

INVESTMENT ADVISORY COUNCIL FOR TURKEY PROGRESS REPORT

2007



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ABBREVIATIONS

BILGE	Computerized Customs Activities	R&D	Research and Development
BOTAS	Petroleum Pipeline Corporation	SAN-TEZ	Industry Thesis
BRSA	Banking Regulation and Supervision Agency	SFT	Sectorial Foreign Trade Company
CCN/CSI	Common Communication Network and Interface Attachment	SME	Small and Medium Sized Enterprises
CED	Environmental Impact Assessment	SPO	State Planning Organization
CEN	European Committee for Standardization	SVET	Strengthening Vocational Education in Turkey
CENELEC	European Committee for Electrotechnical Standardization	TAKBIS	The Project of Informational System of Land Registry and Cadastre
CMB	Capital Markets Board of Turkey	TARIC	European Communities Integrated Customs Tariffs
DHMI	General Directorate of State Airports Authority	TARYAT	Agricultural Investors Guidance Center
DTM	Undersecretariat of Prime Ministry for Foreign Trade	TBMM	The Grand National Assembly of Turkey
EDI	Electronic Data Interchange	TCDD	Turkish State Railways
EMRA	Energy Market Regulatory Authority	TDZ	Technology Development Zone
EU	European Union	TEKMER	Technology Development Center
EÜAŞ	Electricity Generation Co. Inc.	TEYDEB	The Presidency of Technology and Innovation Support Programs
GAP	Southeast Anatolia Project	THY	Turkish Airlines
GÜMSİS	The Project of Border Gates Security Systems	TIGEM	General Directorate of Agricultural Businesses
IAC	Investment Advisory Council of Turkey	TPI	Turkish Patent Institute
ICA	Investment Climate Assessment	TRA	Turkish Research Area
IFRS	International Financial Reporting Standards	TSE	Turkish Standard Institution
ILO	International Labor Organization	TUBITAK	The Scientific and Technological Research Council of Turkey
ISE	İstanbul Stock Exchange	TURKDEX	Turkish Derivatives Exchange
İŞKUR	The Turkish Employment Agency	TTGV	Technology Development Foundation of Turkey
KADİM	The Project of Fight against the Unregistered Employment	UCTE	The Union for the Coordination of Transmission of Electricity
KOSGEB	Small and Medium Industry Development Organization	UYAP	National Judiciary Network Project
MNE	Ministry of National Education	VAT	Value Added Tax
NABUCCO	Turkey-Austria Natural Gas Pipeline Project	WIPO	World Intellectual Property Organization
NCTS	New Computerized Transit System	YOİKK	Coordination Council for the Improvement of the Investment Environment
OECD	Organisation for Economic Cooperation and Development	YÖK	Higher Education Council
OIZ	Organized Industry Zone		
PHC	Privatization High Council		

FOREWORD

It is a great honor for me to present the comprehensive “Investment Advisory Council of Turkey Progress Report”, consisting of developments relating to the recommendations made by the Investment Advisory Council and its three successful meetings to date.

At the 2006 Investment Advisory Council meeting, I felt very proud to receive the Council members’ favorable comments assessing the determination of our Government to follow the progressive reform agenda that makes Turkey an attractive investment destination. The record high levels of foreign direct investment inflows over the last four years are the most concrete indicator to declare that Turkey is becoming a favorable investment alternative for global investors. The record level of USD 20.2 billion foreign direct investment inflow in 2006 is a sign of the positive trend in Turkey’s promising expectations.

Our government continues to prioritize maintaining economic stability and investor confidence, which are of great importance to investors, while carrying out economic and social reform programs. In recent years, Turkey has become one of the rapidly growing market economies. The national income has risen from USD 180 billion dollar to USD 400 billion dollar the last four years, as a result of the continuous and powerful economic growth through the last 20 quarters.

The economic stability has been maintained by the economic growth which was actualized as 6% in 2006, surpassing the target of 5%. The stable and confident environment supported by structural reforms increases the reliance of the both national and international investors on the Turkish economy and supports the private sector based development process.

The contribution of private investments especially recent growth potential is impressive. Of the 7.3% economic growth for the term 2003-2006, 4.4% was the result of the private sector investments. This improvement is a signal of the rising efficiency of the Turkish market economy and it is significant in terms of the sustainability of the growth performance.

These achievements in the macroeconomic environment become more meaningful when evaluated with the considerable progress being made in the creation of a much more investor-friendly business environment. In the third meeting of the Investment Advisory Council, members submitted their views and opinions to the Government on structural improvements to the investment environment of Turkey. Since the last meeting, we report with great pleasure that significant progress has been achieved regarding the Council’s recommendations. I appreciate the opportunity to present this comprehensive report that provides detailed information on these developments to the Council members and the public. I strongly believe that consistent with the other three meetings, the fourth meeting of the Investment Advisory Council will be a fruitful platform through which the Council members will share their valuable insights on the agenda items regarding the improvement of the Turkey’s business environment.

Ali BABACAN
Minister of State for Economy &
the Chief Negotiator for the EU

INTRODUCTION

Under the auspices of the Prime Minister Mr. Recep Tayyip Erdoğan and the cabinet members, the third meeting of Investment Advisory Council in Istanbul on June 29, 2006, brought together high level representatives of the IMF, World Bank and European Investment Bank, the heads of 18 multinational companies and four leading business associations to evaluate the developments in Turkey's investment environment since the previous Investment Advisory Council meeting.

The Council members expressed their deep appreciation for the Government's commitment and effectiveness in carrying out reforms successfully. By unanimous agreement, the members presented a Statement of Outcomes, which included 12 priority areas for improvement in Turkey's investment environment:

- Continue with privatization and deregulation to improve competition
- Improve education and training to ensure better alignment with the needs of the private and public sectors
- Increase research and development, innovation, technology adoption and use of quality standards
- Improve infrastructure with a focus on:
 - Logistics, transport and customs processing
 - Continued liberalization of the energy sector
 - Access to and use of information and communication technology
- Accelerate the reduction of administrative barriers, particularly licensing requirements, R&D approval processes, limited access to land and restrictions on imports
- Increase the efficiency of judicial processes
- Enhance the efficiency and flexibility of the labor market
- Enhance corporate governance
- Continue the reform of the social security system
- Deepen financial market development, including increasing access to finance, strengthening the regulatory framework for the insurance sector and broadening the equity market
- Improve investment promotion and communication activities
- Continue efforts to reduce the informal economy.

All recommendations of the Council in the past three meetings fall into 17 headings. Each of these areas has been taken under consideration in legislative and administrative work by the institutions executing the related policies within the investment environment. Within this context, significant developments have been achieved.

The recommendations of the Council have also been addressed by YOİKK, the platform that institutionalizes public-private sector partnerships and provides technical evaluation for issues related to the investment environment. In 2005, the YOİKK Steering Committee was established to coordinate the studies of the YOİKK Technical Committees. Guided by the recommendations of the Investment Advisory Council, the Steering Committee gathered every month and led the work to achieve positive results in improving the investment environment. On February 5, 2007, the YOİKK action plan was publicly announced. The plan includes a schedule for all representative institutions from the public and private sectors to finalize the work of each Technical Committee. Additionally, this plan allows the public to follow YOİKK's effectiveness and continuity of work. Implementation of the action plan will provide a performance measurement for each Technical Committee's work to improve the investment environment.

One of the priority agenda items of YOİKK was to reflect on the efforts for improving the investment climate based on the assessments by international organizations. YOİKK's Technical Committees evaluated in detail the indicators for Turkey mentioned in World Bank Report "Doing Business 2007: How to Reform". Further study by related public and private institutions and the Technical Committees have concluded that some evaluations of Turkey in the World Bank Report were due to lack of sufficient information or material errors. The report of these internal findings were submitted for the evaluation

of the World Bank Group and their local partners. The World Bank Group has started a comprehensive and careful assessment process on the study. It is expected that as a result of this assessment, Turkey will have a much better rank in terms of investment climate indicators in the next Doing Business Report.

The Twinning Project, conducted in partnership with the Undersecretariat of Turkish Treasury and the German Ministry of Economics and Technology to evaluate efforts at improvements in the investment climate from the European Union perspective, was completed on September 30, 2006. The determinations and suggestions in the conclusion of the Project Report titled "Towards Improving the Investment Climate: Comments on the YOİKK Reform Process" were included in the agenda of the Steering Committee. These suggestions have formed the basis for studies of YOİKK.

Based on the data compiled and their evaluations, studies on the efficiency of improvements to the investment climate performed by institutions representing the private sector are critically important. In this perspective, the Investment Climate Assessment conducted by World Bank and Union of Chambers and Commodity Exchanges of Turkey to be completed in 2007 is a good step. The ICA findings based on the analysis of a survey of a large sample of companies operating in Turkey will provide important data for assessments related to the investment climate.

The complementary activities to improve the investment climate conducted by different authorities highlight the priority that the micro policies hold in supporting and establishing the successful results of the macroeconomic policies for Turkey. The efforts to deal with investment climate issues which were prioritized by the Investment Advisory Council and studied on the YOİKK platform

play a significant role in terms of precedence in the national agenda.

In the first part of the third Progress Report of the Investment Advisory Council, the progress achieved on the recommendations of the 2006 Investment Advisory Council are mentioned, including the comprehensive definition of the policies and developments within this framework. In the second part of the Report, the progress achieved in terms of the priority areas raised in previous meetings are explained.

EXECUTIVE SUMMARY

The progress achieved regarding the recommendations of the all three meetings of the Investment Advisory Council has been organized under the following titles and compiled from several institutions dealing with the implementation of the Council recommendations. The first part summarizes the progress about the third meeting's recommendations. The second part deals with the Council recommendations from the previous meetings and indicates a strong evidence of the continuous monitoring of issues directly linked to the investment environment of Turkey.

INVESTMENT ADVISORY COUNCIL RECOMMENDATIONS

Continue with privatization and deregulation to improve competition

- In 2006, Turkey implemented privatization worth USD 8.1 billion.
- The privatization of TURK TELEKOM (telecommunications), TUPRAS (petroleum) and ERDEMIR (steel), the major companies in the privatization portfolio, was completed after the works done in 2005 and 2006.
- The government stakes in Başak Sigorta A.Ş. ve Başak Emeklilik A.Ş. was privatized in the amount of USD 268 million.
- The initial public offering of 24.98% shares of government share in HALKBANK, one of the largest state-owned banks of Turkey, has raised over USD 12.5 billion worth of demand.
- The final tender offer date is decided to be as June 15, 2007 in the privatization process of PETKIM, a state-owned petrochemical company.

Improve education and training to ensure better alignment with the needs of the private and public sectors

- In 2006, the Vocational Qualification Authority was established. The Agency will determine the principles of national qualifications in technical and vocational areas, and it will establish and operate the vocational qualification system.
- With the purpose of the rational identification and measurement of the demand for labor, an ad-hoc committee has been created with the participation of relevant institutions. As a result of the studies of this committee, within the framework of labor market analyses, the current occupational needs, outdated occupations and vocational skills for upgrading job performance will be identified.
- Within the context of the Strengthening Vocational Education in Turkey Project, the modular vocational training programmes that include 42 fields and 192 branches have been put into practice by progressive stages in vocational and technical education in the 2006-2007 academic year.

Increase research and development, innovation, technology adoption and use of quality standards

- ▶ R&D/GDP ratio is planned to be increased to a level of 2% by 2010.
- ▶ In the 15th meeting of Supreme Council for Science and Technology, which held on March 7, 2007, National Innovation Strategy for 2008-2010 and International Science, Technology and Innovation Strategy for 2007-2010 were approved.
- ▶ Within the framework of Industry Thesis, 42 project applications were made and 17 of them were found appropriate for support in 2006.
- ▶ In 2006, 101 projects with a total worth of USD 59.4 million were supported by Turkish Technology Development Foundation.

Improving the infrastructure

- ▶ Ankara-Eskisehir portion of the High Speed Train Project between Ankara and Istanbul is under testing and will be completed during 2007. The High Speed Train Project between Ankara and Konya will also be completed in 2007.
- ▶ Domestic air passenger and flight traffic has significantly increased as a result of higher competition in the air transportation market. Domestic passenger traffic which was approximately 9.1 million in 2003, reached 26.6 million in 2006, a 192% rise.
- ▶ Turkish Airlines joined Star Alliance, the biggest global airline alliance, in December 2006.
- ▶ The 542 km long Black Sea Coastal Road was opened to traffic in April 2007. The road is expected to contribute to regional development and facilitate the access from Turkey to Central Asia and the Caucasus.
- ▶ Two directions of The Tunnel through the Bolu Mountain was opened to traffic on May 2007. Consequently, the average travel time between Ankara and Istanbul was reduced to 3.5 hours.
- ▶ Capacity in the sea transportation and shipbuilding sector has been continuously increasing. There has been a 99% rise in passenger rate and a 45% rise in the vehicle rate over the last three years.
- ▶ The number of shipyards which was 37 in 2002, reached 62 in 2007, representing a 67.5% increase.
- ▶ The BILGE Automation System has been installed in 117 customs administrations. All administrations now operate electronically.
- ▶ Eight border posts and ports have been equipped with closed circuit television networks as well as with vehicle trace and plate reading systems through The Project of Border Gates Security Systems (GÜMSİS).

Continue with the liberalization program in the energy sector

Electricity

- Turkey's electricity distribution business has been restructured into 20 regions with the aim of inviting private sector investment in electricity distribution. The legal amendments necessary for privatizing electricity distribution have been enacted.
- The Wind Atlas of Turkey, a series of studies carried out to guide investors interested in generating electricity from wind, is complete and shows the significant potential for wind.

Natural Gas

- Access to natural gas has increased rapidly- natural gas was supplied to 29 provinces as of 2006. In line with the expanding usage area, 30 billion m³ of natural gas consumption has been realized in 2006.
- Construction has started on an underground storage facility with a 1.6 billion m³ capacity to meet the seasonal peak demand.
- The NABUCCO Project to build a natural gas pipeline between Turkey and Austria is in progress.

Oil

- In June 2006, the Baku-Tbilisi-Ceyhan Main Export Pipeline became operational.
- Implementation has started on a national marker system to prevent supply of petroleum products that are not consistent with technical regulations.

Access and usage of information and communication technologies

- The size of the information technology market reached USD 16 billion, with a growth rate of 10%.
- The number of ADSL subscribers increased from 1.5 million in 2005 to 2.4 million at the end of 2006.

Accelerate the reduction of administrative barriers, particularly: licensing requirements, research and development approval processes, limited access to land and restrictions on imports

Licensing requirements

- Second and third class non-sanitary businesses will be able to get an opening a business and work license via declaration of their situation. The license for opening a business and work will be given to the person concerned in 5 days providing the application is acceptable.
- The difficulties in construction permits of temporary foundations for mining activities were resolved.
- In January 2007, the Agricultural Investors Guidance Center was established to guide both national and international investors in agricultural sector about procedures of

permits and licenses.

- The number of customs controls was reduced. Between January 1, 2006 and April 30, 2007, 92.56% of registered export declarations and 64.28% of registered import declarations were cleared by customs within 24 hours .

R&D approval processes

- Chartered accountant oversight was initiated to accelerate the process of evaluating the legal compliance of expenses during the monitoring period for industrial R&D projects.
- In 2006, the duration of academic R&D projects approval process, which had been 5-6 months in the previous years, was reduced to 3 months.
- The red tape in the application procedure for technology development project supports has been reduced.

Limited access to land

- By the end of 2006, the number of established organized industry zones was increased to 244. The site selection, expropriation and infrastructure processes of 93 organized industry zones with 20,699 acres of land in 58 provinces were completed.
- By February 2007, the number of technology development zones has been increased to 23; 14 of them are in operation.
- Between 2003 and 2006, leases for 14 of the General Directorate of Agriculture Businesses agriculture enterprises established in order to increase the efficiency of the state-owned agriculture enterprises. Thus, additional job opportunities for approximately 5,500 people were created.

Increase the efficiency of judicial processes

- A law on Civil Trial Procedures has been drafted. The law is expected to make the trial procedure faster, simpler, more effective and less costly.
- The prevalence ratio of UYAP is currently 90% and the project is expected to be fully in use among all of the judiciaries through 2007.

Enhance the efficiency and flexibility of the labor market

- The Ministry of Labor and Social Security, with the participation of all the relevant institutions, has been preparing a reform package with a view to reduce the financial and social burdens on employment.
- For the purpose of identifying and rectifying the discrepancies appearing during the three-year implementation period of the new employment Law no. 4857, an evaluation study concerning the flexibility and security provisions of the Act will be carried out within 2007.

Enhance corporate governance

- Corporate Governance in Turkey: A Pilot Study issued by OECD was completed and publicly announced.
- In full compliance with the International Accounting Standards and International Financial Standards, Turkey has enacted 39 standards for Turkish Accounting Standards and Turkish Financial Reporting Standards .
- In 2006, International Standards of Audit and International Valuation Standards were issued complementary to the International Financial Reporting Standards.
- Within the Corporate Governance Committee under the YOİKK platform, Corporate Governance in State-Owned Enterprises and Corporate Governance in Non-Listed Companies projects are ongoing.
- In 2006 secondary legislation supporting corporate governance practices in banking came into force.

