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Trade Restrictions in Motor Vehicle Industry in Turkey: European Union Demands to Eliminate Trade Restrictions on Used Motor Vehicles

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ABSTRACT

Turkey, as the largest emerging market in Europe, is an area of highly increasing mobility and motorization. Motor vehicle industry in Turkey, which is a facilitator of other sectors in the economy as well, comes as second leading exporting sector after textiles and is quite competitive in global markets. The EU, with a major share in both exports and imports of motor vehicle products in Turkey, plays a major role under the conditions of the Customs Union between Turkey and the Community since 1996.

The Association Agreement Decision No. 1/95, which started the Customs Union, regulates free movement of industrial goods and procurement of competitive trade environment between Turkey and the EC. The said Decision made no differentiation between trading of new/used goods. Turkey placed a derogation against the imports of used motor vehicles of all kinds without any time limitation under the Customs Union, which was met by approval of the EU.

At present, the EU demands elimination of this derogation by either changing the scope of the declaration or its duration. In Turkey, there is a resistance to the elimination of the derogation mainly from motor vehicle producers in Turkey, until Turkey becomes a member of the EU. Turkey has economic and legal justifications which support the existence of the derogation. Several member countries of the EU had made use of similar trade restrictions in the form of quotas in candidacy period and even after accession to the EU.

In the economic aspect, factors such as production capacity, imports and exports figures, consumer prices and laws, and competitiveness of the sector are major issues that have impact on the decision to keep the trade restrictions on used motor vehicles. European manufacturers have also undertaken huge investments in Turkey and their interests need to be taken into consideration when it comes to make a decision about the import of used motor vehicles into Turkey.

Sudden permission to imports of used vehicles involves the risk of decreasing the size of the sector in Turkey which means, apart from loss of all the revenues coming from taxation and foreign trade of products of motor vehicle industry and investment, there will be a huge loss in terms of qualified employment.

ÖZET

Avrupa'nın en geniş ve hızlı yükselen ekonomisini oluşturan Türkiye'de motorlu taşıtların kullanımı ve üretimi büyük bir artış göstermektedir. Ekonomide birçok diğer sektörün de tetikleyicisi olan otomotiv sektörü Türkiye'nin ihracatında tekstil ve hazır giyimden sonra ikinci sırada gelmektedir ve küresel pazarlarda da yüksek rekabet gücüne sahiptir. Türkiye'nin otomotiv ürünlerinin ihracatında ve ithalatında en büyük payla önde gelen Avrupa Birliği (AB), özellikle 1996'da başlamış olan Türkiye-Avrupa Topluluğu Gümrük Birliği Kararı kapsamında rolünü ve etkinliğini daha da perçinlemiştir.

Gümrük Birliği'ni başlatan Ortaklık Konseyi Kararı'na (sayı 1/95) göre iki taraf arasında sınai ürünlerinin serbest dolaşımına düzenlemeler getirilirken, Topluluk ile Türkiye arasında haklı rekabete elverişli bir ticaret alanı yaratılmasına da çalışılmıştır. Otomotiv sektörüne ilişkin olarak, yeni/kullanılmış ürünler arasında hiçbir ayrım getirmeyen 1/95 sayılı Karar'a karşı Türkiye tek yanlı olarak bir çekince ekleyerek her türde ikinci el motorlu araçların ithalini süresiz olarak durdurmuştur ve Türkiye'nin bu çekincesi Topluluk tarafından kabul edilmiştir.

AB'nin bugün ya kapsamını daraltarak ya da bir süre ile kısıtlayarak değiştirmek üzere girişimlerde bulunduğu Türkiye'nin çekincesinin gerekleri, bu çalışmada çeşitli yönlerden ele alınmaktadır. Türkiye'de özellikle otomotiv sanayi üreticileri tarafından adı geçen çekincenin Türkiye AB üyesi olana kadar kaldırılmaması yönünde bir direniş vardır. Çekincenin sürdürülmesine temel oluşturacak ekonomik ve hukuki gerekler mevcut olup ayrıca geçmişte AB üyesi olan ülkelerden birçoğunun benzer ticari kısıtlamaları üyelik öncesi süreçte ve üyelik sonrasında bile sürdürdükleri görülmektedir.

Ekonomik yönden ve rekabet edebilirlik bakış açısıyla bakıldığında ve üretim kapasitesi, ihracat ve ithalat sayıları, tüketici fiyatları ve yasaları gibi belli başlı konular detaylandırıldığında, ikinci el motorlu araçlara uygulanan ticari kısıtlamanın belli bir sürece yayılarak kaldırılmasının daha doğru bir yaklaşım olduğu görülmektedir. Kullanılmış otomotiv ürünlerinin ithalatı konusu, ayrıca AB üyesi ülkelerden sanayicilerin Türkiye'de yapmış oldukları büyük çaplı üretim yatırımları da göz önüne alınarak değerlendirilmelidir.

Sektöre yönelik ikinci el araçlarının serbest ticaretine izin verme gibi kararlar sektörde daralma, ihracatta azalma, devletin net vergi gelirlerinde büyük düşüş ve ilaveten kalifiye işçi kaybına neden olacağından etkileri iyi değerlendirilip zamana yayılmalıdır.

