



BILATERAL SCREENING ON COMPETITION POLICY

**Country Session: The Republic of TURKEY
1-2 December 2005**



STATE AID

**Country Session: The Republic of TURKEY
1-2 December 2005**



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AGENDA ITEM I:
SUBSTANTIAL PROVISIONS

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GENERAL FRAMEWORK

- EC Treaty : Articles 87 and 88
- Corresponding Turkish Legislation
 - No framework legislation
 - Related international agreements
 - No single authority



AGENDA ITEM II: GENERAL PROCEDURAL RULES

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Policy Making Process Regarding State Aids

Decision Makers	Policy Documents	Legal Instruments
Turkish Grand National Assembly	Development Plans	Budget Law Other Laws
Council of Ministers	Annual Programmes	Decrees Communiqué
- High Planning Council - Money, Credit and Coordination Committee	Strategy Documents	Decisions
- Prime Ministry - Ministries		By-laws, Circulars Communiqué



Main Public Institutions Granting State Aid

Institution	Basic Programmes
Undersecretariat of Treasury	State aid for investments, Financial transfers to public enterprises, State guarantees, Regional aid, SMEs
Undersecretariat for Foreign Trade	Horizontal state aid (De-minimis, training, R&D, SMEs)
Türk Eximbank	Export credit insurance
Small and Medium Industry Development Organization (KOSGEB)	State aid for small and medium size enterprises
Ministry of Finance, Turkish Revenue Administration	Tax exemption and exceptions, public land sales, regional aid
Ministry of Culture and Tourism	State aid for cinema film production
Ministry of Industry and Trade	Regional aid, R&D
TUBITAK	State aid for R&D



UNDERSECRETARIAT OF TREASURY (UT)

-General Directorate of Incentives and Implementation

- Established by Law No. 4059

Duties:

- Prepare and implement the incentive measures on the encouragement and orientation of investments and services
- Monitor the implementation and take the necessary measures
- Evaluate investment projects in accordance with the legislation regarding the Encouragement of Investments,
- Issue and give completion visa for Investment Encouragement Certificates
- Ensure the coordination among the relevant administrations,
- Resolve disputes regarding implementations,
- Impose necessary sanctions for violations
- Make in-site inspections



UNDERSECRETARIAT OF TREASURY:

- General Directorate of State Owned Enterprises (SOEs)

Duties

- Ownership of SOEs and 4 state banks on behalf of the state.
- Grant state aid to SOEs as capital injection.
- Finance services of general economic interest through SOEs as duty loss payments.
- Programme and monitor annual budgets of SOEs.
- Finance deficits of 3 social security institutions

About SOEs

- Operate in Energy, Mining, Petroleum, Agriculture, Transportation, Communication and Manufacturing.
- 37 SOEs, 24 of which on the portfolio of the directorate, whereas the remaining 13 in the portfolio of the Privatization Agency.



UNDERSECRETARIAT FOR FOREIGN TRADE (UFT)

-General Directorate of Exports

Established by Law No. 4059

State Aid Schemes Granted by UFT for:

- Encouraging Employment in Sectoral Foreign Trade Companies (SFTCs)
- Vocational Training,
- Environmental Protection Activities,
- Market Research Projects,
- Participation in International Fairs,
- Operating Stores Abroad,
- R&D Projects,
- Promotion of Turkish Trademarks and the Improvement of the Image of Turkish Products Abroad,



TÜRK EXIMBANK

Established in 1987

- Subject to private law and owned by the Treasury
- Operates in the framework of the Banking Act, and subject to regulations of the Banking Regulation and Supervision Agency
- Provides:
 - Short-Term Financing as Direct Lender and Refinancing for Financial Sector Lenders
 - Medium and Long-Term Financing in the form of Buyers' Credit, Suppliers' Credit and Project Finance
 - Export Credit Insurance and Guarantee



Relations with international organizations

- Committed to conform with the internationally accepted rules and regulations set by the WTO and the OECD
- Türk Eximbank is a full member of the Berne Union since 1994 and thus is bound by its General Understandings in both ST and MLT export credit insurance programmes.
- Makes regular reporting and notifications to the WTO, the ECG of the OECD Trade Committee, and the Berne Union.



KOSGEB (Small and Medium Industry Development Organisation)

- Established in April 1990 by Law No: 3624
- A public legal entity subject to provisions of private law with a view to preparing SMEs for global competition.
- The only body in TURKEY to promote only SMEs
- TOBB and TESK (private sector unions) are members of Executive Committee



TURKISH REVENUE ADMINISTRATION (TRA)

- Established in 2005
- Works under auspices of the Ministry of Finance
- Operates both at central and at local level with more than 1000 tax offices throughout the country and 40,000 personnel

Duties

- Overall administration and collection of central government taxes.
- Grants tax exemptions and exceptions according to Laws



MINISTRY OF FINANCE

- Directorate General of National Properties

As stated in the paragraph (b) of the Article 13 of Decree Law 178 concerning the Organization and Duties of the Ministry of Finance.

Duties

- Carrying out the sale, rent and barter of the properties owned by the Treasury.
- Sale and free of charge transfer of immovable properties privately owned by the Treasury



MINISTRY OF CULTURE AND TOURISM

- Directorate General of Copyrights And Cinema

- Functions in the framework of the Law no. 5846 on Intellectual and Artistic Works and the Law no. 5224 on Evaluation, Classification and Support of Cinema Films.
- Carrying out its duty in accordance with the 11th Article of the Law on Organization and Duty of the Ministry of Culture and Tourism.



MINISTRY OF INDUSTRY AND TRADE (MIT)

Established by Law No.3143

Duties

- Grants “allocation of land without charge” under the Law No.5084 “Encouragement of Investments and Employment”
- Provides credit for Organized Industrial Zones under the Law No.4562 “Organized Industrial Zones”
- Provides support and exemptions in the Technology Development Zones under the Law No.4691 “Technology Development Zones”



State Aid Monitoring and Supervision Law

- A preliminary draft law has been prepared and submitted to the Prime Ministry.
- Prime Ministry has been assessing the preliminary draft. After these assessments final structure of the monitoring authority will be decided.
- After finalization of assessments, the draft law will be submitted to the Council of Ministers by the Prime Ministry, approved by the Council of Ministers and then forwarded to the Parliament.



State Aid Monitoring Authority

After enactment of the law, by facilitation of a twinning project

- The authority needs to be established with sufficient administrative capacity
- Secondary legislation should be made



AGENDA ITEM III:

FINANCIAL TRANSFERS AND TRANSACTIONS

- 1. Financial Transfers to Public Enterprises**
- 2. State Guarantees**
- 3. Public Land Sales**
- 4. Export Credit Insurance**
- 5. Fiscal Aid-Direct Business Taxation**

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1. FINANCIAL TRANSFERS TO PUBLIC ENTERPRISES



Capital Transfers: Legislative Framework

Decree Law No. 233

Article 37: The Treasury shall transfer capital for investment and operational deficits of SOEs

Article 36: The Treasury may offset its dividend receivables as well as other receivables to its capital and duty loss obligations to SOEs.

Privatization Law No.4046

Article 10: Capital obligations of PA may be met from fund sources

Capital Transfers: Scope

- SOEs which receive capital:

MKEK (Defense Machineries), TTK (Hardcoal), TIGEM (Agriculture), EBÜAŞ (Meat and Fish products), TCDD(Railways), SÜMER HALI(Carpet), SÜMER HOLDİNG(industry), TDİ(Maritime), KBI (Copper), TÜGSAŞ (Fertilizer), TEDAŞ (Electricity distribution), TEKEL(Tobacco)

- These SOEs are making loss. As an owner, Treasury or Privatisation Agency make capital transfers to these companies.

Capital Transfers: Features

- These transfers are limited to;
 - 1- Budgetary allocations and availability of Privatization Fund sources
 - 2- Wage and salary expenses of the entities
 - 3- For other expenses of SOEs which have no operational activity, in the process of liquidation
- If the SOE recovers, transfer may be cancelled or decreased by the Treasury or Privatization Agency.



Capital Transfers to SOEs

Million TRY (Million Euro)

	2004	2005*
MKEK (Defense Industry)	3 (2)	15 (9)
TTK (Hardcoal)	382 (216)	399 (244)
TİGEM (Agriculture)	41 (23)	44 (27)
ÇAYKUR (Tea)	13 (9)	-
EBÜAŞ (Meat and Fish products)	39 (22)	30 (18)
TCDD(Railways)	507 (287)	431 (263)
SÜMER HALI(Carpet)	2 (1)	6 (4)
SÜMER HOLDİNG (Industry)	234 (132)	107 (65)
TDİ(Maritime)	2 (1)	77 (47)
KBİ (Copper)	13 (7)	20 (12)
TÜGSAŞ (Fertilizer)	158 (89)	25 (15)
TEDAŞ (Electricity distribution)	-	300 (183)
TEKEL(Tobacco)	28 (16)	972 (594)
TOTAL	1.422 (806)	2.428 (1.481)

•End year programme figure



2. STATE GUARANTEES



LEGISLATIVE BACKGROUND OF TREASURY GUARANTEES

- Law on the Regulation of Public Financing and Debt Management (Law No: 4749, March 28, 2002)
- Communiqué published in the O.G. (April 12, 2002, No.24724 pursuant to the procedure of extending Treasury Guarantees
- Stranded costs in electricity sector (Law No. 3096, 3996, 4283 and 4628)



Law on the Regulation of Public Financing and Debt Management (1)

Treasury Guarantees are specified in 3 different Articles:

- 1) Article 3 of the law defines 4 types of Treasury Guarantees:
 - i) Repayment Guarantees
 - ii) Investment Guarantees
 - iii) Counter Guarantees
 - iv) Country Guarantees
- 2) Article 4 specifies the authority to extend Treasury Guarantees
- 3) Article 8 clarifies operational aspects of the Treasury Guarantees i.e., how the guarantees are extended



Law on the Regulation of Public Financing and Debt Management (2)

Treasury Repayment Guarantees means guarantees for the repayment of external borrowing obtained from an external source of finance

- Given in favour of SOEs, institutions which are subject to special regulations and in which the public owns a stake of more than 50%
- Budgetary and extra budgetary funds, state banks, investment and development banks, metropolitan municipalities, municipalities and their affiliates and various local administration institutions
- Treasury Investment Guarantees are given within the scope of financing models such as Build-Operate-Transfer, Build-Operate, and transfer of operating rights, which are based on and limited by the related laws
- Since the enactment of the Law, there have been no counter and/ or country guarantee issuances.