Continue the reform of the social security system

- Reform of the social security system has continued by gathering all social security agencies under the roof of the Social Security Institution and by moving forward with studies as planned on the other components of the reform.

Deepen financial market development, including increasing access to finance, strengthening the regulatory framework for the insurance sector and broadening the equity market

- In 2006 the average daily transaction volume of the stock market has increased by 16% with respect to the previous year and within the same period, the average daily transaction volume of the bills and bonds market has increased by 18%.
- The transaction volume of the Turkish Derivatives Exchange was USD 2.2 billion in 2005 and increased approximately 600% reaching USD 12.5 billion as of end-2006. The total transaction volume of the market has reached USD 15.3 billion by the end of April 2007, surpassing the total value of the year 2006.
- Work is continuing to make The Growing Enterprises Market Inc. operational, established to form and manage the market aims to facilitate the issuance of the capital market instruments by SME's through creating liquidity opportunities.
- The ratio of total loans in the banking sector to GDP, one of the basic indicators of financial debt, increased from 31% in 2005 to 38% in 2006.
- The legislation on Housing Finance System was issued in March 2007.
- The legislation period of the Draft Insurance Law prepared with the perspective of aligning the insurance sector with both the EU legislation and international standards is ongoing.

Improve investment promotion and communication activities

- In July 2006, the Investment Support and Promotion Agency of Turkey was established in order to fulfill the need for corporate capacity in Turkey's investment promotion and communication.
- In May 2006, the Investment Portal of Turkey (InvestinTurkey) became operational.

Continue efforts to reduce the informal economy

- To reduce the informal fuel industry, the national marker implementation to the fuel traded around the country has been started.
- The Project of Fight Against the Unregistered Employment (KADİM), which aims to eliminate the factors leading to unregistered economy and reaching to a more registered employment, has come into force.

OTHER IMPROVEMENTS IN THE INVESTMENT ENVIRONMENT OF TURKEY

Tax policy reforms

- Minimum living allowance that was designed as a substitute for tax refund will be effective on revenues generated after January 1, 2008.
- Effective January 1, 2006, Corporate Tax Rate has been reduced to 20% from 30%. As a result, Turkey ranks among the first five OECD countries in terms of having low tax burden.
- At present, Turkey has signed 72 double taxation agreements of which 65 have entered into force.

Invest further in education and training

- Since 2004, the share of education services has been representing the highest portion among all other public expenditures.
- During the 2005-2006 terms, the significant rise in the schooling rates of secondary and higher education attracts considerable attention.
- After the establishment of new universities, the total number of universities in Turkey will reach 115, of which 85 will be public and 30 will be foundation universities.

Protecting the intellectual property rights more effectively

- As a result of effective inspections and studies on avoiding the piracy of intellectual rights, the number of the pirated materials, excluded from entering the market, has increased by 40% in 2006.
- The law regarding the participation of Turkey to the amended text of European Patent Treaty (EPC 2000) came into force in March 2007.

- The Laws for the Approval of Participation of Turkey to the World Intellectual Property Organization (WIPO) Performances and Phonograms Treaty and WIPO Copyrights Treaty have entered into force on May 8, 2007. Thus, international harmonization of copyrights, performances and phonograms has been achieved.
- There was an approximately 50% increase in the patent applications in 2006 and 85% of these applications have been registered.

Harmonizing standards and regulations with the EU

- As of March 2007, 97% of the European standards were being accepted as national standards.

Improving the SME supply chain by enabling better access to, and diversification of, SME support mechanisms

- The legislative arrangement on the Anatolian Approach which was designed to strengthen the financial structure of the SMEs came into force in December 2006.
- To increase the qualified and registered workforce employed in SMEs, KOSGEB allocates interest free Employment Credit. In this context, 708 SMEs were awarded with YTL 54.2 million worth of employment support credit in 2006.

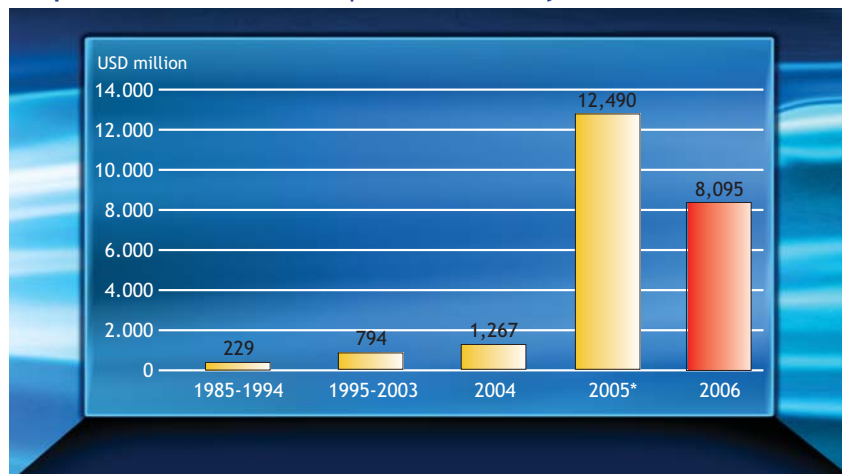
I. INVESTMENT ADVISORY COUNCIL THIRD MEETING RECOMMENDATIONS

I.1 Continue with Privatization and Deregulation to Improve Competition

Privatization Activities

By 2007, Turkey's privatization implementations resulted in a net worth of approximately USD 30 billion, of which USD 8.1 billion was in 2006 alone.

Graphic 1: Privatization Implementations by Years



* The 15.5 years Transfer of Operating Rights (TOR) of Ataturk Airport (USD 3 billion) and Initial Public Offering (IPO) of Vakıflar Bank's 25.18% share (USD 1.3 billion) are included.

Source: Privatization Administration.

In the framework of the privatization carried out since 1984, the privatization process of the major state-owned companies in the privatization portfolio, namely TURK TELEKOM (55%), TUPRAS, ERDEMİR, were finalized in 2005 and 2006.

- **TURK TELEKOM:** The privatization process of TURK TELEKOM started in November 2004 as a result of a tender offer from the Privatization Administration for the block sale of 55% government stake in TURK TELEKOM. The highest offer came from OGER Telecoms Joint Venture Group in the amount of USD 6.55 billion. The Share Sale and Purchase Agreement was signed on August 24, 2005. The Shareholders Agreement and Share Pledge Agreement was signed on November 14, 2005.
- **TUPRAS:** The privatization process of TUPRAS started in April 2005 as a result of a tender offer from the Privatization Administration for the block sale of 51% government stake in TUPRAS. KOÇ - SHELL Joint Venture Group made the highest offer in the amount of USD 4.14 billion. The Shareholders Agreement and Share Pledge Agreement was signed on January 26, 2006.

In 2006, Turkey implemented privatization worth USD 8.1 billion.

The privatization of TURK TELEKOM (telecommunications), TUPRAS (petroleum) and ERDEMİR (steel), the major companies in the privatization portfolio, was completed after the works done in 2005 and 2006.

The government stakes in Başak Sigorta A.Ş. ve Başak Emeklilik A.Ş. was privatized in the amount of USD 268 million.

The initial public offering of 24.98% shares of government share in HALKBANK has raised over USD 12.5 billion worth of demand.

- **ERDEMİR:** The privatization process of ERDEMİR started in October 2005 as a result of a tender offer from the Privatization Administration for the block sale of 46.12% government stake in ERDEMİR. The Shareholders Agreement and Share Pledge Agreement was signed on February 27, 2006 with OYAK which made the highest tender offer in the amount of USD 2.77 billion.

Privatization Implementations in 2006

- In February 2006, Privatization Administration started the privatization process of Başak Sigorta A.Ş. and Başak Emeklilik A.Ş., state-owned enterprises in insurance sector. In the tender to privatize the government stake of 56.67% and 41% in Başak Sigorta A.Ş and Başak Emeklilik A.Ş. respectively, the highest offer was made by the French insurance company, Groupama International, with an amount of USD 268 million. The Privatization High Council (PHC) has approved the sales and the final transfer procedure published in April 2006.¹
- The privatization process of TUPRAS and ERDEMİR whose tender phases were completed in 2005, was finalized in 2006 after having signed the Share Sale and Purchase Agreements.

Table 1 : Privatization Implementations in 2006

	Contract Date	Sales (USD million)
Block Sale		7,178
TÜPRAŞ	01.26.2006	4,140
ERDEMİR	02.27.2006	2,770
BAŞAK SİGORTA A.Ş. and BAŞAK EMEKLİLİK A.Ş.	05.16.2006	268
Total Asset Sale		626
Public Offering		209
Turkish Airlines	05.16.2006-05.18.2006	209
Paid Transfer		83
TOTAL		8,095

Source: Privatization Administration

Privatization Implementations in 2007

- **HALKBANK:** The PHC decision to transfer the government shares in the Türkiye Halk Bankası A.Ş. (HALKBANK), one of the Turkey's largest public banks, to the privatization agenda was published in February 2007.² In that PHC Decision, it's stated that the privatization method will be an initial public offering (IPO) up to the 25% of the government stake in HALKBANK. 24.98% of HALKBANK's shares have been offered to public in May 2007 and the total subscription for HALKBANK shares has exceeded USD 12.5 billion. The total revenue from the HALKBANK's IPO is USD 1.84 billion.

1 PHC Decision 2006/27 (Official Gazette 04.19.2006/26144).

2 PHC Decision 2007/8 (Official Gazette 02.07.2007/26427).

- **Izmir Port:** The negotiations for the transfer of management rights of Izmir Port (located on the Aegean coast of Turkey), which is an asset of Turkish State Railways Administration (TCDD), for a period of 49 years were made on May 3, 2007. The highest bid was offered by Global-Hutchison-EİB (Ege İhracatçı Birlikleri Liman Hizmetleri ve Taşımacılık) Joint Venture Group in the amount of USD 1.28 billion. The approval process for the tender is ongoing.
- **Mersin Port:** The tender for the transfer of management rights of Mersin Port (located on the Mediterranean coast of Turkey), which is an asset of TCDD, for a period of 36 years was held on August 12, 2005. The highest bid was given by PSA-Akfen Joint Venture Group in an amount of USD 755 million and the PHC decision regarding the tender result was published on November 8, 2005.³ The concession agreement was signed on May 12, 2007.
- The real estate in Istanbul's Beşiktaş Ortakoy district was privatized by sales method on March 7, 2007. The highest bid was offered by Zorlu Real Estate Company (Zorlu Gayrimenkul Geliştirme ve Yatırım A.Ş.) of USD 800 million. The result of the tender was announced in March 2007.⁴

Privatization Agenda in 2007-2009

- The last bidding date in the tender process of the block sale of 51% of the government stake in PETKIM has been announced as June 15, 2007.
- To accelerate the privatization process in the electricity sector, a legal amendment on the related law came into force in May 2006.⁵ The privatization process in the electricity distribution and generation is projected to be finalized in the 2007-2009 period. After this privatization process is completed, free market conditions in distribution and generation will be achieved by 2011.
- In the tender for the privatization of the Motor Vehicles Inspection Stations in Istanbul, which was made on December 20, 2004, the highest bid was given by Akfen-Doğuş-TUVSUD Joint Venture Group in a total amount of USD 613.5 million . The result of the tender was announced on February 16, 2005 after the PHC decision on the tender.⁶ After having the approval of the State Council, the transfer of management rights will be finalized.
- The PHC decision on extending the privatization portfolio to include the toll bridges, including Boğaziçi and Fatih Sultan Mehmet bridges, (both cross the Bosphorus in Istanbul) and state highways, was published on April 20, 2007.⁷ The decision states that the privatization process is to be finalized by December 31, 2008.
- The works on privatizing the companies in the food, petrochemicals, mining, transportation and energy sector in 2007-2009 period is ongoing.

The final tender offer date is decided to be as June 15, 2007 in the privatization process of PETKIM.

3 PHC Decision 2005/120 (Official Gazette 11.08.2005/25987)

4 PHC Decision 2007/19 (Official Gazette 03.13.2007/26461).

5 Law no. 5496 on Making Amendments on the Electricity Market Law no.4628 (Official Gazette 05. 21.2006/26177).

6 PHC Decision 2005/26 (Official Gazette 02.16.2005/25729).

7 PHC Decision 2007/25 (Official Gazette 04.20.2007/26499).

Table 2: The Privatization Program (2007- 2009)

<i>Name of the Company/Institution</i>	<i>Field of Operation</i>
PETKİM Petrokimya Holding A.Ş.	Petrochemicals
TEKEL Tütün, Tütün Mamülleri Genel Md.	Tobacco and Tobacco Products
Milli Piyango İdaresi	Lottery
Turkish Airlines	Transportation
TEDAŞ/Electricity Distribution (20 Regional company)	Electricity distribution
Electricity Generation	Electricity generation
Ports of Samsun, Bandırma and Derince	Harbor
Türkiye Şeker Fabrikaları (34 Sugar Processing Facilities)	Sugar processing
Turkish Maritime Transportation Company Galataport	Harbor
Sumer Holding's Phosphate Facilities (Transfer of management rights)	Mining
T.Halk Bankası A.Ş. (%75.01)	Banking
Highways - Toll Bridges	Highway management/ maintenance
Türk Telekom A.Ş. (IPO of 45% of the shares)	Telecommunications

Source: Privatization Administration

Deregulation Activities

- As a result of the deregulation activities in the telecommunication sector since May 2006, the entrepreneurs were entitled to set up and use related infrastructure facilities⁸ and long distance phone service was regulated.⁹ In addition to the regulations on setting an effective competitive environment in the sector¹⁰, the customers were entitled to shift to a different operator while keeping the same phone number with the regulation enacted in February 2007.¹¹
- In addition to the deregulative activities in the telecommunications sector, the regulation on allowing free flow of capital abroad were enacted in December 2006¹² in the framework of the studies to comply with the European Union (EU) Acquis.

Progress on deregulation has been made in the telecommunication sector.

8 The Regulation on the Passing Right in Telecommunication Services Practices (Official Gazette 05.02.2006/26516)

9 The Communiqué on the Principals of Long Distance Phone Services (Official Gazette 06.10.2006/26194)

10 The Regulation on the Principles of Determination of Entrepreneurs with Efficient Market Power (Official Gazette 01.07.2007/26396)

11 The Regulation on Transferring Numbers (Official Gazette 02.01.2007/26421)

12 Decree No. 2006/11472 (Official Gazette 12.30.2006/26392)

I.2 Improve Education and Training to Ensure Better Alignment With the Needs of the Private and Public Sectors

During the third Investment Advisory Council (IAC) meeting, the members of the Council emphasized the need to improve the educational system to ensure that it responds to the demands of the labor market. Various measures are being taken by the relevant institutions in this area:



- In 2006, the Vocational Qualification Authority was established.¹³ The Authority will determine the principles of national qualifications in technical and vocational fields, and it will establish and operate the vocational qualification system by carrying out the inspection, evaluation, assessment, certification and documentation activities. As the Authority starts operating;
 - Labor will be trained and certified in line with the needs of the labor market,
 - Education and training programs will be prepared in accordance with national occupational standards and
 - Vocational qualifications of labor will be certified on an international level, hence facilitating their free circulation.

By the end of 2007, the vocations for which standards are to be developed will be identified by the Agency, constituting considerable progress in the process of building the vocational qualification infrastructure.¹⁴

- With the purpose of the rational identification and measurement of the demand for labor, an ad-hoc committee has been appointed with the participation of relevant institutions within the Coordination Council for the Improvement of the Investment Environment (YOIKK)-Employment Technical Committee.¹⁵ As a result of the studies of this committee, within the framework of labor market analyses, the current occupational needs, outdated occupations and vocational skills for upgrading job performance will be identified. The results of the study will be used to restructure both vocational training and higher education. The study will be repeated and updated periodically.
- To establish an effective relationship between education and employment, studies on the regulation are in progress aiming to ensure that the Provincial Employment and Vocational Training Councils that carry out activities on a provincial level in the field of employment and vocational training work jointly and more effectively.¹⁶
- “The Strengthening Vocational Education in Turkey” (SVET) Project Agreement which was signed between the Government of the Turkish Republic and the European Union

In 2006, the Vocational Qualification Authority was established.

With the purpose of the rational identification and measurement of the demand for labor, an ad-hoc committee has been created with the participation of relevant institutions.

¹³ Law No. 5544 on Vocational Qualification Agency (Official Gazette 10.07.2006/26312).

¹⁴ YOIKK Technical Committee Action Plans, February 2007, p.13.

¹⁵ YOIKK Technical Committee Action Plans, February 2007, p.12.

¹⁶ YOIKK Technical Committee Action Plans, February 2007, p.13.

Within the context of the SVET Project, the modular vocational training programmes that include 42 fields and 192 branches have been put into practice in the 2006-2007 academic year.

