



House of Commons  
Business and Enterprise  
Committee

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# Keeping the door wide open: Turkey and EU accession

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## The Business & Enterprise Committee

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## Summary

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Over many years, the Trade and Industry Committee, our predecessor, has conducted inquiries into prospects for trade and investment with individual countries. We have continued that process. However, this report is different. In late 2005 Turkey began accession talks with the European Union. Less than three years later, it now seems that some of our EU partners consider Turkish accession inherently undesirable. We strongly support the United Kingdom Government's position that Turkey's accession to the EU offers potential benefits for both sides, and that negotiations should continue with the aim of eventual inclusion of Turkey in the EU.

This not to underplay the difficulties and obstacles. The Irish "No" vote in the referendum on the Lisbon Treaty has led some European leaders to say there can be no enlargement without institutional reform. Turkey itself has faced severe political and constitutional difficulties this year. The country has a relatively large economy, but although it has taken great steps to increase economic growth and reduce inflation, GDP per capita still remains low and inflation high by developed country standards. Turkey's recent growth rate has been very strong, but is now slowing, and there can be no guarantee that Turkey will not suffer from the current global economic turbulence. Political and social reforms will be necessary. Experience from the accession of the new Eastern European member states demonstrates the sensitivities in the EU over flows of labour. At least initially, migration from Turkey will need to be carefully managed. The conflict over Cyprus also has to be resolved. However, the earliest accession can take place is 2014. Given time, these problems can and should be dealt with, but both sides must demonstrate that the will is there.

Our fear is that the negative signals recently sent out by some EU member states will reduce the political will to negotiate. This would be a political disaster. The EU will need to consider the relationship between institutional reform and enlargement, but it should do so in a considered way, rather than by immediately pulling the rug from under all three current candidate countries. Whatever its domestic challenges, Turkey has been pursuing reform. The current crisis, in which its Constitutional Court is considering the legitimacy of the ruling party, is at least taking place within the framework of law, although we recognise it may have extremely serious consequences. However, suspending or frustrating the accession negotiations will signal to a moderate, democratic, secular state that it can never be part of Europe. Whatever the reasons given for any suspension, the belief in Turkey would be likely to be that the country could not join purely because the majority of its population is Muslim. That is not a signal we believe should be given. The EU can afford neither the political nor the economic consequences of a decision by Turkey, however reluctant, to turn its back on Europe.

Whatever its difficulties, Turkey is a large economy, in a key strategic position, with high growth rates, a young population (compared with current EU member states) and sizeable investment flows. Europe risks turning its back on real opportunities whenever individual leaders signal their concerns about Turkish membership. EU accession will also help overcome some of the problems which currently hinder trade between the two parties.

There are risks in accession; but there are also opportunities. The accession negotiations

will take years to come to fruition, and there will inevitably be difficulties which both sides will struggle to overcome. A wholehearted approach to accession talks does not mean that these obstacles can be brushed aside, but it increases the chances that they can be dealt with constructively, and that Turkey and the EU will develop their relationship of mutual respect and mutual benefit. The prospect of deepening this relationship still exists, but it is becoming increasingly strained. Turkey needs to be reassured that, if it demonstrates its commitment to negotiation and reform, that commitment will be fully matched by the EU and that the door to membership remains wide open.

We congratulate the Government on its consistent support for Turkey's membership, and hope that it will continue to make the case for Turkey as a future EU member state—and that it will do so both within the UK and throughout the EU. This country's strong support for Turkey's EU membership should give us a competitive advantage over some of our European competitors, just as ties of history and culture gives us an advantage in India. We believe it prudent to strive for a greater UK market share in Turkey now, in advance of accession and further economic reform, to avoid 'missing the boat' in Turkey as we only narrowly avoided 'missing the last train' in India.

# 1 Introduction

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1. The Trade and Industry Committee, our predecessor,<sup>1</sup> issued a Report on trade with Turkey seven years ago. That Report looked at prospects for EU membership some four years before accession talks opened in October 2005, and at the work of British Trade International, now succeeded by a new trade and investment promotion organisation, UK Trade & Investment (UKTI). After almost three years of accession negotiations, it seemed timely to look at Turkey again. This view was strengthened by the evidence for our inquiry into the economic impact of accession of the ten Central and Eastern European countries in 2004 and 2007, which stressed “the importance of being well informed and investing early in rapidly developing economies”.<sup>2</sup> Accordingly, we undertook an inquiry into economic relations with Turkey, and the implications of Turkish accession to the EU.

2. We received written evidence from a range of organisations, and took oral evidence from the Minister for Trade Promotion and Investment, Lord Jones of Birmingham, and UK Government officials from the Department for Business, Enterprise and Regulatory Reform (BERR), the Foreign and Commonwealth Office (FCO), and UK Trade and Investment (UKTI), which is jointly sponsored by those two departments. The Committee also heard oral evidence from the Confederation of British Industry (CBI) and the British side of the Turkish-British Business Council (TBBC).

3. The Committee visited Turkey in March 2008 as part of the inquiry, holding meetings with business groups and government officials in Istanbul, the country’s business and financial centre, and Ankara, its political centre. The visit made a significant contribution to our understanding of the issues, and to our understanding of the way in which Turks viewed the accession process. We are extremely grateful to the many people we met for their frankness in discussion. We also visited the European Commission in Brussels in February 2008, meeting officials from the Directorates General for EU Enlargement and Trade. A list of people we visited in Turkey is in an annex to this Report. The Committee also contacted a number of UK companies operating in Turkey for their views. We are grateful to all those who gave evidence or otherwise contributed to this inquiry.

4. This report was largely prepared before the Irish vote on the Lisbon Treaty. We note that the conclusions of the European Council held on 19-20 June make no reference to any effect of that vote on EU enlargement.<sup>3</sup> However, it has been reported that the President of France, Mr Sarkozy, Ms Merkel, the Chancellor of Germany, and Jean-Claude Juncker, Luxembourg’s Prime Minister, have said that there will be no enlargement unless there is institutional reform.<sup>4</sup> We believe that the EU should consider the relationship between

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1 See Trade and Industry Committee, Ninth Report of Session 2000-01, *Industrial and Trade Relations with Turkey*, HC 360, and Government response thereto, published in First Special Report of Session 2001-02, *Government Observations On The Fourth, Fifth, Sixth, Eighth, Ninth And Twelfth Reports From The Committee* (HC 197)

2 Trade and Industry Committee, Eleventh Report of Session 2006-07, *Europe moves East: The impact of the ‘New’ EU Member States on UK business*, HC 592, para 80;

3 Presidency Conclusions, European Council 19/20 June 2008, 20 June 2008; [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/101346.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/101346.pdf)

4 “Czech refusal on treaty hits unity hopes”, *Financial Times*, 20 June

institutional reform and enlargement in a considered way, rather than immediately assuming that the accession of the three candidate countries (Croatia, Macedonia and Turkey) is no longer possible.

## 2 Turkey and the European Union

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5. Turkey has a long history of engagement with international institutions. It joined the Council of Europe in 1949 and has been a member of NATO since 1952. It was a founding member of the Organisation for Economic Cooperation & Development (OECD) in 1960. The political relationship between the EU and Turkey dates back at least as far as September 1963, when Turkey became the first country to sign an association agreement—the ‘Ankara Agreement’<sup>5</sup>—with the then European Economic Community (EEC). This included a commitment to eventual Turkish membership. Nonetheless, almost 45 years on Turkey has yet to become an EU member, and there are suggestions from some quarters that it should not do so. It is often claimed that Turkey is not ‘geographically within’ Europe: only around 3% of its land area is on the European continent, the vast majority in Asia Minor. As one commentator noted, Turkey’s detractors claim that it is “too big, too poor and too alien”, so much so that it “can never be a happy member” of the EU.<sup>6</sup> Although we are the Business and Enterprise Committee, we cannot ignore the wider political context in which Turkey’s application to join the EU sits. This chapter therefore examines the political and economic case for Turkish membership of the EU.

### The political case for membership

#### *UK Government view*

6. The Government told us that the UK is “strongly committed to Turkey’s accession”, which it sees as being in the “strategic interests of a prosperous and secure Europe.”<sup>7</sup> The Minister for Europe, Jim Murphy MP, outlined the broader political case in a recent speech. He saw the decision of whether to admit Turkey to the EU as “as important for the EU’s relations with the Islamic World as the accession of the countries of Central and Eastern Europe was for closing the final chapter of the cold war”, and as “about engaging the forces of globalisation rather than retreating from them.”<sup>8</sup> He highlighted mutual benefits for both sides, but noted it was “crucial [...] to map out how both will benefit from Turkish accession.” He said:

The first mutual benefit is strategic: Turkey as a crossroads between East and West, Islam and Christianity, has more than symbolic value. Turkey has a better set of relations in the Middle East than any existing EU member. This will bring a new

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5 "Agreement Creating an Association Between the Republic of Turkey and the European Economic Community", 12 September 1963, entering into force the following year (Relations Between Turkey and the European Union, Turkish Ministry of Foreign Affairs; <http://www.mfa.gov.tr/relations-between-turkey-and-the-european-union.en.mfa>). Turkey had applied for EEC associate membership in 1959.

6 John Thornhill (Editor, FT Europe), “The danger in dashing Turkey’s European dream”, *Financial Times*, 28 April 2008, p11

7 Ev 49 (BERR), summary, para 1

8 “Why Turkish Accession is important for the European Union’s future”, *Speech by the Europe Minister, Jim Murphy MP to Wilton Park Conference on Turkish accession*, 1 April 2008; <http://www.fco.gov.uk/en/newsroom/latest-news/?view=Speech&id=3120417>

dimension to the EU's foreign policy. And both of us, Europe and Turkey need security in the region.<sup>9</sup>

As the Minister noted, in addition to security benefits, accession offers political stability to Turkey and greater influence for Turkey through the EU. We fully acknowledge the current political crisis in Turkey and look at it in more detail in paragraphs 29 and 30. It does not, though, change our basic view.

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

### The economic case for membership

8. It is clear that there will need to be considerable economic reform within Turkey before it can join the EU, but there are no insurmountable economic barriers to its eventual accession. The picture is mixed. Turkey's GDP was \$663 billion in 2007, making it the 17<sup>th</sup> largest in the world and the 7<sup>th</sup> largest in Europe. Turkey's economy is well over half the size of the states which joined the EU in 2004 and 2007 combined, and two-thirds bigger again than Poland, the largest economy in that group (which ranks 22<sup>nd</sup> globally).<sup>10</sup> On the other hand, on a per capita basis Turkey's GDP ranks only 53<sup>rd</sup>, above only Mexico in the 30-member Organisation for Economic Co-operation and Development (OECD), and slightly below Poland.

**Table 1: Turkey: selected economic indicators, 1997-2009**

	GDP	Real GDP	Inflation	Current account balance
	<i>Turkish Lira, bn</i>	<i>% annual change</i>	<i>% annual change</i>	<i>% GDP</i>
1997	68.1	7.5	85.7	-0.8
1998	70.2	3.1	84.7	0.8
1999	67.8	-3.4	64.9	-0.5
2000	72.4	6.8	55.0	-3.7
2001	68.3	-5.7	54.2	1.8
2002	72.5	6.2	45.1	-0.7
2003	76.3	5.3	25.3	-2.6
2004	83.5	9.4	8.6	-4.0
2005	90.5	8.4	8.2	-4.7
2006	96.7	6.9	9.6	-6.1
2007	101.5	5.0	8.8	-5.7 (est.)
2008				
(est.)	105.5	4.0	7.5	-6.7

Source: IMF, *World Economic Outlook*, April 2008

9 *Ibid*

10 IMF, *World Economic Outlook*, April 2008 (database)

9. As the table shows, Turkey's GDP has fluctuated over the last decade, but with average annual growth of 6.8% since 2001 its economy is now almost 50% larger than it was then.

10. However, growth is now slowing, although this still exceeds the expected rates for Western European economies by some margin. Recent IMF and OECD projections forecast that real growth in Turkey will fall, from 5.0% in 2007 to 4.0% in 2008, or even slightly below, before rising slightly to around 4.5% in 2009.<sup>11</sup> A recent PricewaterhouseCoopers assessment suggested that in the years up to 2050 average annual per capita GDP growth in Turkey would be 3.4%, which would bring its GDP to around 70% of the UK's by mid-century.<sup>12</sup> While this level of projected growth is lower than for India and China, it is above Brazil and Russia. It also compares very positively with the projected average rate of 1.9% for the G7 group of developed economies.<sup>13</sup>

11. Although over the medium to long term Turkey's economy looks likely to increase in size relative to most others, the country faces real problems. Concerns over Turkey's large current account deficit were raised both in evidence and on numerous occasions during our visit to Turkey, as well as by economic commentators. Turkey's Economy Minister has said that the current account deficit could widen to \$50 billion in 2008—equivalent to 7% of GDP—up from \$37 billion in 2007.<sup>14</sup> A BERR official said that that Turkey's trade balance was “rather worrying”.<sup>15</sup> The Department's submission highlighted “bouts of financial instability” in 2004, 2005 and 2006, and that the “large current-account deficit and heavy reliance on short-term capital inflows could leave the economy vulnerable to sharp changes in investor sentiment.”<sup>16</sup> The British Chambers of Commerce in Turkey (BCCT) warned that there was “no guarantee that there will not be another correction in the future”,<sup>17</sup> and as the current global economic crisis has developed over recent months, fears for Turkey have increased.

