Turkey's progress towards accession. Recommendation and 2004 report

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PURPOSE : to present the 2004 Regular Report on Turkey's progress towards accession.

CONTENT : this Report takes into consideration progress since the 2003 Regular Report. It covers the

period until 31 August 2004. It looks at whether planned reforms referred to in the 2003 Regular Report have been carried out and examines new initiatives. In addition, this Report provides an overall assessment of the situation for each of the aspects under consideration.

- Political criteria : Political reforms, in line with the priorities in the Accession Partnership, have been

introduced by means of a series of constitutional and legislative changes adopted over a period of three years (2001-2004). There have been two major constitutional reforms in 2001 and 2004 and eight legislative packages were adopted by Parliament between February 2002 and July 2004. New codes have been adopted, including a Civil Code and a Penal Code. Numerous other laws, regulations, decrees and circulars outlining the application of these reforms were issued. The government undertook major steps to achieve better implementation of the reforms. The Reform Monitoring Group, a body set

up under the chairmanship of the deputy Prime Minister responsible for Human Rights, was established to supervise the reforms across the board and to solve practical problems. Significant progress took place also on the ground; however, the implementation of reforms remains uneven.

As regards the enhanced political dialogue, relations with Greece developed positively. A series of bilateral agreements were signed and several confidence building measures adopted. A process of exploratory talks has continued. On Cyprus, over the last year Turkey has supported and continues to support the efforts of the UN Secretary General to achieve a comprehensive settlement of the Cyprus problem. The European Council of June 2004 invited Turkey to conclude negotiations with the Commission on behalf of the Community and its 25 Member States on the adaptation of the Ankara Agreement to take account of the accession of the new Member States. The Commission expects a positive reply to the draft protocol on the necessary adaptations transmitted to Turkey in July 2004.

- Economic criteria : Turkey has made further considerable progress towards being a functioning market economy, in particular by reducing its macroeconomic imbalances. Turkey should also be able to cope with competitive pressure and market forces within the Union, provided that it firmly maintains its stabilisation policy and takes further decisive steps towards structural reforms.

Economic stability and predictability have been substantially improved since the 2001 economic crisis. Previously high inflation has come down to historic lows, political interference has been reduced and the institutional and regulatory framework has been brought closer to international standards. Thus, an important change towards a stable and rule-based economy has taken place. Key economic vulnerabilities, such as financial sector imbalances, have been tackled. Financial sector supervision has been strengthened. As a result, the shock resilience of the Turkish economy has significantly increased.

Important progress has been achieved in increasing the transparency and efficiency of public administration, including public finances. Furthermore, important steps have been taken in facilitating the inflow of FDI and in improving the legal framework for privatisation.

Turkey's alignment has progressed in many areas but remains at an early stage for most chapters.Further work is required in all areas, new legislation should not move away from the acquis. This report highlights the areas where more effort is needed:

- Free movement of goods : overall transposition of the acquis is advancing steadily, but is not complete, while implementation remains uneven. The public procurement Law still contains discrepancies with the acquis.

- Free movement of persons : no progress has taken place concerning this issue. Concerning the freedom to provide services, some progress could be recorded for financial services. Alignment remains limited with the acquis on the free movement of capital. The priority should be the adoption of anti-money laundering provisions, and the removal of restrictions to investment by foreigners. Improvements in this area would contribute to facilitate inflow of foreign direct investment.

- Company law : the alignment with the acquis remains very limited. However, important efforts have been undertaken to fight piracy with regards protection of intellectual and industrial property rights, but insufficient administrative capacity prevents remains a constraint. Concerning competition policy, the alignment with the acquis on anti-trust legislation is significant and progress continues in a satisfactory

manner. On the contrary, alignment with state aid acquis is very limited.

- Agriculture : little progress can be recorded since the previous Report in the area of agriculture. On the other hand, progress has taken place concerning in particular veterinary, phytosanitary and food, but transposition and administrative capacity are still insufficient to ensure effective implementation. Rural development, eradication of animal diseases and upgrading of the Administrations concerned should be regarded as priorities.

- Transport policy : some progress could be recorded in all transport modes, excepted air transport. Concerning in particular maritime transport, the detention rate remains much higher that the EU

average, and Turkey remains in the black list of the secretariat of the Paris Memorandum of Understanding on Port State controls.

- Tax policy : there has been limited progress in the area of indirect taxation, while no progress could be reported on direct taxation. Alignment is necessary in particular concerning VAT, the scope of exemptions and applied rates.

- Social and employment policy : progress has been made since the last report, in particular as concerns health and safety at work. Nevertheless, the main problematic areas remain gender equality, labour law, anti discrimination, and social dialogue. Enforcement and full implementation of the legislation also appear as major challenges.

- Education and training : some progress has been achieved in this area, especially concerning the enrolment of girls in less favoured regions.

- Industrial policy : there is a large alignment with the EC principles. However, further efforts remain necessary to improve SMEs' access to finance, and the business environment.

- Environmental policy : some progress has taken place in this area. However, the overall transposition of the environment acquis remains low. Administrative capacity needs further reinforcement and improved co-ordination among the administrations involved. The most intense efforts are needed for horizontal legislation, air and water quality, waste management, nature protection, industrial pollution and risk management.

- JHA : Turkey has continued to make efforts to align with the acquis in the area of justice and home affairs. Nevertheless, progress is required in important areas such as the reform of the judiciary and the fight against corruption. Co-operation both at national level among all relevant administrative bodies and with the EU should be improved on issues such as illegal migration and trafficking.

- CFSP : Turkey's foreign policy continues to be broadly in line with that of the EU, though less so when Turkey's neighbouring countries are concerned.

Lastly, it should be noted that implementation of legislation formally aligned with the acquis continues to be insufficient. Administrative capacity in most areas needs to be strengthened to ensure that the acquis is implemented and enforced effectively. In some cases, administrative reform should entail the establishment of new structures, for example in the field of state aid and regional development. Where regulatory bodies have been set up, they should be adequately empowered to perform their tasks, including adequate staffing and resources, and to ensure that their decisions are enforced. To this end, their autonomy should be safeguarded. Improved co-operation between the Commission and the Turkish administration in areas such as conformity assessment should be extended to other areas.