TURKEY

INVESTMENT CLIMATE STATEMENT

2015

Table of Contents

Executive Summary

The Turkish market is generally under-penetrated by U.S. businesses and presents many investment opportunities due to its size, youth, and geographical position straddling Europe and the Middle East. Between 2002-2009, the Turkish government implemented many positive economic reforms based on sound macro-economic principles driven by a strong push to join the European Union and recommendations by the World Bank and the International Monetary Fund. After the economic crisis of 2007, Turkey attracted more than its share of investment as a relatively stable emerging market with a promising trajectory of reforms. But over the last five years, progressive economic and democratic reforms seem to have slowed down and even been replaced by tendencies that lean toward economic protectionism and political authoritarianism. But as investors begin to move their money from the Turkish market in the face of a looming rise in Fed interest rates, the competition for a shrinking global pot of money may drive Turkey to step up and make reforms to become a more attractive destination for much-needed FDI.

Other recent trends that cloud the investment climate include slowing growth, increasing questions about the independence of the Central Bank, and uncertainty about who will head the economic policy team after Parliamentary elections in June. Investors have been watching and waiting to determine which direction Turkey will go. Although there is still widespread assumption of government corruption based on December 2013 allegations, no charges were filed against former ministers or their family members. And following the government shutdown of social media platforms on the eve of elections in March 2014, the government again shuttered Twitter and YouTube in April 2015, re-kindling concerns of freedom of speech and rule of law in Turkey that never really went away.

Turkey is the 18th largest economy in the world, with a GDP of USD 786 billion in 2014. In 2013, Turkey set an ambitious target to become one of the ten largest economies in the world by 2023, the centenary of the founding of the Turkish Republic. Doing so would require Turkey to nearly triple its economy to more than USD 2 trillion, develop a USD 500 billion export sector, and make significant upgrades to its energy, information technology, finance, and physical infrastructures within a decade. Achieving this goal is unlikely given the recent slowdown in growth; last year, it fell short of its 2023 goal to have USD 1 trillion GDP by 2014, regressing from USD 822 billion to USD 786 billion. 2015 GDP growth is expected to be between two and three percent. While still above growth rates in Europe, this is a significant slowdown compared to the average of the last decade. Even if its 2023 growth aspirations are overly optimistic, Turkey needs to undertake significant economic reform to meet even moderate growth targets. Recent economic reform packages have been long on promises and short on details to be implemented post-election.

Turkey’s exports have been negatively affected by the slowdown in the EU, its leading export market and unrest in its Middle East markets. Although actively seeking new and expanded markets in the Middle East, Africa, and the United States, Turkey's exports are projected to remain flat in 2015. U.S. business prospects may improve based on Turkey's push to upgrade and expand its customs union agreement with EU. If reforms extend to government procurement and services, it could pave the way for a more non-discriminatory and market-based environment to attract more U.S. participation.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Turkey acknowledges that its domestic economy alone will not enable it to meet its ambitious 2023 economic goals and that it needs to attract significant new foreign direct investment (FDI). As a result, Turkey has one of the most liberal legal regimes for FDI in the OECD. According to the Ministry of Economy, Turkey attracted USD 12.1 billion of FDI in 2014, slightly less than USD 12.4 billion from 2013. U.S. FDI in Turkey was USD 325 million in 2014 and USD 326 million in 2013. In order to attract more FDI, Turkey needs to increase trade advocacy and export promotion efforts, as well as access to credit, especially for small- and medium-sized businesses involved in high value-added goods and services. Turkey must also better enforce international trade rules, ensure the transparency and timely execution of judicial orders, increase engagement with foreign investors on policy issues, and pursue policies to promote strong, sustainable, and balanced growth.

Structural reforms undertaken by the Government of Turkey (GOT) over the last decade, a strong banking sector, tight fiscal controls, efforts to reduce the size of the informal economy, increasing flexibility of the labor market, improving skills of workers, and continuing privatization of state economic enterprises will continue to boost the investment environment in Turkey. Transactions completed under the Turkish privatization program generated USD 12.5 billion in 2013, the latest figures available. The Turkish government is committed to continuing the privatization process despite the contraction in global capital flows.

Most sectors that are open to the Turkish private sector are also open to foreign participation and investment. All investors, regardless of nationality, face some challenges: excessive bureaucracy, a slow judicial system, high and inconsistently applied taxes, weaknesses in corporate governance, unpredictable decisions made at the local government level, and frequent changes in the legal and regulatory environment. The Parliament amended the Law of Obligations (debt regulations), and a new Commercial Code became effective in July 2012. Structural reforms that will create a more transparent, equal, fair, and modern investment and business environment remain delayed until after June 2015 Parliamentary elections. Venture capital and angel investing are still relatively new in Turkey, but 2012 legislation should continue to facilitate greater development of these financing opportunities.

Other Investment Policy Reviews

In the past three years, Turkey has not conducted an investment policy review through the Organization for Economic Cooperation and Development (OECD). Turkey’s last investment policy review through the World Trade Organization (WTO) was conducted on May 6th, 2012. Turkey has not conducted an investment policy review through the United Nations Conference on Trade and Development (UNCTAD). Over the past year, Turkey has cooperated with the World Bank to produce several reports on the investment climate in general that can be found at: http://www.worldbank.org/en/country/turkey/research

Laws/Regulations of Foreign Direct Investment

Turkey's investment legislation is simple and complies with international standards, while it offers equal treatment for all investors. The New Turkish Commercial Code No. 6102 ("New TCC") was published in the Official Gazette on February 14, 2011. The backbone of the investment legislation is made up of the Encouragement of Investments and Employment Law No. 5084, Foreign Direct Investments Law No. 4875, international treaties and various laws and related sub-regulations on the promotion of sectorial investments. Here are the regulations related to M&A: 1) Turkish Code of Obligations: Article 202 and Article 203, b) Turkish Commercial Code: Articles 134-158, c) Execution and Bankruptcy Law: Article 280, d) Law on the Procedures for the Collection of Public Receivables: Article 30, and e) Law on Competition: Article 7.