12. Turkey is also struggling to contain inflationary pressures. The central bank has stated that inflation, driven by energy and food prices (as in other countries), could reach 9.3% in 2008,<sup>18</sup> although the IMF has forecast 7.5%, and the bank has recently almost doubled its inflation target for next year to 7.5%, and also increased targets for 2010 and 2011.<sup>19</sup>

11 “IMF Regional Economic Outlook for Europe Sees Slower Growth”, IMF Press Release 08/89; 21 April 2008; <http://www.imf.org/external/np/sec/pr/2008/pr0889.htm> , OECD Economic Outlook No. 83 - Country summaries, <http://www.oecd.org/>

12 Pricewaterhouse Coopers, UK Economic Outlook, March 2008; [www.pwc.co.uk/pdf/UK\\_Eco\\_Outlook\\_mar\\_08.pdf?utr=1](http://www.pwc.co.uk/pdf/UK_Eco_Outlook_mar_08.pdf?utr=1)

13 *Ibid.*, table 4.5, p29 (Note: long-term forecasts for GDP per capita at PPPs).

14 “Economy minister paints mixed picture”, *Turkish Daily News* (website), 30 April 2008; <http://www.turkishdailynews.com.tr/article.php?enewsid=103226>

15 Q2

16 Ev 51 (BERR) para 13

17 Ev 136 (BCCT)

18 The target range is 4.1%-6.9%, see “Turkey bank says inflation will be double its target”, *Financial Times*, 1 May 2008; and “Inflation goal unreachable”, *Turkish Daily News* (website), 1 May 2008; <http://www.turkishdailynews.com.tr/article.php?enewsid=103334>. The main measure of consumer prices increased from 9.2% a year in March 2008 to 9.7% in April, again due to energy and food prices (“Caution at Turkey inflation data”, *Financial Times*, 6 May 2008, p23)

19 “Turkish targets for inflation almost double”, *Financial Times*, 5 June 2008, p6

However, this should be considered in the context of an inflation rate in Turkey of 65% only nine years ago.<sup>20</sup>

13. As that change shows, significant reforms have already taken place. The country responded vigorously to the economic crisis at the beginning of the current decade, restoring macroeconomic stability with support from the International Monetary Fund (IMF).<sup>21</sup> The banking sector was reformed, state industries privatised, and inflation and national debt brought under control.<sup>22</sup> As the UK Trade and Investment Minister, Lord Jones of Birmingham, noted, Turkey has made “huge progress over the past few years”; he believed that Turkey would be able to “weather the storm” of the global economic crisis.<sup>23</sup>

14. There is already a strong trading relationship between Turkey and the EU. The EU is Turkey’s largest trading partner: 52% of Turkey’s exports went to the EU in 2006, while EU countries supply almost 42% of Turkey’s imports.<sup>24</sup> From the EU perspective, Turkey is the 7<sup>th</sup> largest source of EU imports and its 5<sup>th</sup> largest export market.<sup>25</sup> Some 60% of foreign direct investment (FDI) in Turkey comes from the EU.<sup>26</sup> Turkey has a customs union with the EU, which is discussed in more detail in paragraphs 40 to 44 below. The integration already achieved through the customs union is likely to soften the economic effect of accession for both parties. Indeed, the European Commission told us there would not be “a sort of big bang upon accession”, and that “both trade and investments will increase progressively over the next years up to the accession.”<sup>27</sup>

15. The UK Government has little doubt that Turkey’s accession would be economically beneficial to both parties. BERR told us that the “direct net economic benefits would be positive but asymmetric”, with Turkey benefiting proportionately more than the EU.<sup>28</sup> BERR acknowledged that there are inherent difficulties in predicting the economic impact of accession, given the lack of a definite timescale for Turkey’s accession, and consequent “obvious difficulties in predicting the precise economic impact”.<sup>29</sup> Nonetheless, it observed that that accession would “increase the size of the EU internal market and will enable further trade integration through the removal of trade restrictions [and] the abolition of customs controls and some other technical barriers to trade.”<sup>30</sup> It would also increase the population of the EU’s internal market, increasing the number of customers for EU firms and offering economies of scale and gains from competition.<sup>31</sup> EU consumers would gain

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20 Ev 52 (BERR) summary para 19; the general point was also made by the BERR official (Q3)

21 Ev 100 (CBI) para 4

22 Ev 100 (CBI) para 6

23 Q203

24 Ev 100 (CBI) para 9

25 All from European Commission DG trade Turkey page  
[http://ec.europa.eu/trade/issues/bilateral/countries/turkey/index\\_en.htm](http://ec.europa.eu/trade/issues/bilateral/countries/turkey/index_en.htm)

26 Ev 100 (CBI) para 8

27 Ev 109 (European Commission)

28 Ev 49 (BERR) summary para 3

29 Ev 51 (BERR) para 3

30 Ev 49 (BERR) summary para 5

31 Ev 50 (BERR) para 1

from cheaper imports.<sup>32</sup> Lord Jones noted that “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”, as well as from investment from EU structural funds.<sup>33</sup>

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

## Migration

17. Turkey has a population of 73 million, nearly double that of Poland, the most populous of the recent EU accession countries. Two-fifths of the population are aged under 22,<sup>34</sup> and 50 million live in urban areas.<sup>35</sup> An FCO official told us that by 2015 Turkey was projected to have a population of 82 million, and this was expected to rise to 87 million by 2025, which would give Turkey the largest population of any country in the EU.<sup>36</sup> Agriculture remains economically important, accounting for 26% of Turkish employment,<sup>37</sup> but BERR also noted the highly-skilled, competitive labour-force in Turkey.<sup>38</sup> However, employment rates are low, and appear to be falling.<sup>39</sup> This naturally increases concerns about the effects of accession on EU migration. After the experience of large-scale migration to established EU countries following the accession of the eight Eastern European countries in 2004, free movement of labour, as a BERR official told us, will be a “a very big issue” in the accession negotiations.<sup>40</sup>

18. There were mixed views about the level of labour migration from Turkey to the EU which might be expected. One view was that an economically successful Turkey would offer sufficient opportunities at home to make migration less attractive. However the TBBC suggested that even growth faster than the EU’s “probably will not be sufficient to fulfil the aspirations of all young Turks certainly.”<sup>41</sup> Another view, expressed by an FCO official, was that migration could be the “single biggest economic benefit” to the EU, given its aging population.<sup>42</sup> Some observed that migrating Turkish workers were less likely to

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32 Ev 56 (BERR) para 25

33 Q196

34 Ev 125 (TBBCI), para 3.1

35 UKTI, Turkey home page, “Why You Should Choose TURKEY Now?” [https://www.uktradeinvest.gov.uk/ukti/appmanager/ukti/countries?\\_nfls=false&\\_nfpb=true&\\_pageLabel=CountryType1&navigationPageld=/turkey](https://www.uktradeinvest.gov.uk/ukti/appmanager/ukti/countries?_nfls=false&_nfpb=true&_pageLabel=CountryType1&navigationPageld=/turkey)

36 Q73

37 Ev 55 (BERR) para 13

38 Ev 125 (TBBCI) para 3.1

39 See <http://www.oecd.org/dataoecd/39/45/34486779.pdf> p115

40 Q66

41 Q188 (emphasis in original)

42 Q65

choose the UK over Germany, which with its historical connections could expect a disproportionate share of any migration.<sup>43</sup> Others saw the UK as a natural destination for young Turkish people to come to learn English, living and working here but only for a short period before returning home.

19. While the CBI did not take a view on the politics of Turkish EU membership,<sup>44</sup> they said

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.<sup>45</sup>

BERR states that the implications of free labour movement:

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,

and that “it would be premature to attempt to assess the impact” at this time.<sup>46</sup> During our visit to Turkey we found widespread appreciation of the sensitivity of EU countries on this issue, and acceptance that transition periods might be at least as long as for some of the newly acceded countries. We gathered that the seven year safeguards for Romania and Bulgaria on accession would be accepted as part of any eventual agreement for Turkey, and perhaps even ten year safeguards. However, Turkey would not accept permanent safeguards, which the European Commission has in the past said it was considering.<sup>47</sup> The Trade Minister told us that, given that Turkey would be the “most populous nation” in the EU, there “would have to be” transitional arrangements,<sup>48</sup> although he said that the Government did not yet have a view on how long these might be.<sup>49</sup>

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

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43 Q70

44 Q127

45 Q128

46 Ev 49 (BERR) summary para 7

47 “Turkey: the Commission recommends opening accession negotiations”, European Commission website; <http://europa.eu/scadplus/leg/en/lvb/e50015.htm>

48 Q221

49 Q220

## Progress in accession negotiations so far

21. The opening of EU accession talks with Turkey in October 2005 came after a difficult process: after its initial application for EU membership in 1987, negotiations were conditional on Turkey meeting the economic ‘Copenhagen criteria’ that were laid down in 1993 and Turkey was not designated an official ‘candidate country’ until 1999. Formal talks did not begin until 3 October 2005, some 18 years after the original membership application.

22. The EU’s *acquis communautaire*, the body of law that must be adopted before a country can become an EU Member State, is split into 35 policy areas, or ‘chapters’. Negotiations on these began after the initial ‘screening process’ was completed in October 2006. However, progress has been slow. To date, only eight chapters have opened, one of which has been provisionally closed. As one commentator noted: “Obstacles to Turkey’s path towards the European Union lie within Turkey as well as within the borders of the EU.”<sup>50</sup> There are three reasons for the slow progress (each discussed more fully below):

- the progress of internal reforms in Turkey;
- attitudes within the EU, in particular France which is apparently exercising an informal political block on the opening of five negotiating chapters; and
- the Cyprus issue, which has seen the opening of eight chapters being formally frozen.

The following table summarises progress in the negotiations by chapter:

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50 Ann Dismoor, *Turkey decoded*, 2008, p213

**Table 2. Progress in accession negotiations**

Chapter	Progress
1 Free movement of goods	Frozen (Dec '06)
2 Freedom of movement for workers	
3 Right of establishment and freedom to provide services	Frozen (Dec '06)
4 Free movement of capital	
5 Public Procurement	
6 Company law	Open (Jun '08)
7 Intellectual property law	Open (Jun '08)
8 Competition policy	
9 Financial services	Frozen (Dec '06)
10 Information society and media	
11 Agriculture and rural development	Frozen (Dec '06); French informal block
12 Food safety, veterinary and phytosanitary policy	
13 Fisheries	Frozen (Dec '06)
14 Transport Policy	Frozen (Dec '06)
15 Energy	
16 Taxation	
17 Economic and Monetary policy	French informal block
18 Statistics	Open (Jun '07)
19 Social policy and employment	
20 Enterprise and industrial policy	Open (Mar '07)
21 Trans-European Networks	Open (Dec '07)
22 Regional policy and structural instrument co-ordination	French informal block
23 Judiciary and fundamental rights	
24 Justice, freedom and security	
25 Science and research	Closed [provisionally] (Jun '06)
26 Education and culture	
27 Environment	
28 Consumer and health protection	Open (Dec '07)
29 Customs union	Frozen (Dec '06)
30 External relations	Frozen (Dec '06)
31 Foreign, security and defence policy	
32 Financial control	Open (Jun '07)
33 Financial and budgetary provisions	French informal block
34 Institutions	French informal block
35 Other issues	

23. When BERR submitted its evidence in 2007 there was optimism that two chapters (education and culture; judiciary and fundamental rights) would open under Portugal's EU presidency in the second half of 2007.<sup>51</sup> There was also optimism that two or possibly three further chapters (intellectual property rights and company law, and possibly free capital movement) might open in the first half of 2008,<sup>52</sup> and a further two (potentially including energy) could open under the French Presidency in the second half of 2008.<sup>53</sup>

24. In the event, no new chapters were opened in the second half of 2007, and an EU-Turkey accession conference in April was cancelled on grounds of incomplete "necessary technical work".<sup>54</sup> At the EU-Turkey accession conference on 17 June the company law

51 Ev 70 (BERR) annex B

52 The European Commission expressed similar optimism during our visit.

53 Q53

54 *Turkey Analyst* Vol 1 No 5, 23 April 2008, citing Milliyet

and intellectual property negotiating chapters were opened. During our visit to Brussels, the European Commission observed that, unless progress was made by Turkey in addressing the concerns which had led to the blocking of certain chapters, it might be difficult to maintain the momentum of the talks in 2009.

