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BETWEEN
THE EUROPEAN COMMUNITY
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–The Association Council–**

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COVER NOTE

Subject: 45th meeting of the EC-Turkey Association Council
(Luxembourg, 12 June 2006)

Delegations will find attached the statements by Turkey tabled on the occasion of the 45th meeting of the EC-Turkey Association Council.

45th SESSION OF THE TURKEY-EC ASSOCIATION COUNCIL

**STATEMENT BY H.E. MR. ABDULLAH GÜL,
MINISTER OF FOREIGN AFFAIRS AND DEPUTY PRIME MINISTER
OF THE REPUBLIC OF TURKEY**

**AGENDA ITEM 3: ACCESSION STRATEGY, IN PARTICULAR IN THE LIGHT OF
THE ACCESSION PARTNERSHIP AND OF THE COMMISSION'S 2005
PROGRESS REPORT**

LUXEMBOURG, 12 JUNE 2006

There have been *near historic developments* in our relationship since our last meeting. The opening of accession negotiations with Turkey on October 3rd last year was a turning point in our more than 40 year common history. Now, Turkey and the EU have together moved to a new and decisive stage in this relationship. **Indeed, following our meeting, we will be holding the Accession Conference to mark the opening and provisional closure of negotiations of “Science and Research” chapter.** This proves the fast pace of the developments since the last Association Council and also promises our commitment to our obligations in this process in order to bring it to a successful conclusion.

I am certain our meeting today, the first after the opening of the negotiations, will contribute to a constructive exchange of ideas to discuss the next steps ahead of us.

We are well aware that the pace of the negotiations will depend on Turkey’s performance in preparing for accession and we are determined to do our share to carry the process to a successful outcome.

On the part of the EU, we expect the Member States to confirm their commitment to a *sustainable process of accession negotiations*. This is to say that the technical aspects of Turkey’s accession process should be respected. This means that political issues have their place in other frameworks should not hamper this process. Fairness, objectivity and abidance to mutual commitments should continue to be the governing principles of Turkish-EU relations.

Regarding the screening process, I am happy to point out that since October 3rd, we have enacted 16 laws and 79 secondary legislation on those chapters which have already been screened. In a press conference on June 8th, State Minister and Chief Negotiator Ali Babacan presented Turkey’s harmonization program for these chapters covering the term 2006-2007.

The Council took an unexpectedly long time to produce the EU’s Common Negotiating Position on the “Science and Research” chapter. Nevertheless, we are pleased to open and provisionally close negotiations on the “Science and Research” chapter during today’s Intergovernmental Conference.

We understand that the opening benchmarks should aim at ensuring smooth progress of proper negotiations. We expect the Union not to present as opening benchmarks, requirements that have to be fulfilled at accession.

We are aware that the enlargement process and Turkey’s accession in particular, need to be better explained to the European publics.

The New Accession Partnership and the Negotiating Framework Documents constitute the road map of the accession process.

We have received the letter of the Austrian presidency dated 23 February 2006 inviting Turkey to prepare a *National Program* and preliminary contacts with the European Commission have been carried out to clarify the modalities.

In this regard, the preparations for the *Third National Plan* are ongoing under the coordination of the Secretariat General for EU Affairs (EUSG) with the extensive contribution of all related

ministries and institutions. The related ministries and institutions have presented their initial contributions to the EUSG.

The National Plan will not be as detailed as the previous two “national programs for the adoption of the acquis.” The upcoming plan will address the priorities of the new accession partnership document by outlining the timetable for the measures to be taken in order to improve the administrative capacity for the effective implementation of the EU acquis.

At the same time, the financial needs of these administrative capacity measures will be determined by taking into consideration the financial resources that can be received from the national budget, EU financial assistance and other relevant sources. We intend to finalize the Third National Plan this summer.

We regard the “*Communication on the Civil Society Dialogue Between Turkey and the EU*” and the *Civil Society Dialogue Project* as important instruments for developing better mutual understanding between our public opinions. We expect that this project will be adopted by the Commission soon. The EUSG has established a team of experts to coordinate all civil society dialogue projects. We will be ready to implement the project as soon as the commission approves the financing agreement.

With regard to the *Political Criteria*, full alignment and effective implementation remain our priority. The reforms constitute an integral part of Turkey’s democratization process and embrace all Turkish citizens.

We are aware that certain concerns are expressed from time to time that work on political reforms has slowed down or that our determination in this respect has wavered.

The *9th Reform Package* which I launched on the 12th of April is a manifestation of our resolve to continue to move forward the reform process. The *room document* which we will distribute contains detailed information on the 9th reform package.

As part of this package, our Government has decided to accelerate the enactment of major draft laws such as the law on ombudsman, the law on the court of audit and the law on foundations that are on the agenda of the parliament before the summer recess.

Further to these new pieces of legislation, our Government has also decided to complete the ongoing work on draft laws such as the Law on Administrative Procedures, the Law on the Financing of Political Activities and the Law on the Establishment and Legal Procedures of Military Courts in order to send them to the parliament for their swift approval.

With these new laws, comprehensive progress will be made in the fields of transparency, good governance and civil-military relations. These laws will be in line with EU standards.

In addition, the Parliament will adopt the international conventions awaiting approval before the summer recess. Already, the un convention on the fight against corruption has been adopted by the parliament on the 18th of may and protocol no. 14 to the European Convention for the Protection of Human Rights and Fundamental Freedoms, amending the control system of the Convention, has been approved on the 31st of May.

We also aim to take further administrative measures in addition to the new pieces of legislation in order to advance the reform process. In this regard, we will restructure the Human Rights Presidency in line with Paris Principles. We will also take new measures to increase transparency, improve good governance in the public sector and strengthen coordination between the institutions fighting against corruption. Work on these issues is underway at the office of the Prime Minister.

