Overview of Foreign Investment Climate

The Government of Turkey (GOT) views foreign direct investment (FDI) as vital to the country's economic development and prosperity. Accordingly, Turkey has one of the most liberal legal regimes for FDI in the Organization for Economic Cooperation and Development (OECD). With the exception of some sectors (see below), areas open to the Turkish private sector are generally open to foreign participation and investment. However, all investors – regardless of nationality – face a number of challenges: excessive bureaucracy, a slow judicial system, high taxes and compliance burden, weaknesses in corporate governance, sometimes unpredictable decisions made at all levels of government, and frequent changes in the legal and regulatory environment.

Regulations governing foreign investment are, in general, transparent. Turkey provides national treatment, including in the acquisition of real estate by foreign-owned corporate entities registered under Turkish law, and in most sectors does not have an investment screening system (only notification is required). The GOT uses "reciprocity with the related nation" as a precondition for real estate property purchases by foreigners, and sets an upper limit of 2.5 hectares on real estate purchases by foreign individuals. There is no limit on the amount of land that may be purchased by a company, provided that the land is used for the business activities of the firm. No individual may own more than 10 percent of the land in any given development zone.

Equity participation of foreign shareholders is restricted to 25 percent in broadcasting and 49 percent in the aviation and maritime transportation sectors. Establishment in financial services, including banking and insurance, and in the petroleum sector requires special permission from the GOT for both domestic and foreign investors. In practice, regulators have not restricted foreign ownership in the financial sector: in 2005 and 2006 a series of foreign acquisitions in the sector were approved, and several foreign financial houses have longstanding operations in Turkey.

Turkey's privatization process continues to move forward. The GOT privatizes State Economic Enterprises through block sales, public offerings, or a combination of both. Transactions completed under the Turkish privatization program generated $8.1 billion in 2006, $4.3 billion for 2007, $6.3 billion in 2008, and $2.3 billion in 2009. The Turkish government is committed to continuing the privatization process although the contraction in global capital flows that began in 2008 may delay some offerings. The Privatization Administration’s (PA) 2010 program calls for it to complete the privatization of the remaining 11 energy distribution networks in 2010. On the generation side, PA plans to execute the tender of mini hydro power plants (140 MW) in the first quarter 2010. The 2010 program also includes privatization of highways and bridges, the national lottery, sugar factories and Turk Telekom’s secondary public offering (SPO). The GOT expects to generate $10.4 billion from privatizations in 2010.

Bureaucratic "red tape" has been a significant barrier to companies, both foreign and domestic. However, recent reforms have simplified company establishment procedures, reduced permit requirements, instituted a single company registration form, and enabled individuals to register their companies through local commercial registry offices of the Turkish Union of Chambers and Commodity Exchanges.

Since 2001, the Turkish government has been implementing a comprehensive investment climate reform program. This program aims to streamline all investment-related procedures and to attract more FDI to the country. A national platform jointly formed by the public and private sectors, the Coordination Council for the Improvement of Investment Environment (YOIKK), provides technical guidance for issues relating to the investment environment.

In addition, the Investment Advisory Council of Turkey (IAC) was created in 2004 to provide an international perspective for the reform agenda of Turkey. IAC members include executives from multinational companies, representatives of international institutions such as the IMF, World Bank and EIB, and the heads of Turkish NGOs representing the private sector. The Council, chaired by the Prime Minister, convenes yearly to advise the government on the direction of its reform program. The Council’s recommendations serve as a guideline for the YOIKK Platform, and developments regarding the Council recommendations are published in the Turkish Treasury's annual IAC Progress Reports.

The government continues to implement judicial reforms, some of which aim to attract foreign investment to Turkey. The National Judiciary Network, an automation and integration project overseen by the Ministry of Justice, completed construction of the technical infrastructure in 2008 and came online in late 2009. The process of connecting all relevant agencies is expected to be completed during 2010. This will significantly speed the processing of commercial cases by sharing documents and court records more easily, as well as allowing for the filing of suits online. The Ministry of Justice began redistributing caseloads among courts in 2007 to reduce the burden in the busiest courts. As part of this redistribution, the Ministry shut down 137 small district courts and reassigned their resources to those with increased workloads. In addition, the government has improved foreign investors' access to justice, including to legal aid and Alternative Dispute Resolution mechanisms supported by the U.S., the European Union (EU), and the World Bank.

In addition to structural reforms, the Investment Support and Promotion Agency of Turkey (ISPAT), whose main objective is to attract new investors, support them throughout the establishment process and solve problems that arise after establishment, has become much more active since 2007. The agency serves as an advocate within the government for reforms that promote investment and works to raise public awareness of the benefits of investment. More information can be found on the agency’s website at www.invest.gov.tr.

Turkey has taken steps to make the taxation system more investor-friendly. In 2006, the basic corporate tax rate was reduced from 30 to 20 percent. The Government also cancelled the withholding tax for foreign investors' holdings of bonds, bills, and stocks, while retaining it for bank deposits and repurchase agreements. The Tax Administration established a Large Taxpayer Unit in 2007 that handles tax collection from large corporations. The GOT failed to implement further tax reforms, however, such as reducing the employment tax, which is the highest among OECD countries. The GOT also increased the value-added tax (VAT) on leasing activities from 1 percent to 18 percent at the end of 2007. In April 2009, the GOT abolished the previous tax regime for alcoholic beverages and replaced it with a system charging lump sum taxes that vary according to the type of beverage and the alcohol content, as well as a special consumption tax for certain types of alcohol. On December 31, 2009, the GOT removed the special consumption tax for all alcoholic beverages except beer, but slightly increased the lump sum taxes. Differences in the lump sum tax rates continue to favor domestically-produced beverages.

