces 400,000 university graduates a year.

6. *Accession will create new business opportunities*

- Accession will create opportunities for business. The reforms Turkey will need to implement to be ready for EU membership are in the interests of business, whether domestic or foreign.
- Whilst the customs union has helped to build links between the EU and Turkey, its effects have been limited to trade in industrial goods. The application of European rules and regulations in a range of other areas, such as public procurement and environmental regulation, will create fresh opportunities for business.
- To comply with environmental regulation, it is estimated that Turkey may have to invest as much as $60 billion, which could create new opportunities for technical and environmental companies which can help them do that.
- Liberalisation of Turkey's energy and telecoms sectors will create more opportunities for British and other foreign companies. Turkish membership would be likely to have a dramatic impact on the energy sector in particular, with its position as a gateway to the energy rich Middle East. At present Turkey exports 35-40 billion cubic metres of natural gas to Europe every year, which would only be likely to grow after joining the EU.

Concluding Comments

- BNE believes that the immigration to the UK from other EU member states has been of great economic benefit to the UK economy. The enlargement of the EU has been one of the Union's most successful policies and furthermore its effect of increasing immigration to the UK, has also been an economic success for the UK.
- The experience of recent enlargements should give us some confidence when considering Turkish accession. The EU's enlargement since 2004 to take in the countries of eastern Europe has been an undoubted success. It has benefited not only the incoming countries, but also the established member states.
- Of course there are areas of concern, such as the fact that Turkey produces a high volume of pirated goods. Furthermore, there are significant areas of concern in the accession negotiations, whether on Cyprus or more generally on human rights.
- The business community recognises the massive opportunity offered by Turkish membership of the EU. British and other businesses with investments in Turkey have already witnessed the transformation of the country on a day-to-day basis. If the EU rejects Turkey's membership, it will not only have far reaching political consequences, including a nationalist backlash, but it also will have a damaging effect on foreign investment in Turkey. At this juncture in negotiations, it is crucial for the pro-Turkish accession business voice to be heard.

31 October 2007

Memorandum submitted by the CBI

THE ECONOMIC CONSEQUENCES OF TURKEY JOINING THE EU

Overview

1. The Confederation of British Industry (CBI) is the premier voice of UK business, speaking for around 240,000 companies and 150 trade associations. Our membership stretches across the UK, with businesses from all sectors and of all sizes. Through their worldwide trading activities, UK businesses contribute 25% of UK GDP. They are the world's second largest source of foreign direct investment (FDI) and the UK is the second largest recipient of global FDI. This paper presents CBI's positions on EU-Turkish economic relations.

2. We recognise the economic advances that Turkey has made over recent years, although problems for business remain. Further alignment with EU regulations, the elimination of technical barriers, the liberalisation of key industries and their opening to foreign participants should be encouraged.

3. CBI has particular concerns that Turkey is failing to live up to its Customs Union obligations in the areas of technical barriers to trade, import licences, state aids, enforcement of intellectual property rights, and other discriminatory provisions. Coupled with this is an inconsistent and unpredictable application of rules by a range of officials from customs through to local courts. These areas need to be urgently addressed in order for trade relations with Turkey to fulfil their potential.

Turkey as a Growing Market

4. Turkey is the world's 17th and Europe's 6th largest economy. Its GNP is expected to surpass Australia in 2008 and become one of the top 10 economies in the world by 2050. As a developing country with a young and dynamic population of around 70 million, it has been ranked by UKTI as one of the ten emerging markets with significant trade and investment opportunities for UK companies.

5. Liberal economic policies have been pursued over the last decade to put in place an open foreign investment regime. From 2002–06, Turkey experienced a strong recovery after severe economic contraction in 2001. Foreign direct investment continues to play a major role in Turkey's economic development and prosperity. Alongside a new Law on Foreign Direct Investment, the Government of Turkey has established a Coordination Committee for the Improvement of the Investment Climate to help remove remaining administrative obstacles to investment, and set up a well-funded Investment Promotion Agency reporting directly to the Prime Minister's Office.

6. Turkey has embarked upon a reform programme aimed at consolidating the banking sector, accelerating the privatisation of state-owned industries, lowering inflation, reducing the country's heavy debt burden, and creating a stable macroeconomic environment conducive to economic growth. International investors have been actively encouraged to participate in the government's privatisation programme.

7. It has amended its constitution, with numerous laws and regulations now convergent with EU norms, and in some areas Turkish legislation already exceeds the minimum requirements of the acquis. In 2005, Turkey was recognised as a functioning market economy by the EU. The new Turkish government has defined EU accession and economic reform as its two top priorities.

8. Foreign companies are already playing a significant role in Turkey's current economic growth. In 2004 foreign direct investment (FDI) was less than $1 billion, but reached $9 billion by 2005 and more than doubled to $20 billion in 2006. 25% of the top 500 Turkish companies now have foreign investors. 60% of FDI in Turkey comes from the EU.

9. Since the implementation of the Customs Union between the EU and Turkey, EU exports have tripled to $58 billion per annum and Turkish exports quadrupled to $48 billion. The EU is now Turkey's largest trading partner with 42% of Turkish imports from the EU and 52% of its exports going to the EU.

10. Turkish companies are becoming major players in the global market place. One in four of the largest companies in Middle East and North Africa are Turkish and 65% of industrial exports from the MENA region originate from Turkey. Turkish contractors are among the biggest players in the Middle East, North Africa and Former Soviet Union with $84 billion worth of construction projects to date. Turkey is the world's fourth largest textile exporter after China, India and Italy.

Trade and Investment Opportunities

11. Between 2002 and 2006, UK companies invested £1 billion in Turkey and the UK is the third largest investor. Companies have investments in a wide range of sectors including Aviva in life insurance, Cadbury Schweppes in confectionery, Vodafone in communications, Tesco in retail. HSBC in financial services. BP and Shell (Anglo Dutch) in oil and gas, and Unilever in consumer goods.

12. Trade flows between the UK and Turkey are £2.5 billion UK exports to Turkey and £4 billion Turkish exports to the UK, with major sectors including vehicles, pharmaceuticals, machinery, financial services, electrical goods and textiles.

13. There are a number sectors of the Turkish economy where there are significant opportunities for increased UK participation, namely environment, water, education and training, financial and legal services, police and security, power, transport infrastructure ICT/Telecommunications and agribusiness.

Environment

14. There are opportunities for the provision of environmental technologies and services, in particular wind power, carbon emissions, air and water pollution. The UK enjoys close relationship with leading Ministries and officials in this remit.

Water and wastewater

15. It is estimated that some $60 billion needs to be invested in the water and wastewater sector over the next 10 years to conform to EU standards. IPPA and other EU funding has been earmarked for a number of water projects. Opportunities arise in the water management, financing, metering and project sectors.

Education and training

16. Turkey boasts a wide manufacturing base, much of which will need considerable upgrading to meet EU standards. There is a significant need for education and training, design, innovation and R & D projects in a number of key industries, including energy. Education and training are integral to future Turkish economic development.

Power

17. The Turkish Government is seeking foreign investment and interest in the development of its power sector. There are also plans to privatise electricity. The sector lacks investment, as well as the experience to operate in an EU regulated environment. Opportunities exist for technology transfer, investment, consultancy generation and transmission capacity building, transport infrastructure.

Transport infrastructure

18. Significant opportunities have arisen in the Government strategy to improve its railway, airport/aviation and ports infrastructure. The UK is already pursuing projects in the regional airport sector and is well placed to win business in improved routing. Part privatisation of the ports sector has already occurred and plans continue to place more regional ports in the private sector. Significant investment in the railway network has also been announced.

Telecommunications

19. Vodafone has already won significant business in this area. BT is also active and the development of the sector overall has created a number of opportunities in the hardware and software areas.

Police and security

20. There is a growing interest in this sector with a number of UK companies are already active. Opportunities in the security sector are forecast to grow significantly over the next three years.

Agribusiness

21. The UK and Turkey signed a bilateral MOU in March 2007. This centred upon the development for collaboration in three main areas: animal husbandry, equine and organic farming. Significant progress has been made with the first two and progress in developing the organic farming is expected over the coming two years. There are also a number of opportunities available in the food processing/packaging industry, animal pharmaceuticals and irrigation.

Turkey's potential as a gateway to the markets of the Middle East, Caucasus and the Central Asian Republics

22. Turkey is a country of highly strategic importance due to its geopolitical location on the intersection point of Asia, Europe and Africa. Therefore, it has an increasingly important role to play as an energy corridor between the major oil and natural gas producing countries in the Middle East and Caspian Sea and the Western energy markets.

23. It is linked to the oceans through the Black, Marmara and Mediterranean seas, which encircle it on three sides. The Black Sea area is linked via the Bosphorous and Dardanelles Straits and shipping routes pass through the Marmara to the Mediterranean. The country borders Georgia, Armenia, Azerbaijan and Iran to the east, Bulgaria and Greece to the west, and Iraq and Syria to the south. Turkey has won in the region of $45 billion of contracts in Russia and Central Asia over the last five years.

24. Turkish contractors are involved in virtually all major construction projects in Afghanistan, and have worked with UK contractors on the construction of new airports in Ashgabat and Samara and other cities in the region.

25. Recent high oil prices have created new opportunities in the Middle East, with oil revenues being invested in the major cities. Turkish companies are now involved in building the metro system in Dubai, and roads and pipelines in Saudi Arabia. Western companies are working with Turkish contractors, for example in building retail centres in Kuwait, as well as in the field of property development and food processing plants.

26. Turkish business is keen to promote trilateral business with the UK in the markets of Central Asia, Russia and the Black Sea area. The CBI supports the FCO and UKTI support for trade collaboration between Turkey and the UK in this region and will work with Turkish counterparts to promote greater awareness of such business opportunities.

The importance of Turkey as an energy hub

27. Energy is an extremely important area for EU-Turkish business co-operation. Turkey is located in close proximity to 71% of the world's proven gas and 72.7% of oil reserves, in particular those in the Middle East and the Caspian basin. It therefore forms a natural hub between several vital energy suppliers and energy consumers in the EU and beyond. Pipelines through Turkey help to diversify energy supply sources and routes into EU member states, thereby contributing to Europe's long-term energy security.

28. Co-operation in this region will promote legal and regulatory harmonisation via the Baku initiative, in the European Neighbourhood Policy area and in the EU-Russia Energy Dialogue. This aims to provide a clear, transparent and non-discriminatory framework for energy production, transit and transport. Significant investments will be required to achieve this.

29. Turkey has concentrated on the transport of energy from the Caspian through pipeline projects linking the Caucasus and Central Asia to Europe, and these routes will be vital for the economic integration of these regions into the global economy. Key developments include:

— the Baku-Tbilisi-Ceyhan (BTC) pipeline linking Azerbaijan, Georgia and Turkey was extended in June 2006 to include Kazakhstan so that Kazakh crude oil will now be shipped to Baku across the Caspian Sea and thence via BTC to Turkey; and

— the Samsun-Ceyhan oil by-pass route on which construction has started. This will reduce increasing pressure on maritime transport of oil through the Bosphorus and Dardanelles straights and so increase EU energy security. Volumes of Russian and Caspian oil passing through the straights are currently predicted to reach 190–200 million per annum tons by 2009.

30. Turkey lies on two priority axes of natural gas. The first relates to gas pipelines from the Caspian and Middle East; the second is the East Mediterranean gas ring which aims to bring natural gas from the Caspian Sea, Middle East and Southern Mediterranean countries to Europe through Turkey and Greece.

31. Other projects include:

— the Baku-Tbilisi-Ezurum natural gas pipeline (BTE) will transport gas from the Shah Deniz field in Azerbaijan to the Georgian/Turkish border, while the Trans Caspian Natural gas Project will tap into the world's fourth largest natural gas reserves in Turkmenistan and Kazakhstan;

— the Nabucco pipeline (if financially resourced) to transport natural gas via Turkey, through Bulgaria, Romania and Hungary to Austria would reinforce energy and economic links between Europe, Turkey and Asia; and

— the potential for the development of Iraqi natural gas reserves mostly located in Northern Iraq and participation in the Arab natural gas pipeline project.

The Operating Environment for Business in Turkey

32. Continued market liberalisation is fundamental to the companies investing in and operating in Turkey. The business environment continues to improve, however there remain a number of areas where more progress could be made:

- privatisation—continued privatisation and deregulation to increase competition in the market;
- the judicial system—increased efficiency of the judicial process and the implementation of the rule of law, in particular the speeding up of dispute resolution. Disputes are handled by the administrative courts where the process is slow, decisions non-consistent, and interpretations of the law questionable, with the average case taking between 12 and 18 months. Regional courts in many cases do not understand WTO issues;
- attitude to foreign investment—increased awareness is needed of the benefits brought by foreign investors in order to remove suspicion in the judiciary and society in general as to their motives;
- taxation—reduction of the tax burden on business and in particular the removal discriminatory taxes and their arbitrary application;
- bureaucracy—the removal of bureaucratic obstacles and delays, and of political control and patronage from the civil service. Tackling corruption at all levels and greater transparency in the awarding of public tenders is also important;
- Enhanced corporate governance;
- financial market development, including increasing access to finance, the strengthening of the regulatory framework for the insurance sector and broadening of the equity market;
- continued efforts to reduce the informal economy (which still represents 40% of economic activity);
- increased training and vocational education; and
- increased research and development, innovation, technology adoption and access to information and communication technology.

Specific Trade Policy Issues

33. CBI welcomes progress made in Turkey to eliminate barriers to trade in many sectors and efforts to bring many of its trade related policies in line with Community laws. Notable improvements have been made in the banking sector, insurance sector, in reducing technical barriers to trade, and aligning legislation in the field of intellectual property. Implementation in areas such as intellectual property, and remaining technical barriers, specifically in relation to food and drink, are a concern. Policies, such as the quota system in place for Chinese clothing and footwear, and the subsidy regime in the steel sector, harm the business and investment climate in Turkey. Full details of these and other specific issues can be found in Annex A.

Trade defence

34. Turkey's trade defence policy—anti-dumping, anti-subsidy and safeguard measures—is operated independently of the EU and is often not as rational, business friendly or as compliant with WTO norms as the EU's trade defence policy. Current measures in place against Chinese textiles and footwear are far broader in scope than the EU measures, were implemented without warning, and unlike their EU equivalent will not be lifted in the near future. It is likely that none of these measures comply with WTO commitments.

Trade Barriers Regulation investigation

35. In 2003 the EU conducted an investigation under the Trade Barriers Regulation into the importation of pharmaceutical products into Turkey. The investigation found many aspects of the Turkish pharmaceutical market to be in contravention of EU norms and Customs Union or WTO obligations, specifically under the TRIPS and TRIMS agreement. Major concerns were expressed in relation to the failure to guarantee data exclusivity and in relation to reimbursement.

Free movement of capital

36. Turkey has failed to facilitate fully the free movement of capital. There are restrictions imposed on outward capital movements, credit and cash transactions, foreign direct investment in a number of sectors, and special government rights in privatised companies. With regard to payment systems and cross-border transfers there has been very little progress.

Technical barriers to trade

37. CBI strongly welcomes the reduction by over a half of the number of goods subject to mandatory standards and technical specifications a result of alignment with Regulation ((EEC) No 339/93). The Communiqué on standardisation in foreign trade, further reduced the number of items subject to mandatory standards or technical specifications upon import and broad alignment has been achieved by the Turkish Standards Institute has adopted more than 90% of EN standards. For example 35 mandatory standards in the area of construction products have been abolished. However as the above evidence displays there are still some remaining barriers, particularly in the field of food and drink.

Customs procedures

38. Turkish customs procedures are fairly well developed with nearly 100% of all transactions in the year from 2005 processed electronically. However officials often delay or hamper processes through an over-rigid approach. There is a need for improved training of customs officials and closer coordination with the Turkish Patent Institute, police and IPR courts.

Rights of establishment

39. CBI calls for further improvements to the right of establishment. Many sectors have legislation requiring operators to obtain a license and join a chamber, trade association or professional organisation. Some professions are closed to foreigners.