GUARANTEES IN FIGURES (2003-2005)

(Million EUROS)*	Guarantee Limit**	Guarantees Given	Payments Undertaken
2003 Grand Total	663	208	594
BOT			172
2004 Grand Total	804	622	360
BOT			119
2005 Grand Total	1.708	340***	152 ****
BOT			56 ****
2003-2005 GRAND TOTAL		1.170	1.106
BOT			347

* 2003 and 2004 figures calculated at year average exchange rates, 2005 figures at 11.22.2005 rate.

** Those limit might be increased by two folds per decision of Council of Ministers.

*** As of November.

**** As of second quarter of 2005.



Communiqué

- In any given fiscal year, the total amount of guaranteed financing facility concluded under Treasury Guarantees can not exceed the guarantee limit set by the Budget Law of that year.
- Treasury Repayment Guarantees and Treasury Investment Guarantees, ***can be extended up to 95% of the total liability.***
- However, loans obtained from international and regional institutions, and export credits from Official Export Insurance Institutions (ECA) of foreign countries shall be exempted from the partial guarantee rule.
- A guarantee fee up to 1% of the guaranteed amount, which is determined according to perceived payment risk of the institution, is paid to the Treasury.
- Extension of a Treasury Guarantee depends on the objective financial and administrative criteria based on the assessment made by the Treasury.



Stranded Costs in the Electricity Sector

- Costs and financial liabilities arised from the past practices based on Power Purchasing Agreements (PPAs) with state guarantees.
- Stranded costs are due to tariffs of the BO, BOT and TOOR projects undertaken before 2001.



Stranded Costs: Legislative Framework

Law No. 3096 (04.12.1984)

Law on Granting Authorization to Institutions other than the Turkish Electricity Authority for Generation, Transmission, Distribution and Trade of Electricity

Law No. 3996 (08.06.1994)

Law on Fulfillment of Some Investments and Services by Build-Operate-Transfer Model

Law No. 4283 (16.07.1997)

Law on Establishment and Operation of Electricity Energy Generation Facilities by Build-Operate-Own Model and on Arrangement of Energy Sale



Stranded Costs: Legislative Framework (2)

Law No.4628 (2001) (Official Gazette : 03.03.2001, 24335)

[Related EU Acquis: 2003/54/EC]

New PPAs have no longer been applicable after the entry into force of Law No.4628

Rules of Law No.4628 address the stranded costs within the competitive market structure and mechanisms

Off-setting Mechanism : The state owned wholesale company purchases low-cost electricity from the state-owned generators and combines it with purchase of high cost electricity from existing PPAs. As a result, the selling price of the wholesale company reflects the average cost.

As the negative impact of the PPAs gradually diminishes, off-setting mechanism will be phased out.



3. PUBLIC LAND SALES



Modalities of Land Sale

To the private and state owned companies, individuals, local administrations and other public institutions by the Ministry of Finance for various purposes under two basic modalities

- 1. Land sales by unconditional bidding procedure**
- 2. Land sales and transfers by conditional procedure**



1- Land sales by unconditional bidding procedure

This procedure is carried out in accordance with the provisions of the State Tender Act no. 2886.

- Immovable belonging to the Treasury is sold by the administration at the value determined according to the market value, by bidding procedure
- All documents related to these sales are exempt from all taxes and duties.
- Immovable properties sold are exempt from the real estate tax for 5 years following the date of sale.



2- Land sales and transfers by conditional procedure

- Sales in accordance with the Law no. 4706
- Sales and free-of-charge transfers to the Housing Development Administration in accordance with Law no. 1164
- Sales and free-of-charge transfers in accordance with the Law no. 4562 on Organised Industrial Zones
- Free-of-charge transfers in accordance with the Law no. 5084 on the Promotion of Investments and Employment
- Free-of-charge transfers in accordance with Law no. 5396 (3359)



Law No. 4706- Sales

The immovable belonging to the Treasury can be sold at;

- Market value
- Book value



Law No. 4706 – Sales at Book Value

- To natural and legal persons for integrated livestock
- To cooperatives for building Small Scale Estates
- To commodity exchanges for building new offices
- To administrative companies for Technology Development Zones (Technocities)
- To natural and legal persons employing at least 50 persons for investment projects of minimum 10 million USD



Law No. 4706 - Sales at Market Value

- To municipalities for mass housing projects,
- To natural and legal persons legally having immovable properties on Treasury land.



Law No. 1164 - Sales and free-of-charge transfers

To the Housing Development Administration for mass housing;

- Free-of-charge transfers in planned housing zones
- Market value sales in other zones



Law No.4562-Sales and free-of-charge transfers to Organised Industrial Zones

- Immovable belonging to the Treasury, which are in organised industrial zones can be sold at book value
- Immovable belonging to the Treasury which are in the organised industrial zones in the priority development regions can be transferred without charge, within the scope of Law no. 5084.



Law No. 5084-Free-of-charge transfers

Lands can be transferred free-of-charge to investors employing minimum 30 people, in 54 provinces

Eligibility criteria:

- Provinces where GDP per capita is equal to or less than 1500 USD and socio-economic development index value is minus
- Provinces in the priority development regions



Law No. 5396 (3359) Free-of-charge transfers

Public lands can be transferred free-of-charge to natural and legal persons for building health institutions such as hospitals.

*This provision is carried out in accordance with the additional Article 7 of the Health Services Basic Law, which is brought by the Law 5396 of 2005. No immovable properties have been transferred in accordance with this Law yet.



4. EXPORT CREDIT INSURANCE



SHORT TERM EXPORT CREDIT INSURANCE

- Initiated in 1989
- Provides commercial and political risk cover
- Whole turnover policy
- Coverage: 90% in principle
- Maximum credit length: 360 days
- 176 on-cover countries at present
- Pre and post shipment coverage available
- Premium rates set according to the country risk classification, along with credit length, payment term and legal status of buyer
- Operating profitably since its inception



REINSURANCE

- Türk Eximbank benefits from private market reinsurance since the launch of its Short Term Export Credit Insurance Programme in 1989.
- Risks are ceded to the leading reinsurers worldwide such as Swiss Re, Munich Re, Atradius Re etc.
- Ceding percentage: 70% of commercial and political risks
- Owing to reinsurance support, Türk Eximbank has never asked for compensation from the Treasury due to political risks so far.



STATE AIDS BENEFITED BY TÜRK EXIMBANK

- Exemption from corporate tax
- Capital injections by the Treasury (However seldom utilized in recent years. In fact, only 17,5% of funds are made up of paid-in capital)
- Indemnification by the Treasury against any losses due to political risk



CURRENT MARKET SITUATION (1)

- Low insurance awareness and shallow demand
- Around 6% of Turkey's total exports is insured
- Türk Eximbank provides cover for both marketable and non-marketable risks
- Other than Türk Eximbank; 7 licensed, however 3 active private credit insurers currently prevail with a total market share of only 10%.
- Rules and regulations governing Türk Eximbank and private market insurers are based on different legislations.



CURRENT MARKET SITUATION (2)

- Private market insurers are new market entrants, thus have limited know-how and experience
- Türk Eximbank is in a position to insure those risks Turkish exporters demand in line with their target markets, whereas private market insurers are reluctant to do so
- Private market insurers have requirements such as threshold portfolio size, advance premium deposit and therefore rule out SMEs



CONCLUSION

- Türk Eximbank provides export credit insurance cover in compliance with generally accepted private sector business principles
- Until the maturing of the currently less-developed insurance market, Türk Eximbank will continue to provide insurance cover



5. FISCAL AID – DIRECT BUSINESS TAXATION



TAX HOLIDAY FOR TRAINING AND EDUCATION BUSINESS

(Individual Income Tax Law – IITL, Article 20)

(Corporate Tax Law – CTL, Article 8/8)

- Earnings derived from operation of preschool, primary schools, special education and secondary education schools, and rehabilitation centres, associated with tax exempted foundation and associations working for public interest, are exempted from income tax for 5 years
- The goal of incentive is to promote investments on education sector by private companies



FREE ZONES (FREE ZONES LAW No: 3218)

(Provisional Article 3)

- The profits from any activities conducted in free zones is exempted from income and corporation tax until the end of the duration of users' existing Operation License. (grandfathering clause)
- All transactions realized by the taxpayers having Operation License are exempted from indirect taxes until 31.12.2008



FREE ZONES (FREE ZONES LAW No: 3218)

(Provisional Article 3)

- Wages paid to workers working in free zones are exempted from income tax until 31.12.2008. However, if the duration of users' existing Operation Licence ends earlier, this exemption applies until the end of duration of the Operation Licence
- The earnings from selling the goods produced in free zones are exempted from income and corporation tax until the end of taxable period in which Turkey becomes a full-member of the EU



EXEMPTION PROVIDED BY THE LAW No.4490

(Amended by the Article 3 of Law No. 5266)

- Earnings arising from operating and transferring of ships and yachts, registered into Turkish International Ship Registration, are exempted from Duties, Income and Corporate Taxes.
- Contracts of buying and selling, mortgage, registration, credit and freight related to ships and yachts to be registered into Turkish International Ship Registration are exempted from Stamp Duty, Fees, Banking and Insurance Transaction Tax and Duties.
- Wages of staff working in ships and yachts registered into Turkish International Ship Registration, are exempted from income tax and duties.