Turkish law and regulations affecting the investment climate continue to evolve. Potential investors should check with appropriate Turkish government sources for current and detailed information. The following web site provides the text of regulations governing foreign investment and incentives, as well as other useful background information: http://www.invest.gov.tr/InvestorsGuide.aspx?ID=10#

Additional information on the reforms can be found in the Treasury website, at: http://www.treasury.gov.tr/iro.htm.

Table: Turkey Rankings on International Openness Indices (the lower the ranking the better, absolute score in parentheses)

Measure	2007	2008	2009	2010
Transparency Int'l Corruption Index	64 (4.1)	58 (4.6)	61 (4.4)	N/A
Heritage Economic Freedom Index	87 (58.3)	74 (60.8)	75 (61.6)	N/A
World Bank Doing Business Index	N/A	N/A	63	73

Turkey's steady progress up the ranks on most international indices of openness suffered a slight setback during 2009, largely as a result of measures taken to shield the local economy from the effects of the global economic crisis, and this is indicated in the minor declines in absolute scores for 2009. The pace of reform also slowed, allowing more reform-oriented countries to leapfrog Turkey in the relative rankings.

Conversion and Transfer Policies

Turkish law guarantees the free transfer of profits, fees, and royalties, and repatriation of capital. This guarantee is reflected in Turkey's 1990 Bilateral Investment Treaty (BIT) with the United States, which mandates unrestricted and prompt transfer in a freely-usable currency at a legal market-clearing rate for all funds related to an investment. There is no difficulty in obtaining foreign exchange, and there are no foreign exchange restrictions. As the result of a 1997 court decision, however, the Turkish Government has blocked full repatriation of profits by oil companies as provided for under Article 116 of the 1954 Petroleum Law, which protected foreign investors from the impact of lira depreciation. Affected companies appealed the 1997 decision, but lost the case in 2002. Companies expect a new Petroleum Law to address this problem and to improve the investment environment for oil and gas exploration. However, despite repeated GOT claims that this law would be presented to Parliament, it has still not been brought forward.

Expropriation and Compensation

Under the BIT, expropriation can only occur in accordance with due process of law. Expropriations must be for public purpose and non-discriminatory. Compensation must be reasonably prompt, adequate, and effective. The BIT ensures that U.S. investors have full access to the local court system and the ability to take the host government directly to third-party international binding arbitration to settle investment disputes. There is also a provision for state-to-state dispute settlement.

As a practical matter, the GOT occasionally expropriates private real property for public works or for State Enterprise industrial projects. The GOT agency expropriating the property negotiates and proposes a purchase price. If the owners of the property do not agree with the proposed price, they can go to court to challenge the expropriation or ask for more compensation. There are no outstanding expropriation or nationalization cases involving U.S. citizens or firms.

Dispute Settlement

There are some outstanding investment disputes between U.S. companies and Turkish government bodies, particularly in the energy sector.

Turkey's legal system provides means for enforcing property and contractual rights, and there are written commercial and bankruptcy laws. However, the court system is overburdened, which sometimes results in slow decisions and judges lacking sufficient time to grasp complex issues. Judgments of foreign courts, under certain circumstances, need to be accepted by local courts before they are enforced. Monetary judgments are usually made in local currency, but there are provisions for incorporating exchange rate differentials in claims.

Turkey is a member of the International Center for the Settlement of Investment Disputes (ICSID), and is a signatory of the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Turkey ratified the Convention of the Multinational Investment Guarantee Agency (MIGA) in 1987. There are no arbitration cases pending before ICSID involving U.S. companies.

Turkish law accepts binding international arbitration of investment disputes between foreign investors and the state. In practice, however, Turkish courts have on at least one occasion failed to uphold an international arbitration ruling involving private companies.

Performance Requirements/Incentives

Turkey is a party to the WTO Agreement on Trade Related Investment Measures (TRIMS). Turkey's investment incentive system was substantially amended in 2006 to promote investment in manufacturing services and the energy sector and to encourage exports. The general investment incentive regime provides tax benefits and, in some cases, credit. It is applied in diverse ways according to the location, scale, and subject of the investment. It includes exemption for customs duties and fund levies and customs and value-added tax exemptions for locally-purchased or imported machinery and equipment. The Turkish Treasury also covers selected parts of investment credit interest rates for SMEs, research and development (R&D) projects, environmental projects. A law that had provided for additional incentives for investment in 50 "prioritized development provinces" with per capita income below $1,500 per annum expired at the end of 2009.

In June 2009, the GOT announced a new Incentives and Employment Package, which included measures to revitalize the economy. The new incentive system divides Turkey into four zones based on the level of socio-economic development and provides for corporate tax incentives, social security premium incentives, free land and reduced interest loans for investments that start before the end of 2010. The system also defines the different types of investments in each region that can benefit from these incentives. The incentives available for Zone 1 provinces, which include the most developed areas, cover investments that require use of advanced technology, such as automotive and parts, electronics, pharmaceuticals, machinery, medical and optical devices. These investments benefit from a corporate tax rate of 10% (compared to 20%), and two years of social security premium support by the GOT. The incentives available for Zone 2 provinces include investments in technology-intensive sectors, such as machinery, smart textiles, non-metal mineral production, paper, and food and beverage production. These investments enjoy an 8% corporate tax rate and three years of social security premium support by GOT. The incentives available for Zone 3 and 4 provinces include investments in agriculture, agriculture-based manufacturing industry, ready-to-wear, plastics, rubber, metal goods, tourism, health and education. Zone 3 investments benefit from a 4% corporate tax rate, five years of social security premium support, and GOT financing for 3 percentage points of their borrowing rate. Zone 4 investments get a 2% corporate tax requirement, seven years of social security premium support, and GOT financing for 5 percentage points of their borrowing rate. Investments starting after 2010 still benefit from a 4-15% corporate tax rate as long as they meet the current qualifications of the zone-based incentive system.