25. This pace of negotiation compares poorly with the progress in negotiations with Croatia, which opened at the same time as Turkey's. Over half (20 out of 35) of the negotiation chapters have now opened with Croatia,<sup>55</sup> and the President of the European Commission, Jose Manuel Barroso, has even expressed a view that Croatia might complete accession negotiations in 2009, enabling accession in 2010.<sup>56</sup> In contrast, no realistic assessment of the likely date of Turkey's accession can currently be made, except that it cannot happen before 2014 for reasons associated with the EU's budgetary cycle. One Government official suggested that accession agreement in 2014 would require "very, very good progress",<sup>57</sup> suggesting instead "hopefully within the decade".<sup>58</sup> **The progress of Turkey's accession talks has been slow—far slower than Croatia's. We believe that with goodwill on both sides it should be possible to speed up the process. We note that Turkey will have to make significant reforms to meet the *acquis communautaire* in many chapters, but we believe that the accession negotiation process promises benefits for both sides, provided that each side is confident the other is acting in good faith.**

### **Turkey: Internal reforms**

26. Before accession can take place, it is clear that more economic and political reform in Turkey is needed. European Commission President Barroso has said that:

the pace of negotiations will depend first and foremost on Turkey's own progress in these reforms. This is the underpinning principle of the enlargement policy of the EU. We are all aware of the overall political realities in EU Member States, but we should seek to avoid fuelling them with further reasons for unnecessary delays.<sup>59</sup>

An EU ministerial statement in December 2007 welcomed some progress on internal reforms, but also criticised "the limited progress achieved in political reform in Turkey in 2007", urging quicker action on protecting freedom of expression and religion.<sup>60</sup> An FCO

55 6th meeting of the Accession Conference at ministerial level with Croatia", Council of the EU press release 10814/08, 17 June 2008; [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/101245.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/101245.pdf) and Slovenian EU Presidency "Accession negotiations with Turkey and Croatia" [http://www.eu2008.si/en/Policy\\_Areas/General\\_Affairs\\_and\\_External\\_Relations/Enlargement/Accession\\_negotiations.html](http://www.eu2008.si/en/Policy_Areas/General_Affairs_and_External_Relations/Enlargement/Accession_negotiations.html)

56 "EU says Croatia on course to join the bloc in 2010", International Herald Tribune, 13 March 2008; <http://www.ihf.com/articles/ap/2008/03/13/europe/EU-GEN-EU-Croatia.php>

57 Q68

58 Q67

59 "Turkey: Master of the Straits, Master of its Destiny", *European Commission President Barroso speech to the Turkish Grand National Assembly*, Ankara, 10 April 2008; [http://www.avrupa.info.tr/Files/Barroso\\_Speech\\_EN.doc](http://www.avrupa.info.tr/Files/Barroso_Speech_EN.doc)

60 "France wins EU concession on Turkey", *FT.com*, 11 December 2007; <http://www.ft.com/cms/s/0/d66887c6-a72e-11dc-a25a-0000779fd2ac.html>

official told us that in February Turkey had adopted new legislation giving greater religious freedom, the ‘Foundations law’, “for which the UK has strongly lobbied”.<sup>61</sup>

27. Economic reform after 2001 was driven by an IMF programme which expired in May,<sup>62</sup> and while there are reports of a possible new IMF arrangement, this is likely to be somewhat less strict than the previous one.<sup>63</sup> During our visit to Turkey we heard mixed views as to whether an ‘external anchor’ for reform was needed once the IMF programme was complete. The TBBC suggested that the EU accession programme “really comes on where the IMF finished.”<sup>64</sup> A BERR official also saw the EU accession process as “a kind of flight path to reform”.<sup>65</sup> Turkey is committed to reform: the Economy Minister has said that Turkey would be able to adopt the *acquis* by 2014 “very comfortably”,<sup>66</sup> while its Foreign Minister has said that by 2013 Turkey will be “able to say, we are ready and then probably ready to wait for the European Union to be ready for Turkey”.<sup>67</sup>

28. Opposition within the EU, which leads Turkey to believe the probability of accession is diminishing, does nothing to help the case for reform. There is no doubt that Turkey has reformed considerably since the economic crises in 2000-2001 for which it deserves considerable credit, but the recent political problems have slowed the pace of internal reform considerably.

29. Two issues, the constitutional court case against Turkey’s ruling party and Article 301, indicate the importance of reform. The constitutional court case brought by Turkey’s chief prosecutor against the ruling Justice & Development Party (AKP) for violating the country’s secular constitution dominated conversations during our visit to Turkey, where many of the people we met in Turkey saw it as the country ‘shooting itself in the foot’.<sup>68</sup> We also note that many of those we met were relatively unconcerned, since they considered Turkey was used to dealing with such crises, which were relatively normal. The court is now considering the case. Since 1962, 24 Turkish political parties have been closed down, but they have not had the AKP’s level of electoral support and it would also “be the first party ever to be shut while in government”.<sup>69</sup> The British Trade and Investment Minister called the case a “distraction”<sup>70</sup> which “feeds the prejudices and the views” of Turkey’s opponents.<sup>71</sup> However, he did not see it as fatal for Turkey’s case.<sup>72</sup> The EU Enlargement

61 Q53

62 Ev 51 (BERR) para 17

63 “Turkey to increase spending ahead of IMF deal”, *Financial Times*, 5 May 2008, p6 and “Doubts as Turkish IMF deal ends”, *Financial Times*, 12 May 2008, p8

64 Q169

65 Q7

66 “EU hails progress in Turkey talks”, *Financial Times*, 20 Dec 2007, p8

67 Transcript of interview with Turkey’s Foreign Minister, Ali Babacan, *Financial Times*, 14 April; He said that 188 laws and 576 pieces of secondary legislation would be needed to meet the *acquis*, and that so far 20 and 98 respectively had been completed (11% and 17% of the total).

68 “Turkish government and old guard in showdown”, *Financial Times*, 24 March 2008, p6

69 “Secular strains: Turkish political Islam comes under new fire”, *Financial Times*, 23 April 2008, p13 & “Not the first ban, not the last: Explainer History of closures”, *The Guardian*, 11 June 2008, p18

70 Q198

71 Q197

Commissioner has noted that in the EU such issues “are debated in the parliament and decided through the ballot box, not in court rooms.”<sup>73</sup> The recent overturning of legislation lifting the headscarf ban, which the constitutional court considered a breach of the secular constitution, has been seen by many as an indication that the court is likely to ultimately uphold the proposed ban on the ruling AKP.<sup>74</sup> Whatever the outcome, however, we also think it notable that Turkey’s current political crisis has come about because of reforms to allow a degree of freedom of religious expression permitted in most EU countries. Turkey may be a country in which Muslims make up the majority of the population, but the balance between secular society and religion is as fiercely contested as it is in France.

30. Article 301 is the part of Turkey’s penal code that outlawed insults to “Turkishness”, and has been deemed incompatible with the EU *acquis*; Turkey’s Foreign Minister noted that this had become an “emblematic” issue for the EU.<sup>75</sup> Turkey recently amended the article,<sup>76</sup> which was seen as “a welcome step forward” by the European Commission,<sup>77</sup> and by the UK Foreign Secretary as “a clear demonstration of Turkey’s commitment to reform” and “a significant endorsement of the fundamental rights and freedoms of all Turkish citizens.”<sup>78</sup> However, concerns have been raised that the changes are not sufficient to protect free speech, or that the reforms will not be implemented in practice.<sup>79</sup>

31. The UK Trade Minister told us that he had seen 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.”<sup>80</sup>

The Minister also saw a “double good effect” from economic reform under the accession process, putting it in “better shape to join” while ensuring a “more successful economy”.<sup>81</sup>

**32. All parties understand that Turkey needs to reform both economically and constitutionally before it can accede to the EU. It would be naïve to underestimate the extent of the changes needed or expect them to be accepted without debate or even**

72 Q198

73 “Statement by Enlargement Commissioner Olli Rehn on the latest development in the prosecution case against the AKP in Turkey”, 31 March 2008; [http://ec.europa.eu/commission\\_barroso/rehn/press\\_corner/statements/index\\_en.htm](http://ec.europa.eu/commission_barroso/rehn/press_corner/statements/index_en.htm)

74 “Turkish court upholds headscarf ban”, *Financial Times*, 6 June 2008, p6 & “Fears for Turkish ruling party as court overturns headscarf law”, *The Guardian*, 6 June 2008, p22

75 Transcript of interview with Turkey’s Foreign Minister, Ali Babacan, *Financial Times*, 14 April;

76 These replaced Turkishness with the “Turkish nation” and reducing jail terms from three to two years, and making prosecutions the decision of the Justice Minister. Amended text at [http://turkishembassy london.org/canon/pressreleases\\_12May2008.htm](http://turkishembassy london.org/canon/pressreleases_12May2008.htm)

77 “Ankara eases free speech law to pacify EU”, *Financial Times*, 1 May 2008, p11, and “Parliament approves 301 amendment, eyes on implementation”, *Turkish Daily News*, 1 May 2008; <http://www.turkishdailynews.com.tr/article.php?enewsid=103289>

78 “The Foreign Secretary welcomes greater freedom of expression in Turkey”, *FCO press release*, 30 April 2008; <http://www.wired-gov.net/wg/wg-news-1.nsf/lfi/160408>

79 “Turkish free speech Erdogan’s reform of Article 301 is still profoundly illiberal”, *Financial Times*, 2 May 2008, p10, “Parliament approves 301 amendment, eyes on implementation”, *Turkish Daily News*, 1 May 2008; <http://www.turkishdailynews.com.tr/article.php?enewsid=103289>, and “Ankara eases free speech law to pacify EU”, *Financial Times*, 1 May 2008, p11

80 Q196

81 Q 210

some resistance. It is extremely likely there will be further political and constitutional difficulties in the years ahead. However, our own experience in Turkey convinced us that there is a readiness to reform among many businesspeople and politicians; Turkey has surmounted political crises in the past. It is important to wait to see how events unfold, rather than to assume immediately that progress is impossible. Only the most extreme events would justify suspension of accession negotiations with Turkey.

### *The 'political block'*

33. Although accession negotiations continue, there are concerns that some EU countries are fundamentally opposed to Turkish membership of the EU. While the German Chancellor, Angela Merkel, has expressed opposition to Turkish accession, her coalition partners favour it and Germany has continued to observe the commitment to Turkey made by the EU at the outset of the accession negotiations.<sup>82</sup> Some other EU countries are also thought to oppose Turkish accession, though this opposition remains, for the moment at least, latent.

34. However, opposition from France is currently seen as the greatest political barrier in the EU to Turkish accession. President Sarkozy made his opposition to Turkey's EU membership clear during his election campaign. France has indicated that it would prefer a 'privileged partnership' for Turkey, which would stop short of full EU membership; but Turkey has indicated that it would find this unacceptable.<sup>83</sup>

35. We were told that France has instigated an informal 'political block' on the opening of certain negotiation chapters it believes 'pre-judge' accession, or as an FCO official put it there are "potential French political reserves on the five chapters that [the President] deems to imply eventual full membership of the European Union."<sup>84</sup> The blocked chapters are: agriculture and rural development; economic and monetary policy; regional policy and structural instruments; financial and budgetary provisions; and institutions.<sup>85</sup> (One of these (agriculture and rural development, which covers the Common Agricultural Policy) is also formally blocked due to the Cyprus issue.) The French position has apparently led to "a backlash against French commercial interests in Turkey."<sup>86</sup> The FCO official noted that the role of French corporate sector could prove important "if they perceive some of their interests to be negatively affected, such as perhaps Gaz de France."<sup>87</sup> However, during our visit the European Commission noted that despite France's concerns it was content for the accession negotiations to proceed. Indeed, one commentator observed a 'softening' of

82 The Trade and Investment Minister also made this point (Q207), as did the FCO official (Q54).

83 France's 'Mediterranean Union' proposals have been seen as a way to deliver privileged partnership. Turkey has not yet confirmed whether it will take part, its involvement will likely depend on the details of the proposals ("Turkey in no hurry on Med Union", *Turkish Daily News*, 6 May 2008; <http://www.turkishdailynews.com.tr/article.php?enewsid=103755>)

84 Q62. The *Financial Times* reported that President Sarkozy only agreed to the opening of two chapters in December 2007 in return for a 'reflection group' on the EU's long term future challenges ("EU hails progress in Turkey talks", *Financial Times*, 20 Dec 2007, p8).

85 Q62

86 John Thornhill (Editor, FT Europe), "The danger in dashing Turkey's European dream", *Financial Times*, 28 April 2008, p11

87 Q54

France's tone in recent months,<sup>88</sup> and more accession negotiation chapters are expected to be opened under France's EU Presidency which runs from July 1<sup>st</sup> 2008.