In conclusion, the reform process is steady, comprehensive and irreversible. There is no slowing down. Our efforts directed at training and raising awareness in every field of the reforms continue so as to realize the most effective implementation of the reforms and to guarantee the necessary change of mentality.

I agree that certain difficulties arising from the implementation of the new laws which have entered into effect should not be disregarded. However, like elsewhere, change of mentality requires time. All our institutions are working intensively in order to materialize this change as early and as efficiently as possible. Our government is monitoring this process very closely through the reform monitoring group and taking all necessary measures accordingly.

Turkey has made significant strides in recent years as regards ***freedom of expression***. There is an ever-expanding climate of lively debate. As for the discussions on the ***new Penal Code***, I would like to remind you that it was prepared in cooperation with the Council of Europe and the opinions of all related civil society institutions were taken into consideration. It has been only a year since the new Penal Code entered into force. During this period, there have been some unfortunate developments which we also do not approve of. Nevertheless, we are witnessing an increasing number of rulings which result with acquittal and make reference to the European Convention on Human Rights and the case law of the European Court of Human Rights.

The Reform Monitoring Group is closely following the cases falling under article 301. We believe that as the spirit of the reforms is better absorbed by the implementers and institutions, the difficulties encountered will be overcome.

As I have said many times before, if we see serious problems arising from the letter of the laws, our government and parliament will take the necessary measures to remedy them.

As to the proposed amendments to the ***Law on the Fight Against Terrorism***, we are committed to universal principles and values. There will be no regression as regards fundamental rights and freedoms. I am personally following the developments in the related parliamentary commissions and we are also examining the comments of the Special Rapporteur of the UN Human Rights Commission.

In the area of ***freedom of religion***, the ***draft Law on Foundations*** which is often raised under this issue pertains to the immovable property of the non-Muslim religious minorities, rather than their freedom of worship. The draft law is on the agenda of the Parliament and will be adopted before the summer recess of the Parliament. We are confident that the draft law on foundations will be evaluated by the Parliament in a way that will meet the expectations of all concerned parties. The draft text is a major step in meeting various concerns with respect to all foundations.

As regards the *Theological School in Heybeliada*, I would like to underline that according to the 1982 constitution as well as the relevant legislation, namely article 3.4 of law no 625, the higher education council is authorized with regulating religious education. Thus, private religious education - be it Islamic, Christian or Jewish - at university level can only be provided by public institutions.

On the other hand, there is no discrimination as regards the *issuing of work permits to foreign clergymen*. The work permits are issued by the ministries of interior and labour on the same basis as those for other professions. Individual complaints are duly and rapidly addressed.

In this context, I will have to refer to the outstanding problems of the Turkish minority of western Thrace in Greece. The minority expects that their problems in education, election of their muftis and managing their foundations should be addressed.

The recent terrorist incidents in the *Southeast* have again exposed the PKK terrorist organisation's attempts to hamper the reform process. As you have all witnessed, the escalation of terrorist activities in the southeast has coincided with the improvement of *cultural rights*. The people of the region want security and prosperity. Given the nature of the PKK as a terrorist organization on the EU list, we would have expected that the EU make a call on the PKK to unconditionally disband immediately, in addition to ceasing violence and provocation.

Comprehensive reforms with regard to the teaching of and broadcasting in languages and dialects which are used traditionally by Turkish citizens in their daily lives are being implemented. At the moment, there are three private TV and radio channels broadcasting in Kurdish. Recently, the High Board for Radio and Television has decided to lift time limitations as regards cultural programs for radio and televisions which broadcast in languages and dialects other than Turkish. Private courses to teach languages and dialects other than Turkish can operate without any restrictions. In this context, seven private courses started teaching in Kurdish. However, they jointly decided to end their activities in 2005 due to economic reasons. In Turkey, 1941 private courses, applying 425 different programs, are regulated by the ministry of national education. None of them receives any public financial funding.

The fight against terrorism will in no way hinder what we have achieved in fundamental rights and freedoms and what we will achieve in economic and social development.

The Ministry of Interior is carrying on with its work to amend the law on meetings and demonstrations so as to render it more compatible with best universal practices.

The security forces react responsibly and proportionately to the incidents and provocations. Great care is taken to prevent harm to the population.

In this regard, all allegations concerning wrongdoing by security forces in relation to the recent *incidents in Diyarbakır* are being investigated by the ministry of interior and the chief prosecutor of Diyarbakır.

The government is determined to ensure the effective implementation of the *“Law on The Compensation of Losses Resulting From Terrorist Acts and the Measures taken Against*

Terrorism". In this framework, 76 compensation committees have been established and 173,208 applications have been lodged. It was recently decided to extend the deadline for applications for one year. The decision taken by the ECtHR on January 17, 2006 recognizing that the law and the bylaw constitute, both in theory and in practice, an effective remedy at domestic level for persons seeking compensation from such damages is significant. Furthermore, we gladly observed that during his visit to Turkey on 16-23 February 2006, Martin Scheinin, UN Human Rights Commission Special Rapporteur on Human Rights and Counter-terrorism, praised the efficiency of this law.

As regards **Internally Displaced Persons** (IDPs), the government attaches utmost importance to the successful return of our displaced citizens on a voluntary basis. In this regard, the **"Return to Village and Rehabilitation Project"** (RVRP) has been launched in 1994. As of the end of 2005, in the framework of the RVRP, around 137.000 people, constituting more than one third of the total amount of displaced persons, have returned to their villages.

The recruitment of new temporary **Village Guards** has come to an end since 2000 by a circular of the Ministry of Interior. Their number is gradually decreasing. Bearing in mind that the village guard system can be dissolved completely in the coming years, we have introduced measures to improve the economic and social conditions of the village guards.