In addition to the regional incentives, the GOT announced a set of incentives for "large scale investments" made in certain sectors during 2009 and 2010. These investments benefit from corporate tax rates between 2-10%, social security premium support up to 7 years and free land, depending on the amount of investment. The minimum investment requirement for different sectors are as follows: raw chemical materials (TL1bn/ $650mln), chemicals (TL300mln/$200mln), oil industry (TL1bn/$650mln), transit pipeline services (TL50mln/$33mln), automotive (TL250mln/$160mln), railways (TL50mln/$33mln), ports (TL250mln/$160mln), electronics (TL1bn/$650mln), medical and optical devices (TL50mln/$33mln), pharmaceuticals (TL100mln/$65mln), aviation industry (TL50mln/ $33mln), machinery (TL50mln/$33mln), and mining (TL50mln/$33mln). Investments made after 2010 can still benefit from a 4-15% corporate tax rate, as long as they fall under these "large scale investment" definitions.

More information on the new incentive system can be found at:
http://www.treasury.gov.tr/irj/portal/anonymous?NavigationTarget=navurl://192ef088d95939a7f

ef4e9e0cfc15f02&LightDTNKnobID=212345344 and http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/Incentives.aspx.

For R&D support, Turkey's Scientific and Technological Research Council (TUBITAK) and the Turkish Technology Development Foundation (TTGV) both reimburse and/or grant R&D related expenses and provide capital loans for R&D projects. Projects eligible for such incentives include concept development, technological research and technical feasibility research, laboratory studies to transform a concept into a design, design and sketching studies, prototype production, construction of pilot facilities, test production, patent and license studies, and activities related to post-scale problems stemming from product design. In addition to these incentives, the Turkish government also provides support to Technology Development Zones (TDZs) that includes: infrastructure and facilities; exemption from income and corporate taxes (through December 31, 2013) for profits derived from software and R&D activities; exemption from all taxes (through December 31, 2013) for the wages of researchers, software, and R&D personnel employed in TDZs; VAT exemptions for the same period of income and corporate tax exemptions for IT specific sectors; and customs, duties, and fund levy exemptions. Finally, the Turkish government's export incentive program focuses on R&D activities, market research, and participation in exhibitions and international fairs.

More information on Turkey’s investment incentive system can be found at: http://www.treasury.gov.tr/irj/go/km/docs/documents/Treasury%20Web/Research%26Data/Reports/Investment%20%26%20Incentives/Investment%20Encouragement%20System.pdf.

There are no performance requirements imposed as a condition for establishing, maintaining, or expanding an investment. There are no requirements that investors purchase from local sources or export a certain percentage of output. Investors' access to foreign exchange is not conditioned on exports.

There are no requirements that nationals own shares in foreign investments, that the shares of foreign equity be reduced over time, or that the investor transfer technology on certain terms. There are no government-imposed conditions on permission to invest, including location in specific geographical areas, specific percentage of local content – for goods or services – or local equity, import substitution, export requirements or targets, employment of host country nationals, technology transfer, or local financing.

The GOT does not require that investors disclose proprietary information, other than publicly available information, as part of the regulatory approval process for establishing an investment. Enterprises with foreign capital must send their activity report (as submitted to the general assembly of shareholders), auditor's report, and balance sheets to the Treasury's Foreign Investment Directorate every year by May.

With the exceptions noted under "Openness to Foreign Investment" and "Transparency of the Regulatory System", Turkey grants all rights, incentives, exemptions and privileges available to national capital and business to foreign capital and business on a most-favored-nation (MFN) basis. American and other foreign firms can participate in government-financed and/or subsidized research and development programs on a national treatment basis.

Military procurement generally requires an offset provision in tender specifications. The offset guidelines were modified to encourage direct investment and technology transfer.

More information on Turkey's trade regime can be found at www.foreigntrade.gov.tr.

Right to Private Ownership and Establishment

With the exceptions noted above, private entities may freely establish, acquire, and dispose of interests in business enterprises, and foreign participation is permitted up to 100 percent. Competitive equality is the standard applied to private enterprises in competition with public enterprises with respect to access to markets, credit, and other business operations. Turkey has an independent Competition Board.

Protection of Property Rights

Secured interests in property, both movable and real, are recognized and enforced. There is a reliable system of recording such security interests. For example, there is a land registry office where real estate is registered. Turkey's legal system protects and facilitates acquisition and disposal of property rights, including land, buildings, and mortgages, although some parties have complained that the courts are slow to render decisions and that they are susceptible to external influence (see "Dispute Settlement").

Turkey's intellectual property rights regime has improved in recent years, but certain deficiencies from international standards remain a concern. Turkey was upgraded to the U.S. Special 301 Watch List from the Priority Watch List in 2008 in recognition of its efforts to improve its IPR regime and remained on the Watch List in 2009. Turkey opened the IPR chapter of its EU accession process on June 17, 2008. Despite these improvements, complaints continue that there is insufficient protection for confidential pharmaceutical test data and continued high levels of piracy and counterfeiting of copyright and trademark materials.