EXEMPTION PROVIDED BY THE LAW No.5084

- It is applied in the provinces where GDP per capita determined by State Institute of Statistics for 2001 is equal to or lower than 1500 USD or index value based on the social-economic development ranking determined by the Undersecretariat of State Planning Organisation for 2003 is negative.
- It applies until 31.12.2008,



EXEMPTION PROVIDED BY THE LAW No.5084

- Depending on whether the enterprise is established in Organised Industrial Zone, all or 80% of wages paid to workers employed by the enterprises in these provinces is exempted from income tax provided that minimum 30 workers are employed within the business.
- Goal of the incentive is to promote employment in the under developed regions.



INSTITUTIONS EXEMPTED FROM CORPORATION TAX

(CTL Article 7)

- Mint and Finance Stamp Printing House, National Lottery Administration, Military Factories and Workshops,
- Establishments operated by public authorities and enterprises for economic-social purposes and to protect general human and animal health (such as schools, school workshops, hospitals, libraries, preventoriums, workshops of the day nurseries, home for the aged, dormitories, dispensaries, boarding home for animals, physical training and sports establishments)
- Local, national or international exhibitions, fairs and shows organized by public authorities and enterprises with permissions of the government or competent executive councils,



INSTITUTIONS EXEMPTED FROM CORPORATION TAX

(CTL Article 7) (Cont^{ed})

- Such pension and support funds which are established by laws as Pension Fund of Civil Servant, Social Insurance Agency, Self Employed Pension Fund (Bağ-Kur), Military Support Fund (OYAK)
- Public establishments that charge levies and duties in consideration of the work or services rendered
- Following enterprises and establishments operated by local public administrations
 - *water, electricity, gas or cold storage enterprises,
 - *passenger transportation enterprises within municipal boundaries,
 - *slaughterhouses,



INSTITUTIONS EXEMPTED FROM CORPORATION TAX

(CTL Article 7) (Cont^{ed})

- Agricultural enterprises, owned by village, village unions and village municipalities, and public baths, laundries and mills operated by these for common needs of villagers
- Day nurseries, guesthouses and canteens operated by general and annexed budget agencies only for their staff,
- Sanatoriums, preventoriums treating exclusively tuberculosis, hospitals treating exclusively cancer, leprosy and trahom
- Foundations given exemption by the Council of Ministers,
- Associations and institutions engaged in scientific research and development



INSTITUTIONS EXEMPTED FROM CORPORATION TAX

(CTL Article 7) (Cont^{ed})

Exemptions Granted to Cooperatives (subject to public purpose conditions)
Institutions exempted with special laws and contracts

- Mass Housing and Public Participation Administration, and
- Mass Housing Fund and Public Participation Fund
- Securities Arrangement Fund
- Establishments of Journalist Association that are exclusively dealing with publishing and sales of daily newspapers on religious holidays when other newspapers are not printed
- Privatisation Administration and Privatisation Fund



TECHNOLOGY DEVELOPMENT ZONES (Law No: 4691)

- Earnings from software and R&D activities carried out in the determined zones are exempted from income and corporation taxes until 31.12.2013
- Wages paid to researchers, programmers and R&D staff employed in these zones are exempted from income tax until 31.12.2013



EXEMPTIONS FOR PROFITS FROM ALIENATION OF IMMOVABLE PROPERTY AND PARTICIPATION SHARES

(CTL Article 8/12)

- Proceedings from alienation of immovable property and participation shares which are held by companies at least for two years in assets of companies are exempted from corporation tax provided that the mentioned proceedings is added to capital of the company,
- Requirement of adding to the capital does not apply for non-resident companies,
- Goal of the incentive is to strengthen the capital structure of the companies.



RESEARCH AND DEVELOPMENT ALLOWANCE

(IITL Article 89/9, CTL Article 14/6)

- 40 % of the R&D expenditures realized inside the business in search of new technology and information can be credited against the tax base,
- Regardless of being resident or non resident in Turkey all individual corporate income taxpayers can benefit from,
- Goal of incentive is to encourage the R&D activities inside the enterprises



INVESTMENT ALLOWANCE (IA)

(IITL, Article 19)

- It is a measure that allows 40% of the investment cost to be credited against the tax base.
- Regardless of being resident or non resident in Turkey all individuals who are deriving business and agricultural income determined on the basis of balance sheet method and all corporate income taxpayers can benefit from.
- The basis of IA is the cost of the new depreciable assets that is purchased from market or produced inside business,



AGENDA ITEM IV:

RULES ON THE ASSESMENT OF STATE AID WITH HORIZONTAL OBJECTIVES

- 1. De minimis aid**
- 2. Training aid**
- 3. Aid to small and medium sized enterprises**
- 4. Employment aid**
- 5. State Aid for Research and Development**
- 6. State Aid for environmental protection**
- 7. State aid and risk capital**

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1. DE MINIMIS AID



State Aid for Encouraging Employment In Sectoral Foreign Trade Companies

(Official Gazette No. 23948 of 29/01/2004,
Communiqué No. 2000/1)

Objective

To encourage the employment of professional managers and employees in Sectoral Foreign Trade Companies (SFTC)

Duration

Not specified

Source

The Fund of Support and Price Stability (DFİF)

Thousand EUR

AID PROGRAMME	2000	2001	2002	2003	2004	2005 (1/1-2/11)
Employment	19	39	46	46	57	32

Implementing institution

The Undersecretariat for Foreign Trade (UFT)

Beneficiary

Sectoral Foreign Trade Companies (SFTCs)



Amount and conditions

Annual gross salary of;

- a professional manager up to EUR 15,373,
- two experts and well-educated employees up to EUR 7,686

is supported by 75%,

Salaries of the manager and employees are supported only for one year.



2. TRAINING AID



State Aid for Vocational Training

(Official Gazette No. 23948 of 29/01/2004,
Communiqué No. 2000/2)

Objective

To promote vocational training activities of SMEs and SFTCs

Duration

Not specified

Source

The Fund of Support and Price Stability (DFİF)

Thousand EUR

AID PROGRAMME	2000	2001	2002	2003	2004	2005 (1/1-2/11)
Training	27	3	11	2	4	16

Implementing institution

The Undersecretariat for Foreign Trade (UFT)

Beneficiary

SMEs and SFTCs



Amount and conditions

- 50% of expenditures for international education programs for SMEs (max. 3 months and EUR 6,405 per program). The aid intensity is 75% for the SFTCs.

-50% of expenditures for domestic education programs for SMEs (max. 3 months and EUR 4,270 per program). The aid intensity is 75% for the SFTCs and up to EUR 12,811 per education program.

The maximum number of the supported education programs is 6 (3 for domestic, and 3 for the international programs)



3. AID TO SMALL AND MEDIUM SIZED ENTERPRISES



Title of the programme

DECREE FOR STATE AIDS IN INVESTMENTS OF SMEs

Turkish legislation related to the programme

Decree No: 2000/1822, December 21st 2000, published in the Official Gazette dated at 18.01.2001 and No: 24291

Objective of the programme

To encourage the investments of SMEs, increase production and improve quality standards, meet the demands in relation to the product development, increase employment and bring about competitiveness.



Duration of the programme

Not Specified

Source and amount of the programme

Source of the measures is the government budget. Since the programme is a combination of tax exemptions and credit facilities, it is difficult to claim a lump sum amount (for the credit allocation measure the amount transferred was 30.7 million € in 2004).



State aid measures implemented in the programme

Exemption from Customs Duties and Fund Levies

Value Added Tax (VAT) Exemption for imported and domestically purchased machinery and equipment

Credit allocation from the Budget



Implementing institution or agency

Undersecretariat of Treasury

- General Directorate of Incentives and Implementation (GDII)

Beneficiary

a) Investments of undertakings which are;

- operating in the manufacturing and agro-industry and,
- employing

1-9 workers (defined as micro size),

10-49 workers (defined as small size),

50-250 workers (defined as medium size) and

-holding assets with a total value excluding land and building, including machinery-equipment, installations, vehicles, furniture and office stocks not exceeding 596,000 €



- b) Tourism investments in designated areas**
- c) Health sector investments in priority development regions**
- d) Education investments in priority development regions and investments related to capacity increase and rationalization in primary and higher education in normal and developed regions**
- e) Extraction and mineral processing investments in mining industry**
- f) Investments in software development.**



Exemption from Customs Duties and Fund Levies

- Imports of machinery and equipment relevant to an investment project shall be subject to Customs Duty exemption
- Due to the Customs Union between Turkey and the EC, this measure is only applicable to the machinery and equipment imported from the third countries
- The net aid conferred to the investor with this measure is limited to the corresponding customs duties to be collected from the machinery and equipment imports in question



Value Added Tax (VAT) Exemption for imported and domestically purchased machinery and equipment

- Pursuant to Law No. 4369 dated 22/07/1998, imports and domestic purchases of machinery and equipment relevant to an investment project are exempted from the VAT.
- Net aid provided to an investor varies according to the VAT base of the company, in operation or not.
- If an investor does not hold an investment encouragement certificate, the investor pays VAT in advance and the VAT of the machinery and equipment to be purchased would be deducted from the VAT base in the tax declaration form. Aid element for this measure can be obtained by calculating the net interest.