The social and economic development of the Southeast region is one of the major priorities of the State Planning Organization within the framework of the five years development plan and the Southeastern Anatolian Project pursues the efforts to this end. The Government has intensified its efforts aimed at **decreasing regional disparities** and improving the living standards and prosperity of the people living in the southeast. In this regard, the government is providing certain incentives to businesses that invest in the region. The government is also conducting large scale social projects. Within the framework of the KÖYDEŞ project, social expenditures in the region have increased and several projects on the education of girls are being implemented. Up till now 800,000 girls have started school in the region. 58% of 1.5 billion US dollars allocated for social expenditure goes to the southeast region.

The measures taken constitute a comprehensive approach embracing all our citizens regardless of their ethnic origin. Turkey has no problem of dialogue with its citizens. They are represented throughout all democratic institutions. Under these conditions a call for dialogue has no base.

The **room document** includes detailed information on measures being taken for the social and economic development of the southeast.

In the area of **civil-military relations**, the significant progress made by turkey is witnessed by all. Further to this progress the 9th reform package includes the draft law amending the law on the establishment and legal procedures of **military courts**. With this law, military courts will not be able to try civilians in peacetime.

The constitution has been amended to allow an effective **parliamentary oversight of defense expenditures**. The Court of Audit will be responsible for this auditing. The required legislation is currently being debated in the plan and budget commission of the parliament.

Another area to which we attribute great importance is **women's rights**. The government has realised all the necessary amendments in the Constitution and related laws for the development of the status of women in the society and the protection of women's rights. The Parliamentary Investigation Commission established to investigate the reasons behind **honour killings** and violence against women and children and identify the necessary measures to be taken submitted its report to the speaker of the parliament on 15 February 2006. This report will be discussed at the general assembly on a date to be decided. After this discussion, the report will be finalized and made public. Concrete responsibilities will be given after the approval of the commission's work by the parliament.

Three proposals have been submitted to the Speaker of the Parliament on establishing a **Parliamentary Commission on Gender Equality**. The Constitution commission is reviewing the proposals.

Enrollment ratios of the female population in education have been following a promising trend in recent years. The enrollment ratios for the female population rose from 88,45% in 1999-2000 to 93% in 2001-2002 in the primary education level; from 48,42% in 1999-2000 to 52,67% in 2001-2002 in the junior high school and equivalent level and from 17,42% in 1999-2000 to 18,17% in 2001-2002 in the university and higher level.

Concerning **trade union rights**, the amendment of the legislation related to trade unions is on the agenda of my Government. In this context, in December 2005 and March 2006 the Ministry of Labor and Social Security submitted draft amendments to the trade union and collective labor agreement, strike and lockout laws to all social partners. Our aim is to reach a consensus on these legislative amendments with social partners through social dialogue.

Our Government remains fully committed to its policy of "zero tolerance" with regard to **torture and ill-treatment**. Requisite inquiries are given effect without delay in order to prevent **impunity**. The European Committee for the prevention of torture now cites turkey as an example to third countries. We are determined to further consolidate our on-going cooperation with all relevant international organisations, including the UN Committee Against Torture and the European Committee for the Prevention of Torture.

Large-scale training activities as regards the **judiciary** are continuing with a view to raising further awareness on the European Convention on Human Rights and the case law of the European Court of Human Rights, as well as Article 90 of the Constitution which gives primacy to international conventions over domestic laws. As the **rule of law** is the governing principle of democracies, all judicial cases are handled in conformity with this principle.

Furthermore, seminars on the prevention of torture and ill-treatment, on freedom of expression within the framework of ECHR and on accelerating and increasing the efficiency of the judicial process are being organized. In order to decrease the workload, the Ministry of Finance has allocated 4,000 new cadres of judges and prosecutors.

The views of the Ministry of Justice on the **report of the third advisory visit on the judiciary** by EU experts to turkey have been transmitted to the representatives of the delegation of the European Commission to Turkey on 26 may 2006. When the reports of the three advisory visits are compared, the first advisory report is 168 pages and contains 102 recommendations, the second report is 135 pages and contains 84 recommendations, and the last report is 95

pages and contains only 48 recommendations. These figures show that the Ministry of Justice attaches great importance to the recommendations made in the reports and takes the necessary measures to implement them. In this context, work is underway with regard to the revision of the structure of the higher board for judges and prosecutors, taking into account best practices in other countries. The issue of the separation of the offices of judges and prosecutors is taken into consideration during the construction of new courthouses.

More information on this matter is provided in the *room document*.

The parliamentary investigation commission to investigate the incidents in Hakkari provincial center and Yüksekova and *Şemdinli* districts was set up on 23 November 2005. The Commission finalized its work on 7 April 2006 and submitted its report to the office of the Speaker of the Parliament. The report will be debated by the General Assembly of the Parliament on a date to be decided. After the discussion at the General Assembly, the report will be officially finalized and made public.

Turkey is continuing its efforts to align with EU legislation in the field of *justice, freedom and security*. We attach particular importance to furthering our cooperation with the EU in this area.

Turkey has finalized two action plans, namely on “Asylum and Migration” and “Integrated Border Management”. These action plans will serve as a basis for Turkey’s efforts to achieve convergence with the EU acquis in the fields of border management, asylum and migration. The action plans identify requirements for legislative alignment, institutional reforms, staffing and training and additional equipment and infrastructure that are needed. The two plans also set priorities for the most urgent investments. Strengthening institutional capacity and enhancing closer cooperation and coordination among relevant authorities are among the targets of the two plans. After achieving progress in fulfilling infrastructural gaps, the implementation of both action plans will gain momentum.

The action plan on migration and asylum foresees the lifting of the “geographic limitation” to the Geneva Convention in conjunction with the realization of the necessary legislative amendments and infrastructural improvements.

Turkey concurred with the proposal of the Commission to hold talks on a *draft Readmission Agreement*. This demonstrates our willingness to collaborate with the EU in this area. Our concurrence is based on the clear understanding of burden sharing with the EU. Third round of talks will be held in Ankara on the 30th of June.