A Constitutional Court decision in July 2008 annulled certain portions of the trademark law related to criminal penalties for trademark violations. The GOT passed new legislation to fix this problem in January 2009. However, it failed to act in time to prevent the voiding of 9,000 pending trademark violation cases, and attempts to prosecute the same cases under the “unfair competition” provision of the Turkish Commercial Code have not been upheld on appeal. Similar Constitutional Court decisions struck down criminal penalties for violation of geographic indicators (affecting five cases) and will also remove penalties for violations of patents and industrial designs as of June 10, 2010. The GOT has drafted a law reinstating those penalties, which is currently under consideration by Parliament.

Turkey's copyright law provides deterrent penalties for copyright infringement. The law contains several strong anti-piracy provisions, including a ban on street sales of all copyrighted products and authorization for law enforcement authorities to take action without a complaint by the rights holder. The law established minimum penalties of three months to two years imprisonment and/or a fine between 5,000 and 50,000 TL (Turkish lira) (approximately $3,400 to $34,000) depending on the severity of the damages. The law sets the maximum penalty at three to six years imprisonment and/or fines between 50,000 and 250,000 TL (approximately $34,000 to $170,000). While pirated materials are still common, the number of cases brought against the producers and/or distributors of these goods has increased significantly, and deterrent penalties have become more common.

Turkey is a signatory to a number of international conventions, including the Stockholm Act of the Paris Convention, the Patent Cooperation Treaty, and the Strasbourg Agreement. In 2008, Turkey acceded to the WIPO Copyright Treaty and Performances and Phonograms Treaty. Turkey accepts patent applications in compliance with the TRIPS agreement "mailbox" provisions. The patent law does not, however, contain interim protection for pharmaceuticals in the research and development "pipeline".

Turkey's Patent Law provides for penalties for infringement of up to 4 years in prison, or 46,000 TL (approximately $32,000) in fines, or both, closure of the business for at least one year, and a prohibition on the owner's participation in any commercial activity during that same period. However, research-based companies in the pharmaceuticals sector have criticized provisions which delay the initiation of infringement suits until after the patent is approved and published, permit use of a patented invention to generate data needed for the marketing approval of generic pharmaceutical products, and give judges wider discretion over penalties in infringement cases. A new patent and trademark law designed to modernize Turkey’s IPR regime and bring it more in line with EU standards has also been pending in Parliament for several years.

Unlike some other countries, including the United States, Turkey does not currently have a system that directly links marketing approval for pharmaceutical products to the patent protection system. The Patent Institute sends reports to the Ministry of Health informing them of pharmaceutical-related patents that have been approved. In addition, in 2006, the Patent Institute, with assistance from the World Bank, created an online database that allows users to search for valid patents. The Patent Institute does not, however, share with other entities or the public unpublished information regarding patent applications that have not yet been approved.

In general, the Ministry of Health provides protection for confidential test data submitted in support of applications to market pharmaceutical products, although one product was approved in January 2009 in violation of Turkey’s own data exclusivity regulations and a court case is pending. In addition, several of the provisions of the data exclusivity regulation provisions undermine protection for confidential test data. Data exclusivity is limited to original products licensed in a European Customs Union country after January 1, 2001, for which no generic manufacturers had applied for licenses in Turkey as of January 1, 2005. In addition, the term of exclusivity is limited to the duration of the drug patent. The six-year term of data protection starts on the date of licensing in a European Customs Union country, implying a shorter term of protection because of the length of the marketing approval process in Turkey.

Trademark holders contend that there is widespread and often sophisticated counterfeiting of their marks in Turkey, especially in apparel, film, cosmetics, detergent and pharmaceuticals. Turkey provides protection for commercial seed under its Plant Variety Protection (PVP) Law.

Further information on the intellectual property situation in Turkey is available in the National Trade Estimate report, available at the U.S. Trade Representative's website: www.ustr.gov.

Transparency of the Regulatory System

The GOT has adopted policies and laws that in principle should foster competition and transparency. However, foreign companies in several sectors claim that regulations are sometimes applied in a nontransparent manner. Turkey is an observer, but not a member, to the WTO Government Procurement Committee.

Turkish legislation generally requires competitive bidding procedures in the public sector. A Public Procurement board exists to oversee public tenders, and there are minimum bidding thresholds under which foreign companies are prohibited from bidding on public tenders. The law gives preference to domestic bidders, Turkish citizens, and legal entities established by them, as well as to corporate entities established under Turkish law by foreign companies. The public procurement law has been amended eight times since its enactment and may be further amended in the future: it has been cited by the EU as not being in conformity with the EU "acquis communautaire."

In general, labor, health and safety laws and policies do not distort or impede investment, although legal restrictions on discharging employees may provide a disincentive to labor-intensive activity in the formal economy. Foreign firms also complain of difficulties in obtaining work permits for non-Turkish employees. Certain tax policies distort investment decisions. High taxation of cola drinks discourages investment in this sector. Generous tax preferences for free zones have provided a stimulus to investment in these zones, though these preferences will be trimmed in the future (see free zones section). Similarly, incentives for investment in certain provinces appear to be stimulating investment there (see "Performance Requirements/Incentives").

Efficient Capital Markets and Portfolio Investment

The government has taken a number of important steps since 2001 to strengthen and better regulate the banking system. A 2005 revision of the Banking Law brought tighter bank regulation, notably by broadening the range of expertise inspectors can draw on when conducting on-site inspections. It also increased the capital adequacy ratio from the BIS requirement level of 8% to 12% for all banks.

An independent Banking and Regulation Supervision Agency (BRSA) monitors and supervises Turkey's banks. The BRSA is headed by a board whose seven members are appointed by the cabinet for six-year terms. In addition, bank deposits are protected by an independent deposit insurance agency, the State Deposit Insurance Fund (SDIF).