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ABBREVIATIONS

ACEA	Association des Constructeurs Européés d'Automobiles
ATF	Authorized Treatment Facilities
CEECs	Central and Eastern European Countries
CEPS	Center for European Union Studies
CET	Common External Tariff
CLEPA	European Automotive Suppliers Association
CRM	Customer Relations Management
CCT	Common Customs Tariff
CU	Customs Union
DIE	State Statistical Institute
EEC	European Economic Community
ELV	End of Life Vehicle
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ISO	Istanbul Chamber of Industry
IT	Information Technologies
KBA	German Federal Authority for Automotive Transport
LCV	Light Commercial Vehicle
MVI	Motor Vehicle Industry
OEM	Original Equipment Manufacture
OICA	International Organization of Motor Vehicle Manufacturers
OSD	Automobile Manufacturers Association
PC	Passenger Car
R&D	Research and Development
SME	Small and Medium-Sized Enterprises
TAYSAD	Association of Automotive Parts & Components Manufactures
TCMB	Central Bank of Republic of Turkey
UNDP	United Nations Development Program
UNEP	United Nations Environmental Program
VDA	Verband Der Automobilindustrie

WTO	World Trade Organization

INTRODUCTION

Progressive globalization and economic growth have led to increasing mobility and motorization. Mobility is a basic human desire and an essential facilitator of economic development and quality of life. Access to mobility, especially in the developing world, means access to employment, education, and healthcare. In terms of economic growth, the vehicle industry plays a key role in developing economies since the history of the automobile manufacturers is a story of growth. According to the Organisation Internationale des Constructeurs d'Automobiles (OICA), the world production of motor vehicles reached record levels in 2000, with an increase of around 4%, to 58 million units (excluding commercial vehicles). World car production is more or less equally distributed between North and South America (19.7 million), Europe (20.2 million), and Asia (17.9 million). The highest growth rate in new car registrations was seen in the emerging markets.[1] Turkey in Europe is the largest emerging market.[2]

By definition, automotive industry is an industry producing motor vehicles, components and parts.[3] Motor vehicle industry (MVI) has been the locomotive sector for creating backward and forward effect in the economy in all industrialized countries since this sector highly interacts with the other sectors in the economy like iron-steel, petro-chemistry, wheel, textile, glass, electricity, machine manufacture, defense, agriculture, tourism, transportation, infrastructure, construction, and also marketing, services, finance, insurance, fuel oil. Automotive industry contributes to technological advances in these

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[1] ACEA-UNEP-Japan Automobile Manufacturers Association (JAMA), *Report on Automotive Industry as a Partner for Sustainable Development* (2002), UNEP's Mobility Forum prepared by ACEA, UNEP and Japan Automobile Manufacturers Association (JAMA). (taken from www.acea.be), (retrieved on 3.2.2004), 11.

[2] Brussels, 28 November 2003 / DG Trade Work Programme for 2004; http://europa.eu.int/comm/trade/index_en.htm (retrieved in 11.1.2004).

[3] ISO, *Otomotiv Sanayi Sektörü Raporu*, Avrupa Birliği'ne Tam Üyelik Sürecinde İstanbul Sanayi Odası (ISO) Meslek Komiteleri Sektör Stratejileri Geliştirilmesi Projesi, İstanbul, Yayın No: 2002/22, Şubat 2002, 1.

sectors.[4] For this reason, changes in automotive sector have direct effects on all parts of the economy. The industry's contribution on a macro-economic level also yields positive micro-economy implications, allowing a growing number of individuals and their families to benefit from a stable income.

Like other countries, Turkey also realized the importance of motor vehicle sector and by 2003, MVI comes second leading exporting sector after textiles.[5] The sector started to function as an assembly industry in the 1960s. Now, with its technological infrastructure, quality satisfaction and reliable manufacture program, it becomes export-oriented and more competitive in global markets. Our main trade partner, the European Union (EU) has a major share in both exports and imports of motor vehicle products. The Customs Union with the EU in 1996 brought new conditions as well as intensified competition in the sector.

The Association Agreement Decision No. 1/95 regulates free movement of industrial goods and procurement of competitive trade environment with the EU. In Articles 4, 5 and 6, there is no differentiation between new/used products. Considering the negative effects of this decision, Turkey declared her demand to put a derogation measure to the Decision No.1/95 as a precaution to the risk of excess amount of imports of used motor vehicles from the EU. This was a unilateral demand and approved by the EU. Through these 9 years following the Customs Union, European Union was demanding elimination of this derogation by either changing the scope of the declaration or its duration. This issue could not be resolved in the meetings of Customs Union Association Committee and EU-Turkey Association Council in 2002-2003 and is expected to be resolved by the Turkish side at the shortest interval. Turkey resists this

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[4] Bedir (Kasım, 2002): *Türkiye'de Otomotiv Sanayii Gelişme Perspektifi*, İktisadi Sektörler ve Koordinasyon Genel Müdürlüğü, DPT Yayın No: 2660, 11.

[5] Official website of German Federal Authority for Automotive Transport, http://www.kba.de/ (retrieved on 4.4.2004).

approach and mainly motor vehicle producers in Turkey want to keep this declaration valid (there is no time limit in the derogation) until Turkey becomes a member of the European Union. Motor vehicle producers in Turkey proposed their recommendation as "abolishment of quota restrictions for used vehicles can be realized at the earliest between 2011-2015."[6]

This thesis tries to analyze whether the arguments put forward by the Turkish side in order to support the restrictions applied to used motor vehicles of all kind are relevant and rightful. In other words, whether Turkish argument saying "Turkey has economic and legal justifications which support the existence of the derogation" is relevant and rightful. Before deepening the analysis part, this thesis tries to define what the motor vehicle sector is and what are the major qualities of the motor vehicle sector. Then, in order to understand the evolution and production of motor vehicle products in the world, a separate part is designed to explain the situation of MVI in the world. After having been informed about the general situation of the MVI in the world in part 1, in a more limited scope, part 1.2 focuses on the MVI in the European Union.[7] General economic data like export volume, turnover, investments, taxation, Research and Development (R&D) are given and main automotive producers are listed in this part. In this way, the general outlook of the sector in Europe is tried to be defined.