As for the economic criteria, we continued in 2005 with our efforts for the resolution of chronic economic problems, ensuring stability and re-establishing confidence in the economy. Most of our objectives were met. Turkey has a fully functioning market economy. The main economic indicators for the past year are outlined below.

At the last Association Council, I mentioned that our estimated annual growth rate for the next three years was 5%. Last year, the Turkish economy recorded a **7.6% growth** while the growth rate for the world economy worked out as 4.3 percent. Turkey’s total **GNP** reached **\$361.5 billion**, making Turkey the 17th largest economy in the world.

Indeed, Turkey has been in the front ranks among the fastest growing countries with a 9.9% growth in 2004. The average growth rate for the last three years is around 8%. This growth has mainly been driven by the private sector, rather than a policy of fiscal expansion and monetary loosening. It is also noteworthy that this growth rate has been accompanied by rapid disinflation.

The growth performance also makes itself evident in the figures for income per capita. The income per capita figure was \$2,598 in 2002, \$4,172 in 2004, and it worked out at more than \$ 5,000 in 2005. Adjusting this to the GNP by purchasing power parity per capita income brings this figure to \$ 8,000.

Productivity growth in the private manufacturing sector has been around 10% on average during the last three years. This has been encouraging in terms of sustainable development and competitiveness of the economy. Industrial and durable goods now constitute the greater portion of the total production capacity of the Turkish economy.

The high growth in the economy has begun to be translated in terms of employment as well. The second period of 2005 compared with the same period of 2003 has seen a 1.025 million increase in the number of people employed. This increase is predominantly in the private sector and in urban areas. On a sector by sector basis, we see a 1.489 million increase in the number of people employed in non-agricultural sectors. The economy's capacity to create employment is estimated to expand further in the period ahead with employment opportunities for at least 1.6 million people to be created in the period 2006-2008.

Inflation is now in single digits for the first time in over 30 years. In 2005, the rate of inflation in terms of consumer prices decreased to 7,72 % and to 2,66% in producer price index. These figures were recorded at a time when prices in almost all countries were experiencing an upward trend due to the high cost of oil.

In 2006, the inflation rate is projected to remain in single digit numbers. The Government's goal is to further reduce the inflation rate, reaching the EU average.

The proportion of the budget deficit to Gross National Product (GNP) which was around 17% in 2001, 15% in 2002, 11,3% in 2003 and 7,1% in 2004, fell to below 3% last year. We hope to keep this downward trend so as to remain in line with the Maastricht criterion.

Financial discipline is paramount to cope with chronic budget deficits, which had become the source of many economic and social problems in the past. Fiscal discipline has been a key policy instrument behind the positive results achieved in the economy over the past 2 years. We will continue our efforts in this regard.

Turkey has taken remarkable strides in improving the monetary and fiscal policy coordination. The public sector interest expenditures have declined from a peak of 23.3% of GNP in 2001 to 9.4% as of end-2005. The PSBR, with the support of the declining interest burden, was less than 1% of GNP in 2005 and is expected to be negative this year.

The reduction in the PSBR translates into further improvement of the public sector indebtedness. The net public debt stock which was 63.5 % to GNP in 2004 declined to 55.8% in 2005.

As an open economy, Turkey has been searching for new markets and networks within a broader spectrum extending from the Far East to Latin America.

Today, Turkey ranks 22nd in exports and holds 14th place among the world's top importers. The volume of foreign trade which stood at \$87.6 billion in 2002 rose to \$190 billion in 2005 (trade volume/GNP= 53%). It is estimated to surpass \$210 billion this year.

The EU remains our main trade partner and our trade volume has kept an increasing pace in 2005. Our exports have risen 12% and our imports grown 8% compared to 2004.

In 2005, EU accounted for 52.4% of total exports and 42.2% of total imports. Other significant trade partners of Turkey were Russia, USA, China, Switzerland, Japan, Israel and Iraq. The volume of trade between Turkey and the EU reached 72.1 billion Euros in 2005 marking an increase of 9.7%.

Imports reached 40.5 billion Euros with an increase of 7.8% in 2005. Exports to the EU, on the other hand, increased by 11.2% and amounted to some 31.6 billion Euros.

In 2006 (January-April), the EU has accounted for 53.7% of total exports and 39.8% of total imports. The volume of trade between Turkey and the EU topped \$29 billion levels in 2006 (January-April) to mark an increase of 5.8%.

Imports reached \$16.0 billion with an increase of 8.5 % in 2006 (January-April). Exports to the EU, on the other hand, increased by 2.7% and amounted to some \$12.9 billion.

Current account deficit, triggered by the economic dynamism and favorable market expectations, exceeded 6% of GNP in 2005 (CAD/GNP= 6.4%). The hike in the international energy prices has played a major role in reaching this level, as well. In year 2005, imports of energy commodities (in value terms) increased by \$ 6.8 billion (to \$ 21.2 billion), which is roughly equivalent to the annual increase in the current account deficit.

However, on the financing side, capital inflows to Turkey have comfortably compensated this deficit and even led the *international reserves* to top historical levels. [As of May 26th 2006, gross international reserves of Central Bank of Turkey stood at USD 59.6 billion].

The fiscal discipline, the floating exchange rate regime and the level of international reserves are important safety valves against the concerns over the current account deficit.

The impact of the recent global capital market fluctuations on the Turkish economy is estimated to be of a temporary nature.

A new law enacted in 2003, made it much easier to invest and establish a company in Turkey. We consider it important that administrative steps are taken to ensure that businesses operate in a safe and transparent environment, and their rights are properly protected. According to

analysts, today Turkey is among the five leading countries of the world in terms of the speed with which companies can start business.

The private sector investments increased 30% in 2003 and 49.3% in 2004. During the period 1993-2002, the FDI inflow to Turkey on average was about \$1 billion, going up to \$2,6 billion in 2004. The *foreign direct capital* entering Turkey in 2005 reached \$9.7 billion. According to World Bank estimates, direct capital investment in Turkey will triple in 2006.