36. The Turkish Prime Minister, Mr Erdogan, has noted that reduced support for EU membership in Turkey, and therefore for the reform necessary to achieve it, is a direct result of the negativity emerging from some EU countries: "Our EU allies are responsible for this diminished trust".<sup>89</sup> Asked about the accession process from Turkey's perspective, an FCO official said that in Turkey there was "a sense that there is not a level playing field in terms of the speed in progressing accession."<sup>90</sup>

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

### Cyprus: Chapters frozen

38. The division of the island of Cyprus, dating back to 1974, continues to obstruct progress in Turkey's accession talks.<sup>91</sup> Turkey faced the difficult issue of extending the customs union to Cyprus after it acceded to the EU in 2004.<sup>92</sup> It failed to meet its customs union commitments by not opening its ports and airports to Cypriot vessels,<sup>93</sup> an issue that had threatened to completely derail Turkey's accession negotiations. However, in December 2006 the EU decided to block the opening of eight chapters, broadly customs-union related,<sup>94</sup> and the closure of any chapters until Turkey meets these commitments. An FCO official noted that the opening of the energy chapter in the accession talks was also being affected by the Cyprus issue,<sup>95</sup> with Turkey disputing Cyprus's plans to drill offshore within its own territorial waters.<sup>96</sup>

39. The election of a new President of the Republic of Cyprus, Demetris Christofias, in February has been followed by some progress. Since then, there have been initial talks between the leaders of the Greek south and the Turkish north, the opening of the

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88 John Thornhill (Editor, FT Europe), "The danger in dashing Turkey's European dream", *Financial Times*, 28 April 2008, p11

89 "EU allies to blame for diminished support", 12 April, *Turkey Analyst* Vol 1 No 5, 23 April 2008, p18

90 Q81

91 Between the 'Turkish Republic of Northern Cyprus', ('TRNC', being recognised only by Turkey) and the Greek Republic of Cyprus in the south of the island.

92 "Cyprus in frame as Ankara weights customs move", *Financial Times*, 26/27 March 2005, p7

93 Ev 51 (BERR) summary para 5

94 Q62

95 Q53

96 Q79 & Q81

long-blocked Ledra Street crossing in Nicosia, a visit from the UN special envoy, the establishment—and initial meetings—of study groups and technical committees under UN auspices, and a further meeting of the two leaders on 23 May.<sup>97</sup> The EU also recently amended a regulation regarding the Green Line in Cyprus, the line dividing the Greek south from the Turkish north, to encourage trade.<sup>98</sup> This removes tariffs on agricultural goods from the north and almost doubles the value of personal goods that can be taken across the line. **Turkish accession to the EU is impossible while there is continued disagreement over Cyprus, but encouraging efforts are being made to resolve that situation. Although it is inevitable that some chapters will be blocked until then, we support continued accession negotiations in as many chapters as possible.**

## EU-Turkey customs union and trade relations

40. The EU and Turkey already have strong economic and trade links. The 1963 Ankara Agreement envisaged an EU-Turkey customs union, and in 1970, an Additional Protocol to the Ankara Agreement set a timetable for abolishing tariffs and quotas. In 1995 the economic relationship developed further with the Customs Union Agreement, which took effect the following year. The customs union covers most industrial products and processed agricultural goods, and allows these to circulate tariff-free between the EU and Turkey.<sup>99</sup> However, it does not cover services.

41. Since implementation of the customs union in 1996, EU exports to Turkey have tripled to \$58 billion a year, and Turkish exports to the EU quadrupled to \$48 billion.<sup>100</sup> The Trade and Industry Committee's 2001 Report came five years after the customs union was created. While it noted progress on meeting some customs union requirements, it drew attention to deficiencies in the institutions established to govern the customs union.<sup>101</sup> Seven years on from that Report the TBCCI note that the customs union “has made Turkish firms more efficient and competitive.”<sup>102</sup> A BERR official shared this view, saying that the customs union had “opened up competition into bits of the Turkish economy which had not faced it previously”, and so “has been very popular with some and extremely unpopular with others” in Turkey.<sup>103</sup> One businessman we met in Turkey called the customs union a “good school to prepare Turkey for competitiveness”. However, twelve years after the customs union entered into force, numerous problems persist and its rules are not fully or consistently adhered to. These issues—including certification requirements,

97 “Substantial issues covered in talks”, *Turkish Daily News* (website), 1 May 2008; <http://www.turkishdailynews.com.tr/article.php?enewsid=103298>. Study Groups: Administration and Power Allocation, EU issues, Guarantees and Security, Land, Property and Economical issues. Technical Committees: Crime/Issues Related to Crime, Economical and Commercial issues, Cultural Heritage, Crisis Management, Humanitarian issues, Health and Environment. (according to *Turkey Analyst* Vol 1 No 5, 23 April 2008, p19)

98 “Conclusions of General Affairs and External Relations Council, 16 June 2008”, EU Council press release (10725/08) – provisional, 16 June 2008, p20; [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/gena/101235.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/101235.pdf)

99 Tariffs on other agricultural goods were to be addressed through further negotiations.

100 Ev 100 (CBI) para 9

101 For example, the Customs Union Joint Committee, had not met as often as planned HC(2000-01) 360, para 21

102 Ev 125 para 3.1

103 Q36

discriminatory taxation, and customs processes—are explored in paragraphs 92 to 95. **Whatever the problems with the customs union, there is little doubt that it has led to far deeper economic integration between Turkey and EU countries, to the benefit of both parties, than would have happened without it.**

42. If there are concerns on the EU side, there is also dissatisfaction in Turkey. Turkey's customs union membership means that it must impose the EU's common external tariff on its imports. Preferential tariffs offered by the EU to certain trade partners, for example through free trade agreements or unilateral preferences granted to developing countries, must be applied in Turkey.<sup>104</sup> This situation was highlighted by the Trade and Industry Committee Report in 2001,<sup>105</sup> and remains unresolved. BERR highlighted the fact that Turkey sees this situation as unfair,<sup>106</sup> and Turkish officials also raised the issue during our visit. This problem has the potential to become more acute since the EU is pursuing several 'new generation' free trade deals which threaten to lead to the lowering of Turkey's tariff barriers to competitive exports from countries like India and South Korea. However, neither BERR officials nor the Trade Minister thought it likely that the issue was serious enough to undermine the customs union,<sup>107</sup> by for example leading Turkey to seek to 'downgrade' the customs union to a simple free trade agreement.

43. The CBI noted that Turkey's trade defence policy—covering anti-dumping tariffs, anti-subsidy measures and safeguards—was operated independently of EU policy, and was “often not as rational, business friendly or as compliant with WTO norms as the EU's”.<sup>108</sup> It singled out Turkey's measures against Chinese textiles and footwear imports,<sup>109</sup> an issue also raised by Debenhams, which sources 45% of its products from China, and said these were imposed without warning and prevented plans to open another store in Turkey.<sup>110</sup> There are also anti-dumping cases on both sides,<sup>111</sup> and a pharmaceutical-related EU Trade Barriers Regulation case against Turkey.<sup>112</sup> Accession should see these issues resolved because, as BERR state, trade would then “be subject to internal market and competition disciplines not trade defence.”<sup>113</sup> Accession would also open up trade in services, to which the customs union does not apply.

**44. Although the EU-Turkey customs union has been beneficial, problems remain. The accession negotiations should produce reforms which overcome these problems. For example, we note Turkey's frustration with its exclusion from the EU negotiations that ultimately determine its tariff levels. Accession would obviously resolve this problem,**

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104 European Commission, Directorate-General for Trade, Bilateral trade talks, Turkey [http://europa.eu.int/comm/trade/issues/bilateral/countries/turkey/index\\_en.htm](http://europa.eu.int/comm/trade/issues/bilateral/countries/turkey/index_en.htm)

105 HC (2000-01) 360

106 Ev 50 (BERR) para 6.7 & Q38

107 Q46 and Qq230-232, and Qq233-234

108 Ev 103 (CBI) para 34

109 Ev 104 (CBI) para 41

110 Ev 109 (Debenhams)

111 Ev 50 (BERR) para 2

112 Ev 103 (CBI), para 35

113 Ev 50 (BERR) para 4

as Turkey would then take part in EU trade policy on the same basis as other Member States. However, this will not address Turkish concerns in the short-term. The Government should work with the EU to ensure Turkey is properly consulted on trade negotiations which may affect it, particularly free trade negotiations with countries such as India and South Korea. In its turn, Turkey should address the problems arising from the way in which it has implemented the union, and remove unnecessary barriers to trade.

## Conclusion

45. We share the view expressed recently by one commentator, the Financial Times' Europe editor, John Thornhill, that:

it is clear that further convergence between the EU and Turkey benefits both sides. For the moment, it is better to travel hopefully together than to squabble about the final destination. To impede Turkey's accession process is therefore folly, turning the EU's magic potion into poison and threatening the instability it was created to prevent.<sup>114</sup>

Turkish membership of the European Union potentially offers benefits for both sides. There are strategic benefits in co-operation on security. Economically, if Turkish growth is as impressive as predicted, it will be an asset to the EU. The two economies are already highly integrated through the customs union. Further integration would open up markets on both sides. We are encouraged by the UK Trade Minister's view that Turkey has committed to reform for its own sake. Nonetheless, a decline in some EU member states' enthusiasm for Turkish accession has reduced public support for change in Turkey. More positive EU attitudes toward Turkish accession could reinvigorate enthusiasm in Turkey for the reforms necessary to meet the EU's *acquis communautaire*. We wholeheartedly agree with the Government that "Turkey and the EU have a shared destiny".<sup>115</sup> It should be made clear that, as long as Turkey is committed to achieving the *acquis*, the door to accession remains wide open.

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114 John Thornhill (Editor, FT Europe), "The danger in dashing Turkey's European dream", *Financial Times*, 28 April 2008, p11

115 "Why Turkish Accession is important for the European Union's future", *Speech by the Europe Minister, Jim Murphy MP to Wilton Park Conference on Turkish accession*, 1 April 2008; <http://www.fco.gov.uk/en/newsroom/latest-news/?view=Speech&id=3120417>

## 3 UK-Turkey trade

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### Trade with the UK

46. We now turn to the bilateral relationship between the United Kingdom and Turkey, rather than the relationship between Turkey and the EU as a whole. UK-Turkey trade is already significant. In 2006, Turkey was the 19<sup>th</sup> largest source of goods imports to the UK, while it was our 20<sup>th</sup> largest destination for goods exports.<sup>116</sup> Goods trade with Turkey increased by 71% from 2002 and 2006. However, that absolute increase was accompanied by a decline from third to eighth in the UK's relative position on bilateral trade over the same period.<sup>117</sup> The UK's share of total trade fell from 4.7% to 3.7%. Other Western countries have experienced the reductions in their share of total trade,<sup>118</sup> as Turkey has seen a "surge in exports" from China, Russia and Iran (primarily energy-related).<sup>119</sup> Germany's share of goods trade with Turkey dropped from 13.7% in 2002 to 10.6% in 2006, while France's share fell from 5.9% to 5.2%.

47. More recently, statistics provided by BERR suggest, worryingly, that exports to Turkey fell by almost 6% between 2006 and 2007.<sup>120</sup> However, the Trade and Investment Minister suggested that the trade statistics failed to reflect the UK's 'true' level of trade with Turkey, because of statistical distortions such as the booking of all Airbus exports to Turkey as entirely French exports, despite very significant British input.<sup>121</sup>

### UK Trade & Investment (UKTI)

#### *UKTI resources & strategy*

48. The CBI told us that UKTI "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."<sup>122</sup> UKTI designated Turkey one of seventeen high growth emerging markets in its 2006 strategy.<sup>123</sup> Staff presence in Turkey increased by a third (from 15 to 20), with new resources in Istanbul, Ankara and Izmir.<sup>124</sup> In addition, a business adviser has been appointed for Turkey, as part of UKTI's High Growth Markets initiative, which is intended to help bring medium-sized UK companies into high-growth markets. The Minister said that it was too early to judge the results of the new adviser,<sup>125</sup> and the same is true of the

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116 Office of National Statistics, *Pink Book 2007*, table 9.12

117 Ev 49 (BERR) summary para 9

118 Q52

119 Q48

120 Ev 83 (BERR)

121 Q254

122 Q105

123 In 2001, the Trade and Industry Committee's Report noted that Turkey was one of the then 10 priority emerging markets for UKTI's predecessor, Trade Partners UK (see Annex A to HC (2000-01) 360).

124 Q9 and Q242

125 Q249

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

49. As the table below shows, UKTI programme expenditure in Turkey, which covers spending on trade fairs, visit support and sector-based seminars and trade missions, has fluctuated over the past few financial years:

**Table 3: UKTI programme expenditure in Turkey, 2003/04-2008/09**

	Programme expenditure (£)
2003/04	118,799
2004/05	166,782
2005/06	177,417
2006/07	122,416
2007/08	103,381
2008/09	143,000 (forecast)

Source: UKTI

We welcome the fact that programme expenditure in Turkey is set to increase by nearly 40% in 2008/09.

