

18 September 2006

# Screening report

# Turkey

## Chapter 20– Enterprise and industrial policy

**Date of screening meetings:**

Explanatory meeting: 27/28 March 2006

Bilateral meeting: 4/5 May 2006

## I. CHAPTER CONTENT

The *acquis* under the enterprise and industrial policy chapter consists largely of **policy principles** and policy recommendations which are reflected in communications, recommendations, and Council conclusions. These are also subject of consultation forums and exchange of good practice measures. Enterprise and industrial policy comprises **policy instruments**, including financial support and regulatory measures, as well as **sectoral policies**, including recommendations for more targeted enterprise policy review/analysis and consultations. Overall, EU enterprise and industrial policy is strongly driven by the renewed Lisbon strategy for growth and jobs.

By establishing general **policy principles**, EU enterprise and industrial policy seeks to promote the formulation of competitiveness enhancing enterprise policies and industrial strategies. These are geared towards speeding up structural adjustments, encouraging an environment favourable to business creation, domestic and inward foreign investments, promoting the development of small and medium-sized enterprises (SME), entrepreneurship and innovation. More specifically, EU SME policy is characterised by policy recommendations and joint policy review mechanisms such as the European charter for small enterprises process as well as a common SME definition.

Enterprise and industrial **policy instruments** comprise Community programmes to provide financial support for competitiveness (including improved access to finance), innovation and information society (notably through the Multi-Annual Programme for SME (MAP) until 2006, and the Competitiveness and Innovation Programme (CIP) from 2007-2013). It also includes Directive 2000/35/EC combating late payment in commercial transactions, which Member States need to transpose into national legislation.

Through its enterprise and industrial **sectoral policies**, the EU promotes a more targeted analysis of the competitiveness of specific sectors and the launch of specific initiatives such as the creation of high-level groups, policy forums, studies and expert panels in certain sectors as well as networking initiatives.

The implementation of enterprise and industrial policy requires adequate administrative capacity at the national, regional and local level, including efficient consultation and cooperation mechanisms for a quality and effective policy formulation and implementation.

## II. COUNTRY ALIGNMENT AND IMPLEMENTATION CAPACITY

This part summarises the information provided by Turkey and the discussion at the screening meeting.

Turkey indicated that it can accept the *acquis* regarding enterprise and industrial policy. Turkey indicated that it does not expect any difficulties in implementing the *acquis* by accession.

### II.a. Enterprise and industrial policy principles

Turkey has an industrial policy and a specific strategy document, the 'Industrial Policy for Turkey' (Towards EU Membership) of 2003, which is based on the Turkish National Development Plan (8<sup>th</sup> Five Year Development Plan) and the government programme. It largely follows the EU's industrial policy principles. Turkey also has prepared a number of broader economic policy and strategy documents, which determine enterprise/industrial policy priorities, i.e. the 8<sup>th</sup> Five Year Development Plan (2001-2005), the medium-term programme (2006-2008) and the annual programme (2006). While the development plan

provides the general policy framework, the medium-term programme provides more detailed policy objectives. The annual programme for 2006 provides the priorities, the measures, a timeframe and the allocation of responsibilities to government and other bodies. Turkey's industrial/enterprise policy seeks to increase the competitiveness and productivity of its enterprises by improving the business environment, supporting SMEs and new entrepreneurship, supporting innovation, ICT and R&D, and by promoting an outward-looking economy.

Turkey's industry is a key contributor to the country's economic growth: industrial growth averaged 5.2 % from 1980 – 2005 increasing the industry's share in overall GDP from 18.3% in 1980 to 25.4% in 2005 in current prices. Key sectors such as textile and clothing and steel are in need of restructuring/adaptation.

The preparation of the industrial policy document, 'Industrial Policy for Turkey', as that of other planning documents relevant for enterprise/industry, is coordinated by the State Planning Organisation (SPO) with the contribution of relevant line Ministries and other government bodies as well as several organisations representing business. The SPO's main instrument for coordination are ad-hoc committees (with the Industrial Policy ad-hoc Committee being the most important one) including public and private body representatives and set up on an ad hoc basis for the period of preparing planning documents. Permanent consultation bodies between public authorities and the private sector include notably the Economic and Social Council, the Coordination Council for the Improvement of the Investment Environment and the Investment Advisory Council.