Credit allocation from the Budget

Maximum amount of credit as a percentage of fixed investment cost in the manufacturing and agro-industry sectors :

	Priority Development Region	Normal Region	Developed Region
Micro-size companies	60%	50%	40%
Small-size companies	50%	40%	30%
Medium-size companies	40%	30%	20%

Maximum amounts;

298,000 € for investment credits,

47,000 € for working capital credits,

298,000 € for investment credits and 119,000 € for working capital credits when both types of credit are allocated together.

Maximum maturity period:

4 years for investment credits(one year grace period),

2 years for working capital credits.



State Aid For Environmental Protection Activities

(Official Gazette No. 23066 of 31/07/1997,
Communiqué No. 97/5)

Objective

To provide support for the expenses of SMEs, during the certification of their quality assurance, environmental management systems (ISO 9000 and ISO 14000) and CE marking.

Duration

Not specified



Source

The Fund of Support and Price Stability (DFİF)

Thousand EUR

AID PROGRAMME	2000	2001	2002	2003	2004	2005 (1/1-2/11)
Environment	72	76	161	182	227	481

Implementing institution

The Undersecretariat for Foreign Trade.

Beneficiary

SMEs



Amount and conditions

The expenditures of SMEs during the certification of:

- a) The Quality Assurance System (ISO 9000 Series)
- b) The Environmental Management Systems (ISO 14000)
- c) CE Marking
- d) The other international Quality and Environment Certificates, which are accepted by the UFT

are supported up to 50%.



State Aid for Market Research Projects

(Official Gazette No. 23066 of 31/07/1997,
Communiqué No. 97/6)

Objective

To provide support for SMEs, SFTCs and the Producers Unions for their market research projects in order to let them have deeper knowledge about their potential markets, and participate in international cooperation activities such as EUROPARTNERIAT, MEDPARTNERIAT etc.

Duration

Not specified

Source

The Fund of Support and Price Stability (DFİF)

Thousand EUR

AID PROGRAMME	2000	2001	2002	2003	2004	2005 (1/1-2/11)
Market Research	90	36	85	129	80	95

Implementing institution

UFT, Export Promotion Center (IGEME), and Economic Development Foundation (IKV).

Beneficiary

SMEs, SFTCs and the Producers' Unions.



Amount and conditions

a) Support of Market Research Projects

1. Transportation and accommodation expenses of a market research project implemented by SMEs are supported up to EUR 6,405. However, an SME could be granted yearly up to EUR 12,811 and totally up to EUR 64,053.

2. Transportation and accommodation expenses of a market research project implemented by SFTCs and the Producers' Unions are supported up to EUR 8,540. However, an SME could be granted up to EUR 42,702 per annum.



Amount and conditions

b) Support for International Cooperative Activities between SMEs (EUROPARTNERIAT, MEDPARTNERIAT etc.)

Transportation and accommodation expenses of one personnel of SMEs and two personnel of SFTCs, who participate in international cooperation activities, are supported

Support is up to EUR 85 daily for accommodation and EUR 427 for total transportation expenses per person



State Aid For Participation in International Fairs

(Official Gazette of 23th December 2004, No: 25679)

Objective

To support the participation of Turkish companies in commercial fairs organized abroad.

Duration

Not specified

Source

The Fund of Support and Price Stability (DFİF)

Million EUR

AID PROGRAMME	2000	2001	2002	2003	2004	2005 (1/1-2/11)
International Fair	9	20	33	50	64	60

Implementing institution

UFT

Beneficiary

Companies (95% SMEs, 5% others)



Amount and conditions

Participation costs of the companies are supported by 65% up to EUR 8,540-12,811 depending on type of the international fair



State Aid for Operating Stores Abroad

(Official Gazette No. 26004 of 25/11/2005,
Communiqué No. 2005/4)

Objective

To promote companies operating stores in foreign countries

Duration

Not specified

Source

The Fund of Support and Price Stability (DFİF)

Thousand EUR

AID PROGRAMME	2000	2001	2002	2003	2004	2005 (1/1-2/11)
Store Abroad	386	418	677	966	1,045	1,199

(*)The above-mentioned amounts are the payments made according to the newly abolished previous aid programme (Communiqué No. 97/9)

Implementing institution

UFT

Beneficiary

SMEs and SFTCs



Amount and conditions

Companies operating a store abroad can benefit from the following aids;

- Rent expenditures
- Advertisement expenditures
- Expenditures of the office fixtures
- The decoration expenses
- International brand registration expenses



Amount and conditions

The basic support rate is maximum 50%. Total grant provided in this programme is ranged from 51.242 Euro to 102.485 Euro depending on whether the expenses are for a warehouse, a store, an office or a showroom.

The Period of Support:

The support is provided for 3 years.



State Aid for Activities Aimed at the Promotion of Turkish Trademarks and the Improvement of the Image of Turkish Products Abroad.

(Official Gazette No. 25213 of 28/08/2003,
Communiqué No. 2003/3)

Objective

To support the brand creation and positioning activities as well as the marketing and promotion activities to be realized by companies and SFTCs in international markets.

Duration

Not specified



Source

The Fund of Support and Price Stability (DFİF)

Thousand EUR

AID PROGRAMME	2001	2002	2003	2004	2005 (1/1-2/11)
Brand Promotion	191	1,350	3,456	4,708	4,541

Implementing institution

UFT

Beneficiary

Companies, fashion designers, Exporters' Unions and
Producers' Unions,



Certified brands of Turkish companies can benefit from the following aids;

- International trademark registration and legal protection expenses,
- PR, advertising and marketing expenses
- The rental and commission fees of the stores, warehouses, branches, offices, showrooms, and corners
- The decoration expenses of franchised stores,
- The quality and/or safety certification expenses for their branded products,

In addition, the Exporters' Unions' PR, advertising and marketing expenses.



The Amount of the Support:

The basic support rate is maximum 50%

The Period of Support:

The support is provided for marketing activities at the project level for 4 years.



Title of the programme: SME SUPPORT PROGRAMME

Turkish legislation related to the programme :

- 1) Decree No :1990/3624, dated 12 April 1990, published in the Official Gazette dated 20 April 1990 and no: 20498
- 2) By-Law published in the Official Gazette dated 24 April 2005 and no: 25795
- 3) By-Law published in the Official Gazette dated 18 November 2005

Objective of the programme : Creation and development of innovative, technology and knowledge based, competitive SMEs and entrepreneurs

Duration of the programme : 36 months

Source and amount of the programme : National budget
(100 m€ for 2006)



Title : 1. CONSULTANCY AID

Implementing institution : KOSGEB

Beneficiary : SME

Amount and conditions : 9,500 € as a grant, 80% of the cost in priority development regions, 60% in the other regions



Title : 2. TRAINING AID

Implementing institution: KOSGEB

Beneficiary : SME

Amount and conditions : 3,800 € as a grant, 80% of the cost in priority development regions, 60% in the other regions



**Title : 3. TECHNOLOGY DEVELOPMENT & INNOVATION
AID**

Implementing institution: KOSGEB

Beneficiary : SME

**Amount and conditions : 125,000 € as a soft loan 80 % of
the cost**



Title : 4. INFORMATION TECHNOLOGY AID

Implementing institution: KOSGEB

Beneficiary : SME

**Amount and conditions : 8,000 € as a grant , 50 % of the
cost**



Title : 5. MARKET RESEARCH AND DEVELOPMENT AID

Implementing institution: KOSGEB

Beneficiary : SME

Amount and conditions : 44,000 € as a grant, 70 % of the cost in priority development regions, 50 % in the other regions



Title : 6. INTERNATIONAL COOPERATION DEVELOPMENT AID

Implementing institution: KOSGEB

Beneficiary : SME

Amount and conditions : 5,500 € as a grant, 50 % of the cost



Title : 7. REGIONAL DEVELOPMENT AID

Implementing institution: KOSGEB

Beneficiary : SME

Amount and conditions : 78,000 € as a grant, 80 % of the cost in priority development regions, 60 % in the other regions



Title : 8. EMPLOYMENT AID

Implementing institution: KOSGEB

Beneficiary: SME

**Amount and conditions : 11,000 € as a grant, 80 % of the cost
in priority development regions, 60 % in the other regions**



Title : 9. ENTREPRENEURSHIP DEVELOPMENT AID

Implementing institution: KOSGEB

Beneficiary : SME

Amount and conditions : 8,800 € as a grant, 70 % of the cost in priority development regions, 50 % in the other regions



48,000 SMEs REGISTERED TO KOSGEB

**3,000 SMEs PREPARED STRATEGIC ROAD MAP ,
EVALUATED AND ACCEPTED**

DURATION OF AID SCHEME : 36 MONTHS



Recent Development on Definition of SME

	Number of Employees	Annual Turnover (,000 €)	Balance sheet value (,000 €)
Micro	< 10	< 627	< 627
Small	< 50	< 3,140	< 3,140
Medium	50 - 250	< 15,700	< 15,700



4. EMPLOYMENT AID

There is no corresponding legislation



5. STATE AID FOR RESEARCH AND DEVELOPMENT



Title of the programme

1. DECREE CONCERNING STATE ENCOURAGEMENTS TO INVESTMENTS

Turkish legislation related to the programme

Decree No:2002/4367, dated: 10 June 2002, published in the Official Gazette dated at 09.07.2002 and No:24810

Objective of the programme

To encourage, support and orient investments, in line with international commitments, in order to reduce regional imbalances within the country, create new employment opportunities, while taking advantage of advanced and appropriate technologies with greater added value and to realize international competitiveness.