(EU), has been carried out since 2002. The modular vocational training programs are formulated within the context of the Project; include 42 fields and 192 branches; and have been put into practice by progressive stages in vocational and technical education from the 2006-2007 academic year.

- The Active Labor Programs Project was carried out by Turkish Employment Agency (İŞKUR) in the 2003-2006 period. Within the context of the Project, approximately 50,000 unemployed were trained, more than 9,000 of whom were employed.¹⁷ Furthermore, in 2006, İŞKUR developed the Active Employment Measures and Local Support to the İŞKUR Project as an improved continuation of the Active Labor Programs Project. This Project was developed in 2006 within the context of the fiscal cooperation with the EU and comprises women and young people in a limited area of the country. Besides these projects, the programs including;
 - Labor training, vocational education and labor adaptation programs,
 - Provision of vocational orientation, consulting and guidance services,
 - Development of job-seeking strategies,
 - Creation of the employment opportunities for disadvantaged groups, such as the unemployed, the disabled, women and young people,
 - Entrepreneurship training, and employment-guaranteed training programs



will be carried out on an expanding scale by İŞKUR in the coming years. On the other hand, to ensure effectiveness in combating unemployment and particularly to create new employment opportunities for the unemployed, a Motion for Draft Law has been prepared, which foresees the provision of vocational training to all the unemployed including those receiving unemployment benefits and the others who are registered at İŞKUR, the expenses of which are to be covered from the unemployment insurance fund.¹⁸ The Motion is expected to be codified in 2007.

- In the process of spreading vocational training and raising the human resources that meet the demands of the labor market, a great deal of importance is given on the support of women employment. In this framework, training is provided to approximately 340,000 students and trainees in a total of 1,585 Technical Education Institutions for Girls by the Ministry of National Education Directorate General of Technical Education for Girls in the 2006-2007 school year. The employment rate of graduates of Technical Education Institutions for Girls in the sector has increased with the modular program approach developed in line with the needs of the stakeholders, since almost 75% of the graduates of the programs carried out within the scope of the protocols signed in parallel to cooperation with some sector associations the demand of students to enroll to the program is expected to rise.

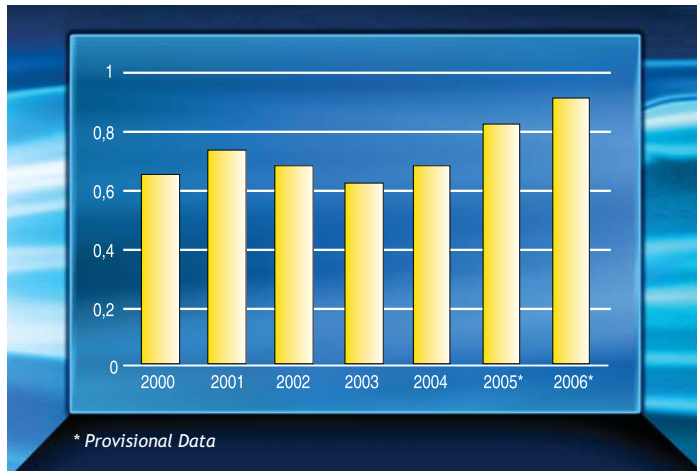
¹⁷ The Ninth Development Plan (2007-2013), the 2007 Program, p.188.

¹⁸ YOİKK Technical Committee Action Plans, February 2007, p.12.

1.3 Increase Research and Development, Innovation, Technology Adoption and Use of Quality Standards

A great deal of importance has been placed on the issues of boosting research and development (R&D) and innovation in the framework of technology adoption of firms to raise their global competitiveness level. By 2010, plans are to increase the R&D/GDP ratio to 2%.¹⁹

Graphic 2: The Ratio of R&D Expenditures to GDP(%)



Source: TURKSTAT

R&D/GDP ratio is planned to be increased to a level of 2% by 2010.

FUNDS ALLOCATED TO R&D ACTIVITIES

TUBITAK Budget

- The Scientific and Technological Research Council of Turkey (TUBITAK), established in 1963, is the leading autonomous agency for management, funding and conduct of research in Turkey. Being governed by a Scientific Board whose members are selected from prominent scholars from universities, industry and research institutions, TUBITAK is acting as an advisory body on science and technology issues, and is the secretariat of the Supreme Council for Science and Technology, the highest science and technology policy making body in Turkey. TUBITAK not only supports innovation, academic and industrial R&D studies but also in line with national priorities develops scientific and technological policies and manages R&D institutes, carrying on research, technology and development studies.

19 2004/1-4 Decision of 10th meeting of Supreme Council for Science and Technology.

- There has been significant improvements on TUBITAK's budget to increase the funds allocated to the R&D projects. Between 1964-2003, the resource utilization of TUBITAK equaled YTL 1,834 billion (approximately USD 1.29 billion) whereas between 2004-2007, it equaled YTL 2,300 billion (approximately USD 1.64 billion). As a result of this increase:
 - In 2006, the number of financially supported scientists was significantly increased to 5,425, from 989 in 2003. The amount of financial support provided to scientists was YTL 3.67 million (approximately USD 2.45 million) in 2003, and raised substantially to YTL 18.57 million (approximately USD 12.91 million) in 2006.
 - In the Academic R&D Project Supports Program of TUBITAK, the support budgets of the projects in effect were increased to YTL 272.7 million (approximately USD 189.64 million) in 2006; whereas it was YTL 28.8 million (approximately USD 19.2 million) in 2003. In 2006, the number of academic R&D projects in effect was increased to 3,091, whereas it was compared 1,227 in 2003.
 - In 2006, the number of projects supported under the Industrial R&D Support Program of TUBITAK was realized as 534, representing a 91% increase when compared to 2003's level of 279. The amount of supports provided were increased to USD 128.1 million, from USD 38.2 million.



Seventh Framework Program of the European Union

The EU Framework Programs (FP), effective from 1984, like all the other EU programs, were designed for a fixed period of time with a special budget allocation and aim to strengthen the scientific and technological base of the EU, support industrial competition and international cooperation among the countries.

The Lisbon Strategy is targeted to make EU the world's most dynamic and competitive information based economy and the FPs were started to be designed to achieve this goal. The FPs aim to provide supports to projects that creates value added activities to EU's economic and social welfare. FPs are regarded as the biggest R&D support programs in comparison to the budget allocation to R&D supports of public bodies around the globe.

Table 3: The Budget Allocation of Seventh Framework Program of the European Community

Programs	Budget (EURO billion)
Cooperation	32,413
Health	6,100
Food, Agriculture and Fisheries and Biotechnology	1,935
Information&communication technologies	9,050
Nanosciences, Nanotechnologies, Materials and new Production Technologies	3,475
Energy	2,350
Environment (including Climate Change)	1,890
Transport (including Aviation)	4,160
Socio-economic Sciences and the Humanities	623
Security and Space	2,830
Ideas	7,510
People	4,750
Capacity	4,097
Research Infrastructures	1,715
Research for the benefit of SMEs	1,336
Regions of Knowledge	126
Research Potential	340
Science in Society	330
Cohorent development of research policies	70
Activities of International Co-operation	180
Joins Research Centers	1,751
Total Budget Allocated to Special Programs	50,521

- As the current FP of EU, which is among the EU's main financial and legal instruments to implement the European Research Area, the budget of the 7th Framework Program for 2007- 2013 (FP7) is determined as EURO 50.5 billion. The special programs of the FP7 are determined as Cooperation, Ideas, People and Capacity. Along with these special programs, Joint Research Center Activities are also included in the context of FP7.

Source: Community R&D Information Center (CORDIS) website <http://cordis.europa.eu>

Turkish Research Area Budget

In March 2005, the Supreme Council for Science and Technology, which is the highest decision making body in the determination of science and technology policies and designed to convene at least twice a year under the chair of Prime Minister by Decree Law No.77, approved the 2005-2010 National Science and Technology Strategy which was developed by TUBITAK, in collaboration with the relevant public agencies, academia, private sector and the NGOs. Also in the same meeting the strategic goals, objectives, priorities and general mechanisms and funding policies were delineated.

As the main modality for this strategy, a Turkish Research Area (TRA) was defined composing of all private and public entities that either perform, fund or demand R&D activities and increasing the effectiveness of the funds that TUBITAK allocates to R&D Projects.

- Since 2005, the portion of budget allocation to R&D Project supports has been increasing in order to reach the target level of 2% R&D/GDP ratio by 2010. Total amount of TRA Funds for 2007 is YTL 618 million (approximately USD 444 million).

Table 4 : TUBITAK Turkish Research Area Budget (YTL million)

	Allocation in 2006	Expenditure in 2006	Funds for 2007
Academic R&D	80	145	133
Industrial R&D	215	128	246
Defence and Space	60	44	98
Government R&D	50	45	95
Funds for new scientists	5	-	35
Funds for creating science and technology awareness	5	-	11

Source: 15th Supreme Council Meeting - Report on Evaluations and Decisions

Supreme Council for Science and Technology-15th Meeting

Supreme Council for Science and Technology, being founded on October 4, 1983, has some tasks in the implementation of the Turkish Science Policy, assisting the Government in determination of long term science and technology policies, identification of targets, elaboration of plans and programs, assignment of public organs, establishment of collaboration with private establishments, elaboration of required laws and legislation, provision of human resources development for researches, implementation of measures for establishment of research centers, determination of fields of research and provision of coordination services.

Chaired by Prime Minister, the Supreme Council consisting of members from the related institutions dealing with R&D activities, convenes at least once a year with an agenda of issues related to macro level policies and strategy implementations to raise the level of Turkey's science and technology capability.

The following are among the outcomes of the 15th meeting of the Council. The Council decided to approve:

- The National Innovation Strategy (2008-2010) that aims to create sustainable, strong and competitive markets through supporting private investment, innovation and efficiency.
- The International Science, Technology and Innovation Strategy (2007-2010) that aims to define strategies and develop policies to improve Turkey's capacity in science, technology and innovation.
- The implementation of the National Nuclear Technology Development Program (2007-2015) that aims to create alternative solutions to meet Turkey's increasing energy need with all the relevant institutions's cooperation.

THE SUPPORTS ON R&D ACTIVITIES OF PRIVATE SECTOR

There are some support mechanisms to increase R&D investments employed by Ministry of Industry and Trade, TUBITAK, Turkish Technology Development Foundation (TTGV), Small and Medium Industry Development Organization (KOSGEB), and Turkish Patent Institute (TPI).

In the 15th meeting of Supreme Council for Science and Technology, which held on March 7, 2007, National Innovation Strategy for 2008-2010 and International Science, Technology and Innovation Strategy for 2007-2010" were approved.

Supports by the Ministry of Industry and Trade

Technology Development Zones

- The number of Technology Development Zones (TDZ) has been increased to 23, in order to provide opportunities to investment in technology intense areas and for employment to a highly qualified workforce. Currently, there are 14 TDZs in operation.
- There are some tax advantages for the firms as well as researchers, software developers and R&D personel employed in TDZs.

SAN-TEZ Program

- The Industry Thesis (SAN-TEZ) Program is being developed by the Ministry of Industry and Trade to institutionalize the university-industry partnership and to transform the scientific studies into commercialized value added products and processes. In September 2006, the related regulation of support schemes under the SAN-TEZ Program came into force.²⁰ To provide R&D Supports, the Ministry made an amendment to its incorporation law.²¹
- In 2006, SAN-TEZ Program was being funded from the Ministry of Industry and Trade's resources and within this framework, 42 project applications were received, 17 of which were found appropriate for support. The total budget projection for the supported projects is around YTL 2.5 trillion (approximately USD 1.74 trillion). In the first project application period of 2007 which finalized on January 12, 2007, among the project applications received, 25 projects were found appropriate for SAN-TEZ support.

Supports by TUBITAK

- Secondary legislation on technology and innovation programs came into force in January 2007,²² spelling out more clearly the procedures for funding, evaluation, tracking and completing R&D projects. Under this legislation, two new support programs were introduced for small and medium enterprises (SME) with no R&D experience.
 - The SME Support Program assists entrepreneurs by enabling them to be more competitive, helping them to prepare proposals in a systematic way, and developing value added products.
 - The Technoventure Program helps young entrepreneurs transform their ideas into business plans and assists them to create companies that can develop internationally competitive, innovative, and high-tech products.

Within the framework of SAN-TEZ, 42 project applications were made and 17 of them were found appropriate for support in 2006.

20 Regulation on the Principles of the Supports on Industrial Thesis (SAN-TEZ) Projects of Ministry of Industry and Trade (Official Gazette 09.09.2006/26284).

21 The Law making amendments on the incorporation law (Law no: 5593) of Ministry of Industry and Trade (Official Gazette 03.07.2007/26455).

22 Regulation on the Technology and Innovation Support Program of TUBITAK (Official Gazette 01.16.2007/26405).

In 2006, 101 projects with a total worth of USD 59.4 million were supported by Turkish Technology Development Foundation.

Supports by Turkish Technology Development Foundation

- TTGV helps entrepreneurs through two main support mechanisms:

The R&D Supports includes:

- Technology Development Project Supports,
- Commercialization Supports,
- Joint Technology Development Supports,

Technological Entrepreneurship Supports includes:

- Supports for incubators,
- Risk-sharing supports,
- Initial Capital Investment supports.

- In 2006, TTGV approved 101 projects with a value of USD 59.4 million

Table 5: Technology Projects Supported by Technology Development Foundation of Turkey

	2001	2002	2003	2004	2005*	2006
<i>Number of Projects Supported</i>	32	51	67	64	25	101
<i>Support amounts (USD million)</i>	10.0	16.4	15.4	25.3	7.4	29.7
<i>Total Project Amounts (USD million)</i>	19.8	34.0	30.8	50.9	14.4	59.4

* The works on the protocol between DTM and TTGV started in 2004 and finalized in 2005. Since there were no contracts signed on the support of the projects, the figure for 2005 remained low when compared to other years.

TTGV utilized Turkish Treasury/ World Bank funds on Technology Development Project and Industrial Technology Project and DTM funds.

Source: TTGV

Supports by Small and Medium Industry Development Organization

- Under the cooperation protocols of Technology Development Centers (TEKMER) and Borderless Technology Incubator (BTI), KOSGEB provides R&D supports to entrepreneurs that take part in the Technology Development and Innovation Program. Within the framework of these protocols, there are two types of supports provided:

Payback supports:

- On expenditure and raw material procurement on prototype development and production.
- On quality development and technological hardware.

Non-recourse supports on:

- Consultancy
 - Publishing of R&D results
 - Technopark office rent
 - Workshop allocation
 - Participation to the international technology fairs, panels, conferences.
- The principals of KOSGEB's R&D Supports were determined in the legal legislation which was published on May 2007.²³

Supports by Turkish Patent Institute

- **Hezarfen Project:** Aiming to improve and establish the innovative structure of SMEs, seminars, workshops, surveying and consulting works have been formed in the framework of Hezarfen Project and the pilot study was initiated in Ankara OSTIM Organized Industrial Zone.
- **Patent Supports:** On August 23, 2006, TUBITAK and TPI signed a protocol to create awareness about the patent issue among the SMEs and to increase the national and international patent applications of Turkey. The principals of TUBITAK's Project Incentive and Support Program have been determined with the amendment made about the patent incentives issue on the related legislation.²⁴ In the framework of the said protocol, the patent application on the patents of Turkish genuine projects have been encouraged. The amount of supports on the patent applications submitted to TPI have been allocated from TUBITAK's budget. As of February 2007, 43 patent application were realized by the TUBITAK Intellectual Property Office.

Table 6 : The Number of Patent Applications Submitted to TUBITAK Intellectual Property Office

	Number of Applications Approved	Number of Applications Under Construction
National Non-Recourse Patent Supported	16	40
International Non-Recourse Patent Supports	26	7
International Patent Supports with payback	1	3

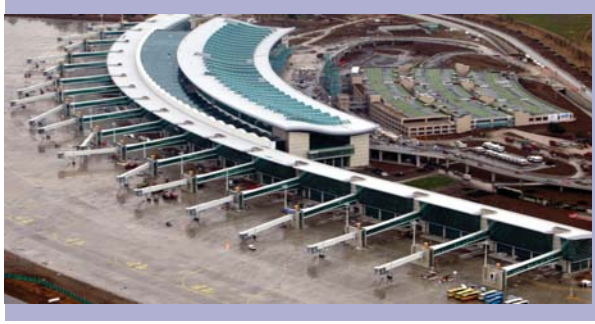
Source: The Supreme Council 15th Meeting-The Report on Evaluations and Decisions

²³ Regulation Amending the KOSGEB Support Regulation (Official Gazette 05.22.2007/26529).

²⁴ Regulation on TUBITAK's Project Incentive and Support Fundamentals (Official Gazette 09.21.2006/26296).

I.4 Improving the Infrastructure

In the last two meetings, the Council members recommended that Turkey, which is located in a strategic area in terms of transportation and energy corridors, proceed with developing



its infrastructure and liberalizing its energy sector. The progress achieved in 2006 in terms of improvements to transportation, logistics, customs, information technologies and the liberalization of the energy sector shows the priority given to these recommendations.