40. We regret that there have been no noticeable developments related to the freedom to provide cross-border services. Service providers are generally required to obtain a license or authorisation even for temporary provision of services.

Competition policy

41. CBI notes some limited progress in alignment with EU competition policy with regard anti-trust and mergers; however CBI is concerned that block sectoral exemptions mean that large sections of the Turkish Economy are not subject to these laws. We are especially concerned with sector exemptions in the insurance, telecommunications and postal services sector.

42. The rules surrounding state aids in Turkey still fall far short of EU norms. In the EU, state aids are only permitted in very particular circumstances and with full transparency in the process. In Turkey this transparency is lacking. The failure to establish an operationally independent state aid monitoring authority or adopt relevant state aid legislation places Turkey in contravention of their Customs Union obligations.

Public procurement

43. CBI regrets that there has been little progress on the reform of Turkish public procurement laws and practices. Sectoral legislation provides widespread exemptions from the public procurement legislation and framework, such as the exemption offered to the Turkish Petroleum company.

44. A lack of progress with regard to the award of public contracts reduces the ability of UK companies to bid for procurement contracts. Thresholds and financial limits remain too high and above EC levels; complicated and expensive tendering procedures present another bureaucratic obstacle to bidding for public contracts. Review procedures for complaints regarding government contracts also fall well short of the acquis.

Intellectual property

45. CBI recognises that there has been a degree of legislative alignment with the EU in the area of intellectual property law. However Turkey lacks thorough and consistent implementation of these laws, meaning intellectual property protection in the country is inadequate and in need of improvement. Turkey needs to make significant progress in this area to fulfil its commitments to both the EU and the WTO.

46. Weak administrative capacity, frequent and inconsistent changes of legislation, as well as conflicts over collective management of rights remained as problematic issues. Turkey also lacks consistent practices between collecting societies resulting from a weak regulatory framework and insufficient oversight.

The Role of the UK Government in Assisting Businesses

47. The CBI supports the UK and Turkish Governments' recently announced Strategic Partnership which recognises the importance of growing trade, energy sector co-operation, tourism, educational links and business co-operation in third country markets.

48. We support UKTI's plans to enhance UK company involvement in Turkey by providing the means for UK and Turkish business to engage more proactively and by raising general awareness of opportunities in the market.

49. The establishment of a high-level government-to-government forum to tackle barriers to trade and resolve trade disputes between UK companies and their Turkish counterparts would be helpful. This will carry out an analysis of the key barriers currently inhibiting trade, engage stakeholders and help to identify solutions. The CBI would encourage the forum to focus on major issues such as enforcement of intellectual property rights, reform of Turkish trade defence measures, elimination of state aids, and improvement of the rules and administration in various trade related areas.

Annex A

SPECIFIC TRADE POLICY ISSUES IN DETAIL

Spirits

50. CBI recognises that the market access issues in the spirits industry are numerous and supports the launch of an EU trade barrier regulation complaint against Turkey in this sector.

51. Turkey has in place both a "control certificate" and a "certificate of conformity for importation" for all UK/EU spirits, which are effectively import permits, the latter of which must be renewed annually. This is in contravention of the Customs Union Agreement 1995 which prohibits restrictions on imports or measures having equivalent effect, and such provisions would not be permitted within any EU member state.

52. CBI is concerned about labelling standards for imported spirits. Officials from the Ministry of Agriculture, MARA, have started to ask for a list of ingredients, to see labels and question the validity of certificates granted by EU Member States within the context of granting control certificates to spirits importers. Labelling requirements for spirits in Turkey go well beyond the acquis and introduce needless and illogical requirements for certain information to be included on labels. MARA checks have forced some producers to expensively produce at considerable cost separate labels specifically for the Turkish market.

53. There has been an on-going, and highly serious dispute between Diageo, Allied Domecq and Maxxium and the Turkish Customs over the companies' right to use differential pricing. Turkish customs have argued that duty paid on imported spirits should be paid on the duty free sales prices rather than domestic import values, and that current pricing arrangements must be rejected because importers and distributors are related. CBI feels that both arguments are in contravention of the relevant WTO code and that duties should be calculated on the import price in line with EU norms.

54. A special consumption tax was amended in 2003 introducing minimum tax-yields for certain spirit drinks. The minimum tax yields varied according to the spirit drink, the highest rates were levied on the main imported spirit, whisky, while the lowest rates were applied to the main domestic spirits, raki and vodka. CBI is concerned that this arrangement fails to adhere to EU and WTO norms.

55. There have been more recent signs that the Turkish government are seeking to simplify this excise code for spirit drinks through the application of a "specific" structure based solely upon alcohol content— as is the case in EU Member States. Such a reform would be welcome, however it is understood that proposals to reform this regime may still favour Raki over imported spirits such as Whisky which would still be in contravention of Turkey's WTO obligations.

Tea: technical barriers

56. There have been difficulties with health certification for tea in Turkey. Under pressure from domestic tea producers, the authorities were pressed into blocking tea imports, through a new Ministry directive. This directive prohibits all tea imports other than through the Black Sea Port of Rize.

Agriculture: trade barriers and subsidy regime

57. In agricultural markets technical barriers to trade exist in relation to beef meat and live bovine animals, the latter of which are prohibited imports. These barriers contravene bilateral agreements between the EU and Turkey. The necessity for health certificates on every shipment of imported agricultural produce, bureaucracy within the Agriculture Ministry, and a protectionist attitude on the part of several key officials are also barriers that the CBI wants to see eliminated.

58. CBI considers retrograde the steps for agricultural support as outlined in the "Agricultural Strategy Paper 2006–10". The reforms run contrary to agricultural reform being pursued at both the European and WTO level. The subsidies contained within the paper distort agricultural markets through linking support to production levels. The difference between the domestic price of wheat and the export price are also considered by some to constitute a prohibited export subsidy which could be in violation of Turkey's WTO commitments.

Retail, textiles and sports apparel: textile quotas, footwear duties, and other challenges

59. Retailers and sports goods manufacturers are experiencing massive disruption to their supply chains from safeguard measures imposing a quota system on Chinese textiles which is far broader and further reaching than the equivalent EU measures, as well as from damaging anti-dumping duties on footwear. These measures have caused several major retailers to significantly scale back their expansion plans in Turkey, and disrupted the efforts of global sports brands to operate in Turkey.

60. The textile quota system is having a major impact on UK retailers operating in Turkey and has led to some retailers' quotas on certain products for an entire year being exhausted in just two months. Under the Turkish restrictions, even products imported firstly into the EU then onto Turkey are subject to the safeguard measures. Several retailers, such as Debenhams and Harvey Nichols have halted, or significantly scaled back their expansion plans as a result of the measures. In the case of one retailer the measures halted the opening of three stores, and will delay or halt plans to open several more stores if continued.

61. The quota system in place for Chinese textiles is administered on a yearly basis by a grouping of local manufacturers, The Exporters Council (ITKIN). There is no dialogue, and there would appear to be no appetite for dialogue, between importers and manufacturers on trade policy, nor does there appear to be scope for importers to be considered in trade defence decisions. Politically there appears to be little appetite for reform of the current textile quota system and even less for reform of the system of footwear duties.

62. CBI believes that Turkish trade defence measures need to move into line with the norms of EU trade defence policy, and adopt the procedures and criteria that can be envisaged after the completion of the current review of the EU's trade defence instruments next year. A revised approach to trade defence needs to take greater account of globalisation and present greater certainty for importers and investors in Turkey.

63. There are also problems in retail with local political interference and manipulation of property prices on target sites.

64. CBI is highly concerned about the production of counterfeit sports goods in Turkey. The EU recently confirmed that Turkey was second to China in exporting counterfeit sports goods. Turkey also has a vast domestic market for counterfeit goods, particularly tourist-fed demand in the south of the country.

Pharmaceutical: intellectual property and reimbursement issues

65. In the area of regulatory data protection the EU study showed Turkey to be in violation of their obligations under the Customs Union Agreement and the WTO TRIPS agreement. Despite progress there is still a lack of enforcement of new regulatory data protection provisions. CBI also has concerns over the issue of pending generic applications, approval of which would be contrary to Turkey's Customs Union obligations.

66. CBI believes that Turkey should be required to agree that it will provide full six year data protection for all original products registered in the EU as of 1 January 2001 for which generic applications do meet the EU criteria. Turkey should also agree to provide such data protection for products for which there is no generic on the market but for which a generic application was filed prior to 31 December 2004. Vaccines and combination products should also be granted data protection in line with obligations under the CUA. Generic products should not be approved before original products.

67. Patent enforcement is in need of revision and improvement. A patent linkage system linking the regulatory authority to the intellectual property authority would ensure that patent infringing products would not be granted market authorisation. This measure is required to address weak enforcement.

68. Turkish policies for the pricing and reimbursement of pharmaceutical products still lack transparency and objectivity. The proper implementation of the pricing decree introduced this year, alongside planned changes to the reimbursement system, will be key to addressing these deficiencies. This process of reform presents an opportunity to overhaul the reimbursement system, cutting down the time it takes to receive a reimbursement decision.

69. The pharmaceutical product registration criteria should become more closely aligned to EU standards and be limited to safety, efficacy and quality, and exclude economic and price criteria.

Steel: state aids, and the need for restructuring

70. Continual subsidisation of the Turkish steel industry and a lack of transparency in the regime governing state aids give Turkish steel producers an unfair advantage over their European counterparts. In order to protect against this practise imports from Turkey should continue to be subject to EU anti-dumping rules until Turkey becomes a full EU member state, or until rules around dumping and subsidies are fully resolved within the context of agreements on the relations between Turkey and EU.

71. CBI is concerned that Turkey has yet to present the European Commission with a satisfactory National Restructuring Plan setting out subsidy elimination in the steel industry, despite committing to do so in five years from the signature of the Customs Union Agreement in 1995.

Aviation

72. Although the UK has enjoyed significant success in introducing new carriers into Turkey, including B Med (now BMI), EasyJet, GB Air, Thomsons and others, there are still obstacles to free operation in this sector. The Turkish authorities are reluctant to adhere to the Air Services Agreement and increase competition in the market. This inertia may be driven by a strong lobby of 16 domestic carriers.

Financial services

73. CBI recognises that the banking sector has progressed significantly. A new Banking Law entered into force in 2006 introducing risk-based supervision, ending the sworn-bank auditors' monopoly in on-site supervision, and establishing a new financial sector commission to improve cooperation among financial sector supervisory authorities. A stronger supervisory role for the Banking Regulatory and Supervisory Authority (BSRA) has reduced the likelihood of another banking crisis in Turkey.

74. CBI welcomed the new statute for the Turkish Banking Association in 2006 ending discrimination against foreign owned banks. CBI also welcomes the new mortgage law which allows mortgage backed securities to be sold on capital markets, as well as a communiqué issued by the Capital Markets Board removing the requirement that the majority of the board of directors at a real estate investment company have to be Turkish.

75. There has been a surge of foreign interest in the Turkish banking sector leading to a number of mergers including BNP Paribaz-Turk Ekonomi Bank, Garanti Bank- General Electric Consumer Finance, Akbank-Citibank, ING-Oyakbank, Dexia-Deizbank and the acquisition of Disbank by Fortis. The share of foreign ownership in the sector is estimated around 35%–40% compared to 5% two years ago.

76. CBI welcomes government plans to sell three state-owned banks, Ziraat Bank, Halkbank and Vakifbank, and notes the substantial foreign demand in the recent public offer of 25% of Halkbank's shares.

77. The new solvency regime adopted for insurance, re-insurance, and occupational pension companies closely resembles both the old EU Solvency 1 regime and its replacement the Solvency 2 regime. The introduction of a new Insurance Code was also to be welcome. The industry recognises the improvement in the sector a fact indicated by the significant foreign investment in the Turkish insurance sector—Aviva are the third largest insurance group in Turkey. However there is still scope for regulatory improvement in the insurance sector, especially surrounding the freedom to set tariffs in the compulsory insurance sector.

78. In relation to accounting and auditing CBI welcomes efforts to introduce International Accounting Standards, International Financial Reporting Standards, and the International Standards of Audit. However many of the changes in standards are not legally binding nor generally applied by Turkish companies, meaning that progress in some of these areas notably in audit are disappointing.

Publishing

79. CBI is troubled by about a Ministry of Education directive preventing the use of foreign produced publications in Turkish schools but encouraging the use of photocopied foreign books as a cost-saving exercise, contravening EU copyright law.

Postal services

80. We are not encouraged by the lack of reform in the area of postal services, where there is a legal monopoly. Turkey lacks an independent regulator in the postal sector and a lack of transparency in the accounting system prevents tracing potential distortions resulting from abuse of a dominant market position, or from cross subsidisation.

Telecoms

81. A recent tender to introduce 3G systems into the market has been annulled by the Tender Board due to lack of bidders, a situation itself brought about by the fact that the tender process strongly favoured the incumbent state owned mobile operator Turkcell. Telecommunications are also subject to a prohibitive tax regime that heavily distorts the free market in services and supply.

Property acquisition

82. CBI regrets that the acquisition of real estate by foreigners remains subject to a number of restrictions, and in this area recently adopted legislation in the form of the Land Registry Law was a backward step. Foreign ownership of real-estate is also hampered by sectoral laws such as the Petroleum Law, the Law for the Support of Tourism, and the Law on Industrial Zones. Furthermore the Turkish Council of Ministers can block the sale of a specific piece of land.

Further considerations on IPR

83. CBI regrets that a recent regulation on Record and Registration of Intellectual and Artistic Works means that certain works must now be registered in order to be protected, which is in contravention of the Rome Convention.

84. Provincial anti-piracy commissions, and the third IPR civil court are failing to properly enforce intellectual property rights, and the infrastructure of these courts is insufficient. We feel that a failure to address piracy and counterfeiting within the context of the fight against organised crime reduces the effectiveness of efforts to counter these problems.

3 December 2007

Supplementary memorandum submitted by CBI

Trade Law

The Turkish government is currently revising the 51-year old trade law to make it more investor friendly. The new bill will scrap double taxation for foreign investors, increase transparency and fair competition, and include stricter adherence to European Union (EU) regulations on auditing. Other measures include easier company start ups and a clear definition of and legal status for holdings.

The reform of the trade law, and first and foremost the adaptation of the 80-year old Code of Obligations, is certainly good news for investors. Turkey is known for its obstructive bureaucracy and corruption (irregular payments frequently feature in public tenders).

With the bulk of investment coming from EU countries, the revision of Turkish investment regulations to make them more EU-friendly is welcome.

However, as with a raft of bills passed previously, tangible results are yet to be seen. Furthermore, given the ongoing tensions between the current government and the secular state organisations, the bill may be a means to ensure the investors' continued support for the ruling justice and Development (AK) party.

Turkish Constitutional Court Curtailment of Foreign Companies' Property Rights

In early March, the Turkish Constitutional Court ruled in favour of the nationalist Republican People's Party that the law allowing property sales to foreigners and foreigner companies be rescinded. The decision is to come into force in six months' time.

Previously, the government had secured a new law that allowed foreign investors and joint ventures that included foreign partners to purchase property, as part of its drive to attract increased foreign direct investment in the hopes of facilitating economic growth and to offset the huge current-account deficit.

With the government's attempts to open up the real-estate sector to foreign interests, property values have soared.

The Constitutional Court has resisted these changes, the latest ruling coming a year after similar ruling against the government's proposal to increase the size limit of land owned by any individual foreigner.

However, a six-month window allows the government to draft new legislation that might allow real estate sales to foreigners. The ruling will undoubtedly undermine the government's attempts to attract foreign direct investment. Until the matter is settled, foreign investors may be wary of committing to substantial expansion in Turkey. Even after new legislation is passed, it may still be difficult to attract investors, who must consider whether the court might in future overturn any subsequent laws on foreign property.

Memorandum submitted by Debenhams

With relation to your e-mail, the biggest barrier across its business in Turkey is the Chinese Quota system that the Turkish Government imposed without warning just over a year ago. As a result we have failed to open any further Debenhams stores other than our first store Cevahir. This is because we do not have enough Quota to supply these stores.