Because of high local borrowing costs and short repayment periods, foreign and local firms frequently seek credit from international markets to finance their activities. As of 2009, there were 36 deposit-taking commercial banks and 14 development or investment banks operating in

Turkey. Sector assets as of September 2009 totaled approximately $491 billion, or about 81 percent of GDP, according to BRSA data. Total loans for the banking sector totaled $263 billion.

There is a regulatory system established to encourage and facilitate portfolio investments, though it needs improvements in transparency, accounting, and enforcement provisions to bring it up to U.S. and EU standards. The GOT has also established the goal of making Istanbul an international financial center by 2012 and is considering regulatory changes to encourage this project. The Istanbul Stock Exchange (ISE), established in 1985, is becoming a significant emerging market stock exchange. As of December 31, 2009, 278 companies were listed on the exchange. However, Turkey has yet to develop other capital markets. The Capital Markets Board is responsible for overseeing the activities of capital markets, including activities of ISE-quoted companies, and securities and investment houses. The Turkish private sector is dominated by a number of large holding companies, whose upper management is family-controlled. Most large businesses continue to float publicly only a minority portion of company shares in order to limit outside interference in company management. There has been no attempt at a hostile takeover by either international or domestic parties in recent memory. Capital market instruments are still developing in Turkey. Turkey's first mortgage law was adopted in 2007, but there is no secondary mortgage market in Turkey yet. Hedging instruments are also very limited. Izmir's futures market opened in 2003 and has recorded monthly transaction volumes of around $28 billion.

<u>Competition with State-Owned Enterprises</u>

Although Turkey’s privatization program has withdrawn the GOT from many sectors of the economy, SOEs continue to maintain significant although not necessarily dominant market share in the construction, energy, aviation, and finance sectors. By law, private competition with these businesses (in fields where it exists) is open and fair and the SOEs enjoy no special privileges. There have been allegations, however, that these firms in practice enjoy preference in GOT procurement contracts, that they have an easier time obtaining licenses, and that they have easier access to credit, especially from state-owned banks.

In the energy sector, SOEs enjoy certain material advantages due to the structuring of the market, where prices are mandated by the government. Although the 2001 Electricity Market Law and Gas Market Law both proscribed further investment by SOEs – with the hope that the role of the government in the sector would fade over time – the artificial price levels for electricity and gas have discouraged private investment. By default, therefore, the SOEs have had to continue investing in infrastructure upgrades and new supply channels, further limiting the possibility of new entrants into the market. As the privatization program for electricity distribution and generation continues and with the introduction of a system that links retail prices to input costs, this effect should be reduced.

Most SOEs report to both a board of directors and a nominal line minister, although direct ministerial involvement in day-to-day operations is limited. The boards generally have a share of seats allocated to senior government officials. SOEs are required to publish annual reports.

A unique aspect of the Turkish economy is the existence of two quasi-state conglomerates, the

Armed Forces Pension Fund (OYAK) and the Turkish Armed Forces Foundation (TSKGV). OYAK, established in 1961, is funded by a compulsory 10% levy on the salaries of all Turkish military officers. It has become one of Turkey's largest industrial groups, with management control of almost 50 enterprises and year-end 2008 assets of over $8 billion. It holds significant market share in many key industries including financial services, energy, iron and steel, cement, and automobile production. OYAK's joint venture with Renault is Turkey's largest automobile manufacturer. TSKGV concentrates on the defense sector, and its companies are major beneficiaries of offsets associated with defense procurements. Both have competitive advantages over private sector competitors through state subsidies via a range of tax exemptions, and OYAK appears to have received special consideration when purchasing state-owned companies.

Turkey does not have a sovereign wealth fund.

Corporate Social Responsibility

While many companies have a tradition of supporting private universities, sponsoring cultural events and implementing programs that aid local communities, especially in less-developed regions of the country, the idea of corporate social responsibility as an integral part of the business plan is still relatively new in Turkey. Most activity in this area is led by larger Turkish firms and international companies operating in Turkey.

Political Violence

In recent years, terrorist bombings -- some with significant numbers of casualties -- have struck religious, political, and business targets in a variety of locations in Turkey. The potential remains throughout Turkey for violence and terrorist actions against U.S. citizens and interests, both by transnational and indigenous terrorist organizations.

In November 2003, the Al-Qa'ida network was responsible for four large suicide bombings in Istanbul that, among other targets, hit Western diplomatic and commercial interests. In 2008, three armed individuals inspired by Al-Qa’ida attacked the U.S. Consulate General in Istanbul, killing three Turkish security personnel. Indigenous terrorist groups also continue to target Turkish as well as U.S. and Western interests. In 2009, the PKK, aka KADEK, aka KONGRA GEL, was responsible for the deaths of at least 67 security personnel and 36 civilians. Another 385 security forces and 115 civilians were wounded in PKK-related violence. The PKK operates in parts of Northern Iraq and crosses the border to conduct attacks in the southeast region of Turkey, where the group has traditionally concentrated its activities, as well as in Istanbul, Ankara, and resort areas of southern and western Turkey. Other terrorist groups, including the Turkish group Revolutionary People's Liberation Party/Front (DHKP/C), continue to target Turkish officials and various civilian facilities and may use terrorist activity to make political statements. Since 2002, civilian venues such as courthouses, fast food restaurants, and public transportation, as well as trash receptacles in public spaces, have been targets of minor bomb attacks, resulting in small numbers of casualties. Similar, random bombings are likely to continue in unpredictable locations. Americans traveling to southeastern Turkey, the site of many PKK actions, should exercise caution.