Turkey addresses the issue of competitiveness in various permanent and ad-hoc bodies, as well as in studies and conferences on this topic. Although there is no specific separate body dealing with competitiveness issues, the most important bodies in this context are probably the technical committees instituted in different relevant areas under the Reform Programme for the Improvement of the Investment Environment.

Turkey's SME policy is guided by its SME strategy and action plan prepared in 2003 in line with the European Charter for Small Enterprises as well as by the national development plan, the medium-term, and the annual programmes. The Small and Medium Industry Development Organisation (KOSGEB) runs a multitude of support schemes in the areas of consultancy/training, technological development/innovation, international cooperation, export promotion, entrepreneurship development, information technology, quality improvement and regional development. Application procedures in this context have been considerably simplified. Turkey has also substantially reduced company establishment procedures from 19 to 3 steps now allowing the establishment of a company within one day. Turkey's SME definition is largely in line with the EU definition except for its annual turnover threshold, which is considerably below the EU's. KOSGEB's SME support programmes have been aligned with the new SME definition in June 2006.

Turkey promotes entrepreneurial innovation and innovation systems through a number of planning/programming documents such as those mentioned above, including the Development Plan, the medium-term and annual programmes, the industrial policy document and the SME strategy and action plan. It has established a Supreme Council for Science and Technology, which takes decisions relevant to research and innovation objectives. This Supreme Council has adopted a National Science and Research Strategy for the period 2005-2010. Turkey has established a number of public research programmes. It has created the University-Industry Joint Research Centres Programme (USAMP), which is managed by the Turkish Scientific and Technological Research Council (TÜBİTAK). The Ministry of Industry and Trade has overlooked the creation of 22 Technology Development

Zones, promoting (high) technology-enterprises, and the launch in 2006 of SAN-TEZ, a new university-industry cooperation project promoting the transfer of technology. Turkey has several Innovation relay centres, technoparks and technology incubators.

The main players involved in formulating and implementing enterprise policy are: Ministry of Industry and Trade, State Planning Organisation, Undersecretariat of Treasury, Undersecretariat for Foreign Trade, Privatisation Administration, Small and Medium Industry Development Organisation (KOSGEB), the Scientific and Technological Research Council of Turkey (TÜBİTAK) as well as several other public bodies and business representative organisations.

## **II.b. Enterprise and industrial policy instruments**

Turkey's participation in Community Programmes is regulated by a framework agreement and a related Turkish law of 2002. The memorandum of understanding for participation in the Multi-Annual programme for SMEs (MAP) entered into force in January 2003. Since then, Turkey has taken part in the MAP establishing 9 Euro-info-centres, benefiting from the counter guarantee fund and participating in 22 BEST projects. Turkey has also participated in the LIFE programme since 1992, in the e-CONTENT programme since 2003, and it is starting participation in the e-TEN programme in 2006. It has expressed an interest in participating in the EU's Competitiveness and Innovation Programme (CIP) from 2007. Turkey has already organised meetings with different relevant bodies with regard to its future participation in the CIP.

Turkey has gained considerable experiences with implementing financial incentives schemes for enterprises notably through loan and credit schemes as well as a credit guarantee fund which is one of the financial instruments under the MAP. The Small and Medium Industry Development Organisation (KOSGEB) has established the connection between the European Investment Fund and potential national players, and the Turkish Credit Guarantee Fund was approved as “National Financial Intermediary” within the MAP’s counter-guarantee instrument.

Turkey’s current legislation including the 'Law on Obligations', the 'Commercial Code', the 'Law on Legal Interest and Default Interest' and the 'Enforcement and Bankruptcy Law' already contains provisions in conformity with the EP and Council Directive 2000/35/EC on combating late payment in commercial transactions.