Debenhams sources approximately 45% of its mix from China.

In the year 1 September 2006 to 31 August 2007 we exported £3 million to Turkey.

Due to the Quota system we were unable to export a further £1.2 million.

On the original Business Plan we were due to have our second store opening in March 2008. This is now not possible and as a result there will be a yearly export loss of £4.8 million.

I also attach copies of letters which I sent to the Ambassador of Turkey and the Minister of State for Trade in the UK which identifies this issue from which we have had very little progress.

I also give below a couple of points that have been suggested by our Imports Division:

The duty rates are not the concern, it is the impact of the unilateral imposition by Turkey on Chinese origin product. We thought that the bilateral agreement between EU-Turkey was that goods imported and duty paid in the EU would be treated as goods in free circulation, meaning no further restriction or duty imposition. In importing goods into EU we have already confirmed to EU quota restrictions (on the limited categories in force) and yet still have further restrictions placed by Turkey. These restrictions have forcibly stopped our store opening opportunities/programme in Turkey.

The EU will be removing all quota restrictions on Chinese origin product next year. What are Turkey going to do?

We now have sourcing/buying office in Turkey and have increased the volume of Turkish origin product we now source. the purpose of quotas are to restrict imports and promote local production. If Turkey continue to insist on quota's can we not agree on these being set for Importers/Exporters such as ourselves on an exchange basis eg one China garment allowed in for every Turkish garment we buy?

31 January 2008

Memorandum submitted by the Directorate-General for Trade, European Commission

I refer to your letter to Mr Garcia Bercero dated 14 November 2007, in which you ask for evidence on a number of issues, including on trade and investment relationship with Turkey, and how this relationship might be expected to change should Turkey accede to the EU.

You are aware that a customs union between the EU and Turkey is already in place, enabling the full and free trade in industrial goods. Apart from agriculture products and punctual trade defence measures, the trade in goods is totally free and all tariff duties have been eliminated.

Upon accession to the EU, and subject to possible temporary transitory measures, the EU and Turkey would further enjoy *inter alia* all rights relating to free movement of people, services and capital movements.

However, I would like to underline that there will not be a sort of big bang upon accession of Turkey. Indeed, the EU-Turkey trade relationship is already very important (Turkey is our seventh most important world trade partner) and there are already important flows in investments and trade in services, and both trade and investments will increase progressively over the next years up to the accession. The programme alignment to the acquis communautaire which Turkey has started to undertake with framework of the accession process will bring Turkey and the EU gradually closer. Should you require any further information, please do not hesitate to contact me.

January 2008

Memorandum submitted by European Nickel PLC

1. Summary

European Nickel has developed new technology which, by contrast with conventional smelting, makes possible the extraction of nickel in a manner which is both environmentally friendly and relatively low cost.

This technology is effective with nickel found in rock formations known as laterites, which occur in, amongst other places, South Eastern Europe, including Turkey. European Nickel has successfully demonstrated the technology, known as heap leaching, in a large scale feasibility study at its mine at Çaldağ, near Izmir.

Once fully operational, European Nickel will have invested $300 million at Çaldağ, making it the largest physical British investment in Turkey (ie excluding a takeover, such as HSBC, or a privatisation acquisition, like Vodafone). Çaldağ will make Turkey the biggest nickel producer in Europe.

However, the licence needed to proceed with full scale construction and operation of the plant, applied for 18 months ago, has still not been issued by the Turkish government. Faced with continuing losses as a result, European Nickel is likely to have to abandon this innovative and valuable British investment unless the licence is issued in the first quarter of 2008.

2. Company Background, Technology and History

In 1999, a group of investors decided to investigate whether the technology used to extract copper from rock formations known as laterites could also be used to extract nickel. This technology, known as heap-leaching, has important advantages. By comparison with smelting, the usual method of extracting nickel, heap-leaching is low-cost. It can therefore be used on mineral deposits which may not be economically viable for smelting. It is also, unlike smelting, benign in terms of pollution and carbon emission (see Section 3 below).

Having established the practical credibility of this nickel extraction process through laboratory testing, the investors identified a number of locations in South East Europe which exhibit the necessary geological features. In June 2000 they formed European Nickel which initially focused on deposits in Albania. However, difficulties with the commodity market and financing, and a lack of progress with the Albanian government, resulted in the Company looking elsewhere in the region for suitable deposits.

In 2002, the Company acquired an option over the Çaldağ deposit, located some 80 kilometres north east of Izmir, near the town of Turgutlu in western Turkey. A $2.5 million bank loan was used to commence the geological drilling programme and prepare the site for the metallurgical trial. In March 2004 the Company raised £15 million through a placing and was admitted to the Alternative Investment Market of the London Stock Exchange.

With these resources, the Company was able to embark later in 2004 on a full scale bankable feasibility study. This was successful. For the first time anywhere in the world, the Çaldağ project has demonstrated the practicability of the percolation and extraction of nickel through the irrigation of heaps of nickel bearing ore with dilute sulphuric acid. The large scale pilot plant has now operated continuously over a three year period.

Completion of the feasibility study led to an equity placing in May 2006. This raised £85 million intended to cover the Company's equity portion of the next stage of the project, namely construction of the full scale plant based on the successfully trialled technology.

3. The Çaldağ Project: Cost Efficiency, Revenue and Employment Aspects

Sulphuric acid heap leaching is common in the copper industry. The geological formation that produced the Çaldağ nickel deposit lends itself to heap leaching because of the low clay content of the ore. The nickel is soluble in dilute sulphuric acid. The lack of clays in the laterite profile assists the percolation of the solutions through the heaps. At Çaldağ the leach cycle lasts about 20 months.

This low cost technology has important advantages over conventional smelting and high pressure tank leaching methods. The Çaldağ deposit contains 33 million tonnes of ore with an average nickel grade of 1.13%. Because of the higher cost of conventional smelting technology, only 10 million tonnes would be of sufficiently high grade to make Çaldağ economically viable by these methods; and since the high grade ore is at the bottom of the deposit, Çaldağ would not an economically viable project using conventional technology.

The full scale project involves the direct investment of US$300 million. It will be the largest physical investment in Turkey by a British company in Turkey (ie excluding a takeover, such as undertaken by HSBC, or the result of privatisation, as in the case of Vodafone's operations there). It will also be the largest investment in Turkey by an international mining company.

Over the 15 year life of the project, it will earn more than $2.2 billion for the Turkish Treasury and make Turkey the largest nickel producer in Europe, ahead of Greece. The company currently employs 135 personnel at Çaldağ. Once the full scale plant is operational, more than 500 long term, well paid jobs will be created for the local labour force.

4. Safety and the Environment

Sulphuric acid is the most widely used chemical in the world. European Nickel's technology is based on a very dilute sulphuric acid solution (approximately 5% by weight) of the solution is H_2SO_4—about half the strength of the solution in a car battery). Once dissolved in water, sulphuric acid cannot vaporise, so that there is no possibility of the emission of harmful gases from the process.

Moreover, the acid is completely consumed in the percolation process. The water in which it is diluted therefore contains no acid at the end of the process cycle. All precipitated waste products are stable metal sulphate compounds, such as gypsum which is used to make wall boards for house construction. The waste will be stored in compliance with both EU and Turkish safety standards. Overall, the Çaldağ operation has been designed to run as an entirely enclosed circuit. There will be zero discharge to the environment.

Environmental monitoring was started in 2003 and European Nickel commenced a full environmental base line study in 2004. Besides a 20-year operating licence granted by the Turkish Directorate of Mining Affairs, European Nickel holds an environmental permit for the project issued by the Turkish Government in 2006. Çaldağ is subject to regular monitoring by government agencies. European Nickel has conducted a social and environmental impact assessment in compliance with both Turkish Ministry of the Environment and World Bank standards.

In order to make room for the full scale operation which is to be constructed now that all trials have been successfully completed, it will be necessary to fell 140,000 trees. However, European Nickel has offered to plant 140,000 saplings every year of the 15-year life cycle of the plant. In total, therefore, more than 2 million trees will be planted. Indeed, the company has already provided more than 50,000 trees for local public projects.

The planned heap leaching operations will release some CO_2 through the use of limestone as a neutralising agent for the acid in solution. However, this will be offset by the gradual growth in carbon capture by the new trees planted.

Furthermore, because of the requirement for large quantities of sulphuric acid for the heap leaching, European Nickel will build a plant to produce this on site. The production of acid will also generate power through a process which is carbon emission-free. This further contributes to a small carbon footprint at Çaldağ compared to the conventional smelting process which consumes significant amounts of power normally generated from carbon emitting sources. It is predicted that the Çaldağ project will be carbon-neutral by the time operations there have been ended.

Finally, the total amount of power generated, some 30MW, will exceed Çaldağ's requirements by about half. European Nickel will, therefore, be able to return to the Turkish grid more electricity, generated through European Nickel's carbon emission-free process, than it consumes.

5. The Present Position

The issue of an environmental permit for the project by the Turkish Ministry of the Environment in 2006 implied that the Turkish authorities approved the project in principle. However, the permit required to fell the trees necessary for the construction of the full scale operation, for which application was made in June that year, has still not been issued more than eighteen months later. This delay costs the company $1 million every month. The total loss thus exceeds more than more than $12 million to date. There have been other knock-on effects, affecting, for example, the company's capacity to retain skilled engineering teams when there is no work for them to undertake.

The Company fully recognises the environmental and political implications of a project which will require the felling of a large number of trees. However, as noted above, the project's technology meets high environmental standards. European Nickel has undertaken to plant many more saplings than will be felled over the course of the Çaldağ project. It has complied fully with all the Turkish government's legal requirements. It has pursued a very active programme of transparent consultation with local organisations and communities who have been informed in detail about all aspects of the project, which is widely supported regionally and locally as a result.

The Company has been in intensive contact with the Turkish authorities, including Prime Minister Erdogan and the Ministers of the Environment in both the present and previous Turkish administrations, in its attempts to secure the permit. It has made a number of offers aimed at meeting their concerns, most recently by reducing the number of trees which must be felled by moving certain parts of the operation to a second site outside the forest area. So far, however, this has not resulted in the issue of the permit.

Without a clear prospect of the permit being issued, European Nickel will, in the face of continuing unacceptable losses, almost certainly have to stop further investment at Çaldağ in the second quarter of 2008. This would be regrettable. It would represent the failure of a major, technologically innovative, British investment in Turkey. It would entail the loss of an important revenue opportunity for Turkey. Finally, it would put in doubt the credibility of the Turkish government's professions of support for foreign direct investment among the international mining companies, banks and investors who are closely monitoring the project.

28 January 2008

Supplementary evidence submitted by European Nickel

As you know, European Nickel submitted a memorandum in connection with the Committee's enquiry in to Turkish Accession to the EU at the end of January. I hope the Committee has found this useful.

The purpose of this email is to update the Committee on developments since then. In brief, the situation is unchanged. European Nickel are in intensive negotiations with the Turkish authorities in connection with th eissue of the much-delayed Forestry Permit. However, a further six weeks have elapsed since Memorandum was submitted. European Nickel's losses continue to mount at some $1 million per month.

I do not need to rehearse the implications of this for a relatively small company which developed this technologically innovative and exciting project in Turkey because it took at face value the Turkish government's professed commitment to facilitating foreign investment there.

If Committee members feel able to raise European Nickel in discussions with their Turkish interlocutors during next week's visit, they may like to mention the loss to the Turkish Exchequer resulting from the continuing delay in the issue of the permit. If the Forestry Permit had been issued two years ago, the following income would have been generated for the Turkish government:

— withholding tax—$1 million;

— stamp duty—$1 million;

— forestry fees—$3 million;

— social security payments and employee income tax—$9 million; and

— corporation tax—$16 million (This figure is based on a nickel price of $25,000 per ton. It is currently about $31,000 per ton).

— Total—$30 million.

Memorandum submitted by Gin & Vodka Association

1. The Gin and Vodka Association is a trade association that represents the interests of the British gin and vodka producers, brand owners and importers. Our main objective is to protect and promote the gin and vodka industry.

2. Our members range from the biggest spirit drinks producers in the world to small start-up companies. Their products, valued at £226 million in 2006, are exported around the globe. Equally, some of the larger members produce well-known British brands of gin and vodka in 23 countries around the world, supplying local markets directly from these production sites.

3. International trade is a vital to the health of the British spirits drinks industry. Over a number of years, our members and we have actively supported a number of campaigns aimed at removing barriers that imposed discriminatory taxes and virtually insurmountable technical hurdles.

4. The Turkish spirits drinks market has, since 1995, been one of unfulfilled promise. The background and current difficulties are described at Enclosure and Reference. In addition, we have the added problem of a de facto import ban on Ready-to-Drink (RTD) products. These beverages are usually spirit based and the sector also includes pre-mixes such as gin and tonic, rum and coke, and other well-known mixtures. Our member companies have found it impossible to gain a Turkish import licence for these products and in addition, the Turkish authorities have effectively prohibited their sale in the on-trade (hotels, pubs and bars), albeit that there is no official measure to support their actions.

5. Turkey is potentially a very important market for our members. However, Turkish market access barriers and bureaucratic impediments make it a most difficult and frustrating country in which to try and do business. We are in full agreement and fully support the comments stated by the Scotch Whisky Association. We seek fair market access and an equitable trading relationship with Turkey and would welcome the removal of Turkish trade barriers.

6. We stand ready to provide any further written evidence should the Select Committee require it.

ENCLOSURE TO GVA SUBMISSION
DATED 31 OCTOBER 2007

TURKEY

Market Size and Potential

Spirits make up 10% of the 92M case alcohol beverage market, the rest being beer and wine. The 9.7 million case spirits market comprises Raki (77%); Tekel vodka (9%); Tekel gin (8%); Imported whisk(e)y 8%; and imported white spirits 2%. Much of the gin and vodka is locally produced. Vodka sales have grown significantly in the two years. With a significant domestic spirits market and favourable social/demographic climate, Turkey is potentially a massive export market. The EU Member states decided in 2004 to open negotiations for accession of Turkey to the EU. The market for white spirits was deregulated in June 2003.

Background

For many years, EU spirits producers have sought to resolve trade disputes concerning market access and excise tax discrimination against imported spirits, both of which not only contravene Turkey's commitments under the Customs Union Agreement but possibly also its WTO obligations. Regrettably, however, with no obvious willingness on Turkey's behalf to address the longstanding problems, CEPS has indicated its intention to prepare a complaint under the EU Trade Barriers Regulation (TBR).

Labelling and Definitions

Turkey published new spirit standards in March 2005 which harmonized these with comparable EU standards. However, EU spirit drinks are still required to show labelling information that does not apply in the EU and which provides no benefits for Turkish consumers.{Due to their different definitions and analytical parameters for some spirit drinks, these are effectively excluded from the market.

Import Permits

Turkey agreed in the 1995 EU-Turkey Customs Union Agreement (CUA) to remove non-tariff barriers and liberalise its markets in the spirits sector. Unfortunately this has not happened. Despite the adoption of the Implementation Decree last year for the Alcohol Act prepared by the new Turkish "Tobacco and Alcohol Board" (TAB), trade in EU spirit drinks has been seriously disrupted by delays of two to three months in the issue of the two different permits required by the TAB and Agriculture Ministry (MARA). RTD's are not officially banned but their access to Turkey is difficult and their sale is now prohibited in the On-trade by the TAB.