Throughout last year, privatization continued and gathered speed. The large-scale privatization projects realized recently and the interest shown by international investors in these privatization initiatives encourage us to continue with our reform efforts.

Indeed, taken together with the recent privatization revenues, *FDI flows* have amounted to \$17 billion. Privatization does not only aim at minimizing state involvement in economic activities and relieving the financial burden of state economic enterprises on the national budget, but it also seeks to develop capital markets and to re-channel the resources towards new investments.

Tourism revenues in 2005 amounted to \$18.2 billion.

Turkish businessmen have been expanding their investments to the neighbouring and wider regional countries. Our contractors have so far completed over 3000 projects at international standards, in 63 countries across four continents. Their total business volume, nearly one third of which is in the Middle East, had reached \$75 billion by the end of 2005.

Meeting the Maastricht criteria remains to be the ultimate goal for economic policy making. We are hoping to fulfil the Maastricht convergence criteria on budget deficit and public debt by 2007.

We are determined to take the necessary steps to realize the objectives of our reform agenda which also includes long-term priority issues, some of which with significant social dimensions. In this regard, the elimination of regional and gender-related labour imbalances in the economy continues to be important issues on our agenda.

The regional incentives given to domestic and foreign investments in provinces where the income per capita is low, have helped increase investments nationwide.

We submitted our Pre-Accession Economic Programme to the Commission in November 2005. The main objective of our economic policies is to reach the targets introduced in the Copenhagen and Maastricht criteria and, thus, to achieve a welfare society and a more balanced structure in the distribution of wealth.

Our economic programme continues to aim at dealing with the root-causes of Turkey's underlying economic problems. The economic programme focuses on restructuring the financial sector at large and removing the obstacles for private-sector-led growth.

With the strict implementation of the programme, recovery has now resumed and the Turkish economy has become much more institutionalized. Economic agents are now more conscious of the importance of sustaining the programme and of the results it can deliver.

The Government has been committed to the implementation of its economic policies and has also been transparent and explained the essence and reasoning behind these policies which has helped to keep up confidence. This transparency has resulted in predictability, not only domestically but also among foreign businesses.

Turkey's economy is today stable, sound and shock-proof; in short, it is reliable to a degree that is beyond comparison with the past. Our strong macro-economic performance has been a reflection of the high potential of our economy. Turkey has manifested that confidence, consistency and continuity in macro-economic policies are the key to better macro-economic results.

We were pleased with the financial assistance to Turkey for the period 2004-2006 for a total of 1.050 million euros as grant assistance.

The per annum figure of financial assistance for Turkey is presently estimated to be significantly lower than what had previously been predicted. The total figure of financial assistance foreseen for Turkey, previously quoted to be around 8 billion Euros for the period of 2007-2013, appears to hold no longer.

We expect that the amount of funds to be allocated to Turkey in the 2007-2013 period to be commensurate with its needs and comparable to the assistance given to the previous candidates.

Increased financial assistance is crucial for Turkey to make enough progress in adopting and implementing the *acquis* during the course of the accession negotiations. We are continuing to speed up our efforts to complete the alignment of legislation during the period of negotiations. We will also further develop judicial and administrative capacity necessary for the implementation and enforcement of the *acquis*.

The Decentralized Implementation System (***DIS***), set up to implement this cooperation, and accredited by the Commission in 2003 has made good progress. We attach utmost importance to the effective functioning of the necessary decentralized structures to manage EU financial assistance. On the whole, our capacity to utilize EU funds under the DIS has proved to be in place. However, over time, certain problems have been encountered in this regard. We attach importance to their solution. As a first step, the amendments to the Memorandum of Understanding on the Establishment of the ***Central Financing and Contracting Unit (CFCU)*** were ratified by the Turkish General Assembly on May 10th.

The technical difficulties encountered for a period in the DIS should not make us lose sight of the larger picture. Our efforts will continue to remedy the remaining few temporary gaps in the system. However, the big picture relates directly to the future of Turkey's overall transformation and harmonization work. It is indeed important to set apart, on the one hand technical difficulties, and on the other the role of financial assistance for alignment of legislation.

I would like to underline our commitment to meeting all our administrative and technical obligations in the Decentralized Implementation System (DIS). Various DIS actors will continue to take the necessary measures in this regard.

Now that the EU has adopted its next financial perspectives for the period of 2007-2013. The IPA Regulation will soon be finalized, we hope that increased financial assistance for Turkey will be duly taken into account. We hope that the Commission services will continue to render their contributions and cooperate closely with our related institutions in this regard.

Our own preparations for the implementation of *IPA* are also underway. We are working on the creation of the new structures necessary for the effective management and implementation of our financial cooperation. We hope to carry on the already existing constructive cooperation with the Commission in this area.

Pre-accession financial assistance has already been an effective tool for mobilising Turkey's financial, legal and human resources. It is a complementary part of the pre-accession strategy for Turkey and therefore, its amount should be compatible with the volume of Turkey's commitments as well as her size.

We regret the delay in the signing of the *2005 Financial Agreement*. Although, the conditionality aspect of the signing of the Agreement is no surprise to us, its far reaching implications are extremely worrisome. The available time is getting ever shorter for project implementation. We hope to sign as soon as possible the 2005 Financing Agreement so as to ensure the timely implementation of all the related projects. This is also important in terms of Turkey's overall pre-accession harmonization efforts.

In this connection, I wish to refer to the efforts of the Commission to prepare a separate Financial Agreement concerning Community Programmes and Agencies in order to compensate for the negative effects of the delay in the signing of the 2005 Financing Agreement. Participating in the programmes as planned and without any delay is a priority for us.

With regard to *Community Programmes and Agencies*, Turkey's steady progress after the Helsinki European Council has continued.

We are getting ready to make the necessary adjustments for participation in these Programmes in the period from 2007 when some of the programmes will enter a new phase.