Part 1.3 is dedicated to the Turkish motor vehicle industry. The sector is presented starting from its historical evolvement. Major turning points for the sector are explained and main economic data like main producers, amount of production, employment, imports and exports, investments and export projects are given. With the help of these introductory data, the current situation of the sector is clarified.

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[6] http://www.aksam.com.tr/arsiv/aksam/2004/03/22/otomobil/otomobil1.html

[7] Although the European Union became a Union of 25 member countries in May 2004, in this thesis the EU is considered as 15 member states and the new member states are only explained individually.

Part 2 is where the quest of this thesis is handled. Firstly, in 2.1 and 2.2, the general structure of the derogation and definition of a used car with respect to the EU Customs Code are given. Then the legal aspect of the derogation is examined thoroughly. The relevant articles of the Association Agreement Decision No. 1/95 are listed and explained. With respect to trade restrictions, several examples from accession agreements of Greece, Spain and Portugal, Ireland, Nordic Accession Agreement, the European Economic Area (EEA) Agreement are referred to in order to point out the legitimization of trade restrictions mainly in the form of quotas of several member countries after their accession. Poland, as a new member country, is referred in order to underline that similar derogation exists for Poland but with a different rationale behind it: a *pollution-related issue*. Hungary and Mexico are chosen as examples to show application of trade restrictions for motor vehicles.

After explaining the legal side of the issue, the economic side and why such derogation is needed are considered and a comprehensive analysis is given under part 3. Production, imports and exports, production capacity and number of cars per 1000 people are investigated. Imports and exports of MVI are compared with the total general exports and imports of Turkey in order to see whether the MVI follows the trend of Turkish general trade. The incoherencies in the tables are separately examined. Consumer prices and consumer law are taken as separate variables capable of affecting the decision of whether to eliminate or keep the trade restrictions on used motor vehicles. Passenger cars and light commercial vehicles (LCV) are separately shown in the graphs since they constitute the main part of production and trade. Lastly, this part deals with theoretical side of protectionism and its implications on MVI industry and the other special conditions relating to motor vehicle industry.

1. DEFINITION OF THE SECTOR

Motor vehicle sector has been the locomotive sector for creating backward and forward effect in the economy in all industrialized countries for two reason. Firstly, sector produces not only consumption goods but also investment goods for other sectors like transportation sector. Secondly, this sector is highly interactive with the other sectors in the economy like iron-steel, petro-chemistry, wheel, textile, glass, energy, fuel oil machine manufacture, defense, agriculture, tourism, transportation, infrastructure, construction, and also marketing, services, finance, insurance. Motor vehicle industry contributes to technological advances in these sectors. For this reason, technological progress and innovation in automotive sector have direct effects on all parts of the economy. By definition, automotive industry is an industry producing motor vehicles (Passenger car, light commercial vehicles and investment goods), components and parts.[8] During the analysis, the main section of the industry, passenger car production and new trend of the industry, light commercial vehicle production are taken separately. 'Passenger car' means a motor vehicle intended for the carriage of passengers and comprising no more than eight seats in addition to the driver's seat. 'Light commercial vehicle' means a motor vehicle intended for the transport of goods or passengers with a maximum mass not exceeding 3.5 tonnes; if a certain light commercial vehicle is also sold in a version with a maximum mass above 3.5 tonnes, all versions of that vehicle are considered to be light commercial vehicles.[9]

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[8] ISO, *Otomotiv Sanayi Sektörü Raporu*, 1; Bedir (Kasım, 1999): *Gelişmiş Otomotiv Sanayilerinde Ana-Yan Sanayi İlişkileri ve Türkiye'de Otomotiv Yan Sanayi'nin Geleceği,* İktisadi Sektörler ve Koordinasyon Genel Müdürlüğü, DPT Yayın No: 2495.
[9] Official website of International Organization of Motor Vehicle Mnufacturers: http://www.oica.net/htdocs/statistics/tableaux2002/definitions2002.pdf (retrieved on 12.9.2003)

Automotive sector has some specific qualities which deserve mentioning:

- MVI necessitates complex, multi-disciplined technology that involves main engineering areas after space and flight industry;
- a motor vehicle is produced as a combination of 5000 parts, each different with regard to quality, structure, process, technology and place of production from the perspective of common quality management and productivity;
- For a motor vehicle to have a place in traffic, it is obligatory to check whether it is compatible with nearly 50 international technical legislation related with security, traffic and environment and it is also obligatory to document them. Moreover, as the technology evolves these legislations change and necessitate motor vehicle industry to adapt itself to them;
- Because of being a highly competitive sector, customer satisfactions depend on technological innovations that in return force the industry to put more emphasis on R&D and continuous development.[10]

The automotive industry leads all other industries in research and development (R&D) investments and its level of productivity is well above average. It is generally recognized that one qualified job in the automotive industry indirectly creates seven to ten qualified jobs in related industry sectors.[11] The automotive industry also has a positive impact on many other sectors and serves as an economic barometer for stock markets.