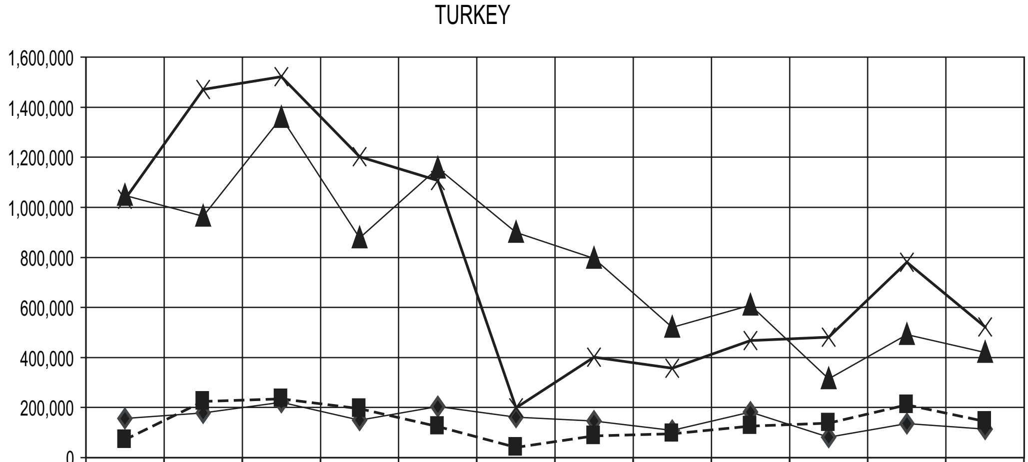
Excise Rates

The rate on spirits is 275.6% ad valorem, subject to minimum rates as follows: Raki (100% domestically produced)—YTL 35.84 per lpa; Vodka (97% domestically produced)—(below 45.2%abv)—YTL41.42 per lpa; Gin—YTL 41.42 per lpa; Whisky, Rum (principally imported)—TL 70.93 per lpa. The understanding is that the current two-tier structure will be removed and a system based fully on alcoholic strength introduced. It is expected that a reduced rate of excise tax will continue to apply on raki. Should this happen, this would remove the current discrimination between whisky and a number of other spirits, but retain a differential in favour of the raki, by far the largest category in the market, and thus continue to breach Turkey's WTO obligations. Turkey defends its position on raki by reference to Ouzo as the latter is exceptionally treated in Greece for taxation.

Priority and Way Ahead

High priority. The Scotch Whisky Association leads on these issues for CEPS.

UK EXPORTS TO TURKEY 28 APRIL 2007



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
GIN LPA	156,439	178,155	221,821	149,543	204,616	160,934	145,736	108,626	181,355	81,852	135,580	113,572
VODKA LPA	70,896	225,082	234,107	195,344	123,596	40,675	87,383	95,581	125,073	137,710	211,239	144,407
GIN Val	1,046,945	963,858	1,357,986	877,838	1,156,609	899,365	796,584	521,088	608,421	314,445	491,982	420,114
VODKA Val	1,032,459	1,471,325	1,521,091	1,202,258	1,107,687	199,765	401,785	357,287	467,600	480,938	780,196	521,662

31 October 2007

Memorandum submitted by GlaxoSmithKline

UK TRADE AND INVESTMENT RELATIONS WITH TURKEY

Introduction

1. GSK welcomes the Business and Enterprise Committee's Inquiry into the contribution of UK trade and investment relations with Turkey and possible economic consequences of Turkish membership of the European Union. We welcome also the opportunity to provide input on this topic, particularly in light of our longstanding and strong presence in Turkey, where we are one of the leading pharmaceutical companies.

GlaxoSmithKline and its Presence in Turkey

2. GSK is one of the world's leading research-based pharmaceutical and healthcare companies. The company's mission is to improve the quality of human life by enabling people to do more, feel better and live longer. We are involved in the research, development, manufacture and commercialisation of prescription pharmaceuticals, vaccines, over-the-counter medicines, and health-related consumer products.

3. GSK has been operating in Turkey for almost 50 years. The cmpany employs at present over 700 people, and focuses on two business areas: Pharmaceuticals (including non-prescription products and vaccines) and Consumer Healthcare (oral healthcare).

4. With a total annual turnover of £146.6 million in 2006, GSK is ranked 7th by sales value and is the leading pharmaceutical company in several therapeutic areas such as anti-asthmatics, oral anti-diabetics, HIV products and antivirals (excluding HIV products and topical antivirals). GSK is also the second biggest pharmaceutical company in the Turkish vaccines market with a 30% market share in value.

Business Environment

5. Its privileged geographical situation, its large population, and its economic growth makes Turkey a key market offering significant opportunities to UK business. GSK strongly supports the EU accession process which will harmonise and integrate Turkish law with European and international standards, thereby providing Turkey a significant opportunity for economic development.

6. GSK has noticed significant and positive reforms in Turkey since 2005, probably linked to the opening of EU Accession negogiations in October of that year. This has led to a progressive opening of the Turkish market to foreign companies while initiating legal, social, economic and administrative reforms to align with international and in particular European standards.

7. These reforms are encouraging for UK business operaring in Turkey and we urge Turksih authorities to continue to work in this direction. Further progress on transparency, predictability and enforcement would significantly improve the current business environment and make of Turkey an even more attractive market in terms of trade and investment.

8. Continues strong support by the British Government for the accession and reform process would be welcome, as will ensure that British companies can be successful in this important market.

Key Issues

9. While GSK has managed to stay at the top of the international pharmaceutical companies operating in Turkey, it has sometimes been confronted with a difficult business environment. A lack of transparency and predictability due to continuous and unexpected legal reforms and deficiencies in the intellectual property system have been some of the key constraints faced.

Pricing

10. In order to fully comply with the Acquis, Turkey should adopt criteria for making pricing and reimbursement decisions that are objective and verifiale.

11. In June 2007, a new Pricing Decree was adopted, followed by the adoption of implementation guidelines in September 2007. Transparency of the decision-making process has been improved through this Decree. However, there are still significant concerns. Turkey operates a reference pricing system, where the price is referenced to the cheapest price in a basket of five countries. This is unique in Europe, and adds uncertainty to the business environment. We would therefore strongly suggest that Turkey adopt a system based on the average price, in line with those European and most international markets that have such a system. Furthermore, the fact that the implementation guidelines can be reviewed on an annual basis allows Turkey, among other amendments, to change the basket of countries and increase it to up to 10 European markets, raising concerns in terms of predictability but also feasibility.

Reimbursement

12. One of the developments of the new 2007 Pricing Decree is the introduction of a new Reimbursement committee as part of a wider reform of the reimbursement system, which follows the merger of the three Social Security Institutions into one institution covering 90% of the population. The working Procedures and Principles of the new Reimbursement Commission were issued on 13 November 2007 and the Committee members were announced on 29 November 2007.

13. This should in principle bring improvements in terms of transparency of the decision-making process: ie, clear timelines; justified decisions and possibility yo appeal. However, transparency and timing of reimbursement devisions is an ongoing issue and should be improved as a matter of urgency. Furthermore, significant uncertainties remain relating to the criteria that will be used and the implementation timelines of the new reimbursement systems, which might not be fully in place for the next two years. Industry and GSK have engaged in a constructive dialogue with Turkish authorities to develop this new system and we hope business will continue to be closely associated with this process.

Intellectial Property Rights

14. Although improvements have been made in recent years, several aspects of Turkey's intellectual property regime should be improved in order to ensure full compliance with Turkey's EU and WTO commitments.

15. The innovative pharmaceutical industry must generate extensive data to establish the safety and efficacy of medicinal products as a condition of their approval and registration by regulatory agencies. Since 2001, Turkey has been obliged to protect this sata against disclosure and unfair commercial use (known as Regulatory Data Protection) under both TRIPs Article 39.3 and the EU-Turkey Customs Union (CU) Agreement.

16. Legislation on Regulatory Data Protection (RDP) was passed in 2005 further to strong interventions from the EU and Member States. The support of the UK was particularly helpful in this process. However, there are still significant concerns regarding the implementation and enforcement of these provisions:

- Turkish authorities refuse to grant RDP to combination products and vaccines, which is an obligation under the EU-Turkey Customs Union Agreement and should therefore be respected.
- Turkish authorities have allowed generic applications to be submitted before the approval of the original products, while a large number of generic dossiers seem to have been submitted just a few days before the news RDP provisions were approved, raising concerns about their completeness. No generic dossier should be approved unless due process and due form have been fully respected.

— The current period of RDP is of six years linked to the first registration in the EU. Given the current registration delay in Turkey, this significantly shortens the period of protection. Furthermore, the need for a Free Sale Certificate from the country of origin makes it impossible to make a parallel submission therefore delaying access to new medicines compared to EU countries. The date of reference should be the date of registration in Turkey. Furthermore, the current RDP period should progressively align with the period established with the EU Acquis, ie, 10 years with an additional year for new indications, and no linkage should be established between the RDP and Patent protection periods since these are two independent rights.

17. The issue is currently being discussed between European and Turkish authorities in the context of an ongoing European Commission investiaging under the EU Trade Barrier Regulation. The support of the UK and other EU Member States will be key to ensure a successful outcome.

18. Furthermore, as mentioned above, IP enforcement is also a significant industry concern, with counterfeiting arising as an important issue during the last year. Industry is working in close cooperation with the Turkish Government to find a solution which is implementable and effective to fight against this problem. Traceability systems are a good option but it is important to allow enough time for the implementation of any new system, particularly when there is not sufficient experience in Turkey and outside Turkey. The full enforcement of a new traceability system before 2010 does not seem feasible.

Regulatory

19. Product registration criteria should be limited to safety, efficacy, and quality, while economic and price criteria should be removed from the product registration procedure as is current practice in the most EU Member States.

20. Furthermore, while some steps have already been taken to align current regulatory provisions with the EU Acquis, more should be done to complete this process in a timely and effective manner. At present, due to lack of staff and infrastructure, evaluations cannot be finalised within the 210 days set in the Turkish regulation.

21. There have been indications that Turkey might be considering setting up a new and independent regulatory agency. This could provide a significant opportunity to improve efficiency and transparency, and we would find it extremely valuable if the EMEA and also national agencies like the MHRA could assist Turkey in this important process.

Vaccines

22. As part of the ongoining reforms on the healthcare area, Turkey should also consider increasing its budget for prevention. At present, Turkey spends around US$130 (European levels are $400–600) per capita for pharmaceuticals to treat diseased and less than US$2 for prevention of diseases, Figures for vaccination per capita in Turkey is four time less than vaccination per capita in France and nine times less than in Germany.

23. It is obvious and proven by the many scientific health economic studies that prevention of diseases is far superior to a treatment approach in economic terms. Some increase in spending would clear the way for more preventable diseases to be dealt with through the national vaccination programme, with clear positive implications from both a social and economic point of view. It would be helpful if the UK could share its experience with Turkey of why greater investment in preventive healthcare is a cost-efficient formula.

Future Expectations

24. While the frequent legislative changes and the lack of enforcement have been two significant barriers for business operating in Turkey during the last years, authorities seem committeed to improvement, particularly as part of the EU Acquis implementation process.

25. With a unique strategic geographical situation and a growing market, Turkey is one of the most attractive economies for European countries. Enlargement provides a unique opportunity to create a level playing field for all companies regardless of their origin, brining the Turkish healthcare and pharmaceutical system and in line with European standards, with significant positive implications not only for business but for Turkish patients.

26. Key stakeholders including business should be closely involved in this process. GSK welcomes the increasing and constructive cooperation with local authorities and jopes this will continue in the coming years. However, an ambitious agenda needs to be accompanied by sufficient mechanisms to ensure its adequate enforcement. There are concerns about the sometimes perceived disconnection between the political will and technical means.

27. In order to succeed on the planned reforms, we believe it is imprtant for Turkey to evaluate options, take advice from other countries' experiences and consult fully with all stakeholders including industry, and then adopt a sound approach based on cost-benefit analysis. Furthermore, it is key that Turkey builds

enough capacity before implementing reforms like the new reimbursement or traceability systems, with a long enough lead time to make implementation realistic. Both the UK and the EU could have a very helpful role in supporting this process.

28. GSK would like to thank BERR and UKTI for all the support provided over the last few years to improve the business environment in this very important high growth market. We urge UK authorities to continue to play a leading role in assisting Turkey throughout this important but also challenging Accession Process that GSK fully supports.

January 2008

Memorandum submitted by the Scotch Whisky Association

1. INTRODUCTION

1.1 The Scotch Whisky Association (SWA) is the trade organisation which represents the interests of the Scotch Whisky industry. Its main objective is to promote and protect the Scotch Whisky industry.

1.2 Scotch Whisky is important to the economy of Scotland and the UK. Exports of Scotch Whisky were £2.5 billion in 2006 and have been over £2 billion each year since 1993. As a result, Scotch Whisky is one of the UK's top five manufactured exports and represents 25% of all UK food and drink exports. The industry supports over 65,000 jobs and spends £1 billion each year with UK suppliers of goods and services.

1.3 Continuing success in international markets is vital to the health of the Scotch Whisky industry. The SWA is a proactive campaigner against trade barriers and seeks to ensure fair and non-discriminatory market access for competing alcoholic drinks.

1.4 Turkey is a market offering considerable potential for Scotch Whisky exports. However, Scotch Whisky is unable to take advantage of the opportunities because market access is unfairly restricted by onerous import permit arrangements and discriminatory taxation, both of which are contrary to WTO rules.
1.5 The 1995 EU-Turkey Customs Union Agreement (CUA) was designed to liberalise trade flows between the EU and Turkey. Many of the EU laws Turkey undertook to implement under the CUA would remove technical trade barriers and anticipate much of the EU's acquis communautaire. Over a decade later, there continue to be difficulties and delays in implementation.

1.6 The SWA welcomes the Committee's inquiry into the economic consequences of Turkey's EU accession and the opportunity to provide input on our experience in the market.

2. THE TURKISH SPIRITS MARKET

2.1 The Turkish spirits market was estimated to be 7.3 million cases in 2006. It is dominated by the national spirit, raki, which alone had a market share of around 75%. Raki consumption has been falling since a peak in the late 1990s: sales in 1998 were around 8.2 million cases but in 2006 this was 5.3 million cases. Imported spirits (all categories) accounted for 780,000 cases in 2006, much the same level as over the five previous years.

2.2 In 2006 Scotch Whisky exports to Turkey were £15.7 million, a 19% fall from 2005. Before the EU-Turkey Customs Union Agreement began in 1996, exports of Scotch Whisky were £33.6 million. They have never since recovered that level, and in 2001 had fallen to £12.6 million. Given the growing Turkish economy, and the increased market for premium imported products, SWA members believe that fair market access to Turkey could lead to that market developing into a key export destination for their products.

2.3 The Turkish market was dominated by an alcohol monopoly, Tekel, for over 60 years. Tekel was the sole producer of raki but also other spirit drinks, including vodka, gin, brandy, liqueurs and whisky. For many years Tekel was also the sole importer and distributor of imported spirits. The alcohol arm of Tekel was privatised in 2004 and the market partly liberalised, allowing other domestic raki producers to emerge.

3. MARKET ACCESS FOR SCOTCH WHISKY

3.1 Although the CUA prohibits restrictions on imports or measures having equivalent effect, shortly after the agreement took force, Turkey introduced a "control certificate" (CC), effectively an annual import permit, for Scotch Whisky and all other UK/EU spirits. No such permits would be permitted as an EU Member State.

3.2 To obtain a CC, companies were required to produce numerous documents which, for many years after 1996, all required to be notarised, authenticated by the Turkish Consulate and translated. The CC took at least a month to issue and often more. The volumes quoted on the certificate could not be exceeded and separate permits were needed for each bottle size of each brand. No CC was required for domestic spirits.

3.3 There were particular difficulties for Scotch Whisky because the CC application required an age certificate to be supplied. However, as this can only be issued to accompany consignments that are exported, the certificate could not support any CC application. The impasse was finally resolved in 1998 through the creation of a Turkey-specific certificate regarding the age of Scotch Whisky and its compliance with UK legislation.

3.4 More recently, when preparations for market liberalisation were being made in 2003, a new government agency, the Tobacco and Alcohol Board (TAB), was created. One of the TAB's first acts was to introduce a requirement for all imported spirits to obtain a second permit, the certificate of conformity for importation (CCI).

3.5 The CCI brings a requirement for importers again to produce certificates, many of which replicate those used to obtain the control certificate. When it was first introduced, the CCI took around two months to be delivered. As a further import permit, this requirement is not CUA-compatible and nor could any EU Member State introduce such a requirement.

3.6 The procedures for obtaining each of the permits have been refined over the years. Notarisation of papers is no longer required and other aspects have been streamlined. Today it is possible, in some cases, for the two permits to be delivered within a month. Nonetheless there are still cases where spirit drinks legally made and sold in the EU are delayed by over six months by the permits system.