I.4.1 Development of Logistics, Transportation and Customs

In Turkey, 95% of the domestic passenger transportation and 92% of the domestic freight transportation are made via highways. On the other hand, maritime transportation is predominantly used in overseas freight transportation while airways are predominantly used in overseas passenger transportation. Works for maintenance of a balanced allocation in transportation through improvements achieved in railways, airways and maritime infrastructure are underway.

- Ankara-Eskisehir part of the “High Speed Train Project between Ankara and Istanbul”, trial run of which has been started, will be completed in 2007. “High Speed Train Project between Ankara and Konya” is also planned to be completed in 2007.
- Technical works have been completed to construct high speed train railways between the heavy traffic routes such as Ankara-Sivas and Ankara-İzmir.
- Plans exist to construct logistic centers in Istanbul, Kocaeli, Eskisehir, Balıkesir, Kayseri and Samsun with the aim to move junction lines, loading and unloading facilities and logistics centers to suburb areas in line with the urban transformation projects.
- As a result of improvement of railway infrastructure, the domestic railroad freight transportation is expected to increase by 12% annually, during the 2007-2013 term.²⁵
- With the complete liberalization of domestic air transportation in 2003, a competitive market structure has been formed in the domestic passenger transportation provided by the private aviation companies. In line with this, significant increase has been recorded in domestic passenger and flight traffic in Turkey. Domestic passenger traffic which

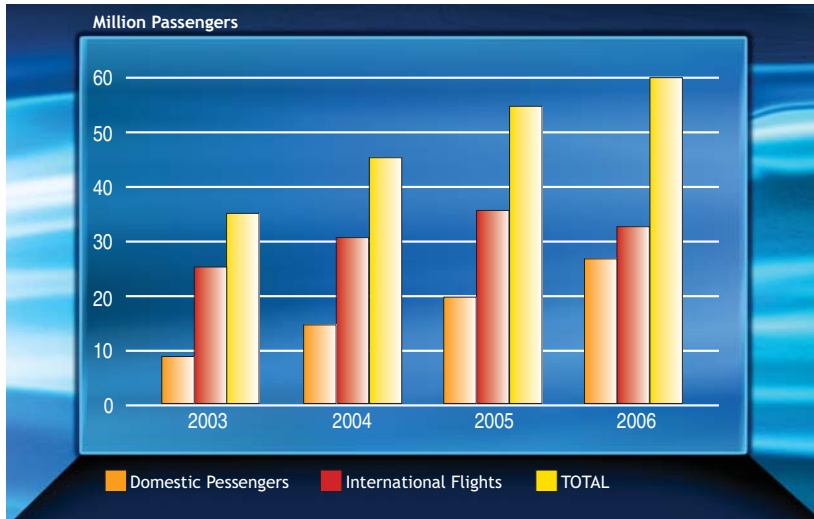


Ankara-Eskisehir portion of the High Speed Train Project between Ankara and Istanbul is under testing and will be completed during 2007. The High Speed Train Project between Ankara and Konya will also be completed in 2007.

25 The Ninth Development Plan (2007-2013), p.60.

was approximately 9.1 million in 2003, reached 26.6 million in 2006, a 192% increase. Total passenger traffic was 54.5 million in 2005 and 58.7 million in 2006, representing a 7.8% increase.

Graphic 3 : Airline Passenger Traffic



Source: General Directorate of State Airports Authority (DHMI)

- Related to rising demand and potential in recent years, some significant airports have focused on infrastructure works. Within this context, works for improvement of terminals and runways of Gaziantep, Ankara Esenboga and Izmir Adnan Menderes Airports were finalized in 2006.
- The construction work on the New Terminal of Ankara Esenboga Airport, which is a 182,000 m² area, was finalized on October 2006, using build-operate-transfer model. This led to an increase in the passenger capacity of the airport from 2 million to 10 million per year.
- Improvement of terminals and runways of Istanbul Atatürk, Antalya and Kayseri Airports will be completed in 2007.
- The construction work of Southeast Anatolia Project (GAP) International Airport in Sanliurfa will be completed in 2007 and the airport with an annual capacity of 2 million passengers will start to serve the developing economy and dense cargo traffic of the region.



Domestic passenger traffic which was approximately 9.1 million in 2003, reached 26.6 million in 2006, a 192% rise.

Turkish Airlines joined Star Alliance, the biggest global airline alliance, on December 2006.

The 542 km long Black Sea Coastal Road was opened to traffic on April 2007.

In the sea transportation and shipbuilding sector, there has been 99% rise in passenger traffic and 45% rise in the vehicle traffic over the last three years.

- ▶ Turkish Airlines (THY) acceded to Star Alliance, the biggest global airline alliance, in December 2006. This accession will enable THY which provides flights to 131 destinations in Europe, America, Asia and Africa to increase its flights to 162 countries and 927 airports with more than 17,500 flights per day.
- ▶ The length of divided highways increased to 12,717 km in 2006 from 11,199 km in 2005. The total length of the highway network except for village roads reached 63,762 km.
- ▶ The 542 km long Black Sea Coastal Road, which is expected to contribute to regional development and facilitate the access from Turkey to Central Asia and the Caucasus, was opened to traffic on April 7, 2007. The Road that encompasses the longest tunnel of Turkey (3,825 m long Nefise Akcelik Tunnel) will serve to 6 provinces, 9 ports, 2 airports and many locations and will contribute to the economy and tourism of the region.
- ▶ The Bolu Mountain Tunnel was opened to traffic in May 2007, shortening the road trip between Istanbul and Ankara to approximately 3.5 hours.
- ▶ The Gocek Tunnel, located between Marmaris and Fethiye which are significant tourism destinations of Southern Aegean, was opened to traffic in July 2006. This has led to the improvement of transportation infrastructure of Gocek which is a significant place for yacht tourism, and of the surrounding tourism destinations.
- ▶ Capacity in the sea transportation and shipbuilding sector has been continuously increasing. There has been 99% increase in passenger traffic and 45% increase in vehicle traffic in the last three years. The number of shipyards which was 37 in 2002, reached 62 in 2007, a 67.5% rise. This number is targeted to increase to 123 in 2009. Turkey has risen to 8th in the global ship order ranking.



- Draft Law in Amending the Coastal Law has been prepared with the aim to decrease the necessary permits for marina and coastal investments and to develop a model similar to Round Table Model in Italy.²⁶
- Construction of large scale ports to increase Turkey's share in maritime transportation and to enable Turkey to become a transit country and determination of appropriate areas for construction of large scale ports via the Master Plan for Coastal Buildings takes place within the targets of the 2007 Program of the 9th Development Plan.²⁷
- On May 12, 2007, the transfer contract was signed for the privatization of the Mersin Port. The final negotiation talks for the transfer of the operating right of the Izmir Port for 49 years occurred on May 3, 2007. Privatization of the Galataport is on the privatization agenda of 2007-2009 term.

In line with the aim of improvement of the technical infrastructure, quality and pace of the services provided by customs;

- As of 2007, 117 customs administrations were incorporated into the customs administrations automation system through the Computerized Customs Activities (BILGE) System, which was initiated in 2000 to coordinate problems between customs administrations and to speed customs procedures. Consequently, as of March 2007, all of the total customs administrations have adopted the automation system. All necessary transactions of entry and exit of the goods in border areas are computerized in these administrations.
- In 2006, foreign trade volume of Turkey increased 20.2%. Despite the relevant increasing transaction volume, improvements have been recorded in export and import customs clearance processes. Between January 1, 2006 and April 30, 2007, 92.56% of the customs clearance transactions of the registered export declarations and 64.28% of the registered import declarations were concluded within 24 hours.
- Eight significant border posts and ports have been equipped with closed circuit television networks as well as with vehicle trace and plate reading systems to better detect illegal traffic in humans, goods and vehicles within the Project of Border Gates Security Systems (GÜMSİS).
- The works are underway for harmonization of information technologies of the Undersecretariat of Customs with the EU systems. In this context, the tender of Customs IT Systems Sub Project has been finalized. Development of necessary infrastructure to provide connection between Common Communication Network and Interface Attachment (CCN/CSI), New Computerized Transit System (NCTS), European Communities Integrated Customs Tariffs (TARIC) and other related tariff systems through revision of BILGE System is aimed by this project.

The BILGE Automation System has been installed in 117 customs administrations. All administrations now operate electronically.

Eight border posts and ports have been equipped with closed circuit television networks as well as with vehicle trace and plate reading systems through The Project of Border Gates Security Systems (GÜMSİS).

²⁶ YOIKK Technical Committee Action Plans, February 2007, p.19.

²⁷ The Ninth Development Plan (2007-2013), 2007 Program, p. 149.

1.4.2 Continue with the Restructuring of the Energy Sector

The main aim of the energy policies that are being implemented in Turkey is to meet the energy needs of the growing population and the developing economy through a continuous, high quality and reliable supply system by private sector investments within a perfectly competitive and transparent market. Works for restructuring the sector in this regard are ongoing. On the other hand, reduction of the total energy cost without leading to a decrease in current living standards, quantity and quality of the production is targeted by the Energy Efficiency Law²⁸ which entered into force in May 2007.

Electricity

- From 2005 to 2006, the demand for electricity increased by 8.2% and reached a level of 174TWh. 46% of this demand was supplied publicly, 35% was supplied via projects like build-operate, build-operate-transfer and 16.7% was supplied by the outputs of the private sector companies.²⁹
- The main priority is to diversify the supply sources of electricity to meet the electricity demand safely and to enable the private sector to generate electricity from renewable sources.³⁰ Within this framework, the work toward the inclusion of nuclear energy in the portfolio of electricity generation continued in 2006, and the legislation regarding establishment and operation of nuclear power plants was approved in the Turkish Grand National Assembly (TBMM) in May 2007.³¹
- Significant steps have been taken for privatization of electricity distribution with the Electricity Market Law³², which was enacted in 2001. Turkey's electricity distribution business has been restructured into 20 regions with the aim of inviting private sector investment in electricity distribution.³³ Privatization of the electricity distribution is planned to be made in the following term.
- Works for the integration of national electric transmission system with European Transmission System (UCTE) are envisaged to be finalized in 2008.³⁴
- The studies for "Wind Atlas of Turkey" is completed by the Ministry of Energy and Natural Resources and shows the significant potential for wind.



The legal amendment necessary for the privatization process of electricity distribution has been finalized.

The Wind Atlas of Turkey is complete.

28 Law no. 5627 on Energy Efficiency (Official Gazette 05.02.2007/26510).

29 Temporary production numbers of Turkish Electricity Transmission Company.

30 Law no. 5346 on The Usage of Renewable Energy Sources in Electricity Generation (Official Gazette 05.18.2005/25819).

31 Law no. 5654 on Establishment and Operation of Nuclear Power Plants and Energy Sale (Official Gazette 05.08.2007/5654).

32 Law no. 4628 on Electricity Market (Official Gazette 03.03.2001/24335).

33 Law no. 5496 on Amendment of Electricity Market Law (Official Gazette 05.24.2006/26177).

34 The Ninth Development Plan (2007-2013), 2007 Program, p. 134.

Natural Gas

- Access to natural gas has increased rapidly-natural gas was supplied to 29 provinces as of 2006. In line with the expanding usage area, 30 billion m³ natural gas consumption has been realized in 2006.
- To improve the existing natural gas pipeline system, private sector distribution firms invested USD 375 billion in the distribution network and 6,500 km polyethylene pipelines and 850 km steel pipelines were constructed.

Natural gas was supplied to 29 provinces as of 2006.

Map 1: Natural Gas and Oil Pipeline



Source: General Directorate of BOTAŞ

- The legal amendment for the transfer of the purchase agreements of natural gas to the private sector has been completed and tender was bid on for 64% of the market.³⁵
- In 2006, 31 licenses, 15 of which are for distribution, have been granted and 14 licenses were amended. With these new licenses the total number of import, export, distribution, sale and storage licenses granted reached 138 by 2006.
- Work is ongoing for construction of an underground storing facility with 1.6 billion m³ capacity to store the natural gas underground in order to meet the seasonal demand changes.

Construction has started on an underground storage facility with a 1.6 billion m³ capacity to meet the seasonal peak demand.

35 Law no. 4646 on Making Amendments in the Natural Gas Market Law (Official Gazette 06.25.2005/25856).

The NABUCCO Project to build a natural gas pipeline between Turkey and Austria is in progress.

In June 2006, the Baku-Tbilisi-Ceyhan Main Export Pipeline became operational.

Works to maintain Turkey as a transit route and a terminal for transfer of the energy sources (oil, natural gas, electricity) in the region to the international markets continued in 2006, too. Within this framework, transfer of natural gas of Caspian Basin and the Middle East Region to Central and Western Europe is aimed with the NABUCCO Project which includes building a natural gas pipeline between Turkey and Austria. Construction work on the project is in progress.

Oil

- In June 2006, the Baku-Tbilisi-Ceyhan Main Export Pipeline, with a capacity of 50 million ton per year, was opened and the transmission of the oil drawn from the Caspian Basin to international markets over Ceyhan was started. This project is a good step for Ceyhan to become an international energy hub.
- Necessary precautions have been taken to prevent unfair competition arising out of smuggling in distribution of oil products with the amendment made in the legislation regarding the oil market.³⁶ In January 2007, national marker usage was started to prevent the supply of technically inconsistent oil products.³⁷

Baku-Tbilisi-Ceyhan Main Export Pipeline Project



Source: Internet site of Baku-Tbilisi-Ceyhan Project Directorate Main Export Pipeline Project-www.btc.com.tr

³⁶ Law no. 5576 on Making Amendment in the Oil Market Law (Official Gazette 02.13.2007/26433).

³⁷ Regulation on the Implementation of National Marker in the Fuel Market (Official Gazette 04.12.2006/26137).

1.4.3 Access and Usage of Information and Communication Technologies

Market size of information technologies has reached USD 16 billion in 2006, a 10% annual rise.³⁸

Table 7 : Total Market Size of IT Sector

	2004	2005	2006
Telecommunication	9.6	11.5	12.5
Information Technologies	2.3	3.0	3.5
Total Market Size of Information Tech.	11.9	14.5	16.0

Source: The Ninth Development Plan (2007-2013), 2007 Program.

- In 2006, the number of mobile telephone subscribers reached 52.6 million representing the ratio between number of subscribers and population of 70%. The number of ADSL subscribers, which was 1.5 million in 2005, increased to 2.4 million at the end of 2006, a 60% rise.
 - To build and maintain the competitiveness in infrastructure, seven operators were authorized to provide telecommunication infrastructure service and four operators were authorized to provide cable platform service in 2006.
-
- Establishment of enterprises such as “Wireless Broadband Access Service”, “IMT-2000/UMTS³⁹ Services and Infrastructure”, “Virtual Mobile Network” and “Digital Land Platform Service” is on the agenda of Telecommunications Authority for 2007. The aim is to increase the competition for improving the infrastructure of information and communication technologies and spreading the usage of these technologies.
 - The regulation allowing customers to shift to a different operator while keeping the same phone number has been enacted with the aim to maintain greater competition in the market.⁴⁰
 - Secondary legislation regarding the use of electronic signature, legal framework of which was formed in 2004, was completed in January 2005 and implementation began in July 2005. Maintenance of safety and validity of the transactions, which are made

The size of the information technology market reached USD 16 billion, a 10% annual rise.

The number of ADSL subscribers increased from 1.5 million in 2005 to 2.4 million at the end of 2006, a 60% rise.

38 The Ninth Development Plan (2007-2013), 2007 Program, p. 164.

39 IMT-2000:International Mobile Telecommunications-2000, UMTS: Universal Mobile Telecommunications System.

40 Regulation on Transferring Numbers (Official Gazette 02.01.2007/26421).

electronically among business people, public administrations and citizens is the aim of the electronic signature. With the start of use of mobile signature in the late 2006, use of electronic signature is expected to widen, especially in Internet banking.⁴¹

- In 2007, the telecommunications service market is expected to grow by 12% and to reach USD 14 billion while the information technologies market is expected to grow by 25% and to reach USD 4.4 billion. Also, 58 million mobile telephone subscribers, 3.5 million broadband subscribers and 17 million Internet users are expected in 2007.⁴²

41 Law no. 5070 on Electronic Signature (Official Gazette 01.15.2004/25355).

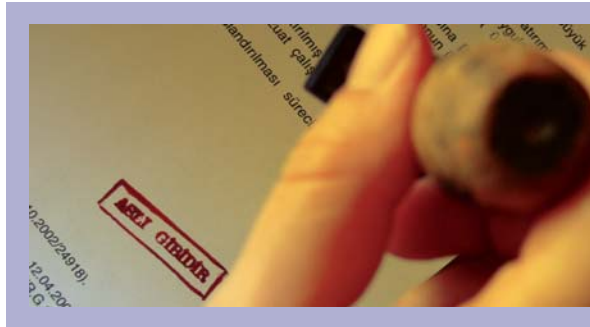
42 The Ninth Development Plan (2007-2013), 2007 Program, p. 164.