Although the Turkish government takes air safety seriously and maintains strict controls, particularly on international flights, a hijacking occurred on an Atlasjet flight in August 2007. Attempted hijackings are usually by individuals unaffiliated with terrorist organizations who are pursuing personal agendas. The attackers are rarely armed, or they arm themselves with weapons improvised on the plane. For the latest security information on Turkey and throughout the world, travelers should monitor the State Department web site http://travel.state.gov, where the current Worldwide Caution Public Announcement, Travel Warnings, and Public Announcements can be found.

Corruption

Corruption is perceived to be a problem in Turkey by private enterprise and the public at large, particularly in government procurement. There have been complaints by American companies operating in Turkey about being solicited, with varying degrees of pressure, by municipal or local authorities for "contributions to the community”. Parliament continues to probe corruption allegations involving senior officials in previous governments, particularly in connection with energy projects.

Public procurement reforms were designed to make procurement more transparent and less susceptible to political interference, including through the establishment of an independent public procurement board with the power to void contracts. With regard to the WTO Government Procurement Agreement, Turkey is not yet a signatory, although it has maintained observer status since 1996. The judicial system is also perceived to be susceptible to external influence and biased against outsiders.

Turkish legislation outlaws bribery and some prosecutions of government officials for corruption have taken place, but enforcement is uneven. Turkey ratified the OECD Convention on Combating Bribery of Public Officials, and passed implementing legislation in January 2003, to provide that bribes of foreign officials, as well as domestic, are illegal and not tax deductible. In 2006, Turkey's parliament ratified the UN Convention Against Corruption.

Turkey's Criminal Code makes it unlawful to promise or to give any advantage to foreign government officials in exchange for their assistance in providing improper advantage in the conduct of international business. In the event that such a crime makes an unlawful benefit to a legal entity, such legal entity shall be subject to certain security measures. The provisions of the Criminal Law regarding the bribing of foreign governmental officials are in line with the provisions of the Foreign Corrupt Practices Act of 1977 of the United States (the "FCPA"). There are, however, a number of differences between Turkish law and the FCPA. For example, there is not an exception under the Turkish law for payments to facilitate or expedite performance of a "routine governmental action" in terms of the FCPA. Another difference between the provisions of the FCPA and Turkish law is that the FCPA does not provide for punishment of imprisonment, while the Turkish law provides a punishment of imprisonment from four years to 12 years. The Prime Ministry's Inspection Board, which advises the Corruption Investigations Committee, is responsible for investigating major corruption cases. Nearly every state agency has its own inspector corps responsible for investigating internal corruption. The parliament can establish investigative commissions to examine corruption allegations concerning cabinet ministers or the Prime Minister. A majority vote is needed to send these cases to the Supreme Court for further action.

In 2004, Turkey established the Public Officials Board of Ethics as part of an effort to introduce transparency in public administration. Transparency International has an affiliated NGO in Istanbul. Transparency International (TI) noted that Turkey showed a significant reduction in perceived levels of corruption in 2008 and moved Turkey from 66th to 58th in the transparency ranking of 180 countries. In 2009, Turkey dropped slightly in both absolute score and relative rank to 61st, but TI observed that Turkey still has the highest score in the South Eastern Europe, Eastern Europe, and Central Asia region and is ranked higher than several current EU members.

Bilateral Investment Agreements

Since 1962, Turkey has been negotiating and signing agreements for the reciprocal promotion and protection of investments. Turkey has signed bilateral investment treaties with 81 countries and has initiated negotiations with eight countries. Sixty five of these agreements are now in force, including with the United States, United Kingdom, Germany, the Netherlands, Belgium, Luxembourg, Denmark, Austria, Sweden, Switzerland, Spain, Finland, Italy, Portugal, Hungary, Poland, Romania, Tunisia, Kuwait, Bangladesh, China, Japan, South Korea, Indonesia, Croatia, Cuba, the Czech Republic, Estonia, Russian Federation, Azerbaijan, Kazakhstan, Georgia, Tajikistan, Ukraine, Uzbekistan, Belarus, Lithuania, Latvia, Slovakia, Macedonia, Pakistan, Turkmenistan, Moldova, Kyrgyzstan, Albania, Bulgaria, Argentina, Bosnia, Malaysia, Egypt, Mongolia, Greece, Israel, Afghanistan, Ethiopia, Iran, Lebanon, Syria, Slovenia, Jordan, India, Qatar, and the Philippines.

Turkey's bilateral investment treaty with the United States came into effect on May 18, 1990. A bilateral tax treaty between the two countries took effect on January 1, 1998. Turkey has avoidance of double taxation agreements with 68 countries.

OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) offers a full range of programs in Turkey, including political risk insurance for U.S. investors, under its bilateral agreement with Turkey. OPIC-supported privately managed direct equity funds, including the $320 million Southeast Europe Equity Fund II and the $200 million Paladin Realty Eurasia fund, can make direct equity investments in private sector projects in Turkey. OPIC has also put in place framework agreements with Turkish and U.S. banks to support small and medium-sized enterprises (SME) lending in Turkey. Most recently, OPIC provided $100 million in financing to expand bank lending to SMEs in Turkey and to help women entrepreneurs gain access to medium-to-long term credit. Garanti Bank, partially owned by GE Capital, a subsidiary of the General Electric Company of the United States, will use the OPIC facility to provide medium-to-long term loans to SME clients and expand its SME portfolio. Loans are expected to be made to businesses involved in a variety of sectors, including manufacturing, tourism, services, and construction. Information on all of these programs is available at www.opic.gov. OPIC also works with several financial consultants in Turkey that can assist both U.S. and Turkish investors develop a finance or insurance application for OPIC consideration through the OPIC-sponsored Enterprise

Development Network (EDN). Additional information on this program is available at www.EDNaccess.net. In 1987, Turkey became a member of the Multinational Investment Guarantee Agency (MIGA).