3.7 Under Turkey's CUA commitments (and as is the case for all EU Member States) there should be no import permits. Turkish spirits exported to the EU face no system of permits in any of the 27 Member States; consequently their exports quadrupled between 1997 and 2004. The onerous permit system discriminates against imported spirits and does not meet Turkey's WTO commitments.

4. Excise Tax

4.1 Between 1996 and 2002, excise taxes in Turkey comprised a large number of hypothecated levies, such as the Veterans Fund, Education Tax and Pastures Fund. While complicated it did not seem to discriminate between imports and domestic spirits. All the levies were consolidated into a Special Consumption Tax (SCT) on all spirits in 2002. The tax was levied at a rate of 212% of value and this rose to 275.6% in January 2003.

4.2 The SCT law was amended in October 2003 to introduce minimum excise yields for each category of spirit. Under the new system the 275.6% tax would apply unless the alternative minimum tax levels, levied per litre of product, would yield more. The minimum taxes varied according to category with the highest rates on the main imported spirit, whisky, and the lowest rates on the main domestic spirits, ie raki and vodka.

4.3 The excise tax law was designed in a way that, in most cases, it is the minimum tax rates that apply. The rates and structure were further revised on numerous occasions over the following 2 years. Since August 2005, Scotch Whisky has paid an excise tax of YTL71 per litre of pure alcohol (lpa) while the domestic spirit raki pays YTL36 per lpa.

4.4 EU Member States are required to apply a single rate of tax, levied per litre of pure alcohol, on all spirit drinks, although there are limited exceptions to this rule. Turkey's current structure fails to meet EU and WTO norms due to the protection it provides for the main categories of domestically produced spirit.

4.5 The level of excise tax in Turkey is also extremely high. Were Turkey in the EU, the tax levied on whisky would be the third highest of all Member States; the tax on raki would be the seventh highest. The high rates of excise are partly responsible for a large smuggled and counterfeit spirits market. Some of the latter is highly dangerous; in early 2005, at least 40 people were killed from consuming counterfeit raki.

5. Other Areas of Concern

5.1 Upon the arrival of every consignment, several litres of Scotch Whisky are removed for analysis, known locally as "sampling", and which is ostensibly designed to guarantee that the products in the market are the same as those for which the import permits were granted. For Scotch Whisky, which is already subject to national and EU legislative requirements, the additional analysis in Turkey is unnecessary and bureaucratic. The quantity taken is well above what would be required for analysis purposes. There is no similar systematic requirement for local spirits.

5.2 Scotch Whisky has often had to endure difficulties due to the frequent changes in administrative requirements, lack of consultation and absence of transparency with the trade regime. On one occasion, control certificate validity was reduced without warning from 12 to 6 months. (This was subsequently reversed.) Separately, traders have faced label changes, ie to declare age on all whiskies, even when the producer was making no age statement; or to include "serial and batch" numbers, without any explanation as to what these are and how they differed to the "lot code" which is already included on the packaging of every EU foodstuff.

6. EU Trade Barrier Regulation Complaint

6.1 The SWA and the EU spirits industry through its trade association, the European Spirits Organisation, have been in regular contact with the UK Government and European Commission regarding the longstanding problems facing the spirits sector. UK and EU officials have been extremely supportive in the effort to remove the barriers.

6.2 Industry has also regularly been in touch with Turkish officials to explain our concerns and seek the application of CUA and WTO trading conditions. Similarly we have been in frequent contact with local producers both before and since the privatisation of the former production monopoly.

6.3 The aim of the SWA and the European Spirits Organisation has always been to require Turkey to meet its existing trade commitments under the CUA and the WTO. These requirements are fully in line with the EU acquis. We believe it would be inappropriate to defer consideration of the longstanding trade problems to the EU accession negotiations. Not only is the timeframe for the latter variable, but accession could be 10 years away. Rather, existing commitments need to be met before negotiations begin.

6.4 With implementation of the CUA led by the EU, the Commission has raised the spirits industry's concerns in every forum over several years. Willingness to address the issues has not been forthcoming from Turkey. The UK has raised our concerns bilaterally and the Embassy has sponsored visits by SWA for discussions with Turkish officials.

6.5 With the support of the UK Government and the European Commission, it has been agreed that a formal complaint under the EU's Trade Barrier Regulation (TBR—Regulation No. 3286/94 refers) procedure should be compiled by the EU spirits industry. The aim of the TBR is to instigate EU-Turkey discussions regarding the trade concerns and to find a mutually acceptable resolution. In the event the discussions do not yield the required results, the Commission would almost certainly bring Turkey's failure to meet its international trade commitments before the WTO.

6.6 The preparation of the TBR complaint is well advanced and it is planned that it should be ready for submission by around the end of October 2007. Before it is sent to the Commission, however, and at the request of Turkish officials, the industry will again visit Ankara to explain the TBR process and determine whether or not the new government is ready to reconsider its position on the longstanding concerns in a manner that would negate the need for legal action.

7. Conclusions

7.1 Turkey has the potential to be a significant export market for Scotch Whisky, if it could be traded in the market under the same conditions as domestic spirits. Turkey has already committed itself to allowing this freedom under the Customs Union Agreement.

7.2 Scotch Whisky (and other UK spirits) have been unable to secure meaningful market access to Turkey due to Turkey's failure to meet its Customs Union (and WTO) commitments, specifically through:

- the onerous dual import permit regime for Scotch Whisky and other spirits;
- excise taxes on whisky which are double those on the national spirit raki; and
- removal of imports for "analysis" and a constantly changing administrative framework.

7.3 The SWA is seeking fair market access and non-discriminatory excise tax in line with Turkey's existing obligations. We believe Turkey should meet its current commitments now rather than these being deferred until its EU accession. Removal of the trade barriers will demonstrate Turkish ability to implement the EU acquis in the spirits sector and eliminate accusations of protectionism, while a more transparent and stable trade regime will encourage investment.

7.4 We would welcome the opportunity to provide further written evidence on any aspect of this submission where such additional briefing might be helpful to the Committee.

October 2007

Supplementary memorandum submitted by the Scotch Whisky Association

1. Introduction

1.1 In October 2007, the Scotch Whisky Association sent a submission to the Select Committee's Inquiry. There have since been a number of developments which the Committee may find interesting. For ease of comparison, we have set these out in the same format as the initial submission.

2. The Turkish Spirits Market

2.1 Provisional estimates for 2007 show growth of around 1.5% in volume. The locally produced aniseed spirit, raki, continued to dominate with a market share of around 75%. Whisky, all of which is imported, held a market share of around 6%. There is a trend toward "premiumisation" in the spirits market, partly a consequence of increasing wealth and also due to changes in consumer behaviour.

2.2 The Scotch Whisky industry continues to believe that Turkey offers considerable potential as an export destination if the serious problems from restricted market access and excise tax discrimination can be overcome.

3. Market Access for Scotch Whisky

3.1 In February 2008, Turkey's Tobacco and Alcohol Board removed the requirment for traders to obtain the second import permit, replacing this with a notification regime. Importers continue to provide all the same papers as hitherto but now advise the Board, rather than seeking its permission, that they are trading in the named spirits.

3.2 While the TAB move is welcome, and will speed up import arrangements, the most onerous part of the administrative requirements, namely the Ministry of Agriculture's "control certificate", remains in place. We are not aware of any work being undertaken to lessen the far greater burden this requirement imposes.

3.3 Scotch Whisky exports to Turkey grew to £25 million in 2007, from £16 million the previous year, partly a consequence of "premiumisation". Exports remain well below their pre-Customs Union level of £34 million.

3.4 While precise comparisons are impossible, before their EU accession both Greece and Spain applied similar measures to protect domestic producers. The removal of these barriers allowed Scotch Whisky exports to grow substantially. Before Greece's 1981 accession, our exports never exceeded £6 million; in 2007 they were worth £103 million. In the years before Spain's 1986 accession, exports never exceeded £30 million; in 2007, they were over £307 million, our second largest export market.

4. Excise Tax

4.1 There has been no progress in removing the excise discrimination facing Scotch Whisky in Turkey. In a visit to Turkey in early May Finance Ministry officials advised they are working on the excise tax law, albeit without providing any indication of their intentions or timetable.

4.2 Officials nonetheless agreed that the current exise structure, involving an *ad valorem* and an alcohol specific element, was both complicated and responsible for the longstanding valuation dispute between importers and the Customs Ministry, and which has resulted in hundreds of legal cases being opened.

5. Other Areas of Concern

5.1 The valuation dispute referred to above, and which was the subject of the Association's 30 October letter to the Committee, continues to cause serious concern; recent rulings by Turkey's Supreme Court have gone against importers. We continue to press for an amicable resolution to the dispute.

5.2 The Association is also investigating reports that local producers may also have valued their goods the same way as importers, albeit that this has never been challenged. If confirmation is received, it is probable that the discriminatory treatment of importers will be incorporated into the Trade Barrier Regulation complaint.

6. EU Trade Barrier Regulation Complaint

6.1 The scope of the Trade Barrier Regulation was broadened in early 2008 to allow EU traders to ask the Commission to investigate breaches by a third country of its bilateral, as well as multilateral (WTO) trade commitments. This will allow the spirits industry's TBR complaint to include Turkey's failure to meet its commitments under the 1995 EU-Turkey Customs Union Agreement (CUA).

6.2 While the wider scope of the Regulation may be useful, Turkey's treatment of imported spirits contravenes WTO commitments and if, as is possible, the problems are referred for WTO dispute settlement panel, it is multilateral rather than bilateral commitments that are taken into consideration. Furthermore, as recognised by EU officials, the CUA dispute settlement provisions have been ineffective. The EU spirits sector would not wish its TBR to focus unduly on CUA breaches lest this result in a request to try to resolve the matter through the latter's dispute settlement provisions.

6.3 In meetings with senior officials and Ministers in early May, it was clear that Turkey does not welcome the prospect of a TBR complaint. However, no-one provided any evidence that steps are planned to remove the problems the TBR seeks to address.

CONCLUSION

7.1 Since the October 2007 submission, there have been a number of developments in Turkey of relevance to imported spirits but the major areas of concern continue to give rise to significant difficulties.

7.2 On behalf of the European Spirits Organisation—CEPS, work on the Trade Barrier Regulation complaint continues and, provided there are no unexpected further delays or complications, it is hoped this can be submitted before the summer.

May 2008

Memorandum submitted by Turkish -British Chamber of Commerce and Industry

This report presents a review of the trends and opportunities in bilateral trade and investment between Turkey and the UK. The report includes assessment of factors of strength and prospects in trade and investment between the two countries areas that need progress. the role of Governmental authorities and the relations between Turkey and the EU.

1. THE BACKGROUND

1.1 *The international political setting and trade agreements*

1.1.1 Turkey-UK relations

Turkey and the United Kingdom share many common goals and ties on a wide range of international matters. The relationship between the two countries has been and will continue to be of crucial and growing importance. This state of affairs has been witnessed and strengthened by the recent Strategic Partnership between Turkey and the United Kingdom drawn by the British and Turkish Prime Ministers on 23 October 2007. The Strategic Partnership priorities include:

— Increasing bilateral trade and investment.
— Promoting Turkey as a high growth, high priority market.
— Raising awareness of mutually beneficial business opportunities.
— Supporting economic reform.
— Supporting co-operation many other areas of business.
— Supporting Turkey's EU accession talks.

Other areas of co-operation covered by the Strategic Partnership are; defence, global security, promotion of the transatlantic partnership, regional stability and peace, tackling climate change, promotion of education and culture, including the establishment of a British University in Turkey, and six monthly consultations to take forward on these subjects.

1.1.2 Turkey's Memberships, Regional Relations and Trade Agreements

Turkey—EU Customs Union

Turkey membership of the EU Customs Union, which came into force on 31 December 1995, pursuant to the 1963 EU-Turkey Association Agreement. The Customs Union covers all industrial goods but excludes agriculture (except processed agricultural products), services and public procurement. In 1996 a free trade area was established between Turkey and the European Union for products covered by the European Coal and Steel Community.

Free Trade Agreements

In addition to the Custom Union with the EU, Turkey is a signatory to the Free Trade Agreements with, EFTA, Israel! Macedonia, Croatia, Bosnia-Herzegovina! Tunisia, Morocco, the Palestinian Authority! Syria! Egypt and Albania.

Turkey is a member of:

— Associate member of the Western European Union.
— Council of Europe.
— OECD and OSCE.
— Black Sea Economic Cooperation.
— Economic Cooperation Organization.

— Organisation for Islamic Conference and Islamic Development Bank.

— Caspian and Turkey Business Group.

— Euro-Mediterranean partnership.

Unique Geographical Location and strong ties with near Emerging Markets

Turkey, in addition to the Customs Union relationship with the EU, enjoys strong regulatory and geographical position to trade with Central Asian, Middle East and Caucasian countries. Turkey is at the crossroads between East and West, overlapping Europe and Asia geographically. The proximity to and bilateral trade relations with the new emerging markets in the Middle East, Caucasian republics and Central Asia create unique business opportunities. Turkey is one of the leading investors in Caucasian and Central Asian Turkic Republics. Its strong cultural and historic ties, provides Turkey with privileged access and a strong base to develop business with to these countries.

1.2 *Trade between the UK and Turkey*

1.2.1 Trade Volume

In terms of IMF and WorldBank rankings, we are assessing here the bilateral trade prospects of the UK, world's 5th largest economy, and Turkey, the worlds 17th and Europe's 6th largest economy.

For Turkey, UK is a major trade partner

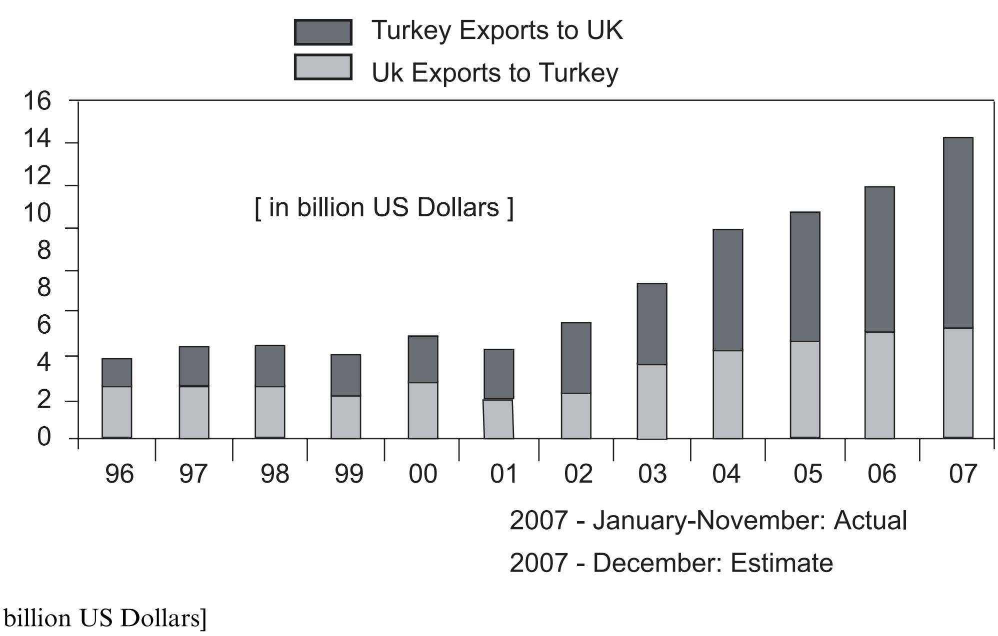
The trade between UK and Turkey showed significant growth from 2001. (Please see the Chart)

— In 2006, Turkey exports totaling US$ 6.8 billion to UK, made the UK Turkey's 2nd biggest export market.

— UK exported US$ 4.7 billion worth of goods to Turkey in 2006, making the UK Turkey's 8th biggest import market.

The total trade in 2006 was US$ 11.8 billion (about £6.5 billion). These results were even furthered in 2007 which saw the highest trade volume to date (about £7.7 billion) with an increase of 17.6% over 2006.