### **Raising awareness**

50. As the TBBC noted:

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.<sup>126</sup>

51. BERR said that “the challenge remains for us to reach into UK boardrooms to understand and counter the caution that business appears to exhibit towards Turkey.”<sup>127</sup> UKTI’s Turkey strategy includes work on raising awareness of the opportunities in Turkey. For example, UKTI has a network of ‘Turkey champions’ in UKTI’s regional offices, and a series of regional road-shows to support this work.<sup>128</sup> In addition, UKTI is using its website to address “information failures”.<sup>129</sup> **We strongly support UKTI’s efforts to raise awareness of opportunities in Turkey. We expect that an evaluation of the extent to which this has worked will be produced and request a copy of the conclusions. We would be particularly interested in an evaluation of the relative effectiveness of the web presence, the programme of road shows and the network of ‘Turkey champions’ for**

126 Q151

127 Ev 50 (BERR) summary para 10

128 Q16

129 Ev 79 (BERR) Annex C, para 2

**different sized companies. Up-to-date market information is essential, particularly where there is a need to raise awareness of the opportunities available.**

52. Turkey has been selected under the “Promoting the UK economy and British business” theme of the ‘Public Diplomacy Pilot’—a two year scheme from April 2007 with around £300,000 of funding from the Foreign Office and the British Council.<sup>130</sup> ‘Public Diplomacy’ is the term the FCO uses to describe its work with the public overseas. This will promote the areas in which the UK has expertise, including the City of London, legal structure, and professional development and business management (including corporate social responsibility).<sup>131</sup> We were told there were six projects in Turkey so far including a UK-Turkey lawyer link to identify legal obstacles to investment in Turkey.<sup>132</sup> **We support the aims of the Public Diplomacy Pilot, and the additional funding of around £300,000 over two years. We note that evaluation is central to the pilot, and look forward to the results of that evaluation.**

### *Small & medium-sized enterprises (SMEs)*

53. The British Chambers of Commerce in Turkey (BCCT) said that while a number of large companies have “taken the plunge” in recent years, “there are not enough SMEs coming to Turkey.”<sup>133</sup> However, TBBC noted that “a small organisation might find they get lost trying to penetrate the Turkish market”.<sup>134</sup> The CBI had similar views, saying that Turkey was “probably not suitable for the very small companies”, rather than “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” (see paragraphs 90 to 102).<sup>135</sup> The Trade Minister acknowledged the difficulties for SMEs in entering the Turkish market, but noted that supply chains and “a bit of help from their mates down the road” could help.<sup>136</sup> He said that if Turkey joined the EU, modern communications links might mean that for a UK-based SME Turkey “could be as much its home market as five miles down the road”.<sup>137</sup>

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

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130 Ev 77 (BERR-UKTI)

131 Ev 77 (BERR-UKTI)

132 Ev 77 (BERR-UKTI) & Q44

133 Ev 136 (BCCT)

134 Q157

135 Q85

136 Q250

137 Q253

## Turkish-British Business Council (TBBC)

55. The Turkish-British Business Council (TBBC) is a bilateral organisation of private companies operating in each others' markets, with British and Turkish co-chairmen. The Committee met with the Turkish co-chair during its visit to Turkey, and took oral evidence from representatives from the British side of the Council. The UK co-chairman explained that TBBC "facilitates high level networking contacts" for British companies operating in Turkey, and identifies "collaboration opportunities".<sup>138</sup>

56. The UK co-chairman emphasised that the TBBC's work was carried out with "extremely limited" public resources, of "£5,000, including VAT" over the last 18 months for secretariat support: "not much if this is a priority market."<sup>139</sup> The independent, non-profit making Middle East Association (MEA) provides the secretariat support and covers remaining costs, which until 2005 were provided by UKTI (with some private sector funding).<sup>140</sup> The MEA's Director General described the UKTI's funding as "a minimum payment".<sup>141</sup> The TBBC said that with more funding it "could be doing an awful lot more",<sup>142</sup> such as providing advice on disputes with Turkey to UK companies,<sup>143</sup> work on areas like "legal, financial reform",<sup>144</sup> and corporate governance seminars for Turkish companies.<sup>145</sup>

57. The TBBC's UK co-chair explicitly called for "encouragement from government [...] to increase funding in a more systematic way".<sup>146</sup> When we asked the Trade Minister about funding he responded: "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, [...] nor should they do"<sup>147</sup> The Minister said that UKTI would "absolutely not"<sup>148</sup> match-fund private contributions from TBBC members. However, we note that the UKTI strategy has included the aim "to strengthen institutional weaknesses in key networks (e.g. the TBBC)" for the last two years.<sup>149</sup>

**58. UKTI's Turkey strategy highlights the need to address institutional weaknesses: a stronger TBBC could help. Our inquiry into Trade with India demonstrated the extent to which business councils can play a significant part in promoting bilateral relationships between the UK and particular markets. We believe there is potential for far greater involvement of the private-sector in UK-Turkey relations. The Government**

138 Q146

139 Q146; UKTI funded the MEA with £11,000 2007/08, of which £5,000 was for secretarial costs (Q255).

140 Ev 83 (BERR-UKTI)

141 Q148

142 Q152

143 Q166

144 Q179

145 Q152

146 Q179

147 Q256

148 Q257

149 Ev 79 (BERR) Annex C, para 2

should work with UK businesses operating in Turkey to establish what is needed for the TBBC to flourish. It may be appropriate to offer it seed funding or a degree of match funding. However, in our India report earlier this year we expressed concern about the independence of business councils as a result of their receipt of public funds; consequently we believe that whatever public support it receives, the TBBC should remain autonomous from Government.

### *Trade Minister's visit, September*

59. The British Chambers of Commerce in Turkey told us that “visits to Turkey by British Ministers or senior civil servants are few and far between”.<sup>150</sup> The lack of trade visits was accepted as a fair criticism by the UKTI Director who covers Turkey.<sup>151</sup> However, this may be changing. The Queen made a state visit to Turkey in May.<sup>152</sup> The Trade and Investment Minister is planning to visit Turkey in September—the first visit to the country by a UK trade minister in “at least 15 years”.<sup>153</sup> The Minister told us that during his visit he expected to meet with Turkey’s trade, defence and education ministers,<sup>154</sup> and that he would be accompanied by a business delegation, including smaller as well as larger businesses.<sup>155</sup> He was also happy for the CBI and the TBBC to accompany him.<sup>156</sup>

60. The TBBC “would very much like” to be involved in the visit,<sup>157</sup> and the CBI was also strongly supportive of the visit:

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.<sup>158</sup>

BERR said it wanted dialogue at ministerial level to address market access difficulties in Turkey.<sup>159</sup> The CBI, for example, raised intellectual property rights and customs union obligations as key issues that they thought should be raised during the visit.<sup>160</sup>

**61. While it is unfortunate that it has been at least fifteen years since a UK trade minister went to Turkey, it is extremely encouraging that this oversight will be addressed this September. Ministerial involvement is essential to help overcome**

150 Ev 136 (BCCT)

151 Q49 & Q50

152 “Royal visit gives Turkey a scent of EU prize”, *The Times*, 16 May 2008, p9

153 Q242

154 Q282

155 Q282

156 Ibid

157 Q153

158 Q111

159 Ev 50 para 8-9, and Q16

160 Q111

**barriers to trade in Turkey, and so enable greater British economic involvement. We hope that the cycle of visits from UK ministers with portfolios of interest—not least education—becomes more regular after September and look forward to receiving the report on the visit.**

## A new inter-governmental forum

62. Political and economic links with Turkey are strong, and are being strengthened. A new bilateral ‘strategic partnership’ was agreed on 23 October 2007 during the Turkish Prime Minister’s visit to the UK.<sup>161</sup> Not only will it promote bilateral trade and investment, and support Turkey’s EU accession bid, but the partnership would also include “defence, global security, promotion of the transatlantic partnership, regional stability and peace, tackling climate change, promotion of education and culture”.<sup>162</sup> UKTI’s strategy speaks of establishing a UK-Turkey “high level Government to Government forum”.<sup>163</sup> The Trade Minister told us there had been delays resulting from “inactivity at the Turkish end”,<sup>164</sup> but that the Government to Government forum would meet for the first time when he visited Turkey in September.<sup>165</sup> The Minister said he hoped the forum would focus on one or two priorities for the year ahead, and appeared to imply that the problems encountered by the UK alcoholic drinks industry could be on the forum’s agenda.<sup>166</sup>

63. UKTI officials said the forum would not be as “complicated” as existing ‘JETCOs’,<sup>167</sup> the bilateral joint economic and trade committees established with China, India and Brazil. Although he held out the prospect of development in “three to four years’ time”,<sup>168</sup> the Trade Minister was clear that for the time being the forum would only operate at the ministerial level, rather than taking the multi-faceted approach of a JETCO. The CBI supported the strategic partnership,<sup>169</sup> and said that “legal enforcement of existing obligations” should be its top priority, followed by an examination of “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.”<sup>170</sup> However, it warned that the forum needed to “actually deliver”,<sup>171</sup> and that it was important to ensure 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

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161 See Ev 70 for details

162 Ev 121 (TBCCI) para 1.1.1

163 Ev 71 Annex C para 1 (2007/08)

164 Q268

165 Q267

166 Q271

167 Q25

168 Q272

169 Ev 105 (CBI), para 47

170 Q143

171 Q139

indeed find ways of delivering effective results. As you know from our previous evidence, we are not greatly supportive of talk shops.<sup>172</sup>

64. The TBBC considered the forum offered an opportunity to “fast track review” of disputes,<sup>173</sup> but they too hoped that the forum would not be “just another thing that is signed and then forgotten about”.<sup>174</sup> They said the TBBC could take on “a more significant role” with the forum, subject to “proper resource”.<sup>175</sup> A UKTI official said that TBBC could meet alongside the forum,<sup>176</sup> and that UKTI expected that the forum would be “working very closely with” TBBC in identifying issues.<sup>177</sup>

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

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172 Q139

173 Q166

174 Q179

175 Q178

176 Q19

177 Q21

## 4 Opportunities & barriers

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### Opportunities in the Turkish market

66. As in our recent inquiries into trade with Brazil, India and Eastern Europe, we were told regularly both in Turkey and in evidence that the UK is ‘losing out’ to EU competitors in the race for business. In the case of Turkey there is a widespread view that Germany and France, and to a lesser extent Italy, are more successful in taking advantage of the opportunities that Turkey offers. However, it is difficult to establish this with certainty from the data provided in evidence to this inquiry. As noted above, France and Germany have seen their share of trade with Turkey decline as has the UK, but the proportionate fall for Germany from 2002 to 2006 was greater than the UK’s, although the UK’s fall was greater than that for France.

67. The TBBC said the decline in the UK’s position was due in part to tradition and in part to priorities.<sup>178</sup> Turkey is not a “traditional” market for UK businesses, and it does not benefit from the historical links that both Germany and France have with Turkey. The CBI supported this view: “Turkey has not been seen as a classic slam-dunk British market in the way that some others have”, which they saw as being due to “information availability, familiarity with the market and also a trade-off against opportunities elsewhere in the world.”<sup>179</sup> Unfamiliarity breeds uncertainty, as “something new brings with it unknown risks”.<sup>180</sup> One example, also noted by the TBBC, is the unusual requirement for companies to register with the local chamber of commerce in Turkey.<sup>181</sup> **We were concerned to hear views expressed in Turkey that the UK is losing out to its competitors in Turkey—although we have not seen conclusive data to support this—just as we have previously seen the UK losing out to competitors in India and Brazil. The Germans and the French have certainly benefited from historical links with Turkey, and are more accustomed to doing business there. However, it was abundantly clear from our visit that Turkey is very open to doing business with the UK, not least because of the UK’s unwavering support for Turkish membership of the EU. As this report outlines, there are numerous opportunities available in Turkey. These opportunities are not risk-free, but businesses could benefit greatly from pursuing them.**

68. BERR told us that, despite the difficulties, around 10% of foreign-owned businesses in Turkey are British-owned, with some 1,420 registered companies with UK capital in Turkey.<sup>182</sup> There are certainly some large, high-profile UK companies operating in Turkey, including Vodafone, Tesco, Diageo, Thames Water, HSBC, Cadbury Schweppes, and Imperial Tobacco.<sup>183</sup> The CBI also noted Aviva, BP, Shell and Unilever,<sup>184</sup> and the TBBC

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178 Q151

179 Q89

180 Q160

181 Q156

182 Ev 57 (BERR) para 34

183 Ev 130 (Turkish Embassy) , Ev 50 (BERR) para 2 & Ev 121 (TBCCI), which says 413 before June 2003.

184 Ev 100 (CBI) para 11

noted Marks & Spencer, Argos, John Lewis, Matalan, Next, Sainsbury's, Morrison's, Dagenham and Harvey Nichols.<sup>185</sup> In February British American Tobacco bought Tekel, the state-owned cigarette manufacturer, for £874 million (\$1.72 billion).<sup>186</sup> UKTI suggested that significant investments by such companies in the past few years suggested a “growing interest on the part of UK companies in investing in Turkey.”<sup>187</sup> **The presence of a number of large and high-profile British companies operating in Turkey, and the growing investment interest, should encourage other companies considering this market. As noted above, it may be a market more suitable for medium to large companies, but opportunities exist across the board.**

69. The evidence from BERR and the CBI detail the opportunities and barriers in Turkey.<sup>188</sup> The remainder of this chapter summarises these, and looks at some specific sectors and issues.