## **II.c. Sectoral policies**

In relation to sectoral policies, Turkey has covered sector-specific development priorities in its key planning/programming documents, i.e. the 8<sup>th</sup> Five Year Development Plan, the medium-term programme and the annual programme. This is the case notably for important growth and export-oriented sectors such as textiles and clothing, the automotive sector and tourism. Turkey does not have separate sector-specific strategies or action plans, i.e. strategies concentrating on one sector only; however, in certain cases specific laws have been adopted to establish a sector-specific policy framework, e.g. the 'Tourism Encouragement Law'.

Turkey is implementing a number of sector-specific policy measures notably in strongly export-oriented sectors that are exposed to global competition such as textiles and clothing and tourism. Measures in the textile sector include for instance the promotion of textile clusters, training and networking promotion and establishing trade defence mechanisms. Measures in the tourism sector for example are of a regulatory nature, e.g. Tourism

Encouragement Act, or support/activity-based such as promotion campaigns and major events, as well as sustainability measures. Turkey puts special emphasis on tourism diversity. Sector-specific consultation mechanisms have also been established.

On 31 August 2006, Turkey sent to the Commission a National Restructuring Programme for the Turkish steel industry. The Programme is being analysed by the Commission services.

### **III. ASSESSMENT OF THE DEGREE OF ALIGNMENT AND IMPLEMENTING CAPACITY**

Overall, Turkey has reached a satisfactory level of alignment with the *acquis*. It needs to improve its capacity to assess industrial and notably sectoral competitiveness. It equally needs better policy analysis and results/impact assessments in order to enhance policy design. Moreover, it needs to complete full alignment with EC Directive 2000/35 on combating late payment in commercial transactions. The compliance analysis with the state aid *acquis* of certain business support schemes as described in part II are dealt with in the screening report of chapter 8 'competition policy'.

#### **III.a. Enterprise and industrial policy principles**

Turkey has produced a large number of policy documents relevant for business/industry, which already largely respect/meet the EU enterprise and industrial policy principles. These are the basis for a number of specific policy measures in support of business/industry. Turkey has also produced an industrial strategy; however, the operational value of this strategy, prepared as response to an EC recommendation, is questionable. While planning/programming documents do establish clear policy priorities and measures, their value as instrument of policy coordination and ensuring policy coherence remains weak.

Turkey has a fair capacity to analyse industrial competitiveness. Its capacity to analyse the adequacy and the results/impact of policy measures can be improved.

Policy consultation with business exists on an ad hoc and permanent basis and is working satisfactorily.

Turkey's SME definition is largely in line with that of the EU.

Turkey's administrative capacity is largely sufficient in the area of enterprise and industrial policy. However, it does not have a foreign investment agency and the role of the State Planning Organisation as central body for policy design and coordination may reduce the efficiency of measures due to lower sectoral competence and policy ownership issues.

#### **III.b. Enterprise and industrial policy instruments**

Turkey has taken part in the Multi-Annual programme for SMEs (MAP) and several other Community Programmes. It has expressed an interest in participating in the Competitiveness and Innovation Programme (CIP) and should be in a position to do so efficiently as from 2007.

Turkey has already transposed some provisions of the EP and Council Directive 2000/35/EC on combating late payment in commercial transactions including on the level of interest, and the provisions related to retention of title for creditors and recovery procedures. However, gaps and/or lack of clarity remain with regard to provision on the scope (Art. 1) and definitions (Art. 2) as they appear in the Directive, the payment period (immediate instead of

30 days), on the possibilities for organisations acting on behalf of enterprises, and on the prohibition of 'grossly unfair contractual terms'. Due to the variety of national transposing measures, a concordance table showing the different national transposing rules (including their translated texts) needs to be presented during the negotiations.

### **III.c. Sectoral policies**

Turkey has a satisfactory capacity to formulate adequate enterprise policy measures in specific sectors. However, its capacity to assess the competitiveness of individual sectors needs to be improved and even more so its capacity to evaluate the results and impact of policy measures, which should be the basis for future policy design.

Turkey has a satisfactory capacity to take part in different EC sector-focussed initiatives such as high-level groups and other consultation forums.

Any restructuring of the steel sector should be done on a sound planning basis, i.e. using strategic planning documents such as individual business plans and national restructuring programmes. Any involvement of state aid in the restructuring should respect the relevant state aid rules in this sector (see chapter 8 'competition policy').