1996-2007 UK-Turkey Trade Data



[in billion US Dollars]

January–November	*2007*	*2006*	*Change*
UK Exports to Turkey	4.9	4.7	5.3%
UK Imports from Turkey	7.8	6.1	29.3%
Total Trade	12.7	10.8	17.6%

For UK, Turkey is an important trade partner

While UK is a major trade partner for Turkey, Turkey has recently become an important trade partner for the UK; Turkey now ranks 19th and 18th biggest exporting and importing partner for the UK.

There is however another important trend that must not be overlooked:

While Turkey ranks 18th–19th in terms of UK international trade, the difference in volume between the 15th and the 19th partners are not significant. More significantly however, in terms of the highest "Average Annual Growth Rate" in both exports from and imports to the UK, Turkey ranks 3rd among all UK trading partners. In the period from 1999 through to 2006, UK exports to Turkey achieved an annual increase of 8.9%. On the other hand, in the same period, the "Average Annual Growth Rate" for Turkish exports to the UK reached 15.4%. The only UK trade partners which have had higher growth rate than Turkey were China, Dubai and Poland for UK exports, and China and Dubai for UK imports. This trend supports the "important" status attributed above to the UK-Turkey trade.

1.2.1 Trade Categories

UK Exports To Turkey

In 2006, the leading 14 categories of goods exported from the UK to Turkey representing 90% of the total volume were; automotive products, electrical & non-electrical machinery, equipment for transport, telecommunications, office, professional, scientific, ores, metal scrap, chemicals, pharmaceutical, plastics, manufactured items, textiles.

Turkish Exports to the UK

In 2006, the top 11 categories of Turkey's exports to the UK made up 98.9% of the total: clothing, automotive products, electrical & non-electrical machinery, electrical and non-electrical machinery, equipment (for transport, office, telecommunications), Textiles, Vegetables, fruit, Iron, steel, prefabricated buildings; sanitary plumbing, heating, lighting fixtures. For a detailed list of these product categories and products, please see the attached "Trade Categories" document.

1.3 *Investing in the uk and turkey*

1.3.1 Changes in the Turkish Investment Regulations and Policy

In July 2003, the regulatory framework of FDI (Foreign Direct Investment) was changed to better meet the requirements of potential investors. Specifically:

- Foreign investments were treated as equal to domestic Investing (FDI no longer subject to a prior authorisation).
- Administrative barriers for the setting up or the acquisition of a company minimised.
- Legislative changes made for the transparency of work permits of foreign personnel.

The EU decision in October 2005 to start Turkey's EU membership negotiations brought in another appealing feature for investing in Turkey. As a result of the opportunities and regulatory changes, the number of FDI companies in Turkey enjoyed a sharp increase; rising from 6,586 to 14,955 in the period form July 2003 to the end of 2006 with a 127% increase. Mergers, acquisitions and privatisation in financial services and telecommunication sectors the largest part of FDI in 2006. The FDIs included 104 of the Fortune Top 5000 companies.

To increase further the appeal of investing, an agency reporting directly to the Turkish Prime Minister has recently been set up to facilitate targeted investment initiatives. The "Investment Support and Promotion Agency" was launched in London on 23 October 2007, with the Turkish Prime Minister as the key speaker.

1.3.2 UK Investments in Turkey

While between July 2003 and the end of 2006, number of FDI companies in Turkey increased by 127%, for UK based entities the increase was 244%. UK ranked third in terms of paid capital figures following Germany and Holland; with UK based investors rising rapidly from US$ 165 million in 2005 to 883 million in 2006.

1.3.3 Major UK Companies in Turkey

At the end of 2006, there were 1,420 UK based companies in Turkey; a significant increase from 413 before the regulatory changes in June 2003. There has also been an increase of medium size companies doing or starting business with or in Turkey. Among the major UK firms trading with Turkish counterparts investing in Turkey or in partnership with Turkish companies, we can cite Vodafone, HSBC, TESCO, Cadbury Schweppes, Marks & Spencer, Argos, John Lewis, Matalan, Next, Sainsbury, Morrisons, Dagenham and Harvey Nichols. Aviva, BP, Shell, Unilever, Thames Water.

1.3.4 Major Turkish Companies in the UK

Major Turkish enterprises doing business in the UK are Beko, ExSA, Vitra, Vestel, BMC, Sabancı, Koç, Doğan, Doğus, Iş Bank, Ziraat Bank and Akbank. Together with medium size concerns, there are about 65 Turkish companies operating in the UK.

2. Some Facts About Turkey and Turkish Economy

— Turkey is in the top 10 emerging markets alongside Brazil, Russia, India & China.

— Turkey's GNP is expected to surpass Australia's in 2008.

— Turkey is an important energy corridor between East and West and around 8% of world oil import is currently carried out through Turkey.

— Turkey attracted $30 billion FDI in 2005 and 2006 and $17 billion in the first 11 months of 2007.

— In 2007, the number of visitors from the UK to Turkey approached two million. Turkey's tourism sector is one of the biggest in the world and it is the 9th tourist destination; hosting around 20 million tourists per year.

— Turkey is opening 10 embassies in sub-Saharan Africa and diplomatic missions in India and other regions.

— Five Turkish companies are among the world's top 100 construction companies. Construction projects to date: $84 billion.

— Twenty Turkish companies are in the top 225.

— One in four of the largest companies in and 65% of industrial exports from Middle East and North Africa Region are Turkish.

— Turkish businessmen in Europe run 40 billion Euro worth business employing 500,000.

— Turkey is among the top refrigerator producers in the world; even in UK, one out of every 10 refrigerators is made in Turkey.

— The largest TV and DVD player producer in Europe. One in every four TVs sold in Germany, UK and France is made in Turkey.

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— After China, India and Italy, Turkey is the world's 4th largest textile exporter. Most of the products of H&M, Marks and Spencer, Paul and Shark, Benetton and 30% of Calvin Klein Jeanswear Europe production are made in Turkey.

— Turkey is the largest producer of buses, 2nd largest of light commercial vehicles and 3rd largest of lorries in Europe. More than 7% of Europe's motor vehicles come from Turkey. Brands such as Toyota, Honda, Renault, Hyundai and Ford produce their new models in Turkey; 80% of which are exported to Europe.

— Turkey has become one of the most favourite property destinations for UK nationals. The number of number of properties owned by British nationals in Turkey rose to 12,739 in 2006 from 2,420 in 2003; value over half a billion US$.

3. Future Prospects

3.1 *Reasons for doing business and investing in Turkey*

Many factors about the appeal of setting up businesses and investing in Turkey such as the strength and resilience of the economy, political and economic stability, recent reform initiatives are summarised below.

A Fast Developing and Stable Economy

- In the last five years, Turkey's GDP grew by almost 40%, on a cumulative basis and in real terms. In 2006, Turkey's real GDP / GNP increased by 6.1%/6.0%, making it one of the fastest growing economies in the world. GNP per capita recorded $5.477, an all times high. Turkey is expected to grow by more than 5% a year in the next five to 10 years. Since 2004, the average growth has been 7.3%, 3rd highest in OECD.
- Political stability is today established and enhanced, to a large degree; presidential and general elections are now over, the speed and direction of reforms and privatisation have been positively affected.
- Inflation has been reduced to a single digit level.
- EU accession process will continue to be a driving force for Turkey's reform efforts. Liberalisation of trade under the EC-Turkey Customs Union has made Turkish firms more efficient and competitive.
- In 2006, the business registration process was further streamlined. As a result, it now takes on average only nine days to open a business, one of the fastest registrations in the world. Almost 100,000 enterprises were established in 2005 and 2006, same in the previous year.
- Turkey's financial industry is largely unaffected by the negative outcome of the sub-prime mortgage crisis that had an adverse affect on many leading economies.and enterprises worldwide.

A Strong International Investment Record and Outlook

As described in Section 1.3.1 (Changes in the Turkish Investment Regulations & Policy):

- Regulatory framework changed to make investing more attractive.
- Investment Support and Promotion Agency set up to facilitate targeted initiatives.
- Rapid investment progress achieved; at the end of 2006 there were 15,000 foreign capital establishments in Turkey, including 104 of the Fortune Top 5000 companies.
- UK Trade & Invest has designated Turkey as a priority emerging market in their new trade strategy.

A Huge Domestic Market

With a population of 73 million (40% under 22) and an increasing consumer purchasing power and spending tendency, Turkey has the world's 13th largest urban population (about 50 million), offering a dynamic market to exporters and investors.

High Quality Standards

There is a new quality oriented generation in Turkey in both manufacturing and service sectors. This outlook was supported by the EU that helped to move forward in Turkey's quality infrastructure, with significant investments into projects supporting the assessment of products' conformity to safety norms, the accreditation of conformity assessment laboratories, surveillance of the safety of products, heightened awareness of CE (Conformité Européene) marking. Progress in this area and in Turkish economy in general, is witnessed by the confidence shown by the EU whose share of FDI in Turkey rose to 82% in 2006, increasing sharply from 58% in the previous year, and from 54% average EU share between 2000 and 2004.

Privatisation

Major public companies Turkish Telecom, Turkish Petroleum Refineries, two major ports and Petkim (petrochemical) have been privatised in 2005 and 2006.

Key state assets such as:

- Turkish Electricity Distribution
- Natural gas distribution regions
- Electricity Generation
- Public Banks (Turkish Ziraat Bank and Halk Bank),

— Tobacco and Cigarette Factories
— National Lottery Licences
— Sugar Factories

are in the privatisation portfolio. The 87 privatisation cases concluded in 2006 corresponded to 2% of GDP.

High-Skilled, Competitive Labour

Competitive labour rates offer significant advantage for businesses. Labour productivity has been increasing about 10% a year for the last three years.

State-of-the-art Telecommunications Network

Turkey has a relatively young telecommunications network with the latest technology, which can easily compete with the developed countries.

Competition law and the Competition Authority

The competition law and the Competition Authority are overall very effective and their existence helps provide a safety zone to foreign businesses entering the Turkish market.

Banking Regulations

In the aftermath of the economic crisis in 2001, banking regulations had been strengthened, and today Turkey enjoys a much stronger and resilient financial services industry. In cooperation with the IMF, additional responsibilities were transfers to the Banking Regulation and Supervision Authority, principally for financial holding, leasing and factoring companies.

Progress in Regulatory Framework

Progress has been made in reducing administrative barriers to business entry, operation and closure.

The Gateway of Energy Resources

Turkey is located at the gateway of the Middle East, Caspian petroleum and Central Asian natural gas to the west, which are regarded as the future energy reserves of the world. Current natural gas pipeline networks for imports from Russia and Iran, LNG-routes from Algeria, and Nigeria, oil imports through the BTC pipeline and future energy projects will make Turkey an energy gateway.

Trade facilitation

The EU has made a solid contribution to the modernisation of Turkey's customs via significant investments in equipment providing state-of-the-art technology.

Unique Geographical Location and Strong Ties with near Emerging Markets

Turkey is at the crossroads between East and West, overlapping Europe and Asia geographically. The proximity to and bilateral trade relations with the new emerging markets in the Middle East, Caucasian republics and Central Asia can create unique business opportunities. Turkey is one of the leading investors in Caucasian and Central Asian Turkic Republics and rapidly becoming an "operation and production hub" for multinational companies. Due to her strong cultural and historic ties, Turkey provides privileged access and a strong base to develop business with and re-export to these countries. Owing to its geographical location and traditional economic and cultural ties with these regions, the export markets of Turkey are geographically diversified, which helps in minimizing the effects of external shocks.

Simple Export Procedure for Duty free Rates

There is a simple facilitating procedure for duty free rates for exports from the UK to Turkey. Under the terms of the EU Customs Union agreement, the main export process from the UK to Turkey is the ATR procedure that is applicable to Turkey alone. To be entitled to preferential duty rates, usually zero, it is sufficient to submit a certified ATR certificate for preferential, usually zero rate Turkish importation.

The ATR process requires simply An Export Declaration to declare that the goods originate or are in "free circulation" in the EU or Turkey, An Export Invoice and the completion of a relatively simple ATR form. Other than its relative simplicity, the ATR also constitutes an advantage over the other existing preferential agreements (for example over the certificates applicable to other non-EU countries) in that the qualification for "free circulation" is valid irrespective of the "origin" of the goods; this, facilitating re-exportation from the UK. Now most Chambers of Commerce in the UK are authorised to certify ATR documents.

3.2 *Areas that need progress*

Reducing Administrative Barriers

Although very big progress has been made in Turkey in reducing administrative barriers to business set up, some foreign businesses still point out to the need of reducing start up costs and streamline business registration; specifically to reduce the time and cost of licensing, both for general and for sector-specific licenses. Factors that are claimed to complicate licensing are cited as multiplicity of licenses overlapping responsibilities of several agencies and municipalities and requests for too much documentation. Such requests should be complied and presented to the authorities in a systematic manner.

Contract Enforcement

Since 2000, Turkish authorities and the judiciary have taken important steps to speed the resolution of commercial disputes. Further reforms are suggested to reduce backlogs in the commercial courts and enforcement proceedings. Such requests should be complied and presented to the authorities in a systematic manner.

UK visas for Turkish Businessmen

There are delays and difficulties in obtaining a UK visa for Turkish businesspersons who may have to meet tight business schedules.

Restriction for Exports from Turkey

While the above mentioned preferential ATR procedure for exports-imports is applicable to most industrial goods, all Coal products, all Steel products and most Agricultural products do not qualify for ATR preference. In July 2007, there was progress regarding the qualification of additional agricultural products for ATR preference. A new EU commission regulation opened annual tariff quotas for certain agricultural products and allowed the application of ATR preference. This is a mixed development, because while Duty free tariff was brought to certain products under ATR preference, quotas were also introduced.

Market Information

To assist exporters' and investors' enquiries with speed and accuracy, an extensive central database should be set up. This will facilitate potential exporters' and investors' market research and product development and search for partnerships before entry into the market. The database would have varied and wide information, so that if a company of a particular sector or a product of a particular category is sought, the database should provide not only sector or category data, but also:

- Information about its sub-sectors and sub-products.
- Government circulars and decrees related with the sector or the product.
- Reports and studies about the sector or the product.

Such a task would require the cooperation of agencies of both governments, Chambers of commerce, Sector and Trade Associations and other institutions. Governmental agencies may have to be involved because there may be a need to formulate the accessibility of third parties to this database; that is which information shall be open to the public, and which shall be accessible, on membership basis.

3.3 *Opportunities in trade and investment*

The fast growing economy and the demanding big domestic market of Turkey require new services, products and investments. Priority sectors that present opportunities for UK businesses include:

Energy/Power

- As an energy provision initiative, the Turkish parliament passed a bill in November 2007 for the establishment and operation of nuclear power plants and the sale of energy in Turkey. The Turkish Electricity Trade and Contract Corporation will open a tender for construction of nuclear power plants.
- Privatisation Administration of Turkey has listed electricity distribution and generation assets in the Privatisation portfolio. Turkey has rich lignite reserves and arranging auctions for transferring the State reserves to private sector provided that new investors commit to build new electricity generation plants.
- Construction of new hydroelectric power plants is encouraged.
- Current lignite-fired power plants need environmental friendly investments especially in terms of coal-cleaning and CO filtering.

Agri-Business: In view of the Memorandum of Understanding signed in March 2007, Turkey can become a destination for agri-business, particularly in relation to livestock, crop development, fisheries, post harvest technology, and R&D. Also, in soil and environment quality, plant breeding materials, crops, food supply chain technologies, livestock-meat and dairy supply.

Banking: In line with the practice in the countries that recently joined EU, major mergers and acquisitions in the Turkish banking system has started over the last few years. Further foreign investor interest should be expected in the whole financial industry.

Transportation/Transport Infrastructure (Roads, Rail and Airports),

Renovation/Construction Projects/Construction Materials

Engineering (Security market, electronic equipments; cash-in-transit equipment, hand-held and walk-through metal detectors, CCTV, access control and intruder).