Technological progress, freer trade policies, and relatively stable economic and political conditions have contributed to increasing international competition and trade. Competitiveness is presented as a variable key in the present context of a worldwide

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[10] ISO (2002), *Otomotiv Sanayi Sektörü* Raporu, 1-2.
[11] 6 new jobs for suppliers industry, See Bedir (November, 1999), *op. cit.,* 92.

economy and extends its influence over the international trade tendencies, industrial policies and employment. Automotive producers have taken advantage of the continuously liberalized world trade in terms of exports and have opted for local production and investment in countries with still well-protected markets. This strategy, a mix of export activity and presence in key markets, has fostered their position as a key industry worldwide.

1.1. MOTOR VEHICLE INDUSTRY IN THE WORLD

Automobile industry was founded in the beginning of 1900s. European automobile industry was started by 1940s; however, due to the Second World War, development of the sector was halted. A new approach to production, “product differentiation” started to be implemented in Europe after the Second World War. The sector in Germany, United Kingdom, France and Italy started to develop quickly. 1960s brought about cooperation of American automobile manufacturers and European counterparts. Together with the increase of GNP per capita in Europe the sector started to produce 6.2 million units of cars in 1960. (The US, in the same period, 7 million units of cars; Japan only 165.000 units of cars)

1980s brought about the improvements in the European Economic Community (EEC) towards a single market. Spanish automobile sector started to evolve through special incentives in this period[12].

In the second half of 1980s, Japan entered to global market with its home-made advanced technology and engendered a market loss for Europe and America. It did not take long for Europe and the USA to adapt the same technologies and catch up with Japan.

After 1990, South Korea entered to market as a new manufacturer. With the

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[12] ISO (2002), *Otomotiv Sanayi Sektörü Raporu*, 33-34.

assistance of stable economic plans implemented in favor of automobile industry, production reached to 2.4 million units in 1997 and they adopted a policy of buying plants in post-Soviet countries and penetrate into the European market. South Korea was negatively affected from the 1998 Asian crises.[13]

The main reason behind the fact that the production process is transferred from the developed countries to other places is domestic market saturation which was also sustained by the special state incentives being given to the industry in 1970s and protection of domestic markets by high tariff walls. The system used in those years was named "Completely Knocked-Down System" which means importation of parts of a car and assembly in the domestic plants. In Turkey the set-up stage of the automobile industry followed the same path.[14]

According to the International Organization of Motor Vehicle Manufacturers (OICA) report (1999) the production of EU firms outside the EU is 35%, the rest is produced within the Union borders. The EU comes first with its 14.3 million units of automobile production (total production 18.9 million units) yearly.[15]

After all, due to the financial cost of unused capacity, the limited market development, more demanding customers not wishing to pay for what they have desired and high costs of R&D, profits of companies decreased and this situation oriented them towards global company partnerships. Therefore, the number of companies is gradually decreasing. (from 60 to nowadays 20 companies) Technical legislation also crosses the frontiers. There is an excessive pressure of technical legislation mainly for Active/ Passive Safety and protection of environment (noise/CO2/Exhaust emission) on manufacturers.

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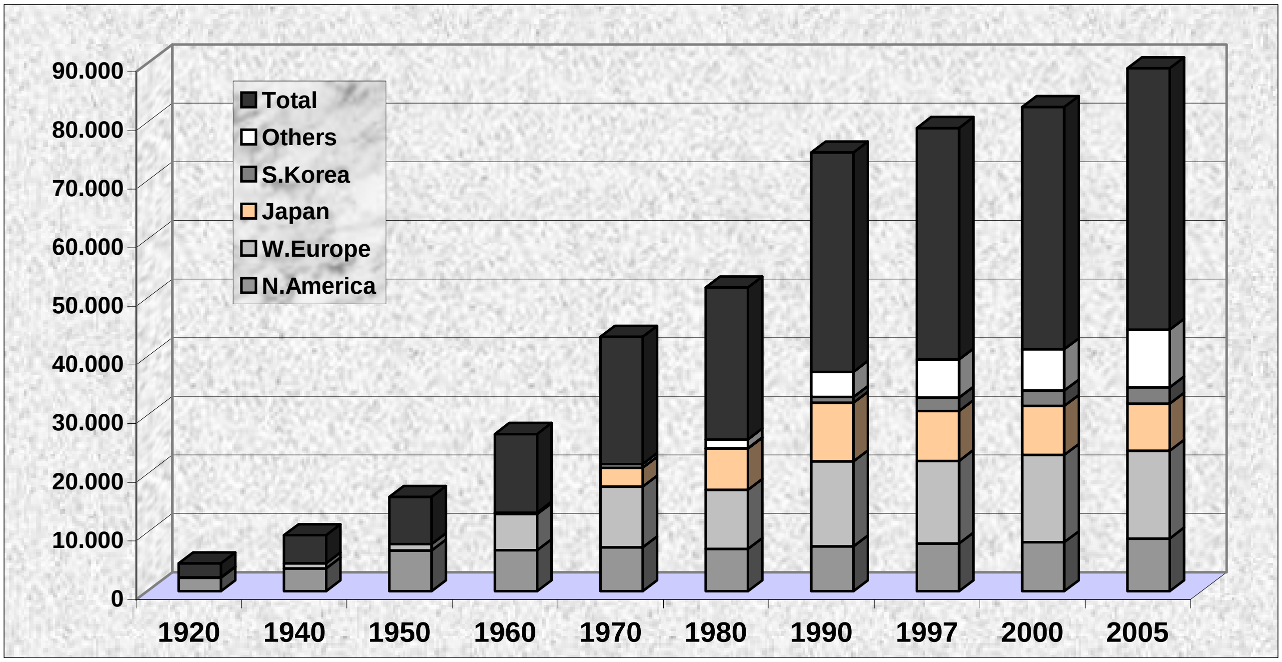
[13] ISO (2002), *Otomotiv Sanayi Sektörü Raporu*, 27-28.
[14] ISO (2002), *Otomotiv Sanayi Sektörü Raporu*, 28-29.
[15] ISO (2002), *Otomotiv Sanayi Sektörü Raporu*, 29.