There is no government/authority interference in the court systems that could affect foreign investors because there are different courts for FDI. Useful websites for foreign investors to navigate the laws, rules and procedures include:
- Prime Ministry Investment Support and Promotion Agency web site is fully equipped to inform foreign investors from legislation to company establishment. (http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/EstablishingABusinessInTR.aspx)
- www.GER.co provides links to business registration sites worldwide.

Industrial Promotion

The government has programs to attract investment to help Turkey achieve its 2023 development goals. The Turkish Ministry of Economy (www.incentives.gov.tr) offers an investment incentive program to prioritize investment sectors regardless of the region of investment. The following sectors have government programs to attract investment through existing regional incentives: maritime freight or passenger transport; railway investments; test centers, such as wind tunnels to support automotive, aerospace or defense industry; tourism accommodations; international fairgrounds; production of biotechnological drugs; defense, aviation and aerospace; mine extraction or processing; schools; manufacturing products from R&D subsidized by the government; automotive engines, parts, and electronics; and electric production.

Turkey's Industrial Strategy announced by the Ministry of Science, Industry, and Technology (MSIT) identifies key areas to increase Turkey's competitiveness and productivity and targets aimed at transforming Turkey into a technology base for manufacturing of medium- to high-technology products. The document identifies the following areas as major potential drivers of the Turkish economy that can help increase exports and FDI growth: innovation-led productivity, increasing production of medium- and high-technology goods, increasing capital for knowledge-intensive sectors, creation of a stronger knowledge-based economy, and a well-educated and highly-qualified work force.

Limits on Foreign Control

There are no general (statutory, de facto, or otherwise) limits on foreign ownership or control; Turkey's regulatory environment is extremely business-friendly. Investors can establish a business in Turkey irrespective of nationality, or place of residence. There are no sector-specific restrictions that discriminate against market access, as they are prohibited by WTO Regulations.

Privatization Program

Turkey has privatized many of its public assets in recent years from the petro-chemical industry to telecommunication. The current privatization portfolio contains the National Lottery Administration (Milli Piyango), and sectors of maritime, mining, textile, transportation, energy, and banking. Foreign investors are eligible to participate in these privatization programs. Turkey utilizes a public bidding process where the highest bidder wins. It is easy to understand and is transparent, with large scale bids broadcast via media.

Screening of FDI

Turkey does not screen, review, or approve Foreign Direct Investments specifically. But regulatory and supervisory authorities were established in order to regulate different types of markets to supervise and monitor market activities in accordance with these regulations or malfunctions that may occur. Some of the important entities in Turkey are as follows: Competition Authority; Energy Market Regulation Authority; Banking Regulation and Supervision Authority; Information and Communication Technologies Authority; Tobacco, Tobacco Products and Alcoholic Beverages Market Regulation Board; Privatization Administration; Public Procurement Authority; Sugar Authority; Radio and Television Supreme Council; and Public Oversight, Accounting and Auditing Standards Authority.

Some of the aforementioned authorities screen as needed without discrimination, primarily for tax audits. Screening mechanisms are executed to maintain fair competition and for other economic benefits. If investment fails review, possible outcomes can vary from issuing a notice to cure, which allows for a specific period of time to correct the problem, to penalty fees. The Turkish judicial system allows for appeals of any administrative decision, including tax courts that deal with tax disputes.

Competition Law

The Competition Authority is the sole authority in competition issues in Turkey and deals only with the private sector. Public institutions are exempt from their authority. (http://www.rekabet.gov.tr/en-US/Mainpage)

Investment Trends

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	64 of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	55 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	54 of 143	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 10,970	data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

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 investment-related funds. There is no difficulty in obtaining foreign exchange, and there are no foreign-exchange restrictions. Funds associated with any form of investment can be freely converted into any world currency. The exchange rate is determined by a free floating exchange rate.

Remittance Policies

In Turkey, there have been no recent changes or plans to change investment remittance policies that either tighten or relax access to foreign exchange for investment remittances. There are also no time limitations on remittances. Wait periods for dividends, return on investment, interest and principal on private foreign debt, lease payments, royalties, and management fees do not exceed 60 days. There are no limitations on the inflow or outflow of funds for remittances of profits or revenue. Turkey does not engage in currency manipulation tactics. Turkey is not subject to a compliance program, but is a country of primary concern to the Financial Action Task Force (FATF).

3. Expropriation and Compensation

Under the U.S.-Turkey BIT, expropriation can only occur in accordance with due process of law, can only be for a public purpose, and must be non-discriminatory. Compensation must be reasonably prompt, adequate, and effective. The BIT ensures U.S. investors have full access to Turkey's local courts 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.