We have certain issues to address so that Turkey can better benefit from the programmes.

These continue to relate basically to financial issues, the high level of participation fees for some of the Programmes, the lack of visibility in Turkey concerning the programmes, as well as the difficulties Turkish beneficiaries face in finding project partners and obtaining visas from EU countries.

Last time we met, I had mentioned as a matter of priority, our expectation for a substantial amount of rebate for Turkey for the next generation framework programme on research and development. The participation fee to the 6th Framework Programme has been higher than other candidates. In this regard, we find the decision of January 27th by the Commission to recalculate our participation fee in 2006 to the 6th Framework Programme a positive development.

The situation however, will be worse when the participation fees are increased with the 7th Framework Programme due to the increase in the Community's research budget. Turkey's possible contribution -which could be as large as over 1 billion Euros- has been the subject of a number of discussions with the Commission.

The Commission is now working on alternative methods of calculation of our participation fee so that a reduction may be achieved. We appreciate these efforts and hope that our previous suggestions and inputs regarding alternative methods will prove helpful.

We hope that these will be concluded in a satisfactory manner so as to enable Turkey's effective participation in this very important Programme.

Last but not least, I would also like to mention the contribution of the Commission in channelling the EU's financial assistance to Turkey to help with the avian influenza. This was a remarkable effort of emergency assistance but and also proved to be a successful test of Turkey's project creation capacity.

As regards *enhanced political dialogue* on the question of *Cyprus*, let me make a few remarks:

The Eastern Mediterranean should be a zone of cooperation, stability and prosperity. We continue to work towards this objective.

The settlement of the Cyprus problem falls under the mandate of the UN.

I wish to underline that on our part, we continue to support the efforts of the un Secretary-General under his mission of good-offices to find a comprehensive settlement to this problem. Any initiative to find a settlement on the basis of the Annan Plan will receive our strong support.

Turkey also continues to support other initiatives, like the technical committee meetings and the confidence building measures between the relevant parties. We hope that the technical committees can immediately start their work on the 10 issues that have already been agreed upon by the two sides on the island. Any attempt to put preconditions, like the inclusion of other non-technical issues, should be avoided.

My proposals of 24 January this year were also put forward with this understanding in mind.

In light of our common goal of reaching a comprehensive settlement, it is equally important, that the EU stands by its declared positions on several aspects of the Cyprus issue.

These are:

- The continued support to the UN Secretary-General's mission of good-offices;
- The conviction that a solution must be found under the un and on the basis of the un settlement plan;
- The readiness to accommodate itself to the solution that will be reached by the parties themselves; and
- The commitment to effectively end the isolation of the Turkish Cypriots.

As for the Additional Protocol to the 1963 Ankara Agreement, I would like to stress that in December 2004 Turkey declared its readiness to sign the protocol prior to start of accession negotiations. Turkey has fulfilled that commitment.

Regarding the implementation of the Additional Protocol, there is a difference of interpretation between Turkey and the EU. Statistics show that there is circulation of products from all EU countries within the framework of Turkey-EU Customs Union.

On the other hand, we believe that turkey should not be expected to meet certain deadlines, to which she has not bound herself through any mutual understanding.

As for the paragraph 7 of the Turkey-EU Negotiating Framework, I would like to emphasize that the Presidency Statement with the consent of the Council dated 3rd of October clarifies, beyond any doubt, that this paragraph cannot prejudice the autonomy of decision-making and rights of any of those international organizations or of their members.

This EU Presidency statement was made with the explicit consent of all EU Member States; and accordingly, we believe the autonomy of the decision-making of the international organizations should be respected.

Turkey's *relations with Greece* have been progressing steadily since 1999. Recent progress achieved particularly in the economy/trade sector display the level of confidence established between the business communities of both sides.

The dialogue and cooperation process is sustained through several mechanisms. The last meeting of the Turkish-Greek steering committee took place in Athens on 25 may 2006. My meeting last Saturday with Foreign Minister Bakoyannis testifies to the excellent state of the dialogue that we entertain.

I would like to stress our determination to maintain this process of dialogue.

As part of Turkey's commitment to good neighbourly relations, we remain determined to reconciling all differences with the concerned member states on *outstanding border disputes* in conformity with the principle of peaceful settlement of disputes in accordance with the United Nations Charter.

Turkey is committed to the Madrid Declaration of 1997 between Turkey and Greece, which is a mutual commitment of the two countries to peace, security and the continuing development of good neighborly relations, as well as to settling disputes by peaceful means. The declaration also commits the two sides to refrain from unilateral acts.

We are committed to further enhancing our cooperation with the EU in the context of the *Common Foreign and Security Policy*.

Turkey has from the beginning supported the operational aspect of CFSP, namely the *European Security and Defence Policy (ESDP)*. We share the EU's holistic approach to security, combining civilian and military means.

In this vein, we are participating in all ESDP operations and missions to which we were invited, be it civilian or military. As a matter of fact, our contribution to operation EUFOR ALTHEA is more than most EU Members. Also, we are about to make a significant contribution to EUFOR DR Congo.

On the other hand, we attach no less importance to complementarity and harmonization between NATO and the EU in order to avoid unnecessary duplication. We believe in the need to further deepen *NATO-EU cooperation*.

The framework for the strategic cooperation between NATO and the EU has been agreed upon through the exchange of letters between the Secretary General of NATO and the EU Secretary General and High Representative for CFSP.

This mutually agreed framework, which is binding upon all NATO and EU Members, is not restrictive but on the contrary provides ample room to further intensify NATO-EU cooperation.

On our part, we have demonstrated our constructive approach on numerous occasions for the further enhancement of the strategic cooperation between NATO and the EU.

Therefore, if the constructive approach displayed by Turkey is reciprocated and there is political will on all sides, the current difficulties we face in this cooperation can be easily overcome.