Graph 1 Distribution of World Car Production in Units According to Countries (x1000) (1920-2005)



Source: OSD Report: Trade volumes are taken from the OSD Presentation (Mücahit Sevim), "Türkiye'deki Otomotiv Sanayii – 2003 ve Gelecek", İstanbul, Nisan 2004; Atilla Bedir (November, 1999): "Gelişmiş Otomotiv Sanayilerinde Ana-Yan Sanayi İlişkileri ve Türkiye'de Otomotiv Yan Sanayi'nin Geleceği", İktisadi Sektörler ve Koordinasyon Genel Müdürlüğü, DPT Yayın no: 2495, 24, Atilla Bedir (November, 2002): "Türkiye'de Otomotiv Sanayii Gelişme Perspektifi", İktisadi Sektörler ve Koordinasyon Genel Müdürlüğü, DPT Yayın no: 2660, 7.

European market is the largest automobile market in the world. In terms of capacity it comes second with 26,7% share after Asian Pacific Region with 42,7% share. Due to incessantly changing market and competition conditions, Western European industry still has noteworthy potential to grow which necessitates investments for developed markets new model- new technology investments; for developing markets capacity and production of compatible cars.

Table 1. Current Situation in the MVI Sector in The World:

IN SUM

10 big companies with the highest share of production are respectively GM, Ford, Toyota-Daihatsu-Hino, Volkswagen, Daimler Crysler, PSA-Peugeot, Citroen, Honda, Nissan-Nissan Diesel, Hyundai-Kia, Renault-Dacia-Samsung and they constitute the 77% of world production according to OICA records of 2003.

World *MVI* Production in 58 Countries:

Passenger car ⇨ 42.1 Million (% 70)

Commercial Vehicle ⇨ 18.6 Million (% 30)

Total ⇨ 60.7 Million (% 100)

- **Total Employment Volume: 0,55 Billion $**
- **Total World *MVI* Exports: 23 Million $**

Source: International Organization of Motor Vehicle Manufacturers: http://www.oica.net/htdocs/Main.htm (retrieved on 12.09.2003); Comite Des Constructeurs Français d'Automobiles, *Analysis and Statististics: The French Automotive Industry*, Comite Des Constructeurs Français d'Automobiles, 2004 Edition, 6.

For 2005, world production is estimated to increase by 20%. This increase is expected to be realized less in the EU, the USA and Japan; instead, higher production levels is expected to actualize in South Korea, Eastern Europe, Latin America and Asian Pacific Region.[16]

[16] ISO (2002), *Otomotiv Sanayi Sektörü Raporu*, 28-29.

1.2. EUROPEAN UNION MOTOR VEHICLE INDUSTRY

In the EU, automotive industry is a key industry characterized by having very few vehicle manufacturing firms and a substantial number of independent suppliers to which about 2/3 of the production is outsourced. The EU motor vehicle industry with 1.1 million employment, constituting 6% of all EU exports and 4% of the EU GDP is very crucial for the Union.

1990s were more problematic for the sector due to stagnation in the economy and approximately 20% of decrease in the new car registrations. Therefore, the EU implemented a preferential trade agreement with Japan and set a voluntary quota for imports. For example, in 1993 the quota for passenger cars (PC) was 1.1 million but then it was revised and decreased to 980.000 PCs. At the same time, knowing the importance of the sector, European Commission chose motor vehicle sector as pilot sector when designing the new industrial policy of the Union in the context of the Maastricht Agreement. Between 1995-1999, the industry enjoyed a period of special status for 5 years in order to invest on the competitiveness of the sector.[17] As incentives from the EU budget, 154 million ECU is allocated for the sector. According to the European Parliament Factsheet on MVI (2001)[18], elimination of barriers to intra-community trade, maintenance and expansion of a competitive automobile industry in the EU, use of voluntary import restrictions are still among the sectors' priorities. Consequently, the EU prefers the abolishment of trade barriers enforced by Turkey on used motor vehicles.

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[17] Osman Z. Orhan (1997) : *Gümrük Birliği sürecinde Türk otomotiv sanayii'nin ve otomotiv yan sanayii'nin rekabet gücü*, Yayın No:1997-54, İstanbul: İstanbul Ticaret Odası, 50-53; Meral Varış Tezcanlı ed. (Ekim, 1995): **Otomotiv Sektörü**, İstanbul Menkul Kıymetler Borsası, Sektör Araştırmaları Serisi/ No:1, 56; Leyla Tunç Yeltin (1999): **Gümrük Birliği Çerçevesinde Avrupa Birliği ve Türkiye'de Otomotiv Sektörü**. İktisadi Kalkınma Vakfı (IKV) Yayın no: 154, 2-5.