70. Turkey is not a ‘low cost’ producer in the vein of India or China, but as the British Chamber of Commerce in Turkey (BCCT) said it is certainly “lower than the UK cost”.<sup>189</sup> It therefore “makes sense for British companies to move part of their manufacturing from the UK to Turkey, retaining Research and Development, marketing and head office functions in the UK.”<sup>190</sup> The BCCT also noted that buying into Turkish competitors was a good way to address the competition from the Turkish market, especially “when one takes into account the fact that most Turkish SMEs are under capitalised.”<sup>191</sup> UKTI's website notes that: “Turkey is rapidly becoming an ‘operation and production hub’ for multinational companies.”<sup>192</sup>

## Sectors of interest

71. The Trade and Industry Committee's 2001 Report on Turkey highlighted a range of sectors: healthcare, construction, engineering, environment, infrastructure, automotive components, security, and food processing and packaging.<sup>193</sup>

72. The evidence for this inquiry demonstrated a similarly wide range of sectors of interest. Among them were:

- environment,

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185 Ev 124 (TBCCI) para 1.3.3

186 “BAT buys Turkish cigarette firm”, *BBC News*, 22 Feb 2008, and “BAT win reinforces Turkish presence”, *FT.com*, 23 February 2008

187 Q33

188 Ev 80 (BERR) and Ev 100 (CBI)

189 Ev 136 (BCCT)

190 Ev 136 (BCCT)

191 Ev 136 (BCCT)

192 UKTI, Turkey home page, “Why You Should Choose TURKEY Now?”; [https://www.uktradeinvest.gov.uk/ukti/appmanager/ukti/countries?\\_nfls=false&\\_nfpb=true&\\_pageLabel=CountryType1&navigationPageId=/turkey](https://www.uktradeinvest.gov.uk/ukti/appmanager/ukti/countries?_nfls=false&_nfpb=true&_pageLabel=CountryType1&navigationPageId=/turkey)

193 HC (2000-01) 360

- water and wastewater,
- agriculture, and
- mass transport (ports).

These four sectors were identified as UKTI's priority sectors for 2008/09, which means they will receive about three-quarters of the total resource available. In addition, UKTI considers the following as 'opportunity sectors', where one major event is to be held annually:

- mass transport (airports),
- financial and legal services,
- ICT, and education and training.<sup>194</sup>

UKTI officials also highlighted the power sector,<sup>195</sup> while the Trade Minister also emphasised education and training.<sup>196</sup>

73. The CBI identified many priorities, most falling within the sectors listed above, with some additions such as police and security and agribusiness.<sup>197</sup> They also noted "considerable funding from the EU" for general infrastructure.<sup>198</sup> TBBC produced a similarly broad list, which highlighted infrastructure and retailing as opportunity sectors,<sup>199</sup> and also foresaw opportunities in retail and financial banking as Turkey opened up those sectors, as well as opportunities arising from EU funded projects such as in consultancy.<sup>200</sup>

74. The customs union is currently limited to goods; there are sectors where accession will make a real difference, such as services trade. Accession will open other parts of the Turkish economy, for example, giving equal access to procurement contracts. A BERR official noted services as a "big area" missing from the customs union.<sup>201</sup> The UK service sector is extremely strong and a clear area of comparative advantage. Although recent economic reforms in Turkey have seen some progress made, for example in freedom to invest in the country, services sectors in Turkey remain heavily protected. Full liberalisation of trade in services is likely to be of great benefit to UK companies.

75. The Trade Minister highlighted the importance of the defence and security sector, following the shift in responsibility for exports in that sector to UKTI from the Ministry of Defence's Defence Export Services Organisation (DESO) in April 2008. He said the UK does "not anywhere near punch our weight in selling defence equipment to Turkey", and

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194 Ev 80 (BERR)

195 Q29

196 Q240

197 Ev 101 (CBI)

198 Q87

199 Q154

200 Q158

201 Q39

that exports of around £40 million last year “should be increased substantially.”<sup>202</sup> **The strategic partnership document refers to a memorandum of understanding between DESO and the relevant Turkish authorities,<sup>203</sup> although it is unclear whether this is proposed or signed and we seek clarification on this point.**

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

### **Energy**

77. Although Turkey itself is heavily dependent on imported energy from Russia and Iran, it has great potential as an energy hub or gateway for the EU, not least because of its strategic position, bordering eight other countries in the region.<sup>204</sup> The CBI noted that Turkey is close to 71% of the world’s proven gas and 73% of oil resources, and a “natural hub between several vital energy suppliers and energy consumers.”<sup>205</sup> BERR emphasised the “potentially large role” for Turkey in future EU 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.”<sup>206</sup> However, as one analyst has noted, Turkey:

has occasionally been undermining its own claim of being an energy bridge by making exaggerated demands. Turkey is still hesitant about accepting a transit regime, because of lingering ideas at some quarters that Turkey, rather than becoming a major transit hub for Europe should opt for a role as a seller of energy bought at lesser value on its eastern frontiers.<sup>207</sup>

78. The UK-Turkey strategic partnership includes support for “Turkey’s ambition to be a global energy hub, through an enhanced UK/Turkey Energy dialogue” and sharing “best practice on issues surrounding energy market liberalisation”.<sup>208</sup> The Trade Minister told us security of energy supply was “one of the reasons why I am very, very keen that Turkey joins the European Union as quickly as possible”.<sup>209</sup>

202 Q243

203 Ev 68 (BERR) Annex A

204 Ev 102 (CBI), para 22

205 Ev 102 (CBI), para 27

206 Ev 49 (BERR) summary para 5

207 “Between Political Crises: Turkish Energy Policy”, *Turkey Analyst* Vol 1 No 5, 23 April 2008, p8-9

208 Ev 49 (BERR)

209 Q290

79. As the Turkish British Chambers of Commerce and Industry told us, accession “would provide a stable market framework within which EU companies can transit gas to customers in the EU at competitive prices” and “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.”<sup>210</sup> As there are difficulties in opening the energy chapter of the accession negotiations (as noted above in paragraph 38), the alternative of the Energy Community Treaty, which extends energy-related elements of the *acquis* to non-EU countries particularly in the Balkans,<sup>211</sup> has been suggested. However, it is likely Turkey would prefer the energy chapter to be opened and progressed.<sup>212</sup>

80. Turkey is not only important as a potential transit route for oil and gas from further afield. The Minister also saw opportunities for industry in the domestic energy sector, such as in Turkey’s nuclear programme where 5,000MW of plants are to be built by 2020 and some tenders will be finalised by September, which he saw as a good fit for UK engineering consultancy services.<sup>213</sup> There could also be opportunities in the planned privatisation of the electricity generation network, and in assisting Turkey with low carbon emission economic development through technology exchange.<sup>214</sup>

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

### **Education and training**

82. Although education and training is an opportunity rather than a priority sector for UKTI in Turkey, the TBBC and CBI both noted Turkish enthusiasm for stronger education links with the UK, and this was borne out by our visit.<sup>215</sup> The Trade Minister also saw growing demand for UK professional qualifications and training as Turkey’s economy expands.<sup>216</sup> The British Council noted that 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.<sup>217</sup>

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210 Ev 49 (BERR) summary para 5

211 Ev 51 (BERR) para 8

212 As BERR suggested, Ev 51, para 8

213 Q292

214 Q290

215 Q156 & Q 87

216 Q241

217 Ev 95 (British Council), para 3

It also noted “a huge demand on a higher education system which is already significantly over-subscribed”: in 2007, of 1.5 million applicants, fewer than 500,000 received places.<sup>218</sup> The British Council also noted that an increase in demand for UK offerings in vocational education and training was likely.<sup>219</sup>

83. The aims of the UK-Turkey Strategic Partnership features include improving educational ties, more university partnerships, the establishing of a ‘British University in Turkey’, more Turkish chairs at UK universities, student exchange programmes, and helping Turkey to adjust vocational education and training to its economic needs.<sup>220</sup> **We are pleased that the Minister saw a British University in Turkey as “an excellent idea [...] a fabulous advertisement for what we do”.**<sup>221</sup> **We were also encouraged to hear that the Minister would be meeting the new UKTI/university working group before his visit.**<sup>222</sup>

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

85. The British Council noted that although Turkish demand for UK higher education has grown by 50% over the last three years, there are fewer than 2,400 undergraduate and postgraduate students from Turkey studying in the UK.<sup>223</sup> The UK-Turkey strategic partnership also advocates encouraging more Turkish students to come to the UK for their studies. The TBBC outlined a major issue, raised with us on numerous occasions during our visit to Turkey, that Turkish students:

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.<sup>224</sup>

86. Clearly, one solution to this problem is for Turkey to become a full EU member and thereby benefit from EU rates. However, accession is some years away. When we raised this issue with the Trade Minister, he committed himself to taking up the case in

218 Ev 96 (British Council), para 5

219 Ev 97 (British Council), para 14

220 Text of Turkey-UK Strategic Partnership 2007/08, FCO website, 25 October 2007; <http://www.fco.gov.uk/en/newsroom/latest-news/?view=News&id=3070052>. The TBBC highlighted one initiative, involving Exeter University taking Turkish administrators on short courses on the EU *acquis* (Q175)

221 Q296

222 Q297; see “UKTI announces better collaboration with UK Universities”, *UKTI press release*, 2 April 2008

223 Ev 96 (British Council), para 8

224 Q173

Government for either extending the EU rate to candidate countries, or providing some other form of preferential scheme, noting existing preferential treatment for Turkey in landing fees and flight taxation.<sup>225</sup> **We are encouraged by the Minister’s positive reaction to our suggestion of a reduction in costs for Turkish students coming to the UK based on Turkey’s EU candidate country status, which would increase the attractiveness of United Kingdom higher education and send a powerful message of the importance we attach to Turkish membership of the EU. Investing in education links, at both individual and institutional level, should increase and affirm the bilateral ties between the countries, and be to the long term benefit of the UK. We recognise, however, that reducing fee income from students from specific countries may have a disincentive effect on university admissions policies and so a perverse outcome. We also emphasise the need for greater activity by UK higher education institutions in Turkey. The Government should develop a clear strategy to ensure that the mutual benefit to both countries of deepening education links is fully realised.**

### Turkey as a gateway

87. The Trade and Industry Committee’s 2001 Report noted that when Turkey becomes an EU member “it will be uniquely placed to channel trade from the Caucasus countries to Europe.”<sup>226</sup> As the energy sector demonstrates, Turkey has a “huge potential to serve as a gateway to Central Asia and the Middle East”.<sup>227</sup> However, there is mixed evidence about the extent of that potential. The Europe Minister has said we “should look to Turkey to act as an economic bridge to Central Asia and the Middle East”.<sup>228</sup> The Trade Minister also said Turkey could have a “role to play” as the EU’s “most eastern hub”.<sup>229</sup> UKTI’s main web-page for Turkey highlights its capacity as a “Springboard to Central Asia & Northern Middle East”.<sup>230</sup> However, an FCO official said Turkey “has a very strong interaction with the economies of Central Asia but its links into the Middle East really are not as strong”.<sup>231</sup> BERR’s evidence noted “contradictory” material and “little specific empirical evidence” that Turkey is the best gateway to wider region markets.<sup>232</sup>

88. Despite the conflicting views from UK Government bodies about the importance of Turkey as a gateway, Turkish entrepreneurs have invested an estimated \$5 billion in the Central Asian Republics,<sup>233</sup> while Turkey has won \$45 billion of contracts in Russia and

225 Q295

226 HC(2000-01)360, para 35

227 Ev 130 (Turkish Embassy)

228 “Why Turkish Accession is important for the European Union’s future”, *Speech by the Europe Minister, Jim Murphy MP to Wilton Park Conference on Turkish accession*, 1 April 2008; <http://www.fco.gov.uk/en/newsroom/latest-news/?view=Speech&id=3120417>

229 Q304

230 UKTI, Turkey home page, “Why You Should Choose TURKEY Now?” [https://www.uktradeinvest.gov.uk/ukti/appmanager/ukti/countries?\\_nfls=false&\\_nfpb=true&\\_pageLabel=CountryType1&navigationPageId=/turkey](https://www.uktradeinvest.gov.uk/ukti/appmanager/ukti/countries?_nfls=false&_nfpb=true&_pageLabel=CountryType1&navigationPageId=/turkey)

231 Q79

232 Ev 61 (BERR) para 1

233Ev 130 (Turkish Embassy)

Central Asia over the last five years.<sup>234</sup> Multi-national companies are also increasingly using Turkey as a base for their operations in the Central Asia region (examples including Coca Cola, Microsoft, JP Morgan Chase and General Electric).<sup>235</sup> Witnesses saw Turkey as a “very important regional export hub”<sup>236</sup> to the Middle East and Central European countries, with potential for British companies to “form joint ventures and other arrangements” to bring their expertise to the wider region.<sup>237</sup> The Turkish British Chambers of Commerce and Industry saw Turkey’s

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.<sup>238</sup>

A UKTI official noted that the inter-governmental forum would be looking at the UK and Turkey working together in third markets.<sup>239</sup>

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

## Barriers and issues in the Turkish market

90. The Trade and Industry Committee’s 2001 Report highlighted trade difficulties arising over wines and spirits and intellectual property (textbooks in particular, a complaint reiterated on our recent visit to Turkey). It is clear from our inquiry that neither of these issues has been resolved. Indeed, we came across a widespread feeling that there were “too many disputes and too many disputes outstanding” in Turkey.<sup>240</sup> Two British companies, Diageo<sup>241</sup> and European Nickel,<sup>242</sup> are even considering whether to continue their activities in Turkey because of disputes over duties in the former case, and very lengthy administrative delays over permits in the latter.