The GOT occasionally expropriates private real property for public works or for state industrial projects. The GOT agency expropriating the property negotiates the purchase price. If owners of the property do not agree with the proposed price, they are able to challenge the expropriation in court and ask for additional compensation. There are no outstanding expropriation or nationalization cases for U.S. firms.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Turkey's legal system provides means for enforcing property and contractual rights, and there are written commercial and bankruptcy laws. Turkey's court system, however, 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 upheld by local courts before they are accepted and enforced. Monetary judgments are usually made in local currency, but there are provisions for incorporating exchange rate differentials in claims. The Turkish Government is working on judiciary reform that aims at shortening the duration of judicial proceedings and bringing greater efficiency to the Turkish judiciary system through specialized courts (such as Intellectual Property Rights courts, a number of which already exist in Turkey). Recent developments reinforce the Turkish judicial system's need to undertake significant reforms to adopt fair, democratic and unbiased standards. Poorly implemented rule of law and the GOT's attempts to control court rulings remain the biggest obstacles in investment disputes.

A prime example of these developments was the Spring 2014 ban on Twitter and YouTube. The Turkish Telecommunications Authority used court orders against several pieces of content on the social media platforms to justify blocking the platforms. Though subsequent court orders overturned both bans, Twitter was blocked for two weeks and YouTube was blocked for over two months, exhibiting the GOT's occasional lack of adherence to its own laws. Some critics allege that these bans have more to do with the opinion of the ruling party than the rule of law.

Turkey is a member of the International Center for the Settlement of Investment Disputes (ICSID) and is a signatory of the 1958 Recognition and Enforcement of Foreign Arbitral Awards (New York Convention). Turkey ratified the Convention of the Multinational Investment Guarantee Agency (MIGA) in 1987. There are no arbitration cases involving a U.S. company pending before ICSID. The U.S.-Turkey bilateral investment treaty (BIT), which entered into force in 1990, affords protection to U.S. investments in Turkey by providing certain mutual guarantees and creating a more stable and predictable legal framework for U.S. investors.

Bankruptcy

Turkey has a bankruptcy law based on the Execution and Bankruptcy Code No. 2004 (the "EBL"), published in the Official Gazette on June 19, 1932 and numbered 2128. Turkey criminalizes bankruptcy. World Bank's Doing Business Report gave Turkey a rank of 109 out of 189 countries in the Ease of Resolving Insolvency category.

Investment Disputes

There is limited data about investment disputes available to the Embassy economic team, with only three known cases. Over the last 15 years, the government has a mixed record of handling investment disputes through international arbitration, with one case resulting in a USD 30 million payment and the other resulting in no payment. Within the past 10 years, there has been one investment dispute that was resolved with Embassy advocacy.

International Arbitration

The International Arbitration Law, based on the UNCITRAL model law, was adopted in Turkey in 2001. Local courts accept binding international arbitration of investment disputes between foreign investors and the state. In practice, however, Turkish courts have on occasion failed to uphold an international arbitration ruling involving private companies and have favored Turkish firms. There are two main arbitration bodies in Turkey: the Union of Chambers of Commerce and Commodity Exchanges of Turkey (www.tobb.org.tr) and the Istanbul Chamber of Commerce (www.ito.org.tr). (Most commercial disputes can be settled through arbitration, including disputes regarding public services.) Parties decide the arbitration procedure, set the arbitration rules, and select the language of the proceedings. There is draft legislation proposing the establishment of an arbitration center in Istanbul.

ICSID Convention and New York Convention

In 1992, Turkey ratified the New York Convention. Under the NY convention foreign arbitral awards, involving member States may be enforced within local or domestic courts.

Duration of Dispute Resolution

Although investment and commercial dispute are infrequent, resolutions can take years. There have been recent increases in safeguard measures for trade. Local domestic courts accept binding international arbitration of investment state-disputes. In practice, however, there have been cases whereTurkish courts have on occasion failed to uphold an international arbitration ruling involving private companies and have favored Turkish firms.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Turkey is a party to the World Trade Organizations’s (WTO) Agreement on Trade Related Investment Measures (TRIMS). Turkey's investment incentive system was substantially amended in 2006, and again in 2012, to promote investment and encourage exports. In 2009 the Council of Ministers issued a state investment incentive decree that provided tax benefits and increased credit opportunities. It is applied in diverse ways according to the location, scale, and subject of the investment and includes exemption from customs duties and fund levies, customs, and value-added (VAT) tax exemptions for locally-purchased or imported machinery and equipment. The Turkish Treasury also covers selected parts of investment credit interest rates for Small-medium enterprise (SME), research and development projects, environmental projects, and projects in prioritized development provinces that have annual per capita income below USD 1,500. This decree was updated and replaced by the new one in 2012.

There are no performance requirements imposed as a condition for establishing, maintaining, or expanding investment in Turkey. 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, technology transfer, or local financing.

GOT requirements for disclosure of proprietary information as part of the regulatory approval process are consistent with internationally accepted practices. Enterprises with foreign capital must send their activity report submitted to shareholders, their auditor's report, and their balance sheets to the Turkish Treasury's Foreign Investment Directorate every year by May.