Duration of the programme

Not specified.

Source and amount of the programme

Source of the measures implemented under the programme is the government budget. Since the programme is a combination of tax exemptions and credit facilities it is difficult to claim a lump sum amount, (for the credit allocation measure the amount transferred was 89,000 € in 2004).



Implementing institution or agency

Undersecretariat of Treasury

- General Directorate of Incentives and Implementation (GDII)
- General Directorate of Foreign Investments (GDFI)

Beneficiary

Natural and legal persons investing in research and development (R&D),



State aid measures implemented in the programme

- Exemption from Customs Duties and Fund Levies
- Value Added Tax Exemption for imported and domestically purchased machinery and equipment
- Credit allocation from the Budget



Exemption from Customs Duties and Fund Levies

- Imports of machinery and equipment relevant to an investment project shall be subject to Customs Duty exemption.
- Due to the Customs Union between Turkey and EU, this measure is only applicable to the machinery and equipment imported from the third countries.
- The net aid conferred to the investor with this measure is limited to the corresponding customs duties to be collected from the machinery and equipment imports in question.



Value Added Tax (VAT) Exemption for imported and domestically purchased machinery and equipment

- Pursuant to Law No. 4369 dated 22/7/1998, imports and domestic purchases of machinery and equipment within the scope of approved machinery and equipment lists attached to the investment encouragement certificate are exempted from the VAT.
- The net aid provided to an investor with the measure in question varies according to the VAT base of the company, in operation or not.
- If an investor does not hold an investment encouragement certificate, the investor pays VAT in advance and the VAT of the machinery and equipment to be purchased would be deducted from the VAT base in the tax declaration form.



Credit allocation from the Budget

- Research and development (R&D) investments,
- Investments in priority technology areas and in technology development zones
- For research and development investments, priority technology investments the limit for the share of credits is 50 % of the fixed investment cost and shall not exceed 251,000 €.
- Interest rate is 20 per cent for investment credits. Term structure of the investment credits is 5 years with a one year grace period.
- Credit applications are received and evaluated by various intermediary banks assigned for the allocation of credits.



2. State Aid For Research And Development Projects

(Official Gazette No. 23513 of 04/10/1998,
Communiqué No. 98/10)

Objective

To support R&D projects of companies so as to promote and facilitate research and technology development activities of industry

Duration

Not specified



Source

The Fund of Support and Price Stability (DFİF)
TUBITAK and TTGV Funds

Million EUR

AID PROGRAMME	2000	2001	2002	2003	2004	2005 (1/1-2/11)
R&D	29	37	27	34	37	62

Implementing institution

UFT, TUBİTAK (The Scientific and Technical Research Council of Turkey), TTGV (Technological Development Foundation of Turkey)

Beneficiary

Industrial and software-developing companies



The following costs for the purpose of an R&D Project is supported in terms of grant or soft loan:

- Personnel Costs (Researchers, technicians)
- Costs of instruments and equipments
- Cost of consultancy and equivalent services used for the research activity
- Cost of outsourced R&D services for project.
- Costs associated with obtaining and validating patents and other industrial property rights.



R&D support is provided in two different forms;

1) Grant:

The Amount of the Support: The basic support rate is maximum 50% (for SMEs 32%, for large companies 25% are the minimum). However, the rate can go up to 60% based on the project characteristics such as if university/research center cooperation exists or if the project is in the technology priority fields.

The support provided at the project level is up to 3 years.



2) Soft Loan:

The Period and Amount of the Support:

Two forms of receiving loan support for projects:

- R&D projects (up to 2 years, max. EUR 854,044, 50%),
- Strategic Road Map/Feasibility and Evaluation Studies (up to 1 year, max. EUR 85,404).



Title of the programme

3. Research and Development Support in Technology Development Zones (TDZ)

Turkish legislation related to the programme

Law No. 4691 on Technology Development Zones entered into force on 06.07.2001 and was published in the Official Gazette No. 24454 and dated 6.7.2001. Its implementation regulation was issued in the Official Gazette No. 24790 dated 19 June 2002.



Objectives of the programme

- To develop science and technology infrastructure in public and private research institutions by integrating them with economic activities, primarily with industrial sector.
- To improve competitiveness of firms by developing cooperation among universities, research institutions and production units.



The objectives of this Law are to;

- gain know-how,
- develop innovations in products and production methods,
- increase standards of products and productivity,
- decrease production costs,
- commercialize the technology developed,
- support technology intensive production,
- achieve the adaptation of SMEs to the latest and advanced technologies



The following support and exemptions have been provided in the TDZs:

To the administrative company;

1. The expenses of the land procurement, infrastructure and construction of the administrative buildings can be covered by the Ministry of Industry and Trade's budget to a limited extent.
2. Revenues of the administrative companies are exempted from tax until 31.12.2013.
3. Municipalities do not get wastewater price from the Zones that operate wastewater plants.



To entrepreneurs;

1. Production activities based on the software and R&D are exempted from income and corporation tax until 31.12.2013.
2. Delivery and services of system management, data management, business implementations and sectoral, internet, mobile and military management software are exempted from VAT until 31.12.2013
3. The wages and salaries of the researchers, software engineers and R&D personnel are exempted from all taxes until 31.12.2013.



To academic staff;

1. Income earned by academic staff in the TDZs is exempted from university's revolving fund.
2. Academic staff may engage in business activities in the TDZs.



6. STATE AID FOR ENVIRONMENTAL PROTECTION



Title of the programme

1. DECREE CONCERNING STATE ENCOURAGEMENTS TO INVESTMENTS

Turkish legislation related to the programme

Decree No:2002/4367, dated: 10 June 2002, published in the Official Gazette dated at 09.07.2002 and No:24810

Objective of the programme

To encourage, support and orient investments, in line with international commitments, in order to reduce regional imbalances within the country, create new employment opportunities, while taking advantage of advanced and appropriate technologies with greater added value and to realize international competitiveness.



Duration of the programme

Not specified

Source and amount of the programme

Source of the measures implemented under the programme is the government budget. Since the programme is a combination of tax exemptions and credit facilities it is difficult to claim a lump sum amount (for the credit allocation measure the amount transferred was 63,000 € in 2004).

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Implementing institution

Undersecretariat of Treasury

- General Directorate of Incentives and Implementation (GDII)
- General Directorate of Foreign Investments (GDFI)

Beneficiary

The programme covers all investment activities related to the environmental protection.



State aid measures implemented in the programme

- Exemption from Customs Duties and Fund Levies
- Value Added Tax Exemption for imported and domestically purchased machinery and equipment
- Credit allocation from the Budget



Credit allocation from the Budget

- For environmental protection investments, priority technology investments the limit for the share of credits is 50 % of the fixed investment cost and shall not exceed 251,000 €.
- Interest rate is 20 per cent for investment credits. Term structure of the investment credits is 5 years with a one year grace period.
- Credit applications are received and evaluated by various intermediary banks assigned for the allocation of credits.



Title of the programme:

2. Supporting the Renewables Based Electricity Generation

Strategy : Increasing their market penetration without distorting the competitiveness in the electricity market by encouraging investors (in parallel with the EU legislation, 2001/77/EC)

Law No.5346 (Official Gazette : 18.05.2005 , 25819)

Support mechanisms

- market based feed-in tariff and certain amount of purchase obligation for electricity retail companies for 7 years
- certification



7. STATE AID AND RISK CAPITAL



Title of the programme

1. DECREE FOR STATE AIDS IN INVESTMENTS OF SMEs

Turkish legislation related to the programme

Decree No: 2000/1822, dated: December 21st 2000, published in the Official Gazette dated at 18.01.2001 and No: 24291

Objective of the programme

To encourage the investments of SMEs, increase production and improve quality standards, meet the demands in relation to the product development and to increase employment.



Duration of the programme

Not specified

Source and amount of the programme

Source of the measures implemented under the programme is the government budget. Since the programme is a combination of tax exemptions and credit facilities it is difficult to claim a lump sum amount . No credit was allocated in 2004.

State aid measures implemented in the programme

Credit allocation from the Budget

Beneficiary

Companies participating in investments of SMEs



Credit allocation from the Budget

Companies established to participate in SME investments can benefit from the measure “credit allocation from the budget” provided that the participated equity share is not exceeded 20% in the last calendar year.

In order to benefit from the measure the conditions below are compulsory:

- a) Total equity participation of the company shall not exceed 3 fold of its paid in capital,
- b) The company can only contribute to the fixed investments of SMEs and the capital put into risk shall not exceed 25% of the capital



c) The company is obliged to make a commitment to the intermediary banks that the partnership will be terminated within 10 years,

d) The company shall not engage in a debt-receivable relationship with the SME in question.