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234 Ev 102 (CBI), para 23

235 Ev 130 (Turkish Embassy)

236 Q158

237 Ev 121 (TBBCI) Q158

238 Ev 121 (TBBCI) para 1.1.2

239 Q20

240 Q165

241 Q166

242 TUR9

91. UKTI accept that Turkey “can be a difficult market”.<sup>243</sup> Even though the customs union means that formal barriers, such as tariffs, are generally low, there are a range of other barriers which raise real difficulties in trading with Turkey.<sup>244</sup> We should note, though, that in the main these barriers are more of an irritant rather than a block. As the CBI said:

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.<sup>245</sup>

The British Chambers of Commerce in Turkey noted that the “discrepancies and irritating obstacles” with the customs union can ordinarily “be overcome with diligence and patience”, although in some cases—including alcoholic drinks imports—“high level intervention can be required.”<sup>246</sup>

### **Customs union-related issues**

92. There is a clear feeling that trade barriers persist which are incompatible with the commitments Turkey has entered into—not only through the customs union with the EU, but also with the World Trade Organisation (WTO). The CBI saw “inconsistent and unpredictable application of rules” by customs and court officials,<sup>247</sup> and was also critical of Turkey’s technical barriers to trade, especially on food, notably beef, and drink.<sup>248</sup> They said that “both the European Commission and Member States should be taking all avenues possible to ensure that [customs union] obligations are met.”<sup>249</sup>

93. The alcoholic drinks case is a good case study of the kinds of problems being experienced in the customs union. The Scotch Whisky Association,<sup>250</sup> the Gin and Vodka Association of Great Britain,<sup>251</sup> and the CBI highlighted the issue.<sup>252</sup> In summary there are problems with certification, labelling standards, customs procedures and bureaucracy, and discriminatory duty and tax treatment, as well as a *de facto* import ban on “ready to drinks” (pre-mixed spirits) and difficulties in securing import licences. For the Gin and Vodka Association these problems had made Turkey a “most difficult and frustrating country in which to try and do business”.<sup>253</sup>

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243 Q16

244 Q35

245 Q113

246 Ev 136 (BCCT)

247 Ev 100 (CBI), para 3

248 Ev 103 (CBI) para 33

249 Q126

250 Ev 119 (Scotch Whisky Association)

251 Ev 112 (Gin & Vodka Association)

252 Ev 105 (CBI) para 51-54

253 Ev 112 (Gin & Vodka Association) para 5

94. The Scotch Whisky Association (SWA) urged an EU Trade Barrier Regulation complaint if necessary.<sup>254</sup> It noted some tentative progress in the removal of requirements for one import permit, but told us that “the most onerous part of the administrative requirements [...] remains in place”.<sup>255</sup> The CBI is supportive of the complaint under the Trade Barrier Regulation, and believes Turkish trade defence should be brought into line with EU norms.<sup>256</sup> The SWA notes that Turkey “does not welcome the prospect” of a TBR case.<sup>257</sup>

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

96. The European Commission identified “limited progress”<sup>258</sup> in the customs union chapter of the accession negotiations in its most recent annual assessment, highlighting deficiencies including, among other things, “free trade zones, customs duty relief, fight against counterfeit goods, and post clearance”.<sup>259</sup> A BERR official said that the customs union was “certainly not perfect and it is certainly not complete,”<sup>260</sup> and also noted that the customs union dispute resolution system was “not ideal because it is slow”,<sup>261</sup> requiring investigation, judgement, then Turkish authorities to implement that finding.<sup>262</sup> In their comments on the alcoholic drinks case, the SWA note that there was reluctance to use customs union dispute procedures because they were ineffective.<sup>263</sup> Difficulties in the customs union could be linked to the slow progress of accession talks. The Trade Minister said if the EU was “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.”<sup>264</sup>

**97. It is unfortunate that the dispute resolution mechanisms for the EU-Turkey customs union have proved to be slow and inadequate. It seems reasonable to assume that the problems with the customs union would be eased if more progress was made in accession negotiations, but it is unlikely that any major changes can be expected in the short-term, not least because of the blocking of related chapters due to the Cyprus**

254 Ev 120 (Scotch Whisky Association) paras 6.1-6.3 and para 6.5,

255 Ev 120 (Scotch Whisky Association), para 3.2

256 Ev 105-6 (CBI) paras 50 & 62

257 Ev 120 (Scotch Whisky Association) para 6.3

258 European Commission (Staff Working Document), Turkey 2007 Progress Report, SEC(2007) 1436, 6 Nov 2007, p71

259 *Ibid*

260 Q39

261 Q42

262 Q42

263 Ev 120 (Scotch Whisky Association), para 6.2

264 Q234 (& also Q229)

**issue. We hope that Turkey and Britain can work bilaterally to deal with these issues more speedily, and that the new inter-government Forum will be an avenue for this.**

### **Other barriers**

98. There are also many ‘behind the border’ issues which have a damaging effect on trade. A UKTI official raised work permits, judicial system, taxation, bureaucracy, intellectual property rights and corruption as issues, although he also noted that these problems varied by sector.<sup>265</sup> The CBI raised ten areas for improvement: privatisation; the judicial system; attitudes to foreign investment; taxation; bureaucracy; corporate governance; financial market development; informal economy; training and vocational education; and research and development, innovation, and information and communication technology.<sup>266</sup> The CBI also raised “disguised unemployment” and “rigidities within the labour market” which “constrain the ability of companies to create jobs effectively” in oral evidence.<sup>267</sup>

99. These are detailed thoroughly in the oral evidence and written memoranda, in particular those from the CBI and from BERR. Some key points are highlighted below:

- Legal & judicial system: there were widespread complaints that this was slow,<sup>268</sup> with long drawn out dispute procedures, inconsistent, not transparent and inefficient.<sup>269</sup> There was a widespread view, summed up by the CBI, that “the most important thing is to ensure that laws that are enacted are implemented fairly and uniformly.”<sup>270</sup> A particular problem was highlighted in understanding of issues and implementation in regional courts,<sup>271</sup> as well as overlapping jurisdictions of different courts.<sup>272</sup>
- Corruption and civil service “political control and patronage”:<sup>273</sup> BERR saw “some challenges from corruption”, and though it was difficult to “gauge exactly what the level of corruption is”,<sup>274</sup> there had been some improvement but there was “no centralised strategy to tackle corruption”.<sup>275</sup>
- Bureaucracy: European Nickel raised the tortuous license and permit application procedures which they say have been costing them \$1 million a month.<sup>276</sup>

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265 Q31

266 Summarising Ev 103 (CBI) para 32

267 Q119

268 TBBC Q156

269 See: TBBC Q156, Ev 50 (BERR) para 6, Ev 51 (BERR) para 16, Q236

270 Q132

271 Q98 and TUR7 para 32

272 Q75

273 Ev 103 (CBI) para 32

274 Q75

275 Ev 52 (BERR) para 3

276 Ev 111 (European Nickel)

- Labour market inefficiency: a range of issues were raised during our visit, such as difficulties in obtaining work permits. Several witnesses during our visit noted rigidities in the labour market, (for example severance pay is around 20 months salary), rules giving priority to recently dismissed workers for vacancies, night and weekend work restrictions, and restrictions on temporary contracts.<sup>277</sup>

100. Given the potential problems outlined above, the CBI felt it was important for companies to have strong links with people who had knowledge of the market, and could represent them properly. They said that

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.<sup>278</sup>

The CBI also noted that “familiarisation with the administrative and regulatory set-ups is much easier if you do have a local representative”.<sup>279</sup> The CBI also indicated that there was discrimination in Turkey between foreign and local companies. It noted that a new trade law was likely to be passed later this year which would end double taxation for foreign investors, increase transparency and competition, as well as making it easier to start up a company.<sup>280</sup> The CBI felt that this could “level some of the playing field”, but warned that “a lot of the problems are not with the basic legislation but with the implementation.”<sup>281</sup>

101. Despite the problems outlined above, a BERR official considered that in the last ten years Turkey:

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.<sup>282</sup>

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

## UK visas

103. We came across few issues that the Turkish side wanted to raise with the UK. Indeed TUSIAD, the Turkish equivalent of the CBI, said they did not have an office as one was not

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<sup>277</sup> Ev 54 (BERR) para 5

<sup>278</sup> Q98

<sup>279</sup> Q100

<sup>280</sup> Ev 105 (CBI)

<sup>281</sup> Q100

<sup>282</sup> Q35

needed—the UK’s liberal economy meant that few problems were encountered. The one issue raised was what the British Chambers of Commerce in Turkey called the “vexed Visa system”.<sup>283</sup> They said that the introduction of biometric visas “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”.<sup>284</sup> The TBBC noted on the visa issue the “number of sometimes quite personal questions” about applicants’ financial situations.<sup>285</sup> The Turkish Ministry of Industry and Trade mentioned this during our visit to Turkey. When we raised this with the Trade Minister, he said this was not an issue faced specifically by Turkish applicants.<sup>286</sup> He also noted the opening of five offices to deal with visa applications in Turkey (Ankara, Istanbul, Bursa, Gaziantep and Izmir) which he hoped would “also help speed it up.”<sup>287</sup>

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

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283 Ev 136 (BCCT)

284 Ev 136 (BCCT)

285 Q170

286 Q302 & Q301

287 Q300

## 5 Conclusion

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105. The Trade Minister commented that:

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 [...] 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...is to embrace those who are moderate in the different religions of the world.<sup>288</sup>

He indicated that it would be “very worrying” if Turkey chose alliances with other countries because promises of full EU membership had not been fulfilled.<sup>289</sup> In her book on Turkey, the former Swedish Ambassador to Turkey said the EU was facing a “historic choice of how to deal with Turkey—the most liberal and well-developed democracy in the Muslim world of 1.2 billion people. The world is watching.”<sup>290</sup> The former Ambassador also issued a stark warning: “If Turkey is lost, it would be a failure of vision, in which everyone stands to lose.”<sup>291</sup> Potential alternatives outlined for Turkey include a “closer alliance” with the US and Israel, closer relations with Middle East countries such as Saudi Arabia and Egypt, or “an alliance with its former arch-enemy Russia and the Turkic republics”,<sup>292</sup> as well as fears of a “Turkish ‘Plan B’”—a coalition with Iran, Russia, India and China.<sup>293</sup> The former President of the Soviet Union, Mikhail Gorbachev, has recently advocated a “Eurasian union” as “a viable alternative” to the EU.<sup>294</sup> **We agree with the Trade Minister’s view that if Turkey is ultimately not allowed to join the EU “we will be paying the price for a long, long time.”**<sup>295</sup>

106. As we have noted, the economic impact of accession—the central theme of this inquiry—depends on many factors, including the relative economic progress of Turkey vis-à-vis the EU, and how freedom of labour movement is dealt with in and after final agreement. The greater the prospects of continued growth in Turkey, the greater—and more apparent—will be the benefits of Turkish membership, and indeed, the lower the likelihood of significant migration from Turkey. At this stage, **the economic consequences of Turkey’s accession cannot be forecast with any precision. Turkey is a large country and—at present—relatively underdeveloped compared with its EU counterparts. But it should continue to grow rapidly. Any accession agreement is almost certain to include**

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288 Q207

289 Q218

290 Ann Dismoor, *Turkey decoded*, 2008, p226

291 Ann Dismoor, *Turkey decoded*, 2008, p213

292 Ann Dismoor, *Turkey decoded*, 2008, p16 & p212

293 *Ibid.*, p168

294 “Gorbachev suggests there might alternatives to EU”, *Turkish Daily News*, 20 May 2008; <http://www.turkishdailynews.com.tr/article.php?enewsid=104906>

295 Q207

appropriate transition periods and/or safeguards for the implementation of free movement of labour.