I.5 Accelerate the Reduction of Administrative Barriers, Particularly: Licensing Requirements, R&D Approval Processes, Limited Access to Land and Restrictions on Imports

I.5.1 Licensing Requirements

Rationalization of the process, cost and length of licensing procedures has been mentioned by the IAC members in all meetings and remains among the priority issues in activities to improve the investment climate.

- On April 13, 2007, the regulation amendment on making significant improvements in licensing to open a business and work came into force.⁴³ Within this context;
 - The opening a business and work license will be complete in 15 days without requiring further procedure as long as there is a favourable decision on the environmental impact assessment (CED) for the specific investments within the scope of Law for the Encouragement of Tourism.
 - Second and third class non-sanitary businesses will be able to get an opening a business and work license via declaration of their situation. The license for opening a business and work will be given to the person concerned in 5 days providing the application is acceptable.
- The regulation amendment about the rationalization of mining licensing procedure came into force on April 21, 2007.⁴⁴ Within this framework;
 - The provisions concerning the non-sanitary businesses in Regulation on Opening a Business and Work License were adapted for the mining sector.
 - The affirmatory CED document and report was accepted to replace the required site selection and facility establishment report.
 - The difficulties in the construction permits of temporary facilities for mining activities were resolved.
- In January 2007, the Ministry of Agriculture and Rural Affairs established the Agricultural Investors Guidance Center (TARYAT) in order to inform both national and international investors in agricultural sector about incentives and supports, as well as procedures for permits and licenses.⁴⁵



Second and third class non-sanitary businesses will be able to get an opening a business and work license via declaration of their situation.

The difficulties in construction permits of temporary foundations for mining activities were resolved.

In January 2007, the Agricultural Investors Guidance Center was established.

43 Regulation on making Amendment on Regulation concerning Opening a Business and Work License (Official Gazette 04.13.2007/26492).

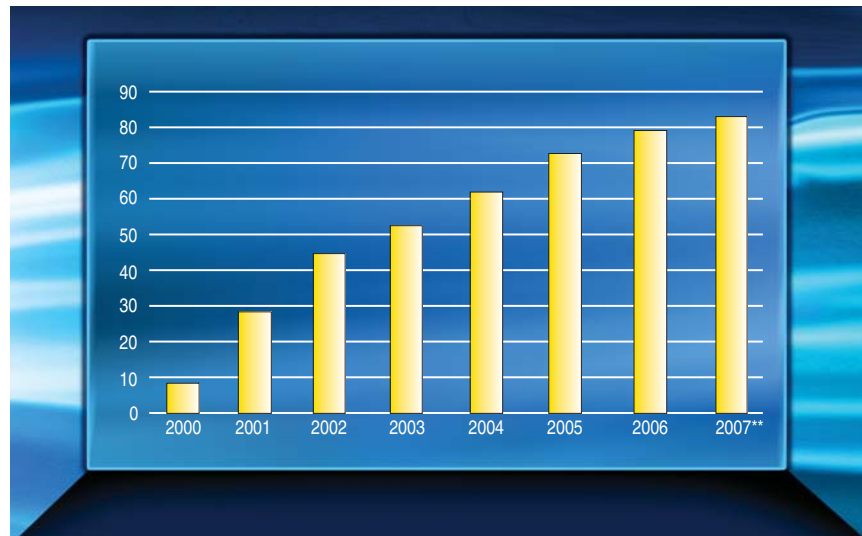
44 Regulation on making Amendment on Regulation regarding Permission Procedures for Mining Activities (Official Gazette 04.21.2007/26500).

45 www.taryat.gov.tr.

The number of customs controls was reduced; the increased customs efficiency was reflected in the time to complete a transaction.

- ▶ Within the framework of the Modernization Project of Customs Administrations that has been going on to increase the effectiveness of services provided in customs;
 - The time to complete a transaction was shortened and the efficiency of custom inspections was increased while the number of customs inspections was reduced. The custom clearance procedure of 92.56% of 2,830,874 registered export declarations and 64.28% of 2,895,718 registered import declarations were completed within 24 hours between the period of January 1, 2006 and April 30, 2007.
 - Use of the Electronic Data Interchange (EDI) System, which has been implemented since August 30, 1999 to accelerate the custom transactions has increased its penetration. EDI System enables declaration information to be transferred among the customs advisors, import-export firms and transporter firms via electronic media. The ratio of declarations registered by EDI has been increasing for each year, as of the first four months of 2007, the ratio of declarations registered by EDI to the number of total declarations was 82.63%.

Graphic 4 :The Ratio of Total Declarations Registered by EDI*



*It is the ratio of total declarations registered by EDI to total registered declarations .
 **Between January 1 and April 30, 2007 are considered.

Source: The Undersecretariat of Customs

- In order to increase the effectiveness and efficiency of customs clearance procedures and to reduce red tape, cooperation has been achieved among the Undersecretariat of Customs, the Ministry of Transportation and the Ministry of Health on transferring the responsibility for custom procedures currently done by the other institutions and agencies to the Undersecretariat of Customs at the land border gates. All custom procedures at the land border gates will be provided at one point.
- The ongoing efforts to share the information and documents in foreign trade transactions with the related institutions and to enable the whole procedure to be done electronically by having the related institutions use standard foreign trade documents will be finalized by the Undersecretariat of Customs in 2007.⁴⁶
- In 2006, the protocol envisaging interaction between the online Product Safety System of the Undersecretariat of Foreign Trade (DTM), which monitors the product safety inspections on imports, and BILGE System of the Undersecretariat of Customs, was signed. With the establishment of this interaction system, the related parties (inspection units, customs administrations, firms, etc.) can make transactions among themselves online in a shorter time period.
- In January 2007, the Project of Strengthening Institutional Capacity to Establish Product Safety System in Turkey which is funded by EU and is being implemented together by DTM and Holland Food and Consumer Products Safety Institution, was initiated. The aim of this Project is to support the formation of an infrastructure concerning the RAPEX (Rapid Alert System for Non-Food Products) System, which will provide mutual informing on unsafe products among EU countries.

⁴⁶ The Ninth Development Plan (2007-2013), 2007 Program, p.87.

Chartered accountant oversight was initiated to accelerate the process of evaluating the legal compliance of expenses during the monitoring period for industrial R&D projects.

The red tape in the application procedure for technology development project supports has been reduced.

1.5.2 R&D Approval Processes

Various improvements have been achieved both in simplifying approval procedure in R&D support benefits and reducing the administrative and bureaucratic barriers in this field.

- Through the Support Program of Industrial R&D Projects which has been carried out by TUBITAK, the projects to produce new products, to increase the quality or standard of products and to improve new cost effective techniques and production technology are supported. Significant steps have been taken to simplify the approval processes of projects eligible for Industrial R&D Support Program. Within this framework;
 - The number of technology executive committees has been raised from 3 to 5 to better evaluate the proposals for industrial R&D projects.
 - Chartered accountant oversight was initiated to accelerate the process of evaluating the legal compliance of expenses during the monitoring period for industrial R&D projects.
- Panel System has been put in practice for the assessment of the academic R&D projects eligible for academic R&D supports financial benefits implemented by TUBITAK. In 2006, the duration of academic R&D projects approval process, which had been 5-6 months in the previous years, was reduced to 3 months.
- The approval process of R&D activities regarding development of products with a trading value in the framework of Technology Development Project Supports is being done by TTGV. There are significant improvements made by TTGV;
 - The red tape in the application procedure for Technology Development Project Supports has been reduced.
 - Internal processes of TTGV have been improved to simplify R&D projects application process. With the aim of reducing the duration of the project evaluation and supporting processes, it is now possible to execute some consecutive transactions in parallel, resulting in a more effective administration of the processes. Thus, the processes of the contract signing and the expense assessment are accelerated.

1.5.3 Access to Land

The recent improvements both in the macroeconomic environment and in legal regulations concerning the business environment have significantly changed the needs and priorities of investors' assessments of Turkey. Infrastructure, a skilled labor force suitable to the nature of business and availability of investment land for proposed investment projects have become influential factors in investment decision process. In fact, limited access to land was one of the agenda items both in the first and the third IAC meetings. Various efforts related to this issue are done within the framework of improving the investment climate in Turkey.

- The rules were redefined about the real estate acquisition by foreigners within the context of legal amendment, which came into force on January 7, 2006.⁴⁷ In this framework, with the reservations of reciprocity and compliance with legal restrictions, foreign persons can acquire real estate in Turkey for residential and business purposes. Foreign incorporated companies established abroad are allowed to acquire real estate only in accordance with the conditions defined in the special laws.⁴⁸ However, there is no restriction on real estate acquisition of the incorporated companies with foreign capital established in Turkey.⁴⁹
- Determination of the legal status of the land is critically important during the investment site research process. Cadastral works which have an important role to provide reliable data for investors have been ongoing. Up to now, 80.8% of cadastral works in Turkey have been completed. The cadastral works are expected to be completed by the end of 2007. The aim of these efforts is to reduce the disputes concerning property rights.
- In 2000, the General Directorate of Land Registry and Cadastre initiated the Project of Information System of Land Registry and Cadastre (TAKBIS). The TAKBIS Project will provide proper and fast information tracking on real estate property rights. In 2006, work on automation was started in 232 Land Registry Offices and 10 Cadastre Offices within the context of TAKBIS. By April 2007, 154 units have been in operation within the framework of TAKBIS. Moreover, by 2008, 342 units in total will be automated with the help of digitalization of the other 100 other Land Registry Offices by the said General Directorate's initiative. In the E-government Award Ceremony organized by TÜSİAD and the Informatics Associations of Turkey in 2006, the TAKBIS Project won the first prize in the public to citizens services category.
- Organized Industry Zones (OIZs) have been created in order to structure the investments in the manufacturing industry in accordance with specific plans in appropriate areas. By the end of 2006, there were 244 OIZs established by the approval of the Ministry of Industry and Trade. There were 93 OIZs going at full blast with 20,699 acres of land in 58 provinces for which site selection, expropriation actions and infrastructure are complete. Besides, there are 155 OIZs whose registration and site selection have been completed but placement and infrastructure studies are still in progress. The required investments are taken place in the 2007 Investment Program to open new 108 OIZs with 19,512 acres in 2007.

By the end of 2006, the number of established organized industry zones was increased to 244.

47 Law no. 5444 on Making Amendment in Land Registry Law (Official Gazette 01.07.2006/26046).

48 Law no. 2634 for the Encouragement of Tourism (Official Gazette 03.16.1982/17635); Law no. 6326 on Petroleum (Official Gazette 03.16.1954/8659); Law no. 4767 on Industrial Zones (Official Gazette 01.19.2002/24645).

49 Law no. 4875 on Foreign Direct Investment (Official Gazette 06.17.2003/25141).

Tablo 8: Allocation of Organized Industrial Zones by Geographical Regions

Region	COMPLETED BY THE END OF 2006		INCLUDED IN THE INVESTMENT PROGRAM	
	UNIT	AREA (Ha)	UNIT*	AREA (Ha)
MARMARA (11 Provinces)	18	5,072	10	1,732
AEGEAN (8 Provinces)	14	3,512	19	3,459
MEDITERRANEAN (8 Provinces)	11	2,603	6	1,047
CENTRAL ANATOLIA (13 Provinces)	17	4,118	18	4,248
BLACK SEA (18 Provinces)	17	1,823	27	3,049
EASTERN ANATOLIA (14 Provinces)	8	1,375	15	1,984
S.EASTERN ANATOLIA (9 Provinces)	8	2,196	13	3,993
TURKEY TOTAL (81 Provinces)	93	20,699	108	19,512

*The projects with study characteristic have been added to the total.

Source: The Ministry of Industry and Trade

- In July 2006, the Information System of OIZs was set up on the www.osbuk.org web portal by the Supreme Board of OIZs to provide both general information about established OIZs and other information about incentives, infrastructure, building development, parcel allocation and the consumption of energy. Via this web site, access to proper and up-to-date information about the OIZs is provided through OIZs database, the regular update system of OIZs information.
- By February 2007, the number of TDZs established since 2001, has been increased to 23. Within the same period, 14 TDZs have been operational and 573 firms began operation in TDZs, creating job opportunities for 8,202 people. In addition, 2,515 projects were completed; products worth USD 110 million were exported; and 94 patents were received during the same period.



By February 2007, the number of technology development zones has been increased to 23; 14 of them are in operation.

Table 9: Allocation of Technology Development Zones by Provinces

Province	Number	Province	Number	Province	Number	Province	Number
Ankara	4	Konya	1	Adana	1	Gaziantep	1
İstanbul	3	Antalya	1	Erzurum	1	Eskişehir	1
Kocaeli	3	Kayseri	1	Mersin	1	Bursa	1
İzmir	1	Trabzon	1	Isparta	1	Denizli	1

Source: The Ministry of Industry and Trade

- ▶ Regarding the provinces with a per capita income below USD 1,500 defined by the Turkish Statistical Institution in 2001, and the provinces with a negative social-economic development index defined by State Planning Organization (SPO) in 2003 and the remaining provinces mentioned as priority regions for development by the law, real and legal persons will be granted an easement for 49 years on the state lands, special provincial administrations, or municipalities if their investment create employment opportunity for at least 10 people.⁵⁰
- ▶ Long term leasing of the agricultural enterprises that are under the mandate of the General Directorate of Agricultural Businesses (TİGEM) have been started to be conducted in order to increase the efficiency of state-owned agricultural enterprises. Between 2003 and 2006, 14 of the 38 TİGEM agricultural enterprises were leased by the private sector, providing job opportunities for approximately 5,500 people.
- ▶ The draft regulation to reduce the red tape and expenditures concerning building inspection activities for the companies that build investment site is to be finalized. The regulation will planned to be enacted by 2007.⁵¹

Between 2003 and 2006, leases for 14 of the General Directorate of Agriculture Businesses agriculture enterprises established in order to increase the efficiency of the state-owned agriculture enterprises. Thus, additional job opportunities for approximately 5,500 people were created.

50 Law no. 5615 on the Amendments in Revenue Tax Law and in Some Other Laws (Official Gazette 04.04.2007/26483).

51 YOIKK Technical Committee Action Plans, February 2007, p.21.

A law on Civil Trial Procedures has been drafted. The law is expected to make the trial procedure faster, simpler, more effective and less costly.

The prevalence ratio of UYAP is currently 90% and the project is expected to be fully in use among all of the judiciaries through 2007.

I.6 Increase the Efficiency of Judicial Processes

In the third meeting of IAC, council members reiterated the importance of Turkey developing a fair, fast, effective and predictable law and jurisdiction system. Ongoing efforts toward improvement by the Ministry of Justice continued through 2006:

- A law on Civil Trial Procedures has been drafted within the context of judicial reform process. The Law is expected to make trial procedures faster, simpler, more effective and less costly. It will also ensure that some disputes can be settled via jurisdiction methods such as non-contentious jurisdiction, amicable compositor and conciliation.
- The Ministry of Justice has started a process of redistribution of workload among courts to reduce overload in the busiest courts. In this context, 137 small district courts and 120 crime execution places (prisons, etc.) have been closed and their resources reassigned to areas where there is greater need.⁵²
- To remove the problem of vacancy of judicial posts, 4,000 new judge posts and prosecutors are addressed by Law No.5276⁵³ and studies by the Ministry of Justice to fill these posts with well-qualified judges and prosecutors are ongoing.
- The studies were continued to create a faster, reliable and fair judicial system by ensuring ,a rapid, economic and effective judicial services through the usage of technological developments. In this context, significant progress has been achieved in the National Judiciary Network Project (UYAP) carried out by the Ministry of Justice, which is an automation and integration project for all related institutions and organizations of judicial bodies. UYAP encompasses the central organization of the Ministry of Justice together with all courts, chief public prosecutors' offices, enforcement offices, prisons and detention centers, forensic medicine institutions and other higher judicial bodies, relevant institutions and organizations. The prevalence ratio of UYAP is currently 90% and the project is expected to be fully in use among all of the judiciaries through 2007.

 - With the completion of this Project, all the data of the central and provincial bodies of judicial system will be accessible in a faster and more effective way within computer media. Also, courts will be able to receive electronically the



⁵² The Ninth Development Plan (2007-2013), p. 60.

⁵³ Law no 5276 Making Amendment on the Table of the Decree Law No 190 About the Permanent Positions (Official Gazette 12.29.2004/25685).

correspondence related to any lawsuit and data such as birth, criminal and land registry records by the time of hearing.

- Under this system, citizens can track information on their lawsuit and lawyers can assess the files of their cases. Also within the framework of E-Signature Law, they can send documents and make payments. Presently, over 10,000 lawyers are actively using the system.



The Ministry of Labor and Social Security has been preparing a reform package with a view to reducing the financial and social burdens on employment.

An evaluation study concerning the flexibility and security provisions of the new Labor Law No.4857 will be carried out within 2007.

I.7 Enhance the Efficiency and Flexibility of the Labor Market

A flexible labor market is widely acknowledged as a prerequisite for a dynamic economy that can compete in a global world. This issue was emphasized during the last IAC meeting.

- With a view to reducing unemployment and increasing production and formal employment, in 2006 a joint working group was established with the participation of the Ministry of Labor and Social Security, Ministry of Finance, Ministry of Industry and Trade, SPO, Undersecretariat of Treasury, Revenue Administration and Social Security Institution. After several meetings of the group in 2006 and early 2007, the Labor Force Market Structural Transformation and Employment Generation Plan was formulated within the framework of proposals from the institutions and the demands of their social partners. Within the context of the Plan, based on the initial determination study, legal arrangement proposals have been produced concerning

 - reduction of the financial and social burdens on employment, and
 - re-organization of the unemployment insurance fund and severance pay system.
- The Plan to ensure development in the implementation of employment generation policies is in process of completion.
- The Labor Act No. 1475, which was the main law regulating the relations between employer and employees, has been renewed in line with economic and technological developments, the emergence of new employment relations, the harmonization to the International Labor Organization (ILO) conventions and the EU Acquis; and consequently the new Labor Act No. 4857 came into force in 2003.⁵⁴ The Act foresaw employment models aiming to give flexibility to work processes and create new employment opportunities such as “specific-time employment, part-time employment, job distribution, on-call employment, distance employment, working at home, temporary work relations”. For the purpose of identifying and rectifying the discrepancies appearing during the three-year implementation period of the Act, an evaluation study concerning the flexibility and security provisions of the Law will be carried out within 2007. Within the scope of said review, the level of flexibility in standard employment contracts will be examined and necessary adaptation studies will be carried out to render the flexibility practices attractive for employees and employers. In this framework, any obstacles that may hinder the implementation especially of the part-time labor model will be identified, and this employment model will be given a structure preferable for employees and employers.⁵⁵



⁵⁴ Labor Law No. 4857 (Official Gazette 06.10.2003/25134).

⁵⁵ The Ninth Development Plan (2007-2013), 2007 Program, p.184.

I.8 Enhance Corporate Governance

Strengthening corporate governance among companies in Turkey has emerged as a priority on the agenda of the last two meetings by IAC members. In accordance with the target of strengthening corporate governance in Turkey, efforts are continuing in the following areas;

- formation of legal basis
- increasing practice of corporate governance rules
- raising awareness on the governance issues

Significant steps in strengthening corporate governance through these efforts were made during the year 2006.

- Corporate Governance in Turkey: A Pilot Study issued by OECD was finalized and announced to public in 2006. The study aims to determine the immediate and long-term priorities to develop corporate governance in Turkey, as well as to evaluate the present condition of corporate governance in terms of corporate governance principles of the OECD.⁵⁶ The Report prepared as the outcome of the pilot study serves as a guidance manual for required improvements on both regulatory frameworks and actual corporate governance practices in Turkey.
- The Capital Markets Board of Turkey (CMB), the German Financial Auditing Body and the German Ministry of Finance experts are evaluating legislation on capital markets through a twinning project to align the capital market procedures with the EU legislation. In this context, the provisions of the legal arrangement that are significant in terms of corporate governance are being evaluated from the EU viewpoint.
- By the end of March 2007, 39 Turkish Accounting Standards and Turkish Financial Reporting Standards prepared by Turkish Accounting Standards Board were enacted in full compliance with the International Accounting Standards and International Financial Reporting Standards (IFRS), including the “Framework for the Preparation and Presentation of Financial Statements”.
- One of the recent efforts regarding corporate governance issues was the requirement for listed companies to comply with IFRS by 2005. A new CMB Communiqué entered into force in June 2006 to make considerable improvements in corporate governance by introducing International Standards of Audit based provisions for listed companies complementary to the IFRS.⁵⁷ Furthermore, valuation standards in compliance with the International Valuation Standards for the valuation practices of corporations subject to capital market regulations, capital market institutions and issuers were completed and published in 2006.⁵⁸



Corporate Governance in Turkey: A Pilot Study issued by OECD was completed and publicly announced.

In full compliance with the international standards, Turkey has enacted 39 standards for Turkish Accounting Standards and Turkish Financial Reporting Standards.

In 2006 International Standards of Audit and International Valuation Standards were issued.

⁵⁶ OECD Corporate Governance in Turkey: A Pilot Study, 2006.

⁵⁷ Communiqué on Independent Audit Standards in Capital Markets (Serial no: X, no: 22), (Official Gazette 06.12.2006/26196).

Corporate Governance in State Owned Enterprises and Corporate Governance in Non-Listed Companies Projects are ongoing.

In 2006, secondary legislation supporting corporate governance practices in banking came into effect.

- Due to the low awareness of the concept and contents of corporate governance by both the companies and the capital market investors, CMB plans to concentrate on promotional and informational activities. Within this regard, the researches of CMB, evaluating the corporate governance reports of the companies will be publicized through the official web site of the CMB. Furthermore, links to the internet sites of corporate governance compliance reports will be available through this web site. The aim of these and similar activities is to raise awareness of the consistency of corporate governance principles within publicly held companies and thereby maintain effective implementations of corporate governance.
- The new Draft Commercial Law, which includes considerable amendments on the subject of corporate governance, is on the agenda of TBMM of Turkey. With the acceptance of the Draft Law, considerable improvement in the application of corporate governance principles in both public and non public companies will be completed.
- Two different projects have been initiated in 2006 by the Corporate Governance Technical Committee formed within the YOIKK under the chairmanship of CMB, to establish and monitor corporate governance in both state-owned enterprises and non-listed companies.
 - The Corporate Governance in State-Owned Enterprises Project aims to conclude the infrastructural requirements for the determination and adaptation of corporate governance principles in state-owned enterprises, as well as to develop strategies to ensure required legislation amendments.⁵⁹
 - The Corporate Governance in Non-Listed Companies Project aims to assure more active contribution to the economy by these companies through establishment and introduction of corporate governance principles, raising awareness on the subject and further monitoring and development of corporate governance procedures.
- Banking Regulation and Supervision Agency (BRSA) has introduced secondary legislation concerning the rules on the internal control, internal auditing and risk management⁶⁰, as well as legislation regarding corporate governance structure, processes and related principles to be followed by the banks.⁶¹ Such adaptations are expected to contribute significantly to strengthening corporate governance in the banking sector.
- Corporate governance principles have also been adopted into the Bank Cards and Credit Cards Law, which came into force in 2006.⁶² This Law makes it mandatory for financial institutions to adapt corporate governance principles in their activities to set up card systems, issue cards, make contracts with members, exchange information, barter and offsetting. With the secondary regulation made by the BRSA in March 2007, card system companies have been obliged to follow the Regulation on Corporate Governance Principles for Banks.⁶³

58 Communiqué on Independent Valuation Standards in Capital Markets (Serial no: VIII, no: 45), (Official Gazette 03.06.2006/26100).

59 The Ninth Development Plan (2007-2013), p.74.

60 Regulation on Banks' Internal Control Systems (Official Gazette 11.01.2006/26333).

61 Regulation on the Corporate Governance Principles of Banks (Official Gazette 01.11.2006/26333).

62 Law no. 5464 on the Regulation on Bank Cards and Credit Cards (Official Gazette 03.01.2006/26095).

63 Regulation on Bank Cards and Credit Cards (Official Gazette 03.10.2007/26458).

1.9 Continue the Reform of the Social Security System

One of the issues brought forward at the second and third meetings of the IAC was the acceleration of the Social Security Reform Program. Within the context of the Reform, a package of three laws has been prepared.

- As of May 2006, Social Security Institution Law came into force.⁶⁴ In this context, all social security agencies were gathered under the roof of the Social Security Institution, which has a public legal entity and is administratively and financially autonomous. As of June 2007, the secondary legislation to ensure implementation of the Law will come into effect.⁶⁵
- The second component of the Reform aimed at increasing the retirement age in a gradual manner and rationalizing the calculation of pension benefits. The pension reform also targets a reduction in the overall deficit of social security system by around 1% over a ten year period and brings the deficit near balance in the long term. However, some provisions of the Law on Social Insurances and General Health Insurance No. 5510, which was designed to constitute the legal infrastructure in this field and adopted by TBMM in May 31, 2006, were annulled by the Constitutional Court. Thus, the Law is being revised in accordance with the concerns of the Court.
- Studies are continuing on the other component of the Reform that intends to reorganize the current fragmented social benefits and services system into one that depends on objective criteria and is open to all the society groups in need.



Reform of the social security system has continued by gathering all social security agencies under the roof of the Social Security Institution and by moving forward with studies as planned on the other components of the reform.

⁶⁴ Social Security Institution Law No. 5502 (Official Gazette 05.20.2006/26173).

⁶⁵ YOIKK Technical Committee Action Plans, February 2007, p.13.

I.10 Deepen Financial Market Development, Including Increasing Access to Finance, Strengthening the Regulatory Framework for the Insurance Sector and Broadening the Equity Market

At the third meeting of the IAC, the Council members stressed the need to enhance financial markets and thereby to increase accessibility to finance. Strengthening the regulatory framework of the insurance sector and expanding the stock exchange were among the other recommendations taken on the agenda during the meeting. The positive impact of the financial policies that were enforced after the crisis of 2001 is reflected in these fields. Efforts carried out within these areas continued during 2006.

In 2006, the average daily transaction volume of the stock market has increased by 16% with respect to the previous year and within the same period, the average daily transaction volume of the bills and bonds market has increased by 18%.

- There are three different trade markets within İstanbul Stock Exchange (ISE), namely “stock market”, “bills and bonds market” and “international bond market”. In 2006 the average daily transaction volume of the stock market increased by 16% with respect to the previous year and reached USD 919 million. In the same period, the average daily transaction volume of the bills and bonds market increased by 18% and reached USD 8.1 billion.
- In 2006, 15 new companies issued their first initial public offering thus the total market value of the 316 companies listed in the ISE has reached USD 163.8 billion. Furthermore, the total number of stock exchange mutual funds traded in the ISE reached six by the end of 2006.
- In 2006, all of the bonds and bills market and 90% of the stock market transactions were made through distant access and the technological infrastructure was supported by new computer software.
- The ISE, strengthening its ascending position in international capital markets, was in the 6th tier of transaction volume among the stock markets of developing countries and in the 9th tier of market value of the companies whose stocks are traded in the Stock Market as of the end of December 2006. In the The Outright Purchases and Sales Transactions Market of the Bonds and Bills Market, the ISE is in the 5th tier among all the bonds markets with respect to the yearly total transaction volume. Foreign investment ratio of the fiscal market has increased as a result of macroeconomic improvements and the strengthening of the legal infrastructure of the financial sector.⁶⁶ The total equity investment of the foreign investors has reached 71% of the total depository amount with a value of USD 46 billion by April 2007.



- Foreign borrowing instruments (Eurobond) issued by Turkish Treasury in international markets began trading in ISE Foreign Stock Exchange International Bond Market as of April 2007. The transactions are being performed in a separate market with the name Automatic Bond Purchase and Sell System via distant access. Thus, the Eurobonds that are actively trading over the counter market will be traded within a secondary market and, thereby, market activism will be enhanced.
- ISE will continue its efforts for better activation of markets into 2007:

 - The Disclosure Project aimed at securing public access to the disclosures of the listed companies of ISE in electronic form under the standards of information security will be realized in 2007.
 - The Surveillance System Project designed to carry the surveillance studies effectively by both CMB and ISE will be put into service in 2007.
- Turkish Derivatives Exchange (TURKDEX), established early in 2005, acts as an effective risk management function. The transaction volume of the market was USD 2.2 billion in 2005 and increased by approximately 600% reaching USD 12.5 billion by the end of 2006. The total transaction volume of the market reached to USD 15.3 billion by the end of April 2007, surpassing the total value of the year 2006.
- The Growing Enterprises Market Inc., established to form and administer the market aims to facilitate the issuance of the capital market instruments by SME's through creating liquidity opportunities, has gained an incorporation status as of December 30, 2005. The Growing Enterprises Market Inc. is designed to allow access to all companies, including the small and medium sized ones, to the capital markets. Work is continuing to make the market operational.⁶⁷
- BRSA was given the responsibility of the auditing and regulative functions of the non-banking institutions (leasing, factoring and consumer finance companies) with the Banking Law No. 5411. Secondary legislation prepared by BRSA on financial leasing, factoring and financing companies entered into force in 2006⁶⁸ and is expected to promote a more effective operation of the non-banking capital sector.
- The ratio of total loans of the banking sector to GDP, one of the basic indicators of financial depth, increased from 31% in 2005 to 38% in 2006. Augmenting the loan portfolio, as a result of positive progress on macro economic indicators and economic expectancy and growth performance of the banking sector, has been effective in this increase. In 2006, total loans used in banking sector increased by 40% when compared to the end of the previous year and raised to a total of USD 153 billion. In the same period, while retail loans increased by 51%, commercial loans increased by 35%. In the upward trend seen in housing loans, the ratio of housing loans within retail loans increased from 8% to 11% in 2006. In light of these improvements, the banking sector has performed its intermediation function more effectively and the ratio of transformation of deposits to loans increased from 62% as of 2005 to 71% as of 2006. The Law

The transaction volume of TURKDEX was USD 2.2 billion in 2005 and increased approximately 600% reaching USD 12.5 billion as of end-2006.

Works are continuing to enable The Growing Enterprises Market Inc. operational.

The ratio of total loans in the banking sector to GDP, one of the basic indicators of financial debt, increased from 31% in 2005 to 38% in 2006.

⁶⁷ CMB Board Decree 10.12.2006 No: 45/1286.

⁶⁸ Regulation on Establishment and Working Conditions of Financial Leasing, Factoring and Financing Companies (Official Gazette 10.10.2006/26315).

The legislation on Housing Finance System was issued in March 2007.

The legislation period of the Draft Insurance Law prepared with the perspective of aligning the insurance sector with both the EU legislation and international standards is ongoing.

- Amending the Laws Related to Housing Finance System was issued in March 2007.⁶⁹
 - The Law gives way to several regulations, which, on one hand, aim to provide better borrowing conditions for the homebuyers and, on the other hand, improve the capital markets by making it possible for the financial institutions to raise long-term funds from the capital markets by means of the mortgage-covered bonds and housing finance funds, which are defined as new capital market instruments.
 - The regulations, those of which are expected to give way to an increase in the production of qualified houses and planned urbanization in the medium and long run, are done by amending the Law of Foreclosure and Bankruptcy, Capital Markets Law, Consumer Protection Law, Financial Leasing Law, Mass Housing Law and various tax laws. The new capital market instruments and institutions that are introduced by the Law will increase the variety in the capital markets and will create new investment alternatives for both individual and institutional investors. The new instruments will particularly meet the long term investment needs of the insurance and private pension fund industries.
 - Besides, with this Law, the financial activity duty which used to be collected as 50% of the fees paid to the ISE for the transactions done in the ISE, and 50% of the fees paid to CMB for the registrations done by the CMB, and the stamp duty collected over the issuance of all capital market instruments have been abolished. These changes decreased transaction costs and constitute important progress for the capital markets.
- The legislation process of the Draft Insurance Law, prepared with the perspective of aligning the insurance sector with both the EU legislation and international standards, is ongoing. The main goal of the Draft Law is to improve insurance activities in Turkey, as well as to protect the legal rights and social benefits of the insured entities. The Law also has new provisions regarding the arbitration system for the settlement of disputes stem from insurance contracts and the professional organizing of the experts and agents.

⁶⁹ Law no. 5582 on the Amending the Laws Related to Housing Finance System (Official Gazette 03.06.2007/26454).

I.11 Improve Investment Promotion and Communication Activities

Improvement of investment promotion and communication activities is encouraged as a priority in all IAC meetings. In 2006 significant progress on this priority was achieved:

- Turkey Investment Support and Promotion Agency (TISPA) was established in July 2006 to fulfill the corporate capacity need in the effective promotion and communication of the investment opportunities in Turkey.⁷⁰ TISPA will define and implement the investment support and promotion strategies to encourage international entrepreneurs to invest in Turkey. The secondary legislation about the incorporation of TISPA is in the finalization stage.⁷¹
- In May 2006, Investment Portal of Turkey (InvestinTurkey) was set up to provide both national and international investors up-to-date information about investment environment in Turkey.⁷² In the first 10 months it received about 190,000 visits. The total number of investor inquiries handled via the portal was about 150 in the same period.
- An Investment Environment Information Package has been produced, covering 12 topics from how to establish a business, to investment incentives, taxes and work permits. These packages have been widely distributed to 60 global centers and the work on updating these informative packages is ongoing.



In July 2006, the Investment Support and Promotion Agency of Turkey was established.

In May 2006, the Investment Portal of Turkey (InvestinTurkey) became operational.

⁷⁰ Law no. 5523 on the Establishment of Investment Support and Promotion Agency of Turkey (Official Gazette 07.04.2006/26218).

⁷¹ The Regulation on the Accounting Principles of Investment Support and Promotion Agency of Turkey (Official Gazette 01.25.2007/26414); The Regulation on the Goods and Service Procurement Principles of Investment Support and Promotion Agency of Turkey (Official Gazette 02.10.2007/ 26430); Council of Ministers Board Decree on the Implementation of the Law on the Establishment of Investment Support and Promotion Agency of Turkey No: 2007/11834.

⁷² www.investinturkey.gov.tr

To reduce the informal fuel industry, the national marker implementation to the fuel traded around the country has been started.

The Project of Fight Against the Unregistered Employment (KADİM) has come into force.

I.12 Continue Efforts to Reduce the Informal Economy

In the third IAC meeting, council members expressed their satisfaction with decisive and successful implementation of tax reforms. The fight against the informal economy has been one of the basic principles that determines the tax system. In this context, the following measures have been taken under the scheme of Economic Transformation Program to reduce informality:

- Gas stations have been required to install refund recording devices in their pumps.⁷³ Also work on establishing an auto recognition system at fuel pumps, which will provide cash registers to automatically recognize the autos buying fuel, has been continuing. In the beginning of 2007, the Energy Market Regulatory Authority (EMRA) started implementation of adding national marker to fuel traded around the country.⁷⁴ In this regard, inspections in the fuel market are continuing at an increasing pace.
- Implementation of tax stamps on tobacco and alcoholic beverages has become compulsory.⁷⁵ In this way, equity will be provided in the competitive environment in this market.
- Using the banking system for payments over YTL 8,000 (approximately USD 5,580) has become compulsory.⁷⁶
- The Ministry of Labor and Social Security, together with other relevant ministries, professional organizations and unions has launched the Project of Fight Against the Unregistered Employment (KADİM).⁷⁷ This project aims to eliminate the factors leading to unregistered economy and to reach to a more registered employment. The activities that will be carried out under the Project are as follows:
 - Information and awareness-raising
 - Legislation amendments
 - Shortening the bureaucratic procedures
 - Effective and dissuasive supervision
 - Establishment of the coordination between the relevant institutions



73 General Regulation on Law on Necessity of Value Added Tax Payers to Use Refund Recording Devices (Serial No: 58) (Official Gazette 11.30.2003/25302), General Regulation on Law on Necessity of Value Added Tax Payers to Use Refund Recording Devices (Serial No: 67) (Official Gazette 02.04.2006/26070).

74 Regulation on the Implementation of National Marker in the Fuel Market (Official Gazette 04.12.2006/26137).

75 Communiqué on Tax Stamp Monitoring System on Tobacco and Alcoholic Beverages (Official Gazette 03.17.2007/26465).

76 General Regulation on Tax Procedure Law (Serial No: 332) (Official Gazette 04.27.2004/25445).

77 The Prime Ministry Circular (Official Gazette 10.04.2006/26309).

- ▶ Within the context of the Social Security Reform, the aim is to adopt a supervision system approach that is expected to produce more effective results than the local audits, and to create a central database with complete information of the insured people in the whole population. In this framework, efforts will be made to identify unregistered workers via communicating with various information systems, service centers, relevant agencies and institutions through cross-checking. The registration of employment will be facilitated via use of Turkish Republic Identification Number as social security registry numbers by insured people and beneficiaries.
- ▶ From 2007 onwards, an effective supervision system will be established through gradual appointment of 3,400 social security supervision officers.⁷⁸ Inspection and Insurance Auditing Boards of the Emekli Sandığı (Supervisory Commission Departments of Retirement Fund), BAĞ-KUR (Social Security Organization for Artisans and the Self-Employed) and SSK (Social Security Institution) were merged under the Department of Counselling and Supervision, hence a more effective auditing system has been established. The supervision will highlight guidance and education rather than punishment.

⁷⁸ YOIKK Technical Committee Action Plans, February 2007, p.13.

II. OTHER IMPROVEMENTS IN THE INVESTMENT ENVIRONMENT OF TURKEY

II.1 Tax Policy Reforms

In the first two meetings of IAC, council members stressed the importance of Turkey devising a simpler and more stable tax system to raise the competitiveness of its economy. Within this context, the development of the tax system continues within the terms of pre-defined strategies and principles executed under the scheme of Economic Transformation Program. These principles are;

- to create a tax system compatible with the economic-social policies and market economy,
- to increase the percentage of the formal economy by strengthening tax security,
- to reduce the tax rates by expanding the tax base,
- to design a tax system consistent with international practices,
- to lead justice and equivalence in tax.

In the framework of this strategy, significant policies have been put into practice.

- The necessity of filing a return for the revenues from securities has been abolished and the rate of withholding tax has been decreased.⁷⁹ With this amendment, revenues from the buy-sell operations, buy-redemption operations, periodic yields and loan operations of securities and other capital market instruments together with the revenues from buy-sell operations of instruments of accession to mutual funds are subject to 10% withholding tax for full fledged taxpayers and 0% withholding tax for foreign based taxpayers. Revenues from deposit interests and reposes are subject to 15% withholding tax for both full and foreign-based taxpayers. By means of this law, taxing of securities was simplified and withholding taxes have been transformed into final tax for taxpayers. The withholding liability rests with the banks and financial intermediaries; as a result, taxpayers do not need to file a return when generating earnings from such securities.
- In parallel the rates of withholding taxes have been also decreased:
 - Rates of all withholding taxes higher than the corporate tax, including the rates on the payments related to buying copyright and patent, have been reduced to be equal with the corporate tax.⁸⁰
 - Rate of withholding tax on construction and restoration works extend over a few years, has been reduced from 5% to 3%.⁸¹
- The Law on the Amendments in Revenue Tax Law entered into force on April 4, 2007.⁸² According to this law, a minimum living allowance will be effective on revenues generated after January 1, 2008. With this law, Turkey will surpass 5 countries behind

Minimum living allowance that was designed as a substitute for tax refund will be effective after January 1, 2008 on the revenues generated.

79 Council of Ministers Board Decree dated on 07.22.2006 and numbered 10731 (Official Gazette 07.23.2006/26237).

80 Council of Ministers Board Decree dated on 12.20.2006 and numbered 11447 (Official Gazette 12.30.2006/26392).

81 Council of Ministers Board Decree dated on 12.20.2006 and numbered 11449 (Official Gazette 12.29.2006/26391).

82 Law no. 5615 on the Amendments in Revenue Tax Law and in Some Other Laws (Official Gazette 04.04.2007/26483).

in the ranking of the tax burden on wages among OECD countries. Within the context of this law:

- A minimum living allowance on wage earners, which considers family as a whole and is compatible with both EU and OECD standards, has been added to revenue tax system in Turkey.
 - Regulations on the fight against transfer pricing, camouflaged capital, and harmful tax competition operations have taken part in the Law on Revenue Tax.
- New Corporate Tax Law that includes important regulations in the tax system has come into force.⁸³
- Corporate Tax Rate has decreased to 20% from 30% effective from January 1, 2006. It is expected that Turkey's competitive power will increase considerably against other countries by this significant reduction. Additionally, this law will basically provide to decline tax burden and prevent the expansion of informal economy. As a result of this law, total tax burden including tax on dividends decreased to 34% from 44% for domestic investors, 32% from 37% for international investors. As a result, Turkey ranks among the first five OECD countries in terms of low tax burden.
 - The taxation principles of activities abroad of full-fledged taxpayers have been analyzed in a detailed manner. As a result, on the basis of the fight against harmful tax competition and controlled profits of international enterprises, modern regulations have been designed in the new law.
 - The necessary legislative changes have been made in this law concerning the implementation of transfer pricing according to principles in the OECD Guideline. Also, regulations on camouflaged capital were designed in parallel to those in OECD countries. Secondary legislation continues and is expected to enter into force near soon.
 - Multiple taxation of profits that are earned abroad was counteracted with this law. In this regard, these taxes will be deducted from corporate taxes levied from the profits gained in Turkey. As a necessity, related to construction and restoring work abroad, profits of businesses (subsidiaries) established in that country have to be taken as an exception scope in accordance with the legislation of that country.



Effective January 1, 2006, Corporate Tax Rate has been reduced to 20% from 30%.

⁸³ Law no. 5520 on Corporate Tax (Official Gazette 06.21.2006/26205).

- Several changes have been made in the Law on Value Added Tax (VAT) and Law on Special Consumption Tax.
 - Incentives to support the increase of exports and investments have been provided. Within this context:
 - Autos carrying export products are excluded from VAT and special consumption tax while delivering fuel. During delivery of fuel to the depots, trucks, breakdown vans and semi trailers with cooling units going abroad, VAT and special consumption tax will not be paid.⁸⁴ By decreasing their cost of inputs, the competitive power of investors is supported.
 - Again, VAT exclusion is provided for the construction of railway lines connecting to harbors. Addition to the harbors and airports, construction of railways connecting to harbors, the renewing and widening of these, and work on the product delivery and construction related to these, are excluded from VAT.⁸⁵
 - VAT in the delivery of products in textile and confection sector is decreased from 18% to 8%.⁸⁶ With this reduction, financing of investors is supported by decreasing their production costs. Additionally those products in textile sector will be more competitive abroad.
 - Legislative changes for the improvement of refund for VAT have been made. Refund credits could be set off with social security premiums, as well as with the natural gas and electricity debts. In this way, a wider range of set off possibilities has been provided to investors.⁸⁷
- The scheme of incentives⁸⁸ which has been started to be implemented in 2005 to encourage investments and employment, that includes tax and insurance provisions, energy support and free land allocation, has been extended to December 31, 2009⁸⁹ in 49 provinces. According to this law, investments that will be completed before December 31, 2007, will benefit from these incentive instruments for 5 years, while investments that will be finalized before December 31, 2008 and December 31, 2009 will be facilitated for 4 and 3 years respectively.
- Within the context of the new amendments⁹⁰ made in April 2007, among the proposed 49 cities in the new law;
 - Revenue and corporate tax-payers who has started to operate beginning from April 1, 2007, could benefit from the incentive on income tax withholding, employer's contribution on insurance premium, free land allocation and energy support by employing only 10 employees-before enactment of this law, it was

84 Law no. 5493 on Making Amendments on Special Consumption Tax Law, VAT Law and Petroleum Market Law (Official Gazette 05.02.2006/26156).

85 Law no. 5538 on Making Amendments in Some Laws and Decree Laws (Official Gazette 07.12.2006/26226).

86 Council of Ministers Board Decree dated on 03.06.2006 and numbered 10138 (Official Gazette 03.08.2006/26102).

87 General Regulation on VAT (Serial No: 99) (Official Gazette 07.11.2006/26225).

88 Law on Encouraging Investments and Employment and Making Amendments in Some Other Laws (Official Gazette 02.06.2004/25365).

89 Law no. 5568 on Encouraging Employment and Making Amendments in Some Laws (Official Gazette 12.30.2006/26392).

90 Law no. 5615 on the Amendments in Revenue Tax Law and in Some Other Laws (Official Gazette 04.04.2007/26483).

- 30 employees. Besides, organic and biotechnological agriculture and cultivated mushroom farming and its compost have also been added to the operation areas that can benefit from the energy support.
 - Revenue and corporate tax-payers operating before April 1, 2005, could benefit from the incentives mentioned above for their present employees, if the total number of the employees is 10 at minimum.
 - Additionally, businesses operating in Gökçeada and Bozcaada were enabled to benefit from the incentives on income tax withholding, employer's contribution on insurance premium and energy support for 5 years.
- At present, Turkey has signed 72 double taxation agreements, of which 65 have entered into force. Agreements with Sudan, Thailand, Luxembourg, Estonia and Iran became operational on January 1, 2006 and agreements with Morocco, Lebanon, Republic of South Africa and Portugal became operational on January 1, 2007.

At present, Turkey has signed 72 double taxation agreements of which 65 have entered into force.

Table 10 : List of Double Taxation Agreements Signed by Turkey

Signatory	Effective Date	Signatory	Effective Date	Signatory	Effective Date			
1	Avustria	09.24.1973	23	Macedonia	11.28.1996	45	Croatia	05.18.2000
2	Norvey	01.30.1976	24	Albania	12.26.1996	46	Moldova	07.28.2000
3	S. Korea	03.25.1986	25	Algeria	12.30.1996	47	Singapore	08.27.2001
4	Jordan	12.03.1986	26	Mongolia	12.30.1996	48	Kyrgyzstan	17.20.2001
5	Tunusia	12.28.1987	27	China	12.30.1996	49	Tajikistan	12.26.2001
6	Pakistan	08.08.1988	28	India	12.30.1996	50	Czech Rep.	10.16.2003
7	Romania	09.15.1988	29	Malaysia	12.31.1996	51	Spain	12.18.2003
8	The Netherlands	09.30.1988	30	Egypt	12.31.1996	52	Bangladesh	12.23.2003
9	England	10.25.1988	31	Poland	04.01.1997	53	Latvia	12.23.2003
10	Finland	12.30.1988	32	Turkmenistan	06.24.1997	54	Slovenia	12.23.2003
11	T.R.N.C.	12.30.1988	33	Azerbaijan	09.01.1997	55	Greece	03.05.2004
12	France	07.01.1989	34	Bulgaria	09.17.1997	56	Syria	08.21.2004
13	Germany	12.31.1989	35	Uzbekistan	09.30.1997	57	Thailand	01.13.2005
14	S.Arabia	08.09.1990	36	USA	12.19.1997	58	Luxembourg	01.18.2005
15	Sweden	11.18.1990	37	Belarus	04.29.1998	59	Sudan	01.31.2005
16	Belgium	10.08.1991	38	Ukraine	04.29.1998	60	Estonia	02.21.2005
17	Denmark	20.06.1993	39	İsrael	05.27.1998	61	Iran	02.27.2005
18	Italy	01.12.1993	40	Slovakia	12.02.1999	62	Morocco	07.18.2006
19	U.A.E.	12.26.1994	41	Kuwait	12.13.1999	63	Lebanon	08.21.2006
20	Japan	12.28.1994	42	Russia	12.31.1999	64	Rep. of S.Africa	12.06.2006
21	Hungary	11.09.1995	43	Indonesia	03.06.2000	65	Portugal	12.18.2006
22	Kazakhstan	11.18.1996	44	Lithuania	05.17.2000			

Source: Ministry of Finance

Since 2004, the share of education services has been representing the highest portion among all other public expenditures.

II.2 Invest Further in Education and Training

Since 2004, education has received the highest budget portion among all public services. In 2006, 12.4% of the budget resources were allocated to education. The increase in the education budget reflects the improvements in the indicators of Turkish education system.

- During the 2005-2006 terms, schooling rates reached 85.2% from the previous 81% in secondary education and 43.4% from 38.4% in higher education.⁹¹

Table 11: Number of Students and Schooling Rates by Education Stages

	2003 - 2004		2004 - 2005		2005 - 2006	
	Number of Students (000)	Schooling Rate (%)	Number of Students (000)	Schooling Rate (%)	Number of Students (000)	Schooling Rate (%)
Pre-school Education *	358	13.2	435	15.3	550	19.9
Primary Education **	10,480	96.3	10,565	95.7	10,674	95.6
Secondary Education **	3,015	81.0	3,047	81.0	3,259	85.2
a) General High School	1,942	52.2	1,934	51.4	2,076	54.3
b) Vocational-Technical	1,073	28.8	1,113	29.6	1,183	30.9
Higher Education ***	1,841	35.4	1,969	38.4	2,181	43.4

Source: YÖK, MNE

* Those in age bracket 4-5 are included.

** Open primary and high education are included.

*** University and other education institutions are included, postgraduate students are excluded. Computed for age bracket 17-20.

During the 2005-2006 terms, the considerable rise in the schooling rates of secondary and higher education attracts considerable attention.

- During 2005-2006, a new curriculum in tune with the changing education needs of the modern society, was developed and introduced in primary schools and during 2006-2007 in secondary schools. All text books, student practice books and teacher manuals have been modernized and teachers are being trained to teach the new curriculum.
- In the last four years, 100,280 new classrooms were constructed, 43,173 classrooms were allocated to information technology, laboratory, library and like services, in addition to regular classroom activities. All schools with 8 or more classrooms count now include an information technology lab. Broadband Internet access has been provided to 23,450 schools. In 2006, necessary steps were taken to facilitate Internet access to 4,581 schools.



- In order to widen the usage of information technology in every education and training level, Formative Instructors' Education on Information Technology Project was designed. The aim of this project is to train teachers to use information technology effectively and efficiently in the education-training process. In this project, teachers, who receive 180 hours of training, learn up-to-date developing technologies and can then transfer their knowledge to their students.
- In 2006, 15 new state universities were established to meet the rising demand for higher education.⁹² Recently, the law establishing 5 new foundation universities has also come into force.⁹³ Additionally, the law establishing 17 new state universities has been passed by the Turkish National Grand Assembly on May 17, 2007⁹⁴. With these new universities, the total number of universities in Turkey will reach 115, of which 85 will be public and 30 will be foundation universities. As of the 2005-2006 academic year, the total faculties have increased to 663, four year colleges have increased to 203 and vocational high schools have increased to 546.
- Parallel to these developments, in the 2005-2006 academic year, the number of total training staff rose to 84,785 from 82,096, while the number of professors has reached 14,353 from 14,064 as of the academic year of 2005-2006.
- Turkey is actively and successfully participating in the EU education and youth programs. In 2006, 46,300 students benefited from these programs, of which 20,000 took part in the "General Education Program", an initiative that provides students with international experiences.

After the establishment of new universities, the total number of universities in Turkey will reach 115, of which 85 will be public and 30 will be foundation universities.

92 Law no. 5467 on the Amendment in the Law on Constitution of Higher Education and Other Several Laws (Official Gazete 03.17.2006/26111).

93 Law no. 5656 on the Amendment in the Law on Constitution of Higher Education (Official Gazete 05.18.2007/26526).

94 Law no. 5662 on the Amendment in the Law on Constitution of Higher Education and Other Several Laws.

II.3 Protecting the Intellectual Property Rights More Effectively

Both the legal and administrative precautions taken by related institutions in 2006 for the protection of intellectual property rights and the increasing sensitivity of interested parties in society have contributed for the studies toward improving the investment climate. The rising consciousnesses of the society and the increasing efficiency in the implementation have played an important role on the intense usage of protection factors, procured by the legal arrangement, by the right holders.

The number of the pirated materials, excluded from entering the market increased by 40% in 2006.

- As a result of studies on avoiding the piracy of intellectual rights and imitation, 3,780 operations have been undertaken throughout the country in 2006 and as a result of the effective inspections the number of the pirated materials, excluded from entering the market has increased by 40%.

Table 12: The Materials Retrieved

CD/VCDs	2,153,874	3,057,871	4,418,220
DVDs	59,569	317,599	414,800
Books	283,468	232,136	191,105
Video cassettes	675	128	1,512
Magnetic cassettes	63,595	53,783	78,442
TOTAL MATERIAL	2,561,181	3,661,517	5,104,079

Source: Ministry of Interior Affairs.

- Within the framework of Turkey-EU pre-accession financial assistance program, Twinning Project of "Support to Turkey's Efforts in the Full Alignment and Enforcement in the Field of Intellectual Property Rights with a Focus on Fight Against Piracy" was initiated on May 4, 2006 and it will be finalized by the end of year 2007. The Project will:
 - Explore legal framework and develop its contribution for the harmonization,
 - Strengthen the legal, corporate and technical capacity of the General Directorate of Copyright and Cinema,
 - Strengthen the adaptation services of EU legislation on intellectual property rights.
- Web Based Banderole Automation System has been formed for effective pursuit and protection of the intellectual property rights and to procure the usage of the banderole information on inquiries and prosecutions. This web based system, supplying the access on Internet, is in use in 81 provinces since May 2006.
- Ministry of Justice has increased the 8 intellectual property rights courts to 12 in Istanbul, Izmir and Ankara. Five of them are intellectual property rights criminal courts and seven are intellectual property rights civil courts.

- ▶ As of November 1, 2000, Turkey has been a party to the European Patent Treaty along with all other 32 countries. In March 2007, the law regarding the participation of Turkey to the amended text of European Patent Treaty (EPC 2000) came into force.⁹⁵
- ▶ The Laws for the Approval of Participation of Turkey to the World Intellectual Property Organization(WIPO) Performances and Phonograms Treaty and WIPO Copyrights Treaty have entered into force on May 8, 2007.⁹⁶ With these two laws, international harmonization of copyrights, performances and phonograms has been achieved.
- ▶ On February 13, 2007 "Combined Action Protocol" was signed with the participation of four vocational associations⁹⁷ to avoid the problems faced on determining the copyrights between the vocational associations and the users within the concept of the related articles of the Law on Intellectual and Artistic Works.⁹⁸ By this protocol "Vocational Associations Collective Licensing" unit has been formed to carry out the licensing activities of television, radio, public places and digital uses. Also, finalizing the studies for combining the existent tariffs of the Vocational Associations by the end of August 2007 was decided. As a result of these studies, the licensing and payment processes of the intellectual rights can be made from a single office and a significant deficiency in the protection of intellectual rights will be removed.
- ▶ Meanwhile, Hezarfen Project aims to improve the innovative structure of Turkish SMEs the preparation stage of which lasted more than one year,began on March 14, 2007 at OSTIM and will be finalized as of December 31, 2007. The Hezarfen project which is being carried out jointly by TPI, KOSGEB and OSTIM OIZ is targeting supports for SMEs at the stages of the usage of industrial rights effectively for the improvement of innovative substructure of SMEs and of the transfer of innovative structures of SMEs into their management cultures. Currently, implementation of the Project is ongoing, education is being given to the registered and selected companies and joint studies with the companies are being done.⁹⁹
- ▶ The significant increase in the application and registration transactions in the recent years, expresses that the related parties have become more conscious in protecting the intellectual property rights.

The law regarding the participation of Turkey to the amended text of European Patent Treaty (EPC 2000) came into force in March 2007.

The Laws for the Approval of Participation of Turkey to the WIPO Performances and Phonograms Treaty and WIPO Copyrights Treaty have entered into force on May 8, 2007.

95 Law No.5598 on the Approval of Participation of Turkey to the Amended Text of European Patent Treaty (Official Gazette 03.17.2007/26465).

96 Law No. 5646 and 5647 on the Approval of Participation of Turkey to World Intellectual Property Organization and Phonograms Treaty and WIPO Copyrights Treaty (Official Gazette 05.08.2007/26516).

97 Musical Work Owners' Society of Turkey(MESAM), Musical Work Owners Society(MSG), MÜ-YAP, MÜYOR-BİR.

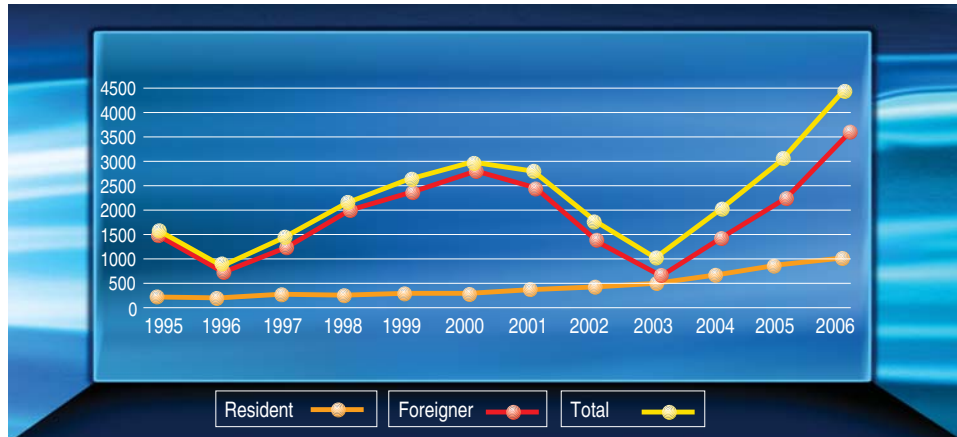
98 Law No. 5846 on Intellectual and Artistic Works (Official Gazette 12.13.1951/7981).

99 The detailed information can be reached at the web site <http://hezarfen.tpe.gov.tr>.

There was an approximately 50% increase in the patent applications in 2006 and 85% of these applications have been registered.

- Patent applications were increased by approximately 50% in 2006. The 85% of these applications have been registered and there was an approximately 35% increase in registered patent applications compared to previous year.

Graphic 5: The Distribution of Patent Applications



Source: Turkish Patent Institute

Graphic 6: The Distribution of Patent Registrations



Source: Turkish Patent Institute

- The applications of the utility models were increased by approximately 27.8% in 2006 compared to previous year's levels and 68% of these applications have been registered. The applications of registered utility models have increased approximately 72% compared to 2005.

Graphic 7: The distribution of the numbers of applications of utility models and registration



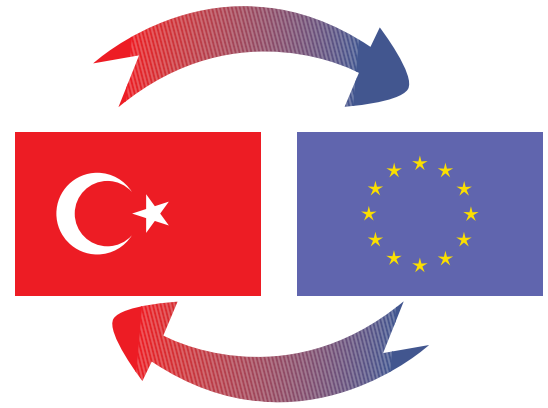
Source: Turkish Patent Institute

As of March 2007, 97% of the European standards were being accepted as national standards.

II.4 Harmonizing Standards and Regulations with the EU

Harmonization of standards and regulations with the EU, an issue raised during the first IAC meeting, continues at a very satisfactory pace with the participation of all related public institutions and private sector NGOs.

- In the framework of the MEDA Program Project of Supporting the Quality Infrastructure of Turkey, it's aimed to enhance the Turkish Standards Institution (TSE)'s service level parallel to those of EU. As a result of the work on meeting the full membership criteria of European Committee for Standardization (CEN) and European Committee for Electrotechnical Standardization (CENELEC), approximately 97% of the EU standards have been accepted as country standards as of March 2007. Thus, one of the pre-conditions of becoming a full member of CEN/CENELEC-adopting 80% of EU Standards-has been fulfilled.
- Regarding the optional standards implementation common in the EU, the number of mandatory standards in Turkey has been reduced from 2002's level of 1250 to 166 as of March 1, 2007.
- Three institutions, TSE on the Directives of Construction Products (89/106/EEC), Pressure Equipment (95/23/EC), Lifts (95/16/EEC) and Appliances Burning Gaseous Fuels (90/396/EEC), Turkish Cement Manufacturers' Association on the Directives of Construction Products (89/106/EEC), Turk Loydu on the Directives of Appliances Burning Gaseous Fuels (90/396/EEC) and Pressure Equipment (95/23/EC), have been designated as notified bodies.



II.5 Improving the SME Supply Chain by Enabling Better Access to and Diversification of SME Support Mechanisms

Strengthening SMEs, an important building stone of the Turkish economy, is one of the issues That have been monitored by the Council members since 2004. The supportive policies maintaining robust growth of SMEs to improve the their role in the economy has continued through the third IAC meeting.

- The improvement in the related statistics are a proof of SME's important and dynamic role in the Turkish economy. In the period between 2002 and the first half of 2006, the number of enterprises that employ less than 250 employees has increased by 39%.
- Some support measures have been employed in 2006 by the related institutions to strengthen the financial structure of SMEs and raise their competitiveness levels:
 - The legislation arrangements of Anatolian Approach which is designed to restructure the credit debt of SMEs and thus strengthen their financial structure, entered into force in December 2006 and January 2007.¹⁰⁰ The legislation enables SMEs to fulfill their back payment liability to the banks and other financial institutions operating in Turkey, under the durations and conditions set within the framework of financial restructuring.
 - The KOSGEB's supports to SMEs have been defined to be allocated on the target based support system - a new application in practice-in line with the redefined set of policy and strategies.
 - SMEs have been granted Credit Interest Support according to the 2004 Board of Ministers' Decree under several topics.¹⁰¹ The Credit Interest Supports have been continued in 2006:
 - **Employment Credit Support:** To increase the number of qualified and registered workforce throughout SMEs, 708 SMEs were supported with an amount of YTL 54 million (approximately USD 38 million) on KOSGEB's zero-interest employment credit in 2006. An additional employment opportunity for 2,305 people created by the help of this funding.



The legislative arrangement Anatolian Approach which designed to strengthen the financial structure of the SMEs came into force in December 2006.

KOSGEB allocates interest free Employment Credit. In this context, 708 SMEs were awarded with YTL 54.2 million worth of employment support credit in 2006.

100 Law no. 5569 on Restructuring the Credit Debt of SMEs to the Financial Sector (Official Gazette 12.30.2006/ 26392) and Regulation on the General Condition of Approval, Acceptance and Enforcement of Financial Restructuring Framework Agreements (Official Gazette 01.31.2007/26420).

101 Ministers Board Decree no: 2004/7131 (Official Gazette 05.04.2004/25422).

Table 13: Employment Credit Supports to SMEs

	2005	2006
Number of Entreprises	380	708
Employment Generated	1,223	2,305
Amount of Credit Disposed (YTL million)	31,5	54,2

Source: KOSGEB

- **Export Credit Support:** To increase the internalization of SMEs, YTL 272 million (approximately USD 189 million) of zero-interest export credit support with export commitment had been allocated to 2,079 SMEs in 2006.
 - In 2006, credit support measures have been continued to be employed on transportation of SMEs in tanning industry to OIZs, information technology and machinery needs of SMEs in food industry.
- Aiming to increase easy access to financial resources, the works are underway on making amendments on the related legislations to allow Venture Capital Companies to set up general and project oriented funds.¹⁰²
- The legislative works to ensure an effective and wide spread special credit guarantee system continues and the aim is to institutionalize the system.¹⁰³
- DTM created a Sectorial Foreign Trade Company (SFT) model in 1996 in order to institutionalize SMEs and increase their competitiveness level. Sixteen SFTs in various sectors have been continuing their operation. Various support mechanisms on encouraging SMEs and SFTs to export have been in force since 1995. These mechanisms mainly consist of the support programs on:
 - International trade fair participation,
 - Environmental costs,
 - Market research activities,
 - Training,
 - Employment generation,
 - Setting-up an office or show-room abroad,
 - Subscription to E-Commerce websites,
 - R&D and branding

These support mechanisms mainly aim at improving SME's production capabilities and thus increasing their global competitiveness and internalization level. These

¹⁰² YOIKK Technical Committee Action Plans, February 2007, p.31.

¹⁰³ YOIKK Technical Committee Action Plans, February 2007, p.32.

mechanisms also aim at strengthening the capacity of SMEs in direct marketing, international market specialization and branding activities.

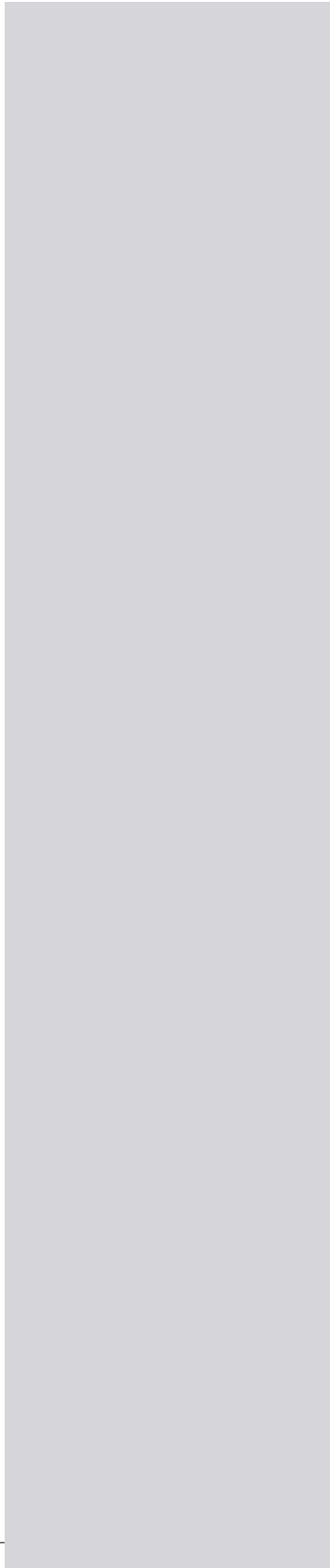
- The number of TEKMERs that have been founded for the SMEs to get use of information technology and fulfill their hi-tech needs, has been increased to 20 from 18 in 2006.
- The Union of Chambers and Commodity Exchanges of Turkey (TOBB), KOSGEB, TUBITAK, HALKBANK and TPI are all organizing SME Information and Training Programs to encourage entrepreneurship, to strengthen the institutionalization and internalization of SMEs and to inform them on the issues regarding social responsibility, occupational safety and health. These programs aim to get all the relevant institutions together and plans are to hold these programs in 17 different cities all over the country.
- On August 23, 2006; TUBITAK and TPI signed a protocol to create awareness about the patent issue among the SMEs and to increase the number of national and international patent applications of Turkey. The principals of TUBITAK's Project Incentive and Support Program have been determined with the amendment on the related legislation about the patent incentives issue.¹⁰⁴ This protocol encourages the patent application on the patents of genuine projects. The certain amounts of charges on the patent applications submitted to TPI have been supported from TUBITAK's budget. As of February 2007, 43 patent applications were submitted to TUBITAK Intellectual Property Office.

Table 14: The number of patent applications submitted to TUBITAK Intellectual Property Office

	Number of Approved Applications	Number of Applications under consideration
National Non-Recourse Patent Supports	16	40
International Non- Recourse Patent Supports	26	7
International Patent Support with payback	1	3

Source: The Supreme Council 15th Meeting-The Report on Evaluations and Decisions

NOTES



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