The maximum amount of credit to be allocated to partnership companies to SME investments is limited to 780,000 € in a calendar year.

Interest rate of the credit is 15% with the term structure of 4 years. Principal and interest are paid in 6 month installments.



Title of the programme:

2. RISK CAPITAL INVESTMENT

Turkish legislation related to the programme :

- Directive no: VI-15 published in the Official Gazette dated 20 March 2003 and no: 25054 and Directive no:VI-16
- Directive published in the Official Gazette dated 18 November 2005

Objective of the programme :

Investment capital for high-tech enterprises

Duration of the programme :

Not specified



Risk capital institutions:

İŞRİSK (private)

KOBİ YATIRIM ORTAKLIĞI A.Ş (10% public share)

VAKIFRİSK (private)



**AGENDA ITEM V:
RULES ON THE ASSESSMENT FOR APPROVAL
OF REGIONAL AID**

- 1. National regional aid**
- 2. Multisectoral framework on regional aid for large investment projects**

**Country Session: The Republic of TURKEY
1-2 December 2005**



1. NATIONAL REGIONAL AID



Title of the programme

1. DECREE CONCERNING STATE ENCOURAGEMENTS TO INVESTMENTS

Turkish legislation related to the programme

Decree No:2002/4367, dated: 10 June 2002, published in the Official Gazette dated at 09.07.2002 and No:24810

Objective of the programme

To encourage, support and orient investments, in line with international commitments, in order to reduce regional imbalances within the country, create new employment opportunities, while taking advantage of advanced and appropriate technologies with greater added value and to realize international competitiveness.



Regional Classification

Developed regions: Istanbul and Kocaeli provincial boundaries. Greater Municipality boundaries along with Ankara, Izmir, Bursa, Adana, and Antalya provinces.

Normal Regions: Provinces situated outside of the Developed Region and Priority Development Region classifications.

Priority Development Regions: Provinces, which are determined as the Priority Development Regions by the Decision of the Council of Ministers.



Duration of the programme

Not specified

Source and amount of the programme

Source of the measures implemented under the programme is the government budget. Since the programme is a combination of tax exemptions and credit facilities it is difficult to claim a lump sum amount.

Implementing institution

Undersecretariat of Treasury

- General Directorate of Incentives and Implementation (GDII)
- General Directorate of Foreign Investments (GDFI)



Beneficiary

The programme covers all investment activities related to the production of goods and services, research and development (R&D), environmental protection and improvement of quality and standards.

State aid measures implemented in the programme

- Exemption from Customs Duties and Fund Levies
- Value Added Tax Exemption for imported and domestically purchased machinery and equipment
- Credit allocation from the Budget



Exemption from Customs Duties and Fund Levies

Imports of the machinery and equipment within the scope of investment project shall be subject to Customs Duty exemption.

Due to the Customs Union between Turkey and EU, this measure is only applicable to the machinery and equipment imported from the third countries.

The net aid conferred to the investor with this measure is limited to the corresponding customs duties to be collected from the machinery and equipment imports in question.



Value Added Tax (VAT) Exemption for imported and domestically purchased machinery and equipment

Pursuant to Law No. 4369 dated 22/7/1998, imports and domestic purchases of machinery and equipment relevant to an investment project are exempted from the VAT.

The net aid provided to an investor with the measure in question varies between investors according to the VAT base of the company, in operation or not.

If an investor does not hold an investment encouragement certificate, the investor pays VAT in advance and the VAT of the machinery and equipment to be purchased would be deducted from the VAT base in the tax declaration form.



Credit allocation from the Budget (1)

Credit can be allocated for:

- Completely new investments aiming at regional development in the provinces Batman, Bingöl, Bitlis, Diyarbakır, Hakkari, Hatay, Kars, Mardin, Muş, Siirt, Şırnak, Tunceli and Van with a fixed cost over 1.7 Million € and creating employment at least for 75 persons,
- Investments to be moved to provinces specified for regional development and to priority development regions and other organized zones from developed regions,
- Manufacturing, agro-industry and mining investments to be realized in the priority development regions.



Credit allocation from the Budget (2)

The limit for the investment credits aiming at regional development is 30 % of the fixed investment cost and also shall not exceed 2.8 million €. Investments to be moved to organized industrial zones, the limit for the credits is 50 % of the fixed investment cost and shall not exceed 251,000 €.

Also for manufacturing, agro-industry and mining investments to be realized in the priority development regions, investment credit can be provided up to 50 % of the fixed investment cost and after the completion of the investment, working capital credit shall be provided to the establishments which create an employment of at least 50 persons.



Credit allocation from the Budget (3)

Working capital credit can also be provided to existing enterprises in the priority development regions with insufficient working capital and which employ at least 50 workers. The investment credit is limited to 50% of the fixed cost of the investment and shall not exceed 313,000 €. The upper boundary for the operational credits is 126,000 €.

Interest rate is 20 per cent for investment credits, 30 per cent for working capital credits. Term structure of the investment credits aiming at regional development is 6 years with a 3-year grace period. The term structure is 2 years for working capital credits.

Credit applications are evaluated by various intermediary banks assigned for the allocation of credits.



Title of the programme

2. DECREE FOR STATE AIDS IN INVESTMENTS OF SMEs

Turkish legislation related to the programme

Decree No: 2000/1822, dated: December 21st 2000,
published in the Official Gazette dated at 18.01.2001 and No:
24291

Objective of the programme

To encourage the investments of SMEs, increase production and improve quality standards, meet the demands in relation to the product development and increase employment.



Duration of the programme

Not specified

Source and amount of the programme

Source of the measures is the government budget. Since the programme is a combination of tax exemptions and credit facilities, it is difficult to claim a lump sum amount.



State aid measures implemented in the programme

- Exemption from Customs Duties and Fund Levies
- Value Added Tax (VAT) Exemption for imported and domestically purchased machinery and equipment
- Credit allocation from the Budget



Implementing institution

Undersecretariat of Treasury

- General Directorate of Incentives and Implementation (GDII)

Beneficiaries

a) Investments of undertakings which are;

- operating in the manufacturing and agro-industry and,
- employing

1-9 workers (defined as micro size),

10-49 workers (defined as small size),

50-250 workers (defined as medium size) and

-holding assets with a total value excluding land and building, including machinery-equipment, installations, vehicles, furniture and office stocks not exceeding 596,000 €.



- b) Tourism investments in designated areas**
- c) Health sector investments in priority development regions**
- d) Education investments in priority development regions and investments related to capacity increase and rationalization in primary and higher education in normal and developed regions**
- e) Extraction and mineral processing investments in mining industry**
- f) Investments in software development.**



Credit allocation from the Budget

Maximum amount of credit as a percentage of fixed investment cost in the manufacturing and agro-industry sectors :

	Priority Development Region	Normal Region	Developed Region
Micro-size companies	60%	50%	40%
Small-size companies	50%	40%	30%
Medium-size companies	40%	30%	20%

Maximum amounts;

298,000 € for investment credits,

47,000 € for working capital credits,

298,000 € for investment credits and 119,000 € for working capital credits when both types of credit are allocated together.

Maximum maturity period:

4 years for investment credits with 1 year grace period

2 years for working capital credits.



Title of the programme

3. Encouragement of Investments and Employment

Turkish legislation related to the programme

Law on Encouragement of Investments and Employment and Amendment of Certain Laws (No. 5084, dated January 29th 2004) and amending Law No. 5350 dated May 12th, 2005.

Objective of the programme

The purpose of the programme is to contribute to the regional development by encouraging investments and increasing employment opportunities in the least developed regions via tax and social security incentives, energy support and free-of-charge land allocation.



Regional Scope

Programme covers

- a) The provinces which have a GDP per capita equal to or less than 1500 US \$ as of 2001 and provinces which have a negative socio-economic development index value for 2003 as calculated by State Planning Organisation for the measures tax and social security incentives and energy support
- b) The provinces defined in Article (a) and the other provinces in priority development regions for the measure free-of-charge land allocation.



State aid measures implemented in the programme

- Income Tax Relief,
- Compensation to Social Security Employer Contribution,
- Free Land Allocation,
- Energy Support.



Duration of the programme

- For new investments to be completed until 31.12.2007, measures income tax relief, social security contribution and energy support are implemented during 5 years after the completion of investment.
- For other undertakings within the scope of the Law, it will be implemented till 31.12.2008.
- For the measure of free-of-charge land allocation no duration is specified in the Law.

Source and amount of the programme

Source of the measures implemented under the programme is the government budget. Since the programme is a combination of tax exemptions and grants, it is difficult to claim a lump sum amount. The amount transferred for energy support was 5,9 million € in 2004.



Implementing institutions

- For the measure Income Tax Relief:
Ministry of Finance,
- For the measure Social Security Contribution:
Ministry of Finance, Ministry of Labour and Social Security and
Undersecretariat of Treasury,
- For the measure Free Land Allocation:
Council of Ministers and a commission to be established from local
authorities
- For the measure Energy Support:
Ministry of Finance, Ministry of Energy and Natural Resources, Ministry
of Industry and Trade and Undersecretariat of Treasury



Income Tax Relief

Income Tax accrued on salaries of employees can be exempted at a rate of 100% for the undertakings located in organized industrial zones and industrial regions and 80% for undertakings located in other regions with the following conditions:

- a) It is implemented for all employees in undertakings which are entitled as income and corporate tax payers and operational as of 1.4.2005 and later, provided that they employ at least 30 laborers,
- b) It is implemented for all new employees and a count of old employees which are two times of the number of new employees employed in undertakings which are entitled as income and corporate tax payers and operational before 1.4.2005 provided that they increase the number of employees that they have notified to the related authority in their last monthly premium and service document before 1.1.2005 at a rate of 20% at minimum and reaching an employment figure of at least 30 person.