The U.S. Government annually purchases approximately $24 million of local currency. Embassy purchases are made at prevailing market rates, which fluctuate in accordance with Turkey's free floating exchange rate regime.

Labor

Turkey has a youthful population of 71.5 million, with 26.3 percent under the age of 14 and 66.9 percent between 15 and 64 years of age. 75 percent of the population lives in urban areas. The Turkish labor force numbers 25.4 million (22 million employed and 3.4 million unemployed). Approximately 27 percent of the workforce is in agriculture. The official unemployment rate was 12.4 percent as of September 2009 (16.2 percent urban and 7.8 percent rural, while youth unemployment was 24.3 percent). This represents a sharp uptick since 2008, largely as a result of the global economic crisis.

According to 2007 figures from the State Statistics Institute of Turkey, the literacy rate is 88.6 percent (96.0 percent among men and 80.4 percent among women). Students are required to complete eight years of schooling and to remain in school until they are 15 years old. According to 2008 figures, those who complete primary school education account for 96.49 percent of the population. Of these, 58.52 percent complete vocational or higher education, including distance education.

Turkey has an abundance of unskilled and semi-skilled labor. Although the Ministry of Education launched projects within the framework of EU programs to meet the needs of high-tech industries, there is a shortage of qualified workers. Individual high-tech firms, both local and foreign-owned, have generally conducted their own training programs for such job categories. Vocational training schools for some commercial and industrial skills exist in Turkey at the high school level. Formal apprenticeship programs remain in place, although informal training is dying out in some traditional occupations. Turkey's labor force has a reputation for being hardworking, productive, and dependable.

Labor-management relations have been generally good in recent years. Employers are obliged by law to negotiate in good faith with unions that have been certified as bargaining agents. Strikes are usually of short duration and almost always peaceful. Approximately 3 million of the 15 million wage and salary earners are considered to be officially unionized, although the actual number is probably substantially lower. The law prohibits discrimination on the basis of union membership but discrimination sometimes occurs in practice. There is no obligation for a worker to become a member of any union and there is no obligation to make a collective labor agreement for any sector. However, in order to be covered by a collective labor agreement, a worker should be a member of a union. In order to be a bargaining agent, a union must have a membership of more than half of the workers employed in a work place and include at least 10 percent of the workers employed in that specific sector. The Labor Law sets a series of steps to be followed, including mediation by an Arbitration Board, before a union may initiate a strike.

Facilitating labor-employer relations is among the responsibilities of the Economic and Social Council, which aims at maintaining an effective dialogue between the state and social parties to encourage compromise in industrial relations.

Turkey has signed many International Labor Organization (ILO) conventions protecting workers' rights, including the conventions on Freedom of Association and Protection of the Right to Organize; Rights to Organize and to Bargain Collectively; Abolition of Forced Labor; Minimum Wage; Occupational Health and Safety; Termination of Employment; and Elimination of the Worst Forms of Child Labor. Since 1980, Turkey has faced criticism by the ILO, particularly for shortcomings in enforcement of ILO Convention 87 (Convention Concerning Freedom of Association and Protection of the Right to Organize) and Convention 98 (Convention Concerning the Application of the Principles of the Right to Organize and to Bargain Collectively). However, there are few restrictions on freedom of association and the political activities of trade unions. The Constitution provides certain restrictions on the right to strike. Civil servants (defined broadly as all employees of the central government ministries, including teachers) are allowed to form trade unions and to engage in limited collective negotiations, but are prohibited from striking.

Improvements to job security legislation provided employers with greater flexibility in the organization of work and weakened to a certain extent the job security provided by the regulations. They contain many new provisions in conformity with international regulations of the ILO and the EU.

There are no special laws or exemptions from regular labor laws in the country's 21 free trade and export processing zones.

Use of technology is encouraged at work. There is a special law concerning establishment of Technology Development Zones (called "techno-parks"). The state also contributes to research and development activities either through reimbursement or providing subsidies. Personnel expenses, cost of machinery, equipment and software, consultancy and other services, fees paid to scientific institutions, registration fees for patent and industrial designs to the Patent Institute, and the cost of R&D related materials may be reimbursed up to 60 percent by the state. This aid may be extended for up to three years.

Foreign Trade Zones/Free Ports

Firms operating in Turkey's 21 free zones have historically enjoyed many advantages. The zones are open to a wide range of activities, including manufacturing, storage, packaging, trading, banking, and insurance. Foreign products enter and leave the free zones without payment of any customs or duties. Income generated in the zones is exempt from corporate and individual income taxation and from the value-added tax, but firms are required to make social security contributions for their employees. Additionally, standardization regulations in Turkey do not apply to the activities in the free zones, unless the products are imported into Turkey. Sales to the Turkish domestic market are allowed, with goods and revenues transported from the zones into Turkey subject to all relevant import regulations. There are no restrictions on foreign firm operations in the free zones. Indeed, the operator of one of Turkey's most successful free zones located in Izmir is an American firm.