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

The GOT announced incentives in 2012 that give priority to high-tech, high-value-added, globally competitive sectors and put in place new regional incentive programs to reduce regional economic disparities and increase regional competitiveness. The new investment incentives involve a "tiered" system which provides for greater incentives to invest in less developed parts of the country. The map and explanation of the program can be found at: www.invest.gov.tr/en-US/Maps/Pages/InteractiveMap.aspx

The GOT continued to introduce a series of incentive packages since 2012, latest of which was announced in April 2015. The new package supporting production and employment is estimated to cost approximately USD 7.5 billion. It aims to undertake structural transformation into high-tech production and qualitative transformation of human capital. For the text of regulations governing foreign investment and incentives, visit ISPAT's web site: www.invest.gov.tr

Investment Incentives

Turkey's regional incentives program divides various regions of the country into one of six different zones, providing the following benefits to investors: corporate tax privilege; customs tax exemption; Value Added Tax (VAT) exemption; employer's share insurance contributions support; allocation of investment locations; income tax withholding support; land allocation; and government support for credit interests. The program was launched in 2012 and more detailed information can be found at the Ministry of Economy's website: www.incentives.gov.tr

Research and Development

Foreign firms can participate if the research and development (R&D) is conducted in Turkey. Turkey pays close attention to the impact micro-economic factors have on business development and growth and is seeking to foster entrepreneurship and small and medium-sized enterprises (SMEs). Through the Small and Medium Enterprises Development Organization (KOSGEB), the Turkish Government provides various incentives for innovative ideas and cutting-edge technologies, in addition to providing SMEs easier access to medium and long-term funds. There are also a number of technology development zones (TDZs) in Turkey where entrepreneurs are given assistance in commercializing business ideas. The Turkish Government provides support to TDZs, including infrastructure and facilities, exemption from income and corporate taxes for profits derived from software and R&D activities, exemption from all taxes for the wages of researchers, software, and R&D personnel employed within the TDZVAT, and corporate tax exemptions for IT specific sectors, and customs and duties exemptions.

Turkey's Scientific and Technological Research Council (TUBITAK) has special programs for entrepreneurs in the technology sector, and the Turkish Technology Development Foundation (TTGV) has programs that provide capital loans for R&D projects and/or cover R&D-related expenses. Projects eligible for such incentives include concept development, technological research, technical feasibility research, laboratory studies to transform concept into 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. TUBITAK also has a Technology Transfer Office Support Program, which provides grants to establish Technology Transfer Offices (TTO) in Turkey.

Performance Requirements

The government mandates a local employment ratio of ten Turks per foreign worker. These schemes do not apply equally to senior management and boards of directors, but their numbers are included in the overall local employment calculations. Foreign legal firms are forbidden from working in Turkey except as consultants; they cannot directly represent clients and must partner with a local law firm. There is not excessively onerous visa, residence, work permits or similar requirements inhibiting mobility of foreign investors and their employees. There are no known government-imposed conditions on permissions to invest, including tariff and non-tariff barriers.

Offsets are an important aspect of Turkey's military procurement, and offset guidelines have been modified to encourage direct investment and technology transfer. In February 2014, Parliament passed legislation requiring the Ministry of Science, Industry, and Technology (MSIT) to establish a framework to incorporate civilian offsets into large government procurement contracts. The Ministry of Health (MOH) established an office to examine how offsets could be incorporated into new contracts. While all the regulations are still pending, the law suggests that for public contracts above USD 5 million, companies must invest up to 50 percent of contract value in Turkey and "add value" to the sector. In general, labor, health and safety laws do not distort or impede investment, although legal restrictions on discharging employees may provide a disincentive to labor-intensive activity in the formal economy.

Data Storage

Turkey does not follow "forced localization," but companies are encouraged to use local input in order to benefit from a 15 percent price advantage in public tenders. A product qualifies for a 15 percent discount if local input is 51 percent or more. GOT has launched a number of reforms and some of them incentivize local production, particularly in intermediary and technology-based goods. There are no requirements for foreign IT providers to turn over source code or provide access to surveillance for encryption. Turkey doesn't require local data centers or servers. However, the government is exploring whether or not to require data localization. After the June 2015 elections, localization requirements may be pushed more aggressively.

6. Right to Private Ownership and Establishment

In broadcasting, equity participation of foreign shareholders is restricted to 25 percent. Foreign equity participation in the aviation and maritime transportation sectors is limited to 49 percent. Foreign-owned interests in the petroleum, mining, broadcasting, maritime transportation, and aviation sectors are subject to special regulatory requirements. Recently, U.S. mining companies have experienced difficulties receiving and renewing the necessary permits from the Prime Ministry putting multiple operations in danger of shutting down.

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. Turkey has an independent Competition Board. With respect to access to markets, credit, and other business operations, competitive equality is the standard applied to private enterprises that seek to compete with public enterprises. Regulations governing foreign investment in Turkey are, in general, transparent. In most sectors Turkey does not have an investment screening system for foreign investors; only notification is required.

7. Protection of Property Rights

Real Property

Secured interests in property, both movable and real, are recognized and enforced, and 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 are susceptible to external influence (see "Dispute Settlement"). Turkey's first mortgage law was adopted in 2007.

The Ministry of Environment and Urbanization enacted a law on title-deed registration in 2012 removing the previous requirement that foreign purchasers of real estate in Turkey had to be in partnership with a Turkish individual or company that owns at least a 50 percent share in the property, meaning foreigners can now own their own land. The law is also much more flexible in allowing international companies to purchase real property. The new law also increases the upper limit on real estate purchases by foreign individuals to 30 hectares and allows further increases up to 60 hectares with permission from the Council of Ministers. It is unknown what portion of land does not have a clear title, but interested parties may inquire through the General Directorate of Land and Cadastre (www.tkgm.gov.tr).