Compensation to Social Security Employer Contribution

Social security employer contribution can be compensated by Treasury at a rate of 100% for the undertakings located in organized industrial and industrial regions and 80% for undertakings located in other regions with the following conditions:

- a) It is implemented for all employees employed in undertakings which are entitled as income and corporate tax payers and operational as of 1.4.2005 and later, provided that they employ at least 30 laborers,
- a) It is implemented for all new employees and a count of old employees which are two times of the number of new employees employed in undertakings which are entitled as income and corporate tax payers and operational before 1.4.2005 provided that they increase the number of employees that they have notified to the related authority in their last monthly premium and service document before 1.1.2005 at a rate of 20% at minimum and reaching an employment figure of at least 30 person.



Free of Charge Land Transfer

The ownership of land belonging to the Treasury, annexed budget administrations, municipalities and special provincial administrations can be transferred free-of-charge to undertakings projected to realize investments leading to new employment opportunity for minimum 30 person.

The minimum number of employment should be ensured for at least five years after getting into operation.



Energy Support

Beneficiary

Within the regional scope of the Law defined in the previous slides, in order to be eligible to benefit from the energy support:

a) Companies which had started operation after 1.4.2005,

i) operating in animal husbandry (including aquaculture and poultry), greenhouse production, certificated seed production and cooling warehouse sectors and having the minimum capacities determined in the related Communiqué should employ at least 10 laborers.

ii) operating in manufacturing industry, mining, tourism accommodation facilities, education and health and having the minimum capacities determined in the related Communiqué should employ at least 30 laborers.



Beneficiary - continued

- b) Companies which had started operation before 1.4.2005 should increase their employment by at least 20% of the laborer number that they have notified to the related authority in their last monthly premium and service document before 1.1.2005 and reach to the above mentioned corresponding laborer numbers for sector groups.

Amount and conditions

The eligible companies can benefit from the energy support according to the below rates:

- a) For the companies which had started operation after 1.4.2005, the energy support rate is 20%. For each additional employment above the minimum number, support rate increases 0.5 point.
- b) For the companies which had started operation before 1.4.2005, the energy support rate is 20%. For each additional employment above the determined minimum number, support rate increases 0.5 point.

The maximum rate of energy support is 40% of the electricity cost of the company. This rate is applied as 50% for companies established in the Organized Industrial Zones or Industry Zones.



Annex I

List of Provinces for energy support, tax and social security incentives

1 Adıyaman	14 Çorum	26 Kars	38 Rize
2 Ağrı	15 Diyarbakır	27 Kastamonu	39 Siirt
3 Afyon	16 Düzce	28 Kilis	40 Sinop
4 Aksaray	17 Elazığ	29 Kırşehir	41 Sivas
5 Amasya	18 Erzincan	30 Kütahya	42 Şanlıurfa
6 Ardahan	19 Erzurum	31 Malatya	43 Şırnak
7 Artvin	20 Giresun	32 Mardin	44 Tokat
8 Bartın	21 Gümüşhane	33 Muş	45 Trabzon
9 Batman	22 Hakkari	34 Nevşehir	46 Tunceli
10 Bayburt	23 Iğdır	35 Niğde	47 Uşak
11 Bingöl	24 Kahramanmaraş	36 Ordu	48 Van
12 Bitlis	25 Karaman	37 Osmaniye	49 Yozgat
13 Çankırı			



Annex II

List of Provinces for free land allocation

1 Adıyaman	15 Çorum	29 Kastamonu	43 Siirt
2 Ağrı	16 Diyarbakır	30 Kırıkkale	44 Sinop
3 Afyon	17 Düzce	31 Kırşehir	45 Sivas
4 Aksaray	18 Elazığ	32 Kilis	46 Şanlıurfa
5 Amasya	19 Erzincan	33 Kütahya	47 Şırnak
6 Ardahan	20 Erzurum	34 Malatya	48 Tokat
7 Artvin	21 Giresun	35 Mardin	49 Trabzon
8 Bartın	22 Gümüşhane	36 Muş	50 Tunceli
9 Batman	23 Hakkari	37 Nevşehir	51 Uşak
10 Bayburt	24 Iğdır	38 Niğde	52 Van
11 Bingöl	25 Kahramanmaraş	39 Ordu	53 Yozgat
12 Bitlis	26 Karabük	40 Osmaniye	54 Zonguldak
13 Çanakkale (Bozcaada and Gökçeada)	27 Karaman	41 Rize	
14 Çankırı	28 Kars	42 Samsun	



Title of the programme

4. Credit Allocation for Organized Industrial Zones (OIZ)

Legislation related to the programme

Law No 4562 “Organized Industrial Zones”, Official Journal of 24021 no and 15.04.2000 dated.

“OIZ Implementation Regulation”, Official Journal of 24713 no and 01.04.2002 dated.

Implementing institution:

Ministry of Industry and Trade (MIT)



Objective of the programme

- Provide infrastructure and expropriation for Organized Industrial Zones
- Provide infrastructure and super structure for Small Scale Estates

Scope

2 different applications for 3 different regions.

1. Provinces in the Priority Development Regions
2. Provinces in Normal Regions
3. Provinces in Developed Regions



1. Terms and Conditions of Credit for Organized Industrial Zones

- Provinces in the Priority Development Regions
 - Credit amount subject to infrastructural Investment: 99 %
 - Interest Rate: 2 %
 - Repayment period: 15 years with grace period of 5 years
- Provinces in Normal Regions
 - Credit amount subject to infrastructural expenses: 95 %
 - Interest Rate: 7 %
 - Repayment period: 11 years with grace period of 3 years
- Provinces in Developed Regions
 - Credit amount subject to infrastructural Investment: 90 %
 - Interest Rate: 12 %
 - Repayment period: 9 years with grace period of 2 years



2. Terms and Conditions of Credit for Small Scale Estates

- Provinces in the Priority Development Regions and catastrophically damaged regions:
Credit amount subject to Super structural investment: 70 %
Interest Rate: 2 %
Repayment period: 15 years with grace period of 1 year
- Provinces in Normal Regions
Credit amount subject to Super structural investment: 60 %
Interest Rate: 7 %
Repayment period: 13 years with grace period of 1 year
- Provinces In Developed Regions
Credit amount subject to Super structural investment: 50 %
Interest Rate: 12 %
Repayment period: 11 years with grace period of 1 year



Source for the programme

The programme is financed from the budget of MIT

Beneficiaries

The administration authority of OIZ and cooperatives of Small Scale Estates.



2. MULTISECTORAL FRAMEWORK ON REGIONAL AID FOR LARGE INVESTMENT PROJECTS

Decree on encouragement of investments mentioned above is
applicable here *mutatis mutandis*



AGENDA ITEM VI: RESCUE AND RESTRUCTURING AID

- 1. State Aid for rescuing and restructuring firms in difficulty**
- 2. Rescue and restructuring aid and closure aid for the steel sector**

Country Session: The Republic of TURKEY
1-2 December 2005



1. STATE AID FOR RESCUE AND RESTRUCTURING FIRMS IN DIFFICULTY

There is no specific regulation in Turkey at present regarding state aid for rescuing and restructuring firms in difficulty.



2. RESCUE AND RESTRUCTURING AID AND CLOSURE AID FOR THE STEEL SECTOR

There is no specific regulation in Turkey at present regarding rescue and restructuring aid and closure aid for the steel sector.

However, assessments on a national restructuring plan for the Turkish steel industry continue.



General Aid Schemes

1. Research and development support
2. Environmental support for certification (only for SMEs)
3. Support for participation in international fairs
4. General Investment Encouragement Programme
 - Investment encouragement certificates were not granted to steel industry since July 2004
5. Regional Aid Scheme under Law 5084 (the electricity support and free-of-charge land transfer under this scheme have never been applied to steel industry, however there is no data available at present for income tax and social security premium support)



Present Situation of Turkish Iron and Steel Industry in 2004

12.1 million tons steel products exports
7.9 million tons steel products imports

Source: State Institute of Statistics



DIMENSION OF THE SECTOR (2004)

	Number of Companies	Hot Rolling Capacity (million tons)	Employment
Integrated	3	7.85	17,307
Electric Arc Furnaces	18	12.11	12,328
Re-rollers	126	16.12	4,748
TOTAL	147	36.08	34,383

Source: Unofficial figures provided by Iron and Steel Producers Association and Association of Re-rollers



AGENDA ITEM VII:
RULES ON THE ASSESSMENT OF
SERVICES OF GENERAL ECONOMIC INTEREST

Country Session: The Republic of TURKEY
1-2 December 2005



Duty Losses: General Scope and Legislative Framework

The SOEs may be assigned to conduct services and/or Council of Ministers may set their prices for general economic interest.