[18] European Parliament Fact Sheet on Automobile Industry (01.10.2000); http://www.europarl.eu.int/factsheets/4_7_4_en.htm (retrieved on 10.10.2003)

Table 2. EU Motor Vehicle Industry General Data

Worldwide turnover[19]	452 billion € (271 billion € from Western Europe) (2001)
EU-15 Exports motor vehicles industry (manufacturers and suppliers)	59 billion € (2001) representing 6% of total extra EU exports
Tax Revenues	334 billion € representing 15% of the governments revenues 4% of the EU GDP (excluding oil products)
Added Value Operating Profit	9% of the EU manufacturing industry
Employment	1.1 million in EU; 1.6 world-wide
Indirect employment[20]	11 to 12 million people (8.5 % of the EU's active workforce)
Investments for R&D	over 33 billion € (2000)
R&D spending	19 billion € (2000)
Source: Official Website of European Automobile Manufacturers Association[21], www.acea.be; European Union Official Website, http://mkaccdb.trade.cec.eu.int/index.html (retrieved on 3.2.2004)	

The data above shows the significance of the sector for the European economy. In all of these categories, MVI has an appreciably important place. According to the European Commission, White Paper *European Transport Policy for 2010: Time to Decide*, the demand for the transport of goods within the European Union alone will increase by 38% and the demand for passenger transport by 24% before the year 2010. Total distance traveled by passenger cars will increase by 79%.[22] These estimations show

[19] Global production is shared by thirds: Western Europe with a share of 31,4% (16,5 Mio units), Asia-Pacific 30,3% (16,1 Mio units) and North America 29,1% (15,5 Mio units). Central/Eastern Europe and South America count for 4,6 and 3,5 %, Africa and the Middle East for 0,6 and 0,5%.

[20] Recycling, sale, maintenance and repair of motor vehicles; land transport, renting of cars, construction of highways and other civil engineering works.

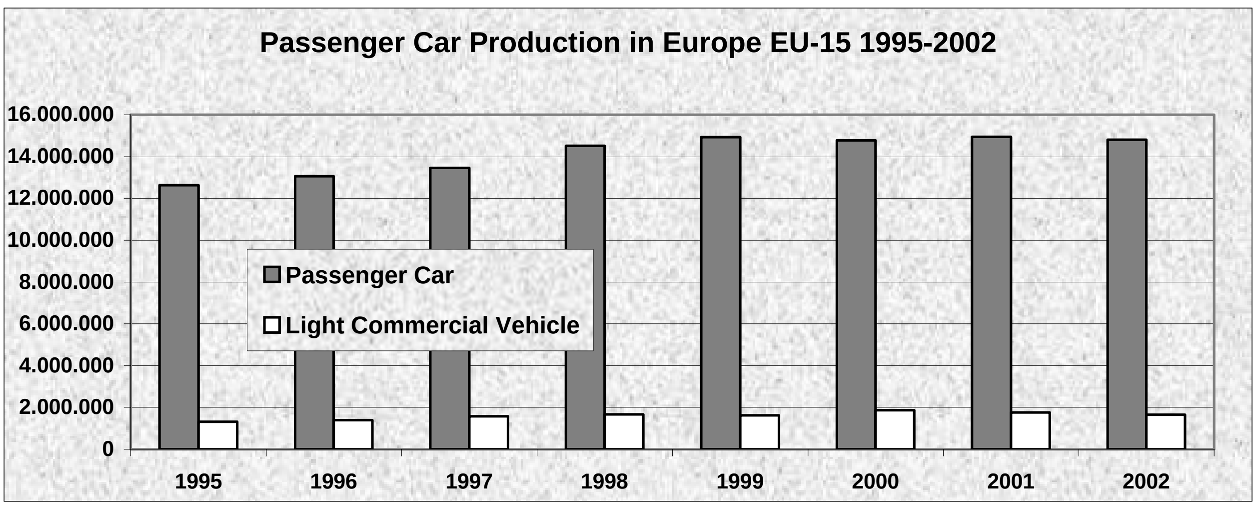
[21] ACEA (Association des Constructeurs Européens d'Automobiles) covers the 13 major EU car, bus and truck manufacturers and represents about 95% of the EU automobile production.

[22] ACEA-UNEP-Japan Automobile Manufacturers Association (JAMA), *Report on Automotive Industry as a Partner for Sustainable Development* (2002), UNEP's Mobility Forum prepared by ACEA, UNEP and

the development potential of the industry in the EU and its importance for countries like Turkey that direct its exports to the Union.

All of the suppliers made positive returns over the three-year period with an average growth of 98.4%. Raw material costs are still an issue. Revised production and sales estimates will also translate to additional sales for suppliers. While the new Block Exemption Regulation has provided many opportunities and price harmonization throughout the European Union, countries with higher vehicle taxes, such as Greece, Denmark and Portugal, are suffering declines in sales.[23]

Graph 2. Passenger Car Production in Europe EU-15 (in Units) 1995-2002



Source: OICA Correspondents Survey, http://www.oica.net/htdocs/Main.htm (retrieved on 3.3.2004).