Intellectual Property Rights

Turkey's legal structure and enforcement for IPR infringement are mediocre and both need improvement. There has been little to no progress on IPR issues with increasing complaints from stakeholders regarding the level of IPR protection and market access for IPR-reliant goods in 2014. Turkey has for years failed to pass modernizing amendments to its patent, trademark and copyright laws, and also has failed to re-institute criminal penalties for patent and trademark violations that were vacated by the Constitutional Court in 2008. In 2014, Turkey was listed on USTR's Special 301 Report as a Watch List country. Turkey has limited capacity to enforce existing IPR protection laws, though the Turkish National Police enforce the laws on the books. Customs officers do not have ex officio authority to seize and destroy counterfeit goods. The rights holder must draft a declaration and then is charged for paying for storage and destruction of the goods. Therefore, confiscation of the goods is a serious problem in Turkey due to difficulties in destroying the goods, lack of appropriate provisions in the current legislation, long periods of storage obligation due to lengthy prosecution processes, and very high warehouse and security costs paid for by the plaintiff. As a result, trademark owners often prefer to leave counterfeit goods in the custody of infringers, even if that enables the infringers to commercially trade these goods. Counterfeit goods are prevalent in the local market, co-located with registered goods. Software piracy is also high.

Additionally, the practice of issuing search and seizure warrants varies considerably. IP courts and specialized IP judges only exist in major areas of the major cities. Outside these areas the application for a search warrant has to be filed at a regular criminal court (Court of Peace) and/or with a regular prosecutor. The Courts of Peace are very reluctant to issue search warrants: although by law 'reasonable doubt" is adequate grounds for issuing a search and seizure order, judges often set additional requirements. These may include supporting documentation, photographs, and even witness testimony, which risks exposing companies' intelligence sources. In some regions Court of Peace Judges never grant search warrants, for example at the Coastal Zone area covering the popular tourist destinations. Overall, it is difficult for investors to enforce their rights and IP protections are deteriorating.

Resources for Rights Holders

For additional information about treaty obligations and points of contact at local IP offices, please see the World Intellectual Property Organization's country profiles at http://www.wipo.int/directory/en/.

Embassy point of contact: Ozlem Tuncel Toplu TopluO@state.gov
Local lawyers list: http://turkey.usembassy.gov/list_attorneys.html

8. Transparency of the Regulatory System

The GOT has adopted policies and laws that, in principle, should foster competition and transparency. Accounting, legal, and regulatory procedures appear to be consistent with international norms. All court cases are open to the public unless a judge decides otherwise, which is normally only under exceptional circumstances of a sensitive criminal case, not civil proceedings. Copies of draft bills are generally made available to the public by posting them to the relevant ministry's website, but discussion and comments are reserved for members of Parliament. Foreign companies in several sectors, however, claim that regulations are sometimes applied in a nontransparent manner.

9. Efficient Capital Markets and Portfolio Investment

The Turkish Government strongly encourages portfolio investments. An effective regulatory system exists to encourage and facilitate portfolio investment. There is sufficient liquidity in the markets to enter and exit sizeable positions. Existing policies facilitate the free flow of financial resources into the product and factor markets. The government respects IMF Article VIII by refraining from restrictions on payments and transfers for current international transactions. Credit is allocated on market terms. Foreign investors are able to get credit on the local market. The private sector has access to a variety of credit instruments.

Money and Banking System, Hostile Takeovers

The Turkish banking sector is healthy. The estimated total assets of the country's largest banks is as follows: Türikiye İş Bankası – USD 115.63 billion as of Dec. 31 2013; Garanti – USD 103.60 billion as of Dec. 31 2013; Ziraat – TL 207.530 billion as of Dec. 31 2013; Akbank – USD 91.44 billion as of Dec. 31 2013; and Yapı Kredi Bankası-Koçbank – TL 160 billion as of Dec. 31 2013. Turkey has a central bank system. The only requirements for a foreigner to open a bank account in Turkey are a copy of their passport and either an ID number from the Ministry of Foreign Affairs or a Turkish Tax ID number. There are no regulations specifically naming a method for acquiring control of a public company as a hostile bid. However, the regulations concerning takeover bids can be considered a major method for hostile bids, as they allow acquisition of the shares of a company without the collaboration of its management.

In practice, hostile bids are not common, as most public companies in Turkey are controlled by a single shareholder or a small group of shareholders. (However, the number of hostile bids may increase in the future, mainly due to private equity investments or exits from them. In addition, the increasing number of listed companies and their complex shareholder composition may increase hostile bids.)

The Turkish Government has taken a number of important steps in recent years 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. The Turkish Government adopted a framework Capital Markets Law in 2012, aimed at bringing greater corporate accountability, protection of minority-share holders, and financial statement transparency. Implementing legislation is still in progress.

The 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 for six-year terms. In addition, bank deposits are protected by an independent deposit insurance agency, the State Deposit Insurance Fund (SDIF). Because of historically high local borrowing costs and short repayment periods, foreign and local firms have frequently sought credit from international markets to finance their activities.

10. Competition from State-Owned Enterprises

As of 2015, the sectors with active SOEs are mining, banking, and transportation, although there is not a published list of SOEs. The government of Turkey (GOT) continues to make substantial progress on privatization efforts – especially in the last decade. Of 188 companies the state once owned, 50 are fully privatized and 128 are partially privatized. With an increasing trend, shares of state-owned enterprises (SOE) in the communications, energy, mining, and transportation industries are being sold off. In 2013, Turk Telekom offered an additional 6.68% ownership stake to the public – dropping state control to about 30%. The GOT listed a record 21 companies, two ports, and 10 roadways it planned to privatize in 2014. GOT apparently shelved plans to increase private ownership of Halkbank and Turkish Airlines, bulwarks of state-ownership. More information about privatization initiatives can be found at the Prime Ministry's Privatization Administration's website at: www.oib.gov.tr/index_eng.htm. Among the SOEs that remain, allegations of unfair practices are minimal, and the Embassy is not aware of any ongoing complaints by U.S. firms.