Decree Law 233, Article 35 authorizes The Council of Ministers to do so and states principles of such duties. Based on this statement, further Decrees have been supplied for each duty. Basic principles are:

- a-Cost of duties plus a 10% margin shall be transferred to SOEs from the budget.
- b-Costs to be audited and finalised by the Treasury before payment. This procedure takes some time and payments take place at least after a year. For this reason, 10% margin may be deemed as a compensation for delays.
- c- All applications are subject to budgetary constraints.



Duty Loss Applications: TKI (lignite) and TTK (hardcoal)

(The last Decree of Council of Ministers: 2005-8770)

a- TKI and TTK have been assigned to supply lignite and hardcoal to the poor in need

b- Began in year 2003

c-Almost 1.5 millions of poor families have been receiving as of 2005

d-Amounts accrued in this regard: TRY 93 (€ 53) in 2003,
TRY 166 (€ 101) in 2004, and 210 (€122) in 2005 (end year expectation).

*Euro figures are based on next years' exchange rates to take payment delays into consideration, for 2005 programme rates of 2006 used.



Duty Loss Applications: TMO (Grain Board) (1)

(The last Decrees of Council of Ministers: 2005/9511, 2005/9361, 2005/8871)

a-Within the context of humanitarian aid, there has been sent grains to foreign countries in need as donation (e.g. For Pakistan earthquake)

b-In order to control supply, TMO has been in charge to purchase seeds and export opium in Turkey and relevant amount of compensation has been provided to the company. Payments have been very small for years in this regard.



Duty Loss Applications: TMO (Grain Board) (2)

c-In order to regulate the market in Turkey, TMO has been authorised to purchase and sell grain. The loss arising for these operations has been paid from the budget.

d-TMO has also been in charge of keeping grain stocks for extraordinary situations. Duty loss arising from this operation has been paid from the budget as well. Transferred amount in this regard has been negligible.



Duty Loss Applications: TCDD (Railways)

(The last Decree of Council of Ministers: 1989/14558)

a-Operation of uneconomic railways in 3 lines (i.e. Eastern, southern, and Vangölü lines)

b-Loss arised from these lines has been paid to TCDD after audit.

c-Accrued amounts in this regard in 2002, 2003, and 2004 (in millions):
TRY 139 (€ 82), TRY 155(€ 88), and TRY 204(€ 124).

*Euro figures are based on next years' exchange rates to take payment delays into consideration.



Duty Loss Applications: Banking Sector (1)

General Principles:

- a- Ziraat Bank has been assigned to give soft loans to agriculture and livestock-animal husbandry sectors and Halk Bank to artisans and craftsmen .
- b- The difference between the rates these banks impose on these parties and market rate has been subsidized by the Treasury.
- c- Regular banking procedures have been applied for eligibility of the loans.
- d- A limit of TRY 500,000 (€ 305,000) for livestock-husbandry and TRY 250,000 (€ 153,000) for agriculture for each applicant to be applied.



Duty Loss Applications: Banking Sector (2)

Ziraat Bank:

(The last Decree of Council of Ministers: 2005/8378)

a- Started in 2004

b- Different rates for different products

c- Working capital loans:

-Up to 1,5 years of maturity

-Seasonal financing of farmers (harvest vs. seeding time) livestock support and animal husbandry.

d- Investment credits:

-Up to 5 years of maturity

-Purpose is to encourage productivity and quality of production



Duty Loss Applications: Banking Sector (3)

Halk Bank:

(The last Decree of Council of Ministers: 2005/8377)

a- Started in 2002

b- 25% of market rate to be subsidized

c- Up to one year of maturity (working capital)



Duty Loss Applications: Social Security Institutions

- a- There are 3 state social security institutions in Turkey: Emekli Sandigi, SSK, and Bag-Kur
- b- Following payment has been made to these institutions to cover their deficit from the budget (% of GNP):

2002	:3.54
2003	:4.45
2004	:4.39

**Duty Loss Payments:****Million TRY (Million Euro)**

	2004	2005
TKİ (Lignite)*	60 (34)	118 (72)
TTK (Hardcoal)*	-	6 (4)
TETAŞ (Electricity Trading)*	85 (48)	10 (6)
Çaykur (Tea)*	5 (3)	33 (20)
TCDD(Railways)*	130 (74)	190 (116)
TMO (Grain Board)*	-	119 (73)
TEDAŞ (Electricity distribution)*	65 (37)	10 (6)
Halk Bank**	79 (45)	57 (35)
Ziraat Bank**	10 (6)	15 (9)
TOTAL	434 (246)	558 (341)

*End year programme figures for 2005

**As of October 2005

***Only SOEs which have current duties are listed



AGENDA ITEM VIII:
RULES ON THE ASSESSMENT FOR APPROVAL OF
AID TO PARTICULAR SECTORS

- 1. Shipbuilding**
- 2. Postal Services**
- 3. Broadcasting**
- 4. Audiovisual production**

Country Session: The Republic of TURKEY
1-2 December 2005



1. SHIPBUILDING



- In terms of state aids shipbuilding industry can benefit from the measures stated under the general investment encouragement programme



Dimension of the sector

- Turkey's shipbuilding industry mainly consists of; ship and yacht building, maintenance and repair yards, repairing slipways, subindustry manufacturers, equipment suppliers.
- There are currently 44 private shipyards in Turkey.
- 1,100,000 DWT/year new building capacity on project basis.
- Total annual maintenance-repair capacity of 1,000,000 DWT/year.
- The capacity of building new ships including naval yards in various type and tonnages in one unit is up to 150,000 DWT.



Dimension of the sector (2)

- Private shipyards have a shipbuilding output of 450,000 DWT per year.
- Turkey is ranked as 15th in “newbuildings on-order by country of build” with 960,000 DWT. That is 0.5 per cent out of 223 million DWT total.
- Turkey’s share in shipbuilding in terms of contract value is much higher than that of tonnage value.



2. POSTAL SERVICES



Postal Services: Legislative Framework and Scope

Law No: 5584

Postal Law, Article 2: General Directorate of PTT has monopoly rights on sealed or unsealed letters and postcards.

Scope:

- PTT is fully owned by the Treasury
- In other services in the sector there are private companies operating in Turkey
- Postmen make use of municipal public transportation as free of charge



3. BROADCASTING



Broadcasting (TRT-Turkish Radio and Television Corporation): Legislative Framework

1-The Law on Revenues of TRT No: 3093 (The Law mainly determines the sources of revenues of TRT)

2-The Law on Establishment of TRT No:2954 (The Law mainly defines the fields of activity of TRT) Art.33-37 (These articles defines financial sources of TRT)



Broadcasting (TRT-Turkish Radio and Television Corporation): Features

1. The main revenue sources of TRT set by Law No. 3093 are:
 - Fees collected from radio, television, video and integrated equipments
 - Share on electricity bills (2 %)
 - Transfers from Government budget

The first two revenues to be exempt from corporate tax (court decision)

2. Law No: 2954, Article 48: Radio and television transmission buildings that TRT owns or buildings that are to be acquired by TRT are exempted from estate duties and title deed fees.
3. Law No: 3984, Article 17: One-fourth of the channels and frequency bands in the national frequency plans are allocated to the Turkish Radio and Television Corporation.



4. AUDIOVISUAL PRODUCTION



STATE AIDS TO FILM INDUSTRY AND RELEVANT LEGISLATION

- Law No. 5224 on Evaluation, Classification and Support of Cinema Films.

Implementing regulation: Decree on Supporting Cinema Films. (O.G. Date 13.10.2004)

- Objective: The benefit of individual and society creating modern and efficient cultural communication environment with the help of cinema.
- Scope: Supporting and improving film industry in the fields of training, investment, enterprises, production, distribution, exhibition and supporting investors in this field, evaluation and classification of films for registration.



Project support

Grant for pre-production stages; e.g. research, script writing, translation.

Amount: Maximum 50 % of project cost.

In case of script writing support, maximum amount can be raised up to 100 %.

Production support

Supporting production stages; activities after project preparation to finalising production of films with payback condition.

Amount: Maximum 30 % of project cost.



Post Production Support

- Supporting films after production stage (e.g. promotion, distribution, exhibition) with grant or payback condition.
- Amount: Maximum 30 % of project cost.
- Projects applying for support are evaluated by the Commission.



Co - production support

- The regulation on cinematographic co-productions and Turkish and foreign producers who want to shoot a film in Turkey for commercial purposes (O.G. Date 12.8.2005)
- Objective: Supporting Turkish and foreign producers who want to realise a co-production
- Amount: Maximum 30 % of project cost



Promotion Support

The Ministry of Culture and Tourism supports

- Special projects and cinematographic works to make Turkey known
- National and international film days, film weeks and festivals
- Other cultural and social activities in the field of cinema
- People who work for cinema industry

In addition, the Ministry encourages producers and purchases films in order to be displayed at film weeks and festivals organized abroad with the objective of supporting national cinema and promoting Turkish cinema in the national and international level.



International Relations

- Turkey signed European Convention on Cinematographic Co-production in 1997. The convention on co-production between Turkey and France is ratified and entered into force in 1995. The convention on co-production between Turkey and Italy is still in the process of signing.
- Turkey became a party to Eurimages in 1990. Eurimages is the Council of Europe fund for the co-production, distribution and exhibition of European cinematographic works (full-length feature films, animation and documentaries). The Ministry of Culture and Tourism supports film industry indirectly by paying the membership fee of Eurimages.



State Aid Monitoring Authority

After enactment of the law, by facilitation of a twinning project

- The authority needs to be established with sufficient administrative capacity
- Secondary legislation should be made