Taxpayers who possessed an operating license as of February 6, 2004, will not have to pay income or corporate tax on their earnings in the zone for the duration of their license. Earnings based on sale of goods manufactured in a zone will be exempt from income and corporate tax until the end of the year in which Turkey becomes a member of the European Union. Earnings secured in a free zone under corporate tax immunity and paid as dividends to real person shareholders in Turkey, or to real person or legal-entity shareholders abroad, will be subject to 10 percent withholding tax. The tax immunity of the wage and salary income earned by persons employed in the zones by taxpayers possessing an operating license expired on December 31, 2008, except for producers that export more than 85 percent of their products. The GOT passed a law in November 2008, according to which producers' immunities from income and corporate tax, as well as tax on wage income earned in these zones were extended to coincide with Turkey's membership in the European Union. The implications of the new rules are complex, and interested parties may want to consult with a tax advisor and/or the Foreign Trade Undersecretariat (web site: www.dtm.gov.tr).

Foreign Direct Investment Statistics

With the foreign investment permit requirement in place until 2003, the Turkish Treasury collected detailed sector and country of origin data for authorized FDI. Data collected since the abolition of the permit requirement, by the Central Bank and other entities, may not be directly comparable to data collected prior to 2003.

According to Turkish Treasury data, as of October 2009, there are 23,536 foreign firms investing and operating in Turkey. The aggregate actual inflows as of October 2009 reached $96.6 billion. In 2008, EU countries accounted for 74.9 percent of FDI inflows to Turkey, the United States for 5.8 percent, Asian and Gulf countries for 13.4 percent. Over the past two decades, the Netherlands (20.1 percent) has been the top source of foreign investment, followed by France (8.3 percent), the United Kingdom (8.0 percent), Finland (7.4 percent), Germany (7.2 percent), the United States (6.8 percent), and Greece (6.1 percent). According to U.S. Commerce Department data, cumulative U.S. FDI in Turkey as of 2008 is $6.1 billion. U.S. FDI is sharply understated because many global firms make their investments through subsidiaries or affiliates located in third countries. By unofficial estimates, the U.S. may be one of the largest sources of foreign investment in Turkey.

In 2008, about 68.2 percent of foreign direct investment took place in services, 25.7 percent in manufacturing, and 1.2 percent in mining.

FDI Inflow by Years (million $)

Year	**Actual Inflow**	**Inflow/GDP**	**No firms**
(Cumulative)			
1980-1988			1,020

1989	663	0.61	1,145
1990	684	0.45	1,375
1991	810	0.54	1,575
1992	844	0.53	1,790
1993	636	0.35	2,021
1994	608	0.46	2,219
1995	885	0.52	2,517
1996	722	0.39	2,876
1997	805	0.41	3,249
1998	940	0.45	3,662
1999	783	0.42	4,063
2000	982	0.49	4,588
2001	3,352	2.29	5,065
2002	1,133	0.62	5,560
2003	1,752	0.73	6,665
2004	2,885	0.96	8,760
2005	10,029	2.77	11,605
2006	19,945	4.98	14,955
2007	22,189	3.30	18,028
2008	18,315	2.60	21,425
2009*	**6,622**	**1.50**	**23,536**
TOTAL	**96,604**	******	**23,536**

Source: Central Bank of Turkey, State Institute of Statistics, Undersecretariat of Treasury
(*) January through October 2009.
(**) Includes capital inflows, foreign loans and real estate investment.

FDI Stock by Source Country (end of 2008/million $, according to current market value of investments)

Country	**Value**	**Share (percent)**
Netherlands	13,514	20.1
France	5,582	8.3
United Kingdom	5,397	8.0

Finland	4,960	7.4
Germany	4.840	7.2
U.S.A.	4,543	6.8
Greece	4,118	6.1
U.A.E.	3,744	5.6
Belgium	3,267	4.9
Luxembourg	2,784	4.1
Others	14,516	21.5
Total	**67,265**	**100.0**

Source: Central Bank of Turkey.

Turkey's External Investment by Country (As of December 2009)

Country	**Value (million $)**	**Share**
Netherlands	4,467.6	25.2
Azerbaijan	3,553.6	20.1
Malta	1,321.5	7.5
U.S.A.	721.2	4.1
Luxembourg	714.6	4.0
Germany	709.6	4.0
Kazakhstan	618.9	3.5
United Kingdom	433.4	2.4
Russian Federation	314.9	1.8
Belarus	300.4	1.7
Belgium	298.8	1.7
Romania	290.5	1.6
Others	3,974.8	22.4
Total	**17,719.8**	**100.0**

Source: General Directorate of Banking and Foreign Exchange, Turkish Treasury

Major foreign investors

Turkey’s foreign investors include ABB, Abbott Laboratories, AEG, AES, Akzo Nobel, Alcatel Lucent, Alliance One, Arcelor, Archer Daniels Midland, Aria, Aventis, BASF, Bausch and Lomb, Bayer, Bechtel, Bosch, Bridgestone-Firestone, British Petroleum, Bunge, Cadberry Schweppes, Cargill, Castrol, Chase Manhattan, Cisco Systems, Citigroup, Coca Cola, Colgate-Palmolive, DaimlerChrysler, Delphi-Packard, Dow Chemical, ESBAS A.S., Eurest, Fiat, Ford Motor Co., Fortis, M.A.N., General Electric, Goodyear, Henkel, Honda, Hugo Boss, Hyundai, ITT, Indesit, JTI, L6, Lafarge, Lockheed Martin, Marsa-Kraft-Jacobs Suchard, McDonald's, Merck Sharp Dohme, Metro Group, Mobil, NRG, Nestle, Normandy Mining, Nortel Networks, Novartis, Pepsi, Perfetti, Pfizer, Philip Morris, Pirelli Tire, Procter and Gamble, Renault, RJR Nabisco, Roche, Sandoz, Shell, Siemens, Texas Pacific Group, Toreador/Madison Oil, Toyota, Unilever, United Defense, Vodafone, Volkswagen, and Yazaki.