OECD Guidelines on Corporate Governance of SOEs

Turkey is a member of the OECD Working Party on State Ownership and Privatization Practices, and OECD's compliance regulations and new laws enacted in 2012 by the Turkish Competitive Authority closely govern SOE operations.

Sovereign Wealth Funds

Turkey does not have a Sovereign Wealth Fund.

11. Corporate Social Responsibility

In Turkey, corporate social responsibility is gaining traction and more is being expected of companies, particularly in the past few years. Reforms carried out as part of the European Union (EU) harmonization process have had a positive effect on laws governing Turkish associations, especially non-governmental organizations (NGOs). Turkey has not yet established a central coordinating office or information agency to assist companies in their social efforts, and the topic of CSR is handled by the various ministries. U.S. companies, especially in the technology sector, have targeted CSR activities towards improving education in Turkey.

NGOs that are active in the economic sector, such as the Turkish Union of Chambers and Stock Exchanges (TOBB) and the Turkish Industrialists' and Businessmen's Association (TÜSIAD), issue regular reports and studies, and hold events aimed at encouraging Turkish companies to become involved in policy issues. In addition to influencing the political process, these two NGOs also assist their members in their civic engagement. The Business Council for Sustainable Development Turkey (www.tbcsd.org) and the CSR Association in Turkey (www.csrturkey.org), founded in 2005, are two associations devoted exclusively to issues of corporate social responsibility. The Turkish Ethical Values Center Foundation (www.tedmer.org.tr), the Private Sector Volunteers Association (www.osgd.org) and the Third Sector Foundation of Turkey (www.tusev.org.tr) play an important role in promoting CSR.

OECD Guidelines for Multinational Enterprises

The Turkish government is an adherent of the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises.

12. Political Violence

There have been violent attacks in Turkey, and the possibility of terrorist attacks against U.S. citizens and interests, from both transnational and indigenous groups, remains high. The Kurdistan People's Congress (also known as Kongra Gel or KGK, better known as the Kurdistan Workers' Party or PKK) has been the most active terrorist organization in Turkey. PKK activity has almost exclusively targeted the Turkish government, however, and since early 2013 it has largely observed a truce in the context of a peace dialogue.

On February 1, 2013, an indigenous terrorist organization known as the Revolutionary People's Liberation Party/Front (DHKP/C) attacked the U.S. Embassy in Ankara using a suicide bomber; one person was killed (in addition to the suicide bomber) and several others were injured. It also fired rockets at Turkish National Police Headquarters in a separate incident months later. Designated as a terrorist organization by the United States in 1997, the DHKP/C has existed since the 1970s with networks throughout Europe. The DHKP/C has stated its intention to commit further attacks against the United States, NATO, and Turkey. Violent extremists associated with groups besides PKK and DHKP/C have also transited Turkey en route to Syria.

In addition to terrorist activities, there have been instances of religious violence targeting individuals in Turkey working as religious missionaries or viewed as having proselytized for a non-Islamic religion. Threats and actual instances of crime have targeted Christian and Jewish individuals, groups, and places of worship in Turkey, including several high-profile murders of Christians over the last decade. The level of anti-Israeli sentiment remains significant following Israel's 2008 Gaza offensive. Turkish officials, however, expressly stated they excluded Jewish people, in Turkey and elsewhere, from their criticism of the Government of Israel in the wake of the intervention by Israeli Defense Forces on the Free Gaza Flotilla in May 2010.

In May, 2013 public demonstrations that began in Taksim and Besiktas in Istanbul grew into widespread demonstrations throughout the country that lasted throughout much of June. Violent altercations between protestors and Turkish law enforcement occurred in Ankara, Istanbul, Izmir, Adana, Mersin and elsewhere. These altercations resulted in numerous injuries and seven confirmed deaths. Some individuals who were not part of the demonstrations but were caught in the vicinity of violence were injured and detained. Similar protests flared up in March 2014, following the death of a boy injured in the Taksim protests in the lead up to municipal elections.

On March 30, 2014, three individuals identified as members of ISIL killed a policeman, a Gendarmerie non-commissioned officer, and a truck driver at a checkpoint near Nigde. Five soldiers were also wounded and the assailants were subsequently captured.

During the week of October 6, 2014, at least 40 civilians were killed during two-days of protests and associated violence. According to Human Rights First, security forces killed 15 persons during clashes between various Kurdish groups, including PKK-supporters and Huda-Par (a political party having organic links with Turkish Hezbollah).

13. Corruption

Corruption is a growing concern in Turkey. The corruption scandal that became public in December 2013 implicated a number of high level Turkish officials and their family members. This led to massive reorganization of the police and the judiciary, which critics alleged was a government attempt to stop the corruption investigations. The government is very vocal about its struggle against what it has termed the ‘parallel structure,’ ostensibly a network affiliated with former Erdogan ally turned opponent Fethullah Gulen, that the President says has infiltrated the Turkish government and attempts to control it from the inside. The ensuing government crackdown on its opponents produced several controversial decisions, including a tightening of internet controls that led to the blocking of social media platforms Twitter and YouTube in early 2014. The judicial system is still perceived to be susceptible to political influence and to be biased against outsiders to some degree.

The government does not actively encourage private companies to establish internal codes of conduct that prohibit bribery of public officials. Turkey is a participant in regional anti-corruption initiatives, specifically co-heading the G-20 Anti-Corruption working group with the United States. Locally, the Prime Ministry Inspection Board combats corruption.