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

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

# Conclusions and recommendations

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## UK Government View

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

## The economic case for membership

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

## Migration

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

## Progress in accession negotiations so far

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

## Turkey: internal reforms

5. All parties understand that Turkey needs to reform both economically and constitutionally before it can accede to the EU. It would be naïve to underestimate the extent of the changes needed or expect them to be accepted without debate or even some resistance. It is extremely likely there will be further political and constitutional difficulties in the years ahead. However, our own experience in Turkey convinced us that there is a readiness to reform among many businesspeople and

politicians; Turkey has surmounted political crises in the past. It is important to wait to see how events unfold, rather than to assume immediately that progress is impossible. Only the most extreme events would justify suspension of accession negotiations with Turkey. (Paragraph 32)

### The 'political block'

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

### Cyprus: Chapters frozen

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

### EU-Turkey customs union and trade relations

8. Whatever the problems with the customs union, there is little doubt that it has led to far deeper economic integration between Turkey and EU countries, to the benefit of both parties, than would have happened without it. (Paragraph 41)
9. Although the EU-Turkey customs union has been beneficial, problems remain. The accession negotiations should produce reforms which overcome these problems. For example, we note Turkey's frustration with its exclusion from the EU negotiations that ultimately determine its tariff levels. Accession would obviously resolve this problem, as Turkey would then take part in EU trade policy on the same basis as other Member States. However, this will not address Turkish concerns in the short-term. The Government should work with the EU to ensure Turkey is properly consulted on trade negotiations which may affect it, particularly free trade negotiations with countries such as India and South Korea. In its turn, Turkey should address the problems arising from the way in which it has implemented the union, and remove unnecessary barriers to trade. (Paragraph 44)
10. Turkish membership of the European Union potentially offers benefits for both sides. There are strategic benefits in co-operation on security. Economically, if Turkish growth is as impressive as predicted, it will be an asset to the EU. The two economies are already highly integrated through the customs union. Further integration would open up markets on both sides. We are encouraged by the UK Trade Minister's view that Turkey has committed to reform for its own sake. Nonetheless, a decline in some EU member states' enthusiasm for Turkish accession has reduced public support for change in Turkey. More positive EU attitudes toward

Turkish accession could re-invigorate enthusiasm in Turkey for the reforms necessary to meet the EU's *acquis communautaire*. We wholeheartedly agree with the Government that "Turkey and the EU have a shared destiny". It should be made clear that, as long as Turkey is committed to achieving the *acquis*, the door to accession remains wide open. (Paragraph 44)

### UKTI resources and strategy

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

### Raising awareness

12. We strongly support UKTI's efforts to raise awareness of opportunities in Turkey. We expect that an evaluation of the extent to which this has worked will be produced and request a copy of the conclusions. We would be particularly interested in an evaluation of the relative effectiveness of the web presence, the programme of road shows and the network of "Turkey champions" for different sized companies. Up-to-date market information is essential, particularly where there is a need to raise awareness of the opportunities available. (Paragraph 51)
13. We support the aims of the Public Diplomacy Pilot, and the additional funding of around £300,000 over two years. We note that evaluation is central to the pilot, and look forward to the results of that evaluation. (Paragraph 52)

### Small and medium-sized enterprises (SMEs)

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

### Turkish-British Business Council (TBBC)

15. UKTI's Turkey strategy highlights the need to address institutional weaknesses: a stronger TBBC could help. Our inquiry into Trade with India demonstrated the extent to which business councils can play a significant part in promoting bilateral relationships between the UK and particular markets. We believe there is potential for far greater involvement of the private-sector in UK-Turkey relations. The Government should work with UK businesses operating in Turkey to establish what

is needed for the TBBC to flourish. It may be appropriate to offer it seed funding or a degree of match funding. However, in our India report earlier this year we expressed concern about the independence of business councils as a result of their receipt of public funds; consequently we believe that whatever public support it receives, the TBBC should remain autonomous from Government. (Paragraph 58)

### Trade Minister's visit, September

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

### A new inter-governmental forum

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

### Opportunities in the Turkish market

18. We were concerned to hear views expressed in Turkey that the UK is losing out to its competitors in Turkey—although we have not seen conclusive data to support this—just as we have previously seen the UK losing out to competitors in India and Brazil. The Germans and the French have certainly benefited from historical links with Turkey, and are more accustomed to doing business there. However, it was abundantly clear from our visit that Turkey is very open to doing business with the UK, not least because of the UK's unwavering support for Turkish membership of the EU. As this report outlines, there are numerous opportunities available in Turkey. These opportunities are not risk-free, but businesses could benefit greatly from pursuing them. (Paragraph 67)
19. The presence of a number of large and high-profile British companies operating in Turkey, and the growing investment interest, should encourage other companies considering this market. As noted above, it may be a market more suitable for medium to large companies, but opportunities exist across the board. (Paragraph 68)

## Sectors of interest

20. The strategic partnership document refers to a memorandum of understanding between DESO and the relevant Turkish authorities, although it is unclear whether this is proposed or signed and we seek clarification on this point. (Paragraph 75)
21. The sheer range of opportunity sectors raised in evidence and during our visit demonstrates the ripeness of the Turkish market for British business. We welcome the regular reassessment of UKTI priorities in the market, and agree that the priority and opportunity sectors chosen broadly reflect the evidence we have received. We expect sectors that are not prioritised, but where significant opportunities exist, will continue to benefit from the general support and information awareness functions of UKTI. In general we would support an expansion of the priority markets in Turkey, but accept that this would require additional resources. (Paragraph 76)

## Energy

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

## Education and training

23. We are pleased that the Minister saw a British University in Turkey as “an excellent idea [...] a fabulous advertisement for what we do”. We were also encouraged to hear that the Minister would be meeting the new UKTI/university working group before his visit. (Paragraph 83)
24. We strongly support UKTI’s recognition of education and training as an opportunity market in Turkey, particularly given the enthusiasm for greater co-operation on education and training expressed during our visit. We hope that interest generated from the opportunity market designation by UKTI this year can lead to education and training becoming a fully-fledged priority sector for Turkey in 2009/10. We believe that the British University in Turkey initiative, which had the full support of the Trade Minister, should be pursued, as this could act as an effective signal for other UK entrants into the Turkish market. (Paragraph 84)
25. We are encouraged by the Minister’s positive reaction to our suggestion of a reduction in costs for Turkish students coming to the UK based on Turkey’s EU candidate country status, which would increase the attractiveness of United Kingdom higher education and send a powerful message of the importance we attach to Turkish membership of the EU. Investing in education links, at both individual and institutional level, should increase and affirm the bilateral ties between the countries, and be to the long term benefit of the UK. We recognise, however, that reducing fee income from students from specific countries may have a disincentive effect on university admissions policies and so a perverse outcome. We also emphasise the need for greater activity by UK higher education institutions in

Turkey. The Government should develop a clear strategy to ensure that the mutual benefit to both countries of deepening education links is fully realised. (Paragraph 86)

### Turkey as a gateway

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

### Barriers and issues in the Turkish market

27. The difficulties being experienced over alcoholic drinks are long-standing, unhelpful and disproportionately damaging for bilateral economic relations. We appreciate the sensitivities involved for Turkey, but the evidence we have received indicates that Turkey may well be in breach of its customs union and WTO commitments. We hope that a combination of pressure from UKTI, fast-tracking through the new inter-governmental forum, and the potential EU trade barrier complaint will help produce a resolution. (Paragraph 95)
28. It is unfortunate that the dispute resolution mechanisms for the EU and Turkey customs union have proved to be slow and inadequate. It seems reasonable to assume that the problems with the customs union would be eased if more progress was made in accession negotiations, but it is unlikely that any major changes can be expected in the short-term, not least because of the blocking of related chapters due to the Cyprus issue. We hope that Turkey and Britain can work bilaterally to deal with these issues more speedily, and that the new inter-government Forum will be an avenue for this. (Paragraph 97)
29. We are positive about the opportunities in Turkey, but also mindful that there are significant barriers and difficulties. If, as we expect, Turkey continues to reform to meet the EU *acquis* we are confident progress will be made in resolving difficulties. This underscores the importance of rapid progress in the accession talks. (Paragraph 102)

### UK visas

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

## Conclusion

31. We agree with the Trade Minister's view that if Turkey is ultimately not allowed to join the EU "we will be paying the price for a long, long time." (Paragraph 105)
32. The economic consequences of Turkey's accession cannot be forecast with any precision. Turkey is a large country and—at present—relatively underdeveloped compared with its EU counterparts. But it should continue to grow rapidly. Any accession agreement is almost certain to include appropriate transition periods and/or safeguards for the implementation of free movement of labour. (Paragraph 106)
33. As this Report makes clear, we fully support Turkey's bid for full membership of the European Union. We believe that the EU's door should remain wide open to Turkey. The barriers are surmountable, and accession can and should happen when the time is right. We recognise this cannot take place before 2014, and that much reform is needed before accession can take place, but we believe that Turkish accession is ultimately politically and economically right for the UK, and for Europe. (Paragraph 107)
34. The Trade Minister observed that the UK alone has "from beginning to end never wavered" in support for accession and now Turkish EU membership. We congratulate the Government on its consistent support for Turkey's membership, and hope that it will continue to make the case for Turkey as a future EU member state—and that it will do so both within the UK and throughout the EU. Our strong support for Turkey's EU membership gives us a competitive advantage over some of our European competitors, just as ties of history and culture gives us an advantage in India. We believe it prudent to strive for a greater UK market share in Turkey now, in advance of accession and further economic reform, to avoid 'missing the boat' in Turkey as we only narrowly avoided 'missing the last train' in India. (Paragraph 108)

## Appendix: Visit Programme

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### Monday 17 March 2008

#### *Istanbul*

##### *Pera House*

Briefing by H.M. Ambassador, Nick Baird and H.M. Consul General, Barbara Hay

##### *TÜSIAD (Turkish Industrialists' and Businessmen's Association)*

Briefing from TÜSIAD delegation headed by Mr Pekin Baran, Deputy President, TÜSIAD

##### *Economics Professors*

Meeting with Professor Hursit Gunes, Economics Professor, Marmara University and Professor Ege Cansen, Columnist, Hurriyet Newspaper

##### *Pera House*

Working lunch and discussions with the British Business Group

Meeting with DEIK, Foreign Economic Relations Board and the Turkish British Business Council delegation, headed by Mr Metin Mansur

Meeting with Mr Murat Yalçintaş, President of the Istanbul Chamber of Commerce

### Tuesday 18 March 2008

#### *Ankara*

##### *Turkish Parliament (TBMM)*

Meeting with Mr Hasan Angi, Deputy Head of Committee, MP, AKP and other Members of the Turkish Parliamentary Trade Committee

##### *Ankara Organised Industrial Zone*

Meeting with Nurettin Özdebir, President 1<sup>st</sup> Organised Industrial Zone, Mr Cetin Fisunoglu, General Manager, and others from the zone

Company visits.

##### *Ministry of Trade and Industry*

Meeting with Mr Yusuf Balci, Undersecretary, Minister of Trade and Industry

### *Invest in Turkey*

Meeting with Mr Levent Seckin, Mr Sefa Aytakin, Head of Investment Business Department, and colleagues, Invest in Turkey

## **Wednesday 19 March 2008**

### *Ankara*

#### *European Commission*

Meeting with Ms Ulrike Hauer, Counsellor, Head of Section for Trade, Economy and Agriculture

#### *Privatisation Administration*

Meeting with Mr Metin Kilci, President, Privatisation Administration

#### *Panora Shopping Mall*

Meeting with Mr Okan Baba, General Manager, Panora Shopping Mall and Mr Deniz İşsever, General Manager Tesco/Kipa

#### *TEPAV (Economic Policy Research Foundation of Turkey)*

Meeting with Mr Güven Sak, President of TEPAV, and presentations

#### *Secretariat General for EU Affairs, (EUGS)*

Meeting with Mr Oğuz Demirel, President, EUGS

# Formal Minutes

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**Monday 23 June 2008**

Members present:

Peter Luff, in the Chair

Mr Adrian Bailey  
Roger Berry

Miss Julie Kirkbride  
Mr Mike Weir

Draft Report (*Keeping the door wide open: Turkey and EU accession*), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 108 read and agreed to.

A paper was appended to the Report.

*Resolved*, That the Report be the Seventh Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

Written evidence was ordered to be reported to the House for placing in the Parliamentary Archives.

[Adjourned till tomorrow at 9.15 am

## Witnesses

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### Tuesday 26 February 2008

**Mr Nick McInnes**, Director (Africa, Middle East, Russia, Turkey, Brazil, Mexico & rest of Latin America, UK Trade & Investment; **Mr Peter Dodd**, Director of International Economists, Europe & World Trade Directorate, Department for Business, Enterprise and Regulatory Reform; **Ms Dianna Melrose**, Head of Enlargement & South Eastern Europe Group, Foreign & Commonwealth Office Ev 1

### Tuesday 1 April 2008

**Pauline Shearman**, Head, Europe and Eurasia and **Gary Campkin**, Head, International Group, Confederation of British Industry Ev 15

**Sir Julian Horn-Smith**, UK co-Chair, Turkish British Business Council; **Michael Thomas**, Director General, and **Chris Innes-Hopkins**, Director of Trade and Government Relations, Middle East Association Ev 23

### Monday 28 April 2008

**Lord Jones of Birmingham**, Minister for Trade Promotion and Investment, **Mr Peter Dodd**, Director of International Economists, Europe & World Trade Directorate, Department for Business, Enterprise and Regulatory Reform and **Mr Nick McInnes**, Director, UK Trade & Investment Ev 33

## List of written evidence

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1	Department for Business, Enterprise and Regulatory Reform	Ev 49
2	Black & Veatch Ltd	Ev 84
3	British Business Group	Ev 90
4	British Chambers of Commerce in Turkey	Ev 136
5	British Council, Turkey	Ev 95
6	Business for New Europe	Ev 97
7	Confederation of British Industry	Ev 100
8	Directorate-General for Trade, European Commission	Ev 109
9	European Nickel PLC	Ev 110
10	Gin & Vodka Association	Ev 112
11	GlaxoSmithKline	Ev 114
12	Scotch Whisky Association	Ev 117
13	Turkish-British Chamber of Commerce and Industry	Ev 121
14	Turkish Embassy	Ev 130

## List of unprinted evidence

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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

# List of Reports from the Committee during the current Parliament

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## Session 2007–08

First Report	The work of the Committee in 2007	HC 233
Second Report	Jobs for the Girls: Two Years On	HC 291
Third Report	Post Office Closure Programme	HC 292
Fourth Report	Funding the Nuclear Decommissioning Authority	HC 394
Fifth Report	Waking up to India: Developments in UK-India economic relations	HC 209
Sixth Report	After the Network Change Programme: the future of the post office network	HC 577