The administrative arrangements between turkey and the European Defence Agency (EDA) is still being blocked by the Greek Cypriots on political grounds.

Let me reiterate that turkey's exclusion from the EDA will neither serve the cause of further deepening NATO-EU strategic cooperation, nor the future work of European Defence to which turkey could be a net contributor.

On the other hand, the approval of the agreement establishing a framework for our participation in EU crisis management operations has been a positive step. We hope that the agreement on the security of information will also be concluded soon.

The normalization of *Turkish- Armenian Relations* would help us to ensure stability and create a spirit of cooperation in the South Caucasus. Our recent initiative to establish a joint commission of historians to study the incidents in the wane of the Ottoman Empire provides a window of opportunity to move forward on the track of normalization between Turkey and Armenia. We hope that this will eventually lead to full normalization, including the opening of the border, provided that Armenia reviews its foreign policy priorities in a forward-looking manner and abandons its hostile and aggressive stand toward its neighbors.

The recent natural gas crisis demonstrated once again the vulnerability of the *energy* market. The crisis has shown the level of dependency of Europe on Russian natural gas. It highlighted the need to diversify transport routes as well as supply sources.

The crisis brought to the fore the role of turkey as an energy transit country. The projects under construction and those at the stage of development will considerably contribute to the enhancement of energy security of supplies.

A case in point is the Trans-Caspian Natural Gas Pipeline Project which constitutes the third leg of the east-west energy corridor. This project will enable the transportation of Kazakh and Turkmen gas directly to Europe through turkey.

Turkey is in the best position to contribute to the energy supply security of the European union. However, we were somewhat surprised to see that turkey's key role has not been reflected in the Green Paper. We believe that this is a serious omission that must be corrected in future documents in order to provide an accurate picture of the overall energy supply scheme for Europe. We seek your support to this end.

The Baku-Tbilisi-Ceyhan oil pipeline project has been completed. The oil reached Ceyhan terminal at the end of may. We shall organize a ceremony at Ceyhan terminal on 13 July, to which we expect high level participation from the EU.

CHECK AGAINST DELIVERY

45th SESSION OF THE TURKEY-EC ASSOCIATION COUNCIL

**STATEMENT BY H.E.MR.ABDULLAH GÜL,
MINISTER OF FOREIGN AFFAIRS AND DEPUTY PRIME MINISTER
OF THE REPUBLIC OF TURKEY**

**AGENDA ITEM 4: STATE OF RELATIONS UNDER THE ASSOCIATION
AGREEMENT AND THE CUSTOMS UNION**

LUXEMBOURG, 12 JUNE 2006

Since the opening of accession negotiations on October 3rd and throughout the on-going screening process, our relations have become much more enhanced. Therefore the issues that we take up here, in the context of the *Association Agreement and the Customs Union* should be seen through this new perspective by both sides. We should see each other as partners.

Firstly, I would like to say a few words on our bilateral trade relations. The figures prove that the trade between Turkey and Member States is growing rapidly. Turkey has become the 6th largest trading partner of the EU after the latest wave of enlargement.

We are aware of our obligations arising from the Customs Union some of which still need to be fulfilled. On the other hand, Turkey's difficulties should also be taken into account. Our estimates show that almost 90% of the *acquis* is related to the economy. The screening process so far has contributed to the general understanding of those aspects of our economic relations which need to be worked on. In this regard, we hope that the screening process has served to show the reasons behind the difficulties Turkey has been facing in the resolution of the existing problems

These difficulties stem from the fragility of some sectors of the Turkish economy which also include social dimensions.

Presently, we are treating all these issues as a matter of priority by the work of high-level committees established to find solutions to these issues. The committees operate under the close scrutiny of the Minister in charge of the related field.

We have every intention and the goodwill to come to a mutually satisfactory solution on these issues. It is important that the Customs Union which is our strength in terms of the level of Turkey's harmonization with the EU *acquis* does not become the Achilles' heel of the negotiations. This would be in stark contrast to previous candidates which had no Customs Union.

In the past couple of years, we made good progress in alignment with the EU's preferential customs regimes. In 2005, free trade agreements with *Tunisia and Palestine* entered into force. At the end of 2005 we signed the FTA with *Egypt*, which has been a long and challenging one.

The agreement with *Morocco* entered into force as of 1 January 2006. Ratification procedures of the agreement with *Syria* are ongoing.

Also last year, we continued our efforts to initiate negotiations with a number of countries. To this end, a draft framework agreement was signed with the Secretariat of the **Gulf Cooperation Council (GCC)** on 30 May 2005.

After lengthy and intensive efforts, the FTA negotiations with *Jordan* also started in 2005.

With regard to the *ACP countries*, in 2004 we invited a number of countries to start FTA negotiations. However, in 2005 no reaction has been received from these countries.

Efforts towards initiating FTA negotiations with *Algeria, Chile, Mexico, and MERCOSUR* are still continuing. No developments have been recorded concerning FTA negotiations with

South African Customs Union (SACU) and Albania. An intervention by the Commission will be most welcome with respect to Algeria, Chile, Mexico, MERCOSUR, and the SACU to initiate negotiations to Albania to further proceed with negotiations.

The number of these countries will increase as the EU continues to engage in new preferential regimes with third countries. Unless a sound and lasting solution is found, there will always be some preferential regimes of the EU that Turkey needs to catch up with.

There have been a few cases where we failed to receive the necessary information from the Commission regarding the EU's ongoing FTA negotiations. This would help Turkey in concluding similar and simultaneous agreements with third countries and to avoid possible trade diversion.

Currently, we are doing the best we can on our part for concluding free trade agreements. However, as long as the will for concluding such agreements is missing in these countries and stronger Commission cooperation is lacking, the gap between Turkey and the EU with regard to preferential trade policy will continue to exist.