Public procurement reforms were designed in Turkey 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. Critics state, however, that there is a bias by government officials to award large contracts to ruling Justice and Development Party (AKP) related firms, which was highlighted during the recent corruption scandal.

Turkish legislation outlaws bribery, but enforcement is uneven. 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 benefits any legal entity, such legal entity shall be subject to certain legal sanctions.

The provisions of the Criminal Law regarding bribing of foreign governmental officials are in line with the provisions of the Foreign Corrupt Practices Act of 1977 of the United States (FCPA). There are, however, a number of differences between Turkish law and the FCPA. For example, there is not an exception under Turkish law for payments to facilitate or expedite performance of a “routine governmental action” in terms of the FCPA. Another difference is that the FCPA does not provide for punishment by imprisonment, while the Turkish law provides for punishment by imprisonment from four to 12 years. The Prime Ministry’s Inspection Board, which advises the Corruption Investigations Committee, is responsible for investigating major corruption cases brought to its attention by the Committee. 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; a majority vote is needed to send these cases to the Supreme Court for further action.

According to Transparency International's (TI) annual Corruption Perception Index Data, Turkey dropped one spot from 54th to 53rd in TI's ranking of 177 countries and territories around the world in 2013 (www.transparency.org/cpi2012/results). Transparency International has an affiliated NGO in Istanbul.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Turkey ratified the Organization for Economic Co-operation and Development (OECD) Convention on Combating Bribery of Public Officials and passed implementing legislation in 2003. This convention states that bribing any foreign or domestic official,is illegal. In 2006, Turkey's Parliament ratified the United Nations Convention Against Corruption.

Resources to Report Corruption

Contact at government agency or agencies are responsible for combating corruption:
-ORGANIZATION: Prime Ministry Inspection Board
-ADDRESS: Basbakanlik Merkez Bina Zemin Kat No:11 Bakanliklar/ANKARA
-TELEPHONE NUMBER: Phone : +90 312 422 24 00 Fax : +90 312 422 24 99
-EMAIL ADDRESS: teftis@basbakanlik.gov.tr

Contact at "watchdog" organization
-NAME: M. Nihat Omeroglu
-TITLE: Chief Ombudsman
-ORGANIZATION: The Ombudsman Institution
-ADDRESS: Kavaklidere Mah. Nevzat Tandogan Caddesi No:4 Cankaya ANKARA
-TELEPHONE NUMBER: +90 312 465 22 00
-EMAIL ADDRESS: iletisim@ombudsman.gov.tr

Contact at "watchdog" organization
-NAME: Gul Okutucu
-TITLE: General Coordinator
-ORGANIZATION: Transparency International –Turkey Branch
-ADDRESS: 19 Mayis Mah. Operatör Raif Bey Sok. Niyazi Bey Apt. 30/5, Sisli, ISTANBUL
-TELEPHONE NUMBER: +90 212 240 5281
-EMAIL ADDRESS: info@seffaflik.org

14. Bilateral Investment Agreements

Since 1962, Turkey has been negotiating and signing agreements for the reciprocal promotion and protection of investments. As of April 2014, Turkey has 82 bilateral investment agreements in force with: Afghanistan, Albania, Argentina, Austria, Australia, Azerbaijan, Bangladesh, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, China, Croatia, Cuba, Czech Republic, Denmark, Egypt, Estonia, Ethiopia, Finland, France, Georgia, Germany, Greece, Hungary, India, Indonesia, Iran, Israel, Italy, Japan, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Latvia, Lebanon, Libya, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Moldova, Mongolia, Morocco, Netherlands, Oman, Saudi Arabia, Pakistan, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, Serbia, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Syria, Tajikistan, Thailand, Tunisia, Turkmenistan, United Arab Emirates, United Kingdom, United States, Ukraine, Uzbekistan, and Yemen.

Bilateral Taxation Treaties

Turkey has a bilateral taxation treaty with the United States. More information is available at: http://www.irs.gov/Businesses/International-Businesses/Turkey---Tax-Treaty-Documents

15. 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 is also active in financing private investment projects implemented by U.S. investors in Turkey. OPIC-supported direct equity funds, including the USD 200 million Soros Private Equity Fund, can make direct equity investments in private sector projects in Turkey. Currently, OPIC is looking to support increased lending for renewable energy and energy efficiency projects in Turkey. Small- and medium-sized U.S. investors in Turkey are also eligible to utilize the Small Business Center facility at OPIC, offering OPIC finance and insurance support on an expedited basis for loans from USD 100,000 to USD 10 million. In 1987, Turkey became a member of the Multinational Investment Guarantee Agency (MIGA).

16. Labor

Turkey has a population of 77.7 million, with 24 percent under the age of 14 as of 2014. Over 90 percent of the Turkish population lives in urban areas (provinces and districts). The Turkish labor force is 28.8 million, of which 25.9 million were employed in 2014. Approximately one fifth of the workforce works in agriculture while another one fifth works in industrial sectors. In 2014, the official unemployment rate rose to 9.9 percent (from 9.7 percent in 2013 and 8.4 percent in 2012) with 20 percent youth unemployment for those 15-24 years old. Students are required to complete eight years of schooling and remain in school until they are 14 years old, with nearly 100 percent of Turkey's population completing primary school.