As the graph 2 shows, European Union motor vehicle production follows a stable trend unlike Turkish production which increased 54% between 2002-2003 (See in graph

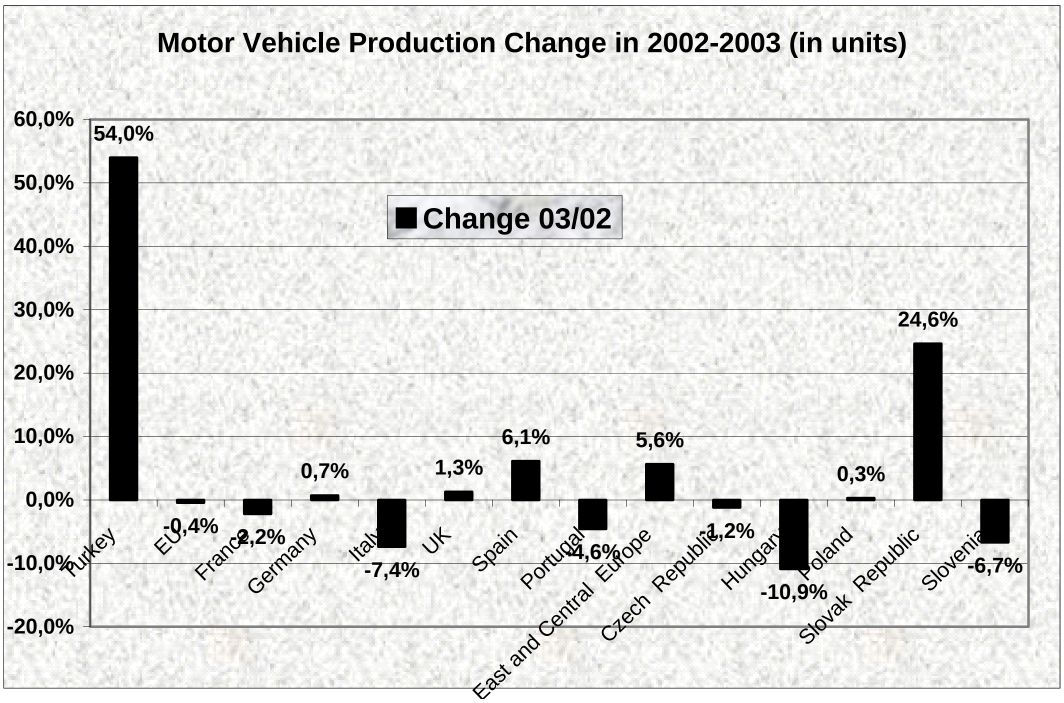
Japan Automobile Manufacturers Association (JAMA). (taken from www.acea.be), 9; COM (2001) White Paper on European Transport Policy in 2010: Time to Decide.

[23] Price Waterhouse Coopers: (retrieved on 3.3.2004) http://www.pwc.com/extweb/industry.nsf/docid/AC99084DBBFF4207852568DA00691F2B

3). Passenger car production in the EU was 12.636.067 units in 1995 and with an increase of 15%, it reached to 14.810.460 in 2002.

EU production of motor vehicles reached to 16.988.526 units in 2002 and with a slight decrease in 2003, total MVI production was 16.915.524 units.

Graph 3 . Motor Vehicle Production in Europe by Country in 2002-2003 (in units)



Source: OICA Correspondents Survey, http://www.oica.net/htdocs/Main.htm (retrieved on 3.3.2004).

Graph 3 is designed to compare the amount of increases and decreases in production in various European and Central and Eastern European Countries (CEECs); the motor vehicle industry in Turkey has recorded the highest growth rates (54%) and only Slovak Republic follows the trend with a considerable increase of 24,6%. When we compare the production of Turkey with the CEECs, the Czech Republic performed similar amounts. Spain, the United Kingdom, and Germany have recorded slight increases. The EU average production increase is negative 0,4%.

Table 3. Motor Vehicle Production in Europe by Country in 2002-2003 (in units)

MOTOR VEHICLE PRODUCTION IN EUROPE BY COUNTRY in 2002-2003 (in units)							
	EU	**France**	**Germany**	**Italy**	**UK**	**Spain**	**Portugal**
Change 03/02	-0,4%	-2,2%	0,7%	-7,4%	1,3%	6,1%	-4,6%
2002	16.988.526	3.701.870	5.469.309	1.427.081	1.823.018	2.855.239	250.832
2003	16.915.524	3.620.056	5.506.629	1.321.631	1.846.429	3.029.690	239.361
	Turkey	**East and Central Europe**	**Czech Republic**	**Hungary**	**Poland**	**Slovak Republic**	**Slovenia**
Change 03/02	54,0%	5,6%	-1,2%	-10,9%	0,3%	24,6%	-6,7%
2002	346.565	2.593.982	447.088	141.513	299.085	225.718	126.661
2003	533.672	2.740.065	441.719	126.116	299.918	281.347	118.172
Source: OICA Correspondents Survey, http://www.oica.net/htdocs/Main.htm (retrieved on 3.3.2004); summarizing the Graph 3 data.							

The EU-15 market is dominated by European brands. Between 1998-2002, only minor shifts took place in the market shares of different brands. German and French brands hold by far the largest shares, and were even able to expand their market presence, while Italian and UK market shares declined.[24] The table 3 summarizes the situation in 2002-2003 and the facts given above are confirming the same trend except that production in France has slowed down and turned out to be negative in that period.