In other words, we will continue to fail to benefit from the opportunities that the EU already enjoys in these markets. In fact, providing Turkish exporters with new and preferential market access conditions was an opportunity offered by Article 16 of Decision 1/95. Without concrete intervention and support of the Commission where needed, we may not be able to make progress at the desired pace.

The third countries in question already enjoy suitable market access conditions in their exports to Turkey as the customs duties are quite low due to the Customs Union and the GSP application. I believe, this fact further reduces their motivation to engage in bilateral preferential arrangement with Turkey.

Therefore, we expect the Commission to exploit any means available and continue to exert pressure on third countries to this end.

Furthermore, the **Pan Euro Med Cumulation System** is an important component of the efforts to create a free trade area in Mediterranean as it allows partner countries to benefit from the preferences given by the Free Trade Agreements concluded by the Partners of the System under better conditions.

In this context the application of standard Protocols of Origin is the main requirement for functioning of the System. Turkey's FTAs with some countries including Morocco, Tunisia and Israel contain Protocols in line with the System. However, the diagonal cumulation between Turkey and the European Union and these countries are not yet applicable as the Customs Cooperation Committee has not yet produced the necessary decisions concerning use of Suppliers Declaration documenting the application of standard rules of origin between Turkey and the European Union.

With regard to the Products that are covered by Customs Union, the Parties have agreed on the text of the draft Decision no. 1/2006 of the Customs Cooperation Committee. However the text is still under the formal adoption procedure in the EU Council. We urgently ask the

EU Council to accelerate the process as it delays the benefits to be incurred by Turkey, the EU and other Mediterranean partners.

We expect the EU side to complete the adoption procedure by the end of June in order to ensure that the current application of diagonal Cumulation between Turkey, EU and Tunisia, which was made possible via a temporary derogation which shall end by 14 July 2006, continues after this date.

At this point, I wish to bring to your attention some problems in trade relations that Turkey continues to encounter due to certain EU practices.

They are related directly to the functioning of the Customs Union and affecting our trade relations.

I would like to raise once more the problems encountered by Turkish businessmen in receiving visas from the EU countries. We consider that these difficulties constitute a non-tariff barrier to trade.

Numerous Turkish businessmen miss business opportunities and lose competitiveness because of visa problems.

It is against the very nature of the Turkey-EU Association Agreement and the Customs Union. It is also unfair considering that EU nationals can enter Turkey without any hindrance.

Furthermore, some Turkish businesses operating in the EU are encountering problems regarding the extension of the work permits of their workers. This prevents them from fulfilling their contractual obligations.

I would reiterate my remarks from last year that we need the EU to ensure that Turkish businessmen are not prohibited from doing business in the EU due to difficulties or delays in the issuance of visas nor to any other type of hindrance such as a failure to extend work permits.

Another point of concern is the waiting periods in the issuance of visas for students involved whether in Community Programmes, in EU exchange programmes or in NGO related internship programmes. These delays have sometimes been so long that the programmes which required the completion of a project were almost halfway over by the time the applicant received a response.

We are aware that Member States may be bound by certain provisions regarding visa regulations. Nevertheless, we ask the Union to apply a *preferential visa regime* to Turkish businessmen and students.

The EU proposal for a visa facilitation agreement falls short of our expectations. We consider ourselves to be in a different position than a third country. Based on our previous legal contractual undertakings and also in view of our status as a negotiating country, we believe that our relations merit a special approach.

This is also an important issue in terms of Turkey's accession process. The elimination of visa problems will contribute to the development of human contacts between Turkey and the EU and thus better serve the aims of the accession process.

There is another important issue which affects our trade flow negatively. That is the strict *quota system and restrictions* applied by some EU Member States on Turkish transport companies carrying goods from Turkey to the EU markets.

A significant portion of Turkey's road transporters carry commodities between Turkey and Europe. Turkey relies heavily on its road transport fleet for its trade with the Member States. Therefore, it is vital for Turkey to have adequate *road transport permits* to sustain uninterrupted trade with its European trade partners. However, Turkish transport companies have been experiencing many difficulties stemming from the regulations and the insufficiency of road transport permits.

We have to come to a common understanding whether restrictions on means of transport fall within the scope of "free movement of services" or of "free movement of goods".

Now I would like to turn to the developments related to the initiative of the European Commission on the classification of *borates and boric acid* as dangerous substances under the Directive 67/548/EEC.

We have shared our views on this topic with the Commission on several occasions.

Turkey agrees that dangerous or toxic substances should be carefully handled in order to prevent any risk to humans, animals or the environment. However, on the specific issue of borates, our authorities have doubts regarding scientific data. Turkey considers that the results of all the assessment studies proving the toxic effects of these substances were not taken into consideration while classifying them. Furthermore, our objections are based on and supported by the submitted results of the studies carried out by Turkish and international academics alike.

Under these circumstances, we expect that the work on the review of the proposal to start as soon as possible before the adoption of the 30th Adaptation Technical Progress.

I want to briefly touch upon the subject of import restrictions to exports from the EU of *Chinese origin products* for which the EU applies quotas.

Turkey agrees with the EU that the goods which are subject to quantitative restrictions in both Turkey and the EU should be in free circulation between the Parties. On the other hand, Turkey has concerns regarding the EU's proposal that Turkey ceases to apply import restrictions.

Both Parties determine the amount of the tariff quota on the basis of market size and trade volume. Considering the discrepancies between Turkey and the EU in terms of these parameters, it is obvious that the quotas established by the EU would be for much larger amounts.

Because of the difference between the quota levels, Turkey estimates that the risk of re-exports to Turkey is not minimal as assumed by the EU. The reintroduction of free circulation in Turkey of these goods, which are subject to quota in the EU at the same time, may result in a rise of imports in quantities surpassing our quota.

In order to minimize the possible adverse effects of quota implementation on companies trading Chinese products via the EU all necessary administrative arrangements have been made. In this context, the criteria for “traditional importers” were set in a way to provide at most advantage to the EU based traditional trader companies.