Turkey has an abundance of unskilled and semi-skilled labor, and vocational training schools exist at the high school level. There remains a shortage of high-tech workers. Individual high-tech firms, both local and foreign-owned, typically conduct their own training programs. The Ministry of Science, Industry and Technology has launched a program with TOBB to provide skilled laborers to meet manufacturing sector needs. Turkey has also undertaken a significant expansion of university programs, building dozens of new colleges and universities over the last decade. The GOT has also initiated the FATİH project that will expand internet coverage to all Turkish schools, equip classrooms with smart boards, and provide students with tablets.

Labor unions report their relations with management of Turkish companies are often adversarial. 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. The law prohibits discrimination on the basis of union membership. While exact unionization rates are not available, they are low - a percentage probably in the single digits. There is no obligation for a worker to become a member of a union, and there is no obligation to conclude collective labor agreements in any sector. However, in order to be covered by a collective labor agreement, a worker must be a member of a union. Turkish labor law mandates that a series of steps be followed - including mediation by an Arbitration Board - before a union may initiate a strike.

In 2012, the Turkish Parliament approved the "Unions and Collective Bargaining Law," which revised regulations on trade union formation and collective bargaining. The law lowers two thresholds for a labor union to be authorized as an agent of collective bargaining. The first relates to any given work place: where previously the union had to represent 50 percent plus one of a firm's employees, the share is now 40 percent. The second measure relates to a nationwide industry branch: where a bona fide union was previously required to have membership of at least 10 percent of workers in its sector, the new rate has been lowered to one percent from January 1, 2013 through June 30, 2016; two percent from July 1, 2016 to June 30, 2018; and three percent after July 1, 2018. Turkey ratified ILO's code on safety and health in construction sector with entry into force on February 6, 2015. The Turkish Parliament approved a law on labor health and safety just days ahead of the planned end of the parliamentary season on April 7 before 2015 June elections.

Turkey's Economic and Social Council was established by law in 2001. Its President is the Prime Minister. The Council aims to maintain an effective dialogue between the state and social partners to encourage compromise in industrial relations. It is composed of representatives from governmental bodies, labor and employer confederations, employee associations, and chambers of commerce and industry.

Turkey has ratified International Labor Organization (ILO) conventions protecting workers' rights, including conventions on Freedom of Association and Protection of the Right to Organize; Rights to Organize and to Bargain Collectively; Abolition of Forced Labor; Minimum Age; Occupational Health and Safety; Termination of Employment; and Elimination of the Worst Forms of Child Labor. Since 1980, Turkey has faced criticism for not fully enforcing the 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).

The GOT maintains a number of restrictions on the right of association and the right to strike. Civil servants (defined broadly as all employees of central government ministries, including teachers) are allowed to form trade unions and to engage in limited collective negotiations, but are prohibited from striking. Certain vital public employees, such as military and police, cannot form unions. According to the new Unions Law, the list of sectors barred from striking has also been expanded to: life or property rescuing; funeral and mortuary work; production; refining/distillation; distribution of city water; electricity; natural gas and oil; petrochemical works, including with naphtha and natural gas; work places directly run by Defense Ministry, Gendarmerie, and Coast Guard; banking and public notaries; hospitals; firefighting; land, sea, railway service; and all urban public transportation. (Aviation was not included.)
The EU's October 2012 Progress Report underscores that Turkey's 2012 amended legislation on collective bargaining by civil servants "is not fully in line with the EU acquis and ILO

conventions, especially with regard to the right to strike for public servants, the process of collective bargaining and dispute settlement, as well as restrictions on large categories of public servants to form and join trade unions."

17. Foreign Trade Zones/Free Ports/Trade Facilitation

There are no restrictions on foreign firms operating in any of Turkey's 20 free zones. 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 customs or duties if products are exported to third country markets. 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.

Taxpayers who possessed an operating license as of February 6, 2004, do not have to pay income or corporate tax on their earnings in free zones for the duration of their license. Earnings based on the sale of goods manufactured in free zones are 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, are subject to 10 percent withholding tax. See the Ministry of Economy's website: www.ekonomi.gov.tr.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	**Year**	**Amount**	**Year**	**Amount**	
Host Country Gross Domestic Product (GDP) ($M USD)	2014	786,000	2013	822,000	www.worldbank.org/en/country

Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country ($M USD, stock positions)	2014	325	2013	5,302	BEA data available 3/19/14 at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Host country's FDI in the United States ($M USD, stock positions)			2013	838	BEA data available 3/19/14 at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Total inbound stock of FDI as % host GDP	2014	1.54%			

*Turkish Ministry of Economy

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	112,814	100%	Total Outward	33,373	100%
Netherlands	21,503	19%	Netherlands	11,403	34%
Germany	11,915	11%	The Republic of Azerbaijan	5.454	16%
Luxembourg	8,027	7%	United States	1,391	4%
Austria	6,758	6%	Germany	1,379	4%
United Kingdom	6,751	6%	Malta	1,040	3%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: IMF Coordinated Direct Investment Survey

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
All Countries	867	100%	All Countries	225	100%	All Countries	643	100%
United States	232	27%	United States	120	53%	Cayman Islands	203	32%
Cayman Islands	203	23%	United Kingdom	27	12%	United States	112	17%
United Kingdom	87	10%	Luxembourg	18	8%	United Kingdom	60	9%
Luxembourg	68	8%	Greece	14	6%	Luxembourg	50	8%
Germany	44	5%	Germany	14	6%	Netherlands	39	6%

Source: IMF Coordinated Portfolio Investment Survey

19. Contact for More Information

Ozlem Tuncel
Economic Specialist
American Embassy Ankara
110 Atatürk Blvd.
Kavaklıdere, 06100 Ankara - Turkey
Phone: (90-312) 455-5555
Email: topluo@state.gov