Insurance: The size of the insurance sector in Turkey is small compared to the EU. As an outcome of progress and convergence, Insurance requirements will be more of a norm, and opportunities in the this sector will be available for investors.

Financial, Legal and Insurance services:

Investment needed in new products, services and technologies)

Environment (Landfill sites, waste treatment, incineration)

Water (Thames Water operates the world's largest privately financed water project)

Other Sectors

Telecommunications, Software, Education, Training, Automotive, Textiles, Clothing, Healthcare, Medical, Pharmaceutical, Mining, Minerals, Oil, Gas

4. Turkey-EU Relations

Accession Progress

Turkey's EU accession negotiations were launched on 20 October 2005. The accession negotiations are conducted over 33 chapters, each Chapter describing the total body of EU law accumulated to date under each Chapter heading. Each Chapter define the conditionality the candidate nation must meet. So far, 10 Chapters were opened for Turkey, 23 not yet opened. One Chapter was closed (completed) in June 2006, but, in December 2006, EU froze talks on eight chapters and announced that no chapters would be closed until a resolution is found regarding the dispute over Cyprus. (For the full list of the status of the Chapters, please see attached "Turkey-EU Chapters" file). France and Germany have proposed offering a "privileged partnership" instead of full membership, a status flatly rejected by Turkey. The Turkish government confirmed again that no less than full membership would be acceptable and that Turkey will continue to give top priority to keep up the momentum of alignment and convergence with the EU. In the setting of a diversified new Europe, the EU membership of Turkey has become unavoidable; it's just a matter of time. It should be pleasantly noted here that the UK has been and is supporting full membership status for Turkey.

Effects of Turkey-EU relations to date

Current EU-Turkey relations and associations, particularly the Customs Union, have constituted a strong incentive for the Turkey to pursue the EU economic and other criteria. In particular, the Customs Union played a significant role in:

- The restructuring of Turkey's foreign trade regime.
- Increasing the traditional trade with EU member states and non-EU states.
- Increasing the pace of Turkey's opening to world trade.
- Opening the way to Turkey's new regional trade structuring.

Subsequent to the changes brought about also by the Customs Union, the EU constituted about 50% of Turkish foreign trade and 82% of the FDI becoming Turkey's biggest trade and investment partner, contributing to a further increase in bilateral EU-Turkey trade, which reached 85 billion Euro in 2006, making Turkey the EU's seventh trading partner. The share of foreign trade in the GNP rose to 55.2% in 2004, compared to 30.6% in 1994.

These positively results are in most part due to the effects of Turkey-EU relations to date. They are also the evidence of Turkey's progress in reforms towards the convergence with the EU economic criteria. The EU accession process will continue to be a driving force for Turkey's reform efforts. EU accession negotiations, which are the key driving force for change in Turkish business environment, give rise to a lot of business opportunities in Turkey. In summary, the effects of Turkey-EU relations to date have been beneficial to trade between Turkey and EU, and to the trade between the UK and Turkey.

Effect of Turkey's EU membership

In this report, the effect of Turkey's EU membership to the UK and Turkey are reviewed from trade, investment and general economics perspectives only; the political, cultural and other ramifications of full membership are not dealt here.

EU Budget Perspective

It has been pointed out that Turkey's full membership would cause substantial asymmetric financial cross-border flows, due to Turkey's relatively low per capita income and a huge population. It is noted that the 1.04% of its GDP that Turkey will have to pay towards the EU budget will be small compared to the amount of financial resources it would receive from the budget; Turkey becoming one of the e largest net beneficiaries. It should also be noted however that its per capita income will rise at a higher rate than its population. The rapid raise in per capita income is demonstrated in the recent progress in Turkish economy and will continue to do so as Turkish economy becomes stronger during the convergence period with the EU.

Trade and Investment Perspective

We have already seen the mutual benefits of Europe's engagement with Turkey as summarised in the preceding sections. For Turkey, EU membership will further enhance its trade and investment environment already strengthened by the pre-accession economic reforms. On the other hand, Turkey with a stronger.and more diversified domestic market and as a trading gateway to many neighbouring emerging markets will offer more opportunities to the UK for export across a wide range of sectors.

5. Conclusion

- This report aimed to present a review of the trends and opportunities in respect of bilateral trade and investment between Turkey and the UK. Also included were an assessment of factors of strength and future prospects in trade and investment between the two countries, identification of areas that need progress, the role of Governmental authorities and the current relations between Turkey and the EU.
- Turkey and the United Kingdom share many common goals and ties on a wide range of international matters and the relationship between the two countries has been and will continue to be of crucial and growing importance in trade and other areas. In both countries there are governmental.
- For Turkey, UK is a major trade partner, and for UK, Turkey is an important trade partner. The trade and investment between the two countries have reached significant volumes and is growing at a considerably high rate. There are governmental departments assisting targeted trade and investment in the respective countries.
- Turkey's membership of major international organisations and regional associations, and its regional relations and trade agreements, economic potential and unique geographical location with strong ties with near emerging markets have made itself a major economic and political state.

— There are many reasons for doing business and investing in Turkey; notably the success of economic reforms and EU convergence progress witnessed by a fast developing and stable economy, a strong international investment record and outlook, a huge domestic market, high-skilled, competitive labour, high quality standards, new banking regulations, state of art telecommunications network, progress in regulatory framework, competition law and the competition authority, privatisation, unique geographical location and strong ties with near emerging markets, the gateway of energy resources, simple export procedure for duty free rates and trade facilitation.

— There are areas that need progress; reducing administrative barriers, contract enforcement; as Turkish economy continues to become stronger, the progress towards these targets will be speeded up. Other areas are: restriction for exports from Turkey, UK visas for Turkish businessmen and market information.

— There are many trade and investment opportunities in Turkey for UK businesses in energy, power, agri-business, banking, transport, construction engineering, insurance, financial, legal and insurance services, environment, telecommunications, water, ICT, software, education, training textiles, clothing, automotive, healthcare, medical, pharmaceutical, mining, minerals, oil and gas. Turkey's expanding economy is a big and growing market for British business and increasingly Turkey is a source of crucial investment in the UK.

— The effects of Turkey-EU relations to date have been beneficial to trade between Turkey and the EU and to the trade between the UK and Turkey. EU accession negotiations, which have been the key driving force for change in Turkish business environment, has given rise to a lot of business opportunities in Turkey.

— In regards to the effects of Turkey's EU membership, For Turkey, EU membership will further enhance its trade and investment environment already strengthened by the pre-accession economic reforms. On the other hand, with a stronger and more diversified domestic market and as a trading gateway to many neighbouring emerging markets, Turkey will offer more opportunities to the UK for export across a wide range of sectors.

— Turkey is becoming a leading actor in global politics and economy, and in the context of the vibrant economy of the UK, Turkey will be a major business partner.

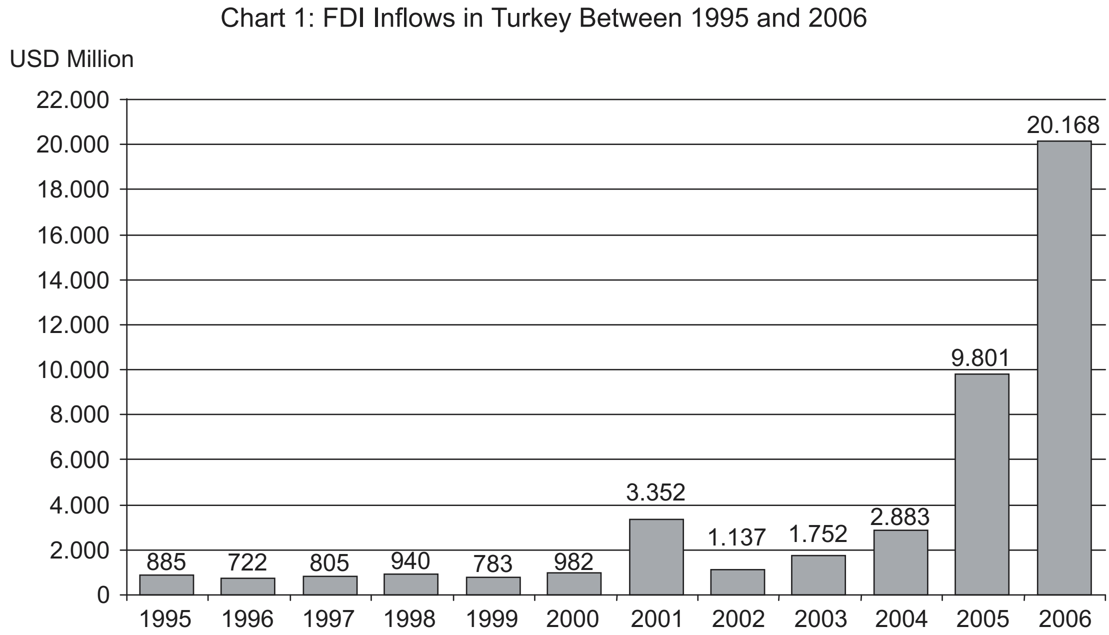
30 January 2008

Memorandum submitted by the Turkish Embassy

Bilateral Investment Opportunities

FDI inflows to Turkey have risen significantly in the last years due to a couple of reasons. In addition to the recovery of the Turkish economy from the economic crises in 2001 as a result of a successful economic reform program, a successful privatization program as well as a highly successful reform program to improve investment environment have contributed to the increase of FDI flows to Turkey. Furthermore, the launch of accession negotiations between Turkey and the EU in October 2005 has also affected FDI inflows very positively.

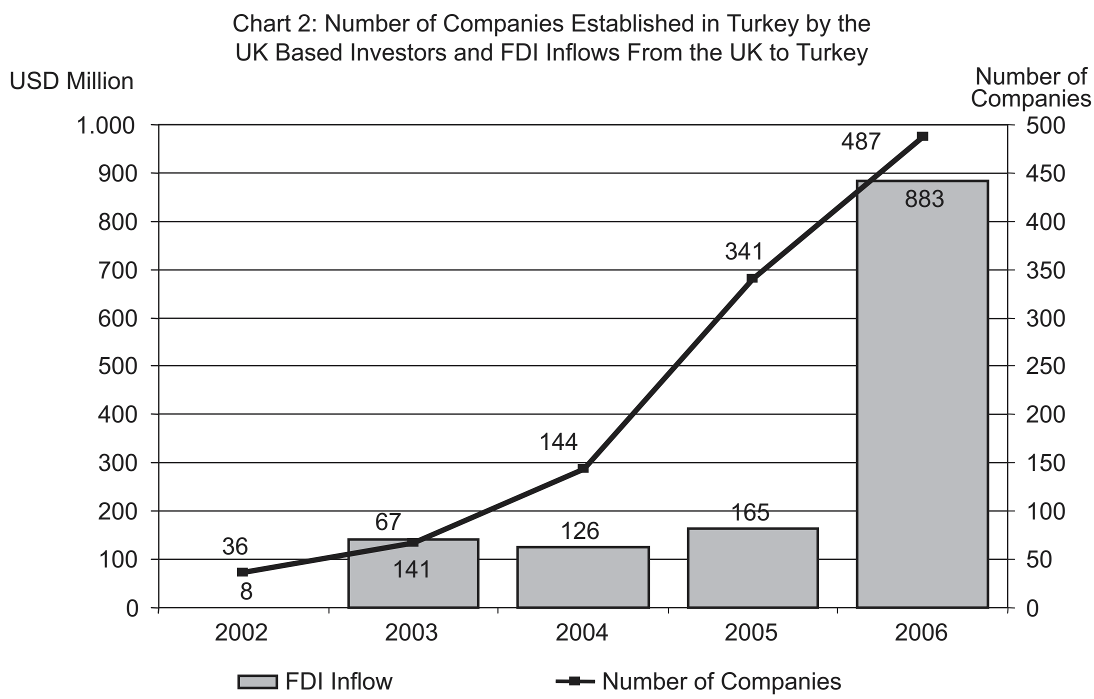
FDI inflows which had an annual average of USD 853 million during 1995–2000 period, reached its record levels of USD 9.8 billion and 20.2 USD billion in 2005 and 2006 respectively.



According to the statistics, the UK ranked seventh with a total of USD.

The UK ranked the sixth with a total FDI stock of 1.323 million between 2002–07 in the list of countries with investments in Turkey. Even though the total amount of FDI flows from the UK to Turkey is very limited compared to other investor countries, the interest of the British firms in Turkey has been increasing in the last years thanks to the recovery of the Turkish economy as well as the developments of Turkey's relations with the EU.

Annual FDI inflows from the UK to Turkey have steadily increased in the last few years, starting from only USD 8 million in 2002, reaching a record high level of USD 883 million in 2006 (see chart 1). It should also be underlined that some investment operations of British companies, such as the acquisition of Telsim (cell-phone operator) by British Vodafone for USD 4.7 billion in 2006, has not been included in this calculation because of the fact that the capital was transferred from the Netherlands.



Source: Undersecretariat of Treasury, Central Bank of the Republic of Turkey

As of end of 2006, there were 1,420 registered companies with the British capital in Turkey, including giant MNEs, such as HSBC, Vodafone, Imperial Tobacco, Shell, BP, and Tesco among many others.

Today, with its dynamic economy, Turkey offers many investment opportunities for the British investors. For example, energy including electricity production and distribution, petroleum refining, renewable energy, as well as petrochemicals, banking and insurance, telecommunications, retail and real property development, transportation including ports are amongst the most dynamic sectors that foreign investors are interested in the last years (see Tables 1–2).

Table 1

TOP 5 FDI INFLOWS IN 2006

Acquired Company	*Acquiring Company*	*Home Country of the Acquiring Company*	*Ratio of Shares Taken Over (%)*	*Foreign Direct Investment (USD Million)*
Telsim	Vodafone	Netherlands[a]	100.0	4.690
Denizbank	Dexia Bank	Belgium	98.9	3.221[c]
Finansbank	Nat Bank of Greece	Greece	80.4	2.774
Türk Telekom	Ojer Telecom	U.A.E	40.6	1.500
Petrol Ofisi	OMV	Australia	34.0	1.054
Total				**13.239**

Source: Undersecretariat of Treasury, Central Bank of the Republic of Turkey

[a] In spite of being a UK based company, Vodafone's payment is transferred through the Netherlands and therefore reflected as shown above in the balance of payment statistics.