One other concern is that new member states of the EU from Eastern Europe like Poland, the Czech Republic and a future acceeding country Rumania are listed among the preferable countries for global manufacturers. During new model productions, there is

[24] European Commission, Enterprise and Industry Committee, *European Competitiveness: Competitiveness and Benchmarking Report 2004*, SEC (2004)1937: Luxembourg: Office for the Official Publications of the European Communities.

always a possibility to invest in other cheaper countries. And the data above supports this risk of transfer of production plants in some other countries. At the same time, Turkey recorded the highest growth rate with 54% which is incomparable to +0.3% by Poland or general growth rate of 5.6% of the whole of the CEECs. Central European countries' industries faced declines as their export-oriented industries were undermined by falling demand in West Europe. While indigenous manufacturers struggle with capacity constraints, the increasing popularity of imported used vehicles is also beginning to curtail growth.[25] So, Eastern Europe has already been faced with slow-down in growth which Turkey is trying to overcome by sustaining restrictions to used motor vehicle imports. The same source also argues that over the next several years, East Europe is forecast to be one of the industry's faster - growing regions, driven by continued investment in export - oriented facilities as well as improvements in domestic demand. To some extent, East Europe (and particularly the countries of Central Europe) will be dependent on improved demand in West Europe. Turkish MVI industry is about to face now the newly improving manufacturers from the Central and Eastern Europe. This is another reason for Turkey to be careful when deciding about permitting the used motor vehicles to Turkey.

[25] Pricewaterhousecoopers (2002): *Global Automotive Financial Review*, p. 5-6.

Table 4. Western European Market 2003

	Company	Unit	Market Share (%)
1	VW Group	2.708.102	16.6
2	PSA	2.457.714	15.1
3	Renault	1.803.167	11.1
4	Ford Group	1.774.413	10.9
5	GM Group	1.634.626	10.0
6	Fiat Group	1.330.681	8.2
7	Daimler Chrysler	1.136.788	7.0
8	Toyota	761.919	4.7
9	BMW	628.118	3.9
10	Nissan	479.789	2.9
11	Hyundai/Kia	384.514	2.4
12	Mazda	213.723	1.3
13	Honda	193.761	1.2
14	Others	763.656	4.7
	Total	**16.270.971**	**100.0**

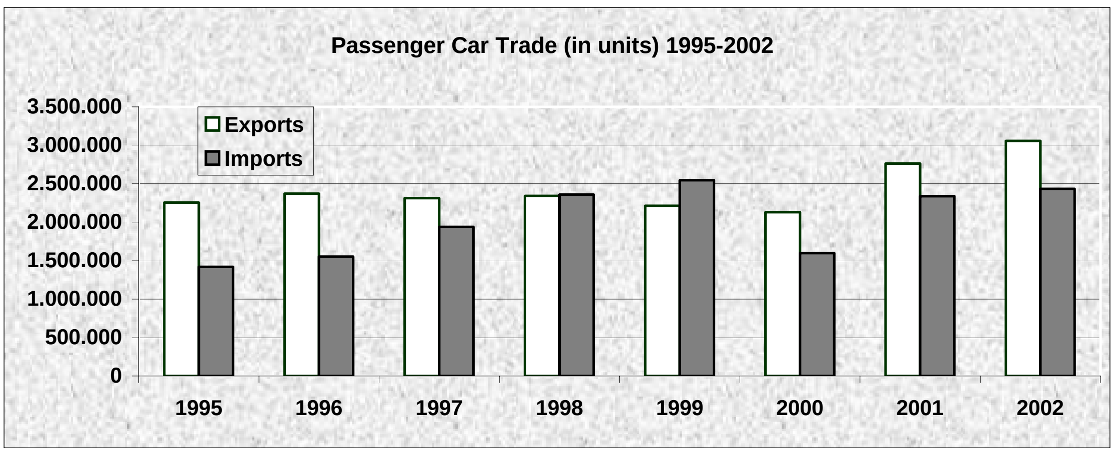
Source: Official website of the German Federal Authority for Automotive Transport (KBA) http://www.kba.de/ (retrieved on 5.7.2004)

Key Players

The automotive industry has for a long time seen mergers and acquisitions but the recent years have seen a renewed burst, Daimler-Benz's *de facto* take-over of Chrysler. Currently, the EU car industry sees DaimlerChrysler, Volkswagen (VW) – have largest market share-, BMW, Ford, General Motors (GM), Renault-Nissan, PSA (Peugeot-Citroën), Fiat (now 20% owned by GM) and Porsche. Several Japanese car manufacturers have plants in the EU; Nissan, Toyota, Honda and Mitsubishi (now controlled by DaimlerChrysler), Suzuki. Two Korean based companies, Hyundai and Daewoo, export significant numbers of cars to the EU (some from Poland), at least Daewoo is in talks with potential purchasers.[26] A third Korean car manufacturer, Samsung, has just been bought by Renault.

There is an over-capacity in production for cars world wide as well as in Europe.[27] The components suppliers industry has also seen a wave of consolidations but also sell offs by vehicle makers (GM selling Delphi and Ford Visteon). Over 2500 firms in the EU are involved in supplying components but the biggest firms (like Valeo and Bosch) are as global as the car producers.

Graph 4. EU-15 Passenger Car (PC) Trade (in units) 1995-2002



Source: Official Website of European Automobile Manufacturers Association[28], www.acea.be; (retrieved on 23.4.2003); * Figures for 2001 and 2002 excluded Greece.

The exports of PCs in 1995 were 2.254.616 units and with a 26% increase in 2002 exports became 3.054.787 units. Imports of the EU in PCs showed a higher increase with 46% and imports increased from 1.420.923 to 2.431.289 units. Despite this increase, still exports of PCs exceeded imports except in 1999. The EