

Investment Advisory Council for Turkey
Second Meeting - Declaration of Outcomes
April 29, 2005
Istanbul, Turkey

We are pleased to present the successful conclusions of the second meeting of the Investment Advisory Council for Turkey. We are honored to have been invited here today and thank the Prime Minister for this opportunity.

We have met with Prime Minister Erdoğan, Minister of State Babacan, Minister of State Tüzmen, and Minister of Finance Unakitan to share our perspectives on changes in Turkey's investment environment in the past year, particularly as compared to developments in other countries. We have also provided them with a fresh set of challenges for the year ahead.

Turkey has made remarkable achievements in one short year since the first meeting of this Council. Chief amongst these is the decision of the European Council on December 17, 2004, to begin negotiations with Turkey for accession with the European Union, a milestone for the future development of the country that we fully support.

Last year we identified political and economic stability as the most important factors for investment in any country. Thanks to the efforts of the Prime Minister, these factors have been broadly addressed in Turkey.

Mr. de Rato, Managing Director of the International Monetary Fund, spoke about the impressive macroeconomic stability that has been established in Turkey and how these efforts are bearing fruit with new foreign investments. Mr. Zhang, Managing Director of the World Bank, spoke about the progress the government has made in improving the business environment and the impact on the competitiveness of the economy. Mr. Maystadt, President of the European Investment Bank, spoke about the importance of the EU accession process for creating investor confidence. We agree with them that the

government's sustained course on all these fronts will ensure a greater upswing in FDI in the year ahead.

In the inaugural meeting last year, we identified 13 key areas on which the government should focus implementation efforts to scale up private investment in Turkey. Progress has been made in all fronts, and we would like to highlight the most important accomplishments of this past year:

- Reducing administrative barriers to investment, such as reducing steps for new business registrations and streamlining procedures in sectors such as mining;
- Encouraging research and development by allocating the first ever largest public financing to R&D, creating technology development zones and R&D incentives;
- Improving the SME supply chain by enabling better access to, and diversification of, SME support mechanisms.
- Investing in education and skill development by allocating the largest share of the budget to these priorities.
- Taking concrete steps to legislate and enforce the protection of intellectual property rights.

We would like to continue to monitor progress in the year ahead on all the issues we identified last year. These issues require sustained, long-term efforts. We would advise that improvements in these areas remain at the forefront of the government's strategy to scale up private investment in Turkey.

In addition, we recognize the importance of the forthcoming accession talks with the EU for increasing FDI flows to Turkey. This brings an added urgency to the tasks of preparing Turkey for the increased investment flows that will follow, in particular the need to:

- Pursue tax policy reforms aimed at creating a simpler and more stable tax regime more consistent with the EU;

- Strengthen corporate governance of companies in Turkey, to increase their global competitiveness and enable linkages between local and foreign firms;
- Continue to reduce administrative and bureaucratic barriers to investment including streamlining work permit procedures;
- Continue decisively with the current privatization program;
- Increase the efficiency and accelerate the pace of court procedures;
- Continue with the liberalization program in the energy sector;
- Accelerate the reform of the social security system;
- Continue to invest in R&D.
- Increase investment marketing efforts, to ensure investors' perceptions keep pace with the new business realities in Turkey.

We are confident that demonstrable progress in these areas will spur even greater private investment flows in the year ahead.

Greater use of the expertise of the Council on an ongoing basis through direct communication platforms, as well as through representatives based locally and business associations would help facilitate the ongoing implementation process. This would be an important supplement to the implementation activities of the YOIKK platform.

We support the Prime Minister's continued commitment to political and economic reform. We are confident in the Prime Minister's leadership in developing a predictable, productive, and conducive investment environment in Turkey. We commend Minister Ali Babacan for his efforts as government champion for the IAC. We look forward to monitoring progress in these areas in the months ahead, and to holding the next meeting of the Investment Advisory Council in approximately 12 months.

**Respectfully submitted by Members of the
Investment Advisory Council for Turkey
April 29, 2005**

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