Table 2

FDI INFLOWS TO TURKEY IN 2006 (BY SECTORAL DISTRIBUTION)

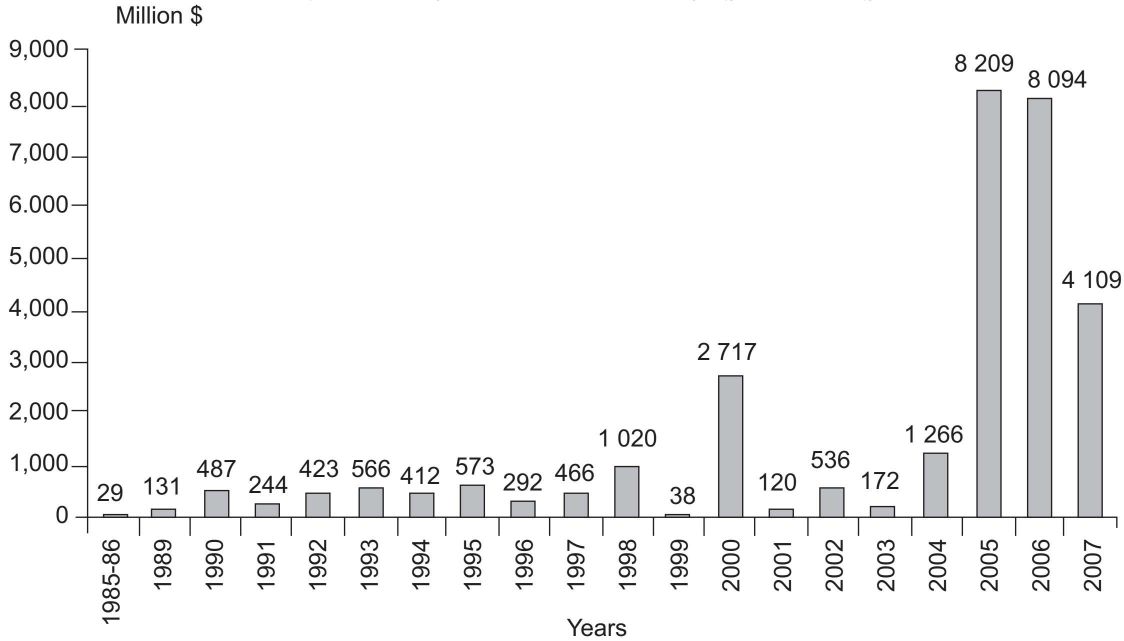
Rank	*Sector*		*Capital*	*(%)*
1	Financial Intermediation		7.002	39.3
2	Communications & Transportation		6.624	37.2
3	Manufacturing		1.853	10.4
4	Wholesale and Retail Trade		1.164	6.5
5	Construction		441	2.5
6	Healthcare		264	1.5
7	Mining and Quarrying		125	0.7
8	Electricity, Gas and Water Supply		112	0.6
9	Other Community, Social and Personal Service Activities		106	0.6
10	Real Estate, Renting and Business Activities		88	0.5
	Other		34	0.2
	Total	**(USD Million)**	**17.817**	**100.0**

Source: Central Bank of the Republic of Turkey

Furthermore, Turkey's ambitious and very successful privatization program offers great investment opportunities for the British investors. Privatization implementations reached record high levels in the last years, USD 8.2 billion in 2005 and 8 billion 2006, 4.1 billion in the first eight months of 2007 (see chart 2). Companies in the privatization portfolio includes very important and profitable companies, such as TEKEL (Tobacco, Tobacco Products, Salt{and Alcohol Enterprises Inc.), TEDAŞ (Turkish Electricity Distribution Inc), Halkbank, and Turkish Airlines among many others. Furthermore, toll motorways and bridges, ports, lignite and hydroelectric generation plants are also amongst the assets that are going to be privitized in the coming years.

Chart 2

PRIVATIZATION IMPLEMENTATIONS BY YEARS



Source: Privatization Administration

Difficulties Faced by UK Businesses Wishing to Forge Investment Links with Turkey

Even though we have no specific information as regards difficulties faced by UK Businesses wishing to forge investment links with Turkey, it should be underlined that except a few economic activities such as fishing, radio and TV broadcasting, and domestic sea and air transportation, all foreign investors are treated equally as regards establishment of, and conduct or operate a business in Turkey according to Foreign Direct Investment Law, No. 4875. Foreign investors are free to set up their own company in Turkey through trade registries in provinces without taking any permission.

In order to improve the general investment environment in Turkey, **"Coordination Council for the Improvement of the Investment Environment (YOIKK)"** was established in 2001 as a coordinating body with a mandate to identify and remove regulatory and administrative barriers facing private investment. Having decision makers of relevant ministries and heads of NGOs representing private sector on board, this Council has proved to be a good example of collaboration between the government and business community to improve business environment.

Despite the initial emphasis on foreign direct investment, the YOIKK program aims "to streamline the investment environment and attract more private direct domestic and foreign investment" from the outset. The YOIKK program sets out an action plan with a focus on 11 key reform areas: Company Registration; Employment of Foreigners; Sector Licenses; Taxation and State Aid; Customs and Technical Standards; Land Access and Site Development; Intellectual Property Protection; Foreign Direct Investment Legislation; Investment Promotion; the Promotion of Small and Medium-sized Enterprises; and Corporate Governance. The YOIKK process therefore has not been limited narrowly to foreign investment but has been assisting in improving the business and investment environment for private domestic investors as well. So far, the activities of the YOIKK have been quite successful. The Government has taken several steps in compliance with the recommendations of Council and enacted 20 laws, including a very liberal Foreign Direct Investment Law and Company Registration Law among others.

One of the key elements of the YOIKK Program was the Foreign Direct Investment Law. The Law was drafted by taking into consideration international best practices and the recommendations of the diagnostic study assessing the foreign direct investment legislation. The objective was to have a legal framework, which would be in conformity with the current international standards. The new foreign direct investment regime became effective on 17 June 2003 by the publication of "the Foreign Direct Investment Law No 4875" in the Official Gazette. The FDI Law not only provides best international standards, such as equal treatment, guarantee to transfer proceeds and right to employ key expatriate personnel, but also repeals prior approval procedures for foreign investors and minimum capital requirements to invest in Turkey.

Key features of the **Foreign Direct Investment Law** include:

- Freedom to invest for foreign investors by dropping all former FDI-related screeing, approval, share transfer and minimum capital requirements.
- A policy shift from ex-ante control to a promotion and facilitation approach with minimal ex-post monitoring.
- Upgrading to accepted international standards for definitions of "foreign investor" (broadened to include Turkish nationals resident abroad and international organizations) and "foreign direct investment".
- Reassurance of existing guarantees with regard to foreign investors' rights, such as national treatment, guarantee of free tranfers, access to real estate, protection against expropriation, resort to international arbitration, employment of expatriates as key personnel.

According to the Law, foreign direct investment is considered as:

- both establishing a new company or a branch of a foreign company; and
- share acquisitions not by means of capital markets or share acquisitions through capital markets where the foreign investor owns 10 % or more of the shares or voting power.

Within this scope, all kind of economical assets are accepted as sources for foreign direct investment such as stocks and bonds of foreign companies (other than government bonds), revenues, financial claims or any other investment related rights of financial value as well as all the economical assets mentioned in former law 6224.

With the new foreign investment regime, the company registration procedures, which were previously taking almost two and a half months and requiring excessive documentation and approvals from several authorities, have been simplified and streamlined.

In addition to the YOIKK, **Investment Advisory Council of Turkey** was established in 2004 to provide an assessment of business climate from an international perspective for further improvement of business environment. This Council is chaired by the Prime Minister, and composed of Ministers in charge of investment related issues, the CEOs of multinational companies with investments in Turkey, high level representatives of International Organizations, such as IMF, the World Bank and the European Investment Bank, as well as the heads of leading Turkish Business Associations. Since 2004, Investment Advisory Council convened once a year, holding its last meeting on 11 June 2007. So far, concrete steps were taken regarding the recommendations of the Council such as, simplifying the tax regime; strengthening corporate governance; reducing administrative and bureaucratic barriers; accelerating the privatization program and; reforming the social security system.

The Turkish Government also established the Investment Support and Promotion Agency of Turkey in 2006. The mandate of this agency is to provide information about investment environment in Turkey and act like an intermediary between foreign investor(s) and related government agencies for the smooth establishment of businesses.

Furthermore, investors from the UK are able to resort to international arbitration in case a dispute arises between them and the administration thanks to Bilateral Investment Treaty signed between Turkey and the United Kingdom in 1991.

As a result of the continuous efforts of the Turkish Government to improve investment environment, Turkey jumped 34 places and ranked 57 out of 178 countries in the rankings on the ease of doing business according to **Doing Business 2008** report of the World Bank.

For more information on the rights of foreign investors please refer to www.investinturkey.gov.tr

Turkey's Potential as a Gateway to Markets in to the Central Asian Republics

With its unique geographic location as well as its cultural, political, trade and economic relations both with the EU countries and the countries of the former Soviet Union, Turkey has a potential to serve as a gateway to markets of the Central Asian Republics. It is a fact that except a few giant MNEs in the energy, foreign investors are reluctant to enter to the markets of the Central Asian Republics directly given the presence of high political risks, lack of transparency and rule of law in the region.

In spite of all these negative aspects of the Central Asian Republics, Turkish entrepreneurs, who had been used to make business in a volatile economy, launched their operations in the region following the break-up of the Soviet Union, first as traders and then as investors. Today, it is estimated that the total investments made in the region by the Turkish investors exceeds USD 5 billion.

Today, many MNEs choose Turkey as their base for their Central Asian operations due to the fact that Turkey offers many advantage for any type of investments, such as having a predictable investment environment, a highly developed infrastructure and high quality human resources. Coca Cola, Microsoft, JP Morgan Chase and General Electric are amongst MNEs managing their activities in the region from Turkey.

Additionally, Turkey's geographical proximity to the region is supported by direct transportation links to the capitals of the Central Asian Republics. Direct flights of Turkish Airlines between Istanbul and the capitals of Central Asian Republics is an important reason for many business people to choose Turkey as their operation base. Furthermore, Turkey's wide web of Bilateral Investment Treaties and Double Taxation Treaties with the countries in the region provides required legal protection for investments and prevents double taxation of returns.

Any Expected Changes in the Economic, Trade and Investment Relationship that might Result from the Accession to the EU

There is no doubt that Turkey's accession to the EU will boost the economic, trade and investment relationship between Turkey and other members of the EU. Especially, it is expected that FDI inflows to Turkey will increase significantly after the country becomes a full member of the Union.

So far, it is generally observed that FDI inflows to a new member country increases following the accession. For example, FDI inflows to Poland, the Czech Republic and Hungary have risen significantly following their accession to the EU in 1 May 2004 (Please see table 1).

Table 1

FDI INFLOWS TO SELECTED EU MEMBER COUNTRIES

	2003	*2004*	*2005*	*2006*
Poland	4.589	12.890	9.602	13.922
Hungary	2.137	4.657	7.563	6.141
Czech Republic	2.101	4.974	11.658	5.957
Total FDI Inflows	**8.827**	**22.521**	**28.823**	**26.020**

Given that the size of the Turkish economy is bigger than those of Poland, the Czech Republic and Hungary, as well as the fact that the country has a huge potential to serve as a gateway to Central Asia and the Middle East, we may expect that FDI inflows to Turkey, which has already exceed USD 20 billion threshold, will rise to a level higher than the level of FDI inflows for the aforementioned countries in total.

1 November 2007

Memorandum submitted by the British Chambers of Commerce in Turkey

Overall Political Relationship, Bi-lateral Business Environment

The fact that the UK has long been a firm and outspoken supporter of Turkey's entry in to the EU continues to generate a good business climate for trade and investment. It is obvious that political support results directly in trade opportunities. The have been no backlashes suffered by the French and Italians for various perceived wrongs.

However, it is probably fair to say that competitors, such as France, Italy and Germany, tend to take more space in the press, and this must have an impact. High level visits to Turkey by British Ministers or senior civil servants are few and far between, and due to a lack of time do not lend themselves to a PR exercise. A rushed visit to Ankara, without a stop-over in Istanbul and meeting business leaders and getting some column-inches, is a waste of resources.

The *lingua franca* in the Turkish business environment is English; 30 years ago French and German were used more, but there may not have been immediate and obvious benefits to the UK from this change.

Opportunities for British Companies in Turkey

When doing business in Turkey, as in any other country, the businessman should look not at comparing the business environment between Turkey and other countries, but in comparing his own strengths and weaknesses with the competition, as the business environment is the same for all. In fact Turkey is trying hard to improve conditions for those intending to invest in or sell to Turkey, although there still can be obstacles.

While major UK companies have taken the plunge in the past five to 10 years, such as Vodafone, HSBS, Aviva, to name but a few, there are not enough SME's coming to Turkey.

Opportunities in a country like Turkey must be long term. Over the short term it is possible to get ones fingers burnt. The "over 5% growth rate" since the financial crisis is a partial result of the major drop in GDP during the crisis, and an important part of the growth is catching up. There is no guarantee that there will not be another correction in the future.

Turkey is not a "low cost" producer at the moment, but is certainly "lower than the UK cost". It makes sense for British companies to move part of their manufacturing from the UK to Turkey, retaining R&D, marketing and head office functions in the UK.

UK companies who are threatened by Turkish competition (see the reference to Ford Transit parts below) should make a conscious effort to buy into their competitors in Turkey. This makes for sense when one takes into account the fact that most Turkish SME's are under capitalised.

Impediment for British Companies in Turkey

Naturally there are a number of obstacles to doing business in Turkey. The proportion of the black economy is so high, whether it be from professionals such as dentists and lawyers declaring only a small part of their income, or whether it is the large farming community with tax breaks and an environment that cannot be policed easily, that the tax burden falls on those parts of the economy which cannot escape the net. As well as VAT, "luxury" tax is imposed not only on drinks and luxuries, but also mobile telephony, fuel and other basics.

This leads to a black economy in unexpected areas, such as fuel (diesel is smuggled in from Iraq) and even mobile telephones (the company subsequently bought by Vodafone was issuing unregistered pay-as-you-go cards in the hundreds of thousands!).

Overall the tax imposition is comparable to the UK and other OECD countries, but one should take care if competing domestically in an industry that has undeclared and unregistered operators, as they will have a lower cost base.

While there has been a Customs Union working effectively for many years now, discrepancies and irritating obstacles can arise. Normally they can be overcome with diligence and patience, but in the case of a ban on the importation of certain drinks by (especially) Diageo, intervention at a high level (Ambassadorial, Prime Ministerial) may be necessary.

Ex-pat living conditions are good overall, although the cost of living in Turkey has increased, exagerrated by the strong TL, and the number of schools is limited (but probably adequate).

Opportunities for Turkish Companies in the UK

Turkey has the human resources from a base of skilled labour, whether it be in engineering, construction, computing, software, medical, or whatever. While some Turkish companies are world players in their own right, some are missing the bit "at the top", whether it be access to the top and best international connections, design teams or whatever.

Turkish car factories work efficiently, with a high quality of product, and economically, but (despite there being accomplished designers in top car companies overseas) there is no independent Turkish car company, software engineers proliferate, but there is no Microsoft; bridges can be built but not designed; hosptials can be manned; airports can be built and run, but again better with outside assistance.

Turkish companies should seek out this "missing link" in the UK, and there have been examples of this happening successfully.

Impediments for Turkish Companies in the UK

There is a lack of understanding about how business in an economy such as the UK runs on a day-to-day basis. An example was brought to me at the recent Turkey Awareness day at BERR. A Turkish supplier to Ford Turkey for Transit vans was unable to supply Ford in the UK; the reason given was that the number of SKU's was too small, and Ford UK needed a wider range of parts to be supplied in order to consider the Turkish company as a supplier. I suggested that they join forces with other suppliers in Turkey and sell their products together, as a single supplier, single invoicer. I do not yet have feedback if this suggestion was taken up, or if it was successful, but in a world where systems are less important such as Turkey, the UK becomes a slightly alien environment.

Then there is the vexed Visa system. Unfortunately with the UK intending to issue ID cards to all nationals and residents, any softening of the visa regime for Turkish nationals is not on the cards, but the UK needs to be seen to be listening to visitors, especially business visitors (and is doing its best to do so).

A great deal has been done to simplify visa applications for Turkish citizens, but the recent change to a biometric visa (ie fingerprinting) will certainly lead to frustrations, despite a commitment to simplify applications, as it means the presence of the applicant at a visa centre, and this will not go down well with those Turkish businessmen who have little time or are in a hurry. The Turks are a proud people and can easily take a decision based on feeling, and could decide to do business in what they perceive as a more "friendly" business environment. Luckily for the UK, while Schengen visas are easier to obtain, they are of a limited duration, and so one fingerprint in 10 years can be compared to 10 applications (even 20 applications) in 10 years.

The fact that the FCO is seen to be doing their best to assist, is important, and I hope that they are given the opportunity to make life easier for genuine Turkish businessmen to visit the UK.

Finally, EU Membership

Today it is unclear what the future will bring with regard to Turkish membership of the EU, and I feel that it is becoming increasingly unimportant, as the EU has no choice but to increase business with Turkey. The EU needs the working population (some countries more than others) and the resources that Turkey has; one is reminded of the board game "Risk" where the "Turkey" of the board game is the most important area. Whether it has been drugs, or now energy, Turkey is the conduit from East to West, and increasingly from West to East with contracts in the "stan" countries, with Western capital or know-how, and Turkish management, engineers and workers.

As I mentioned, British support for Turkish membership is important. Britain genuinely recognises the advantages of Turkish membership, even if the advantages are more for the UK than other EU members, and should continue to vociferously support Turkish application.

Even if Turkey does not join the EU, getting itself into a position economically and politically where it could join were it not for obstacles placed by present members, will be almost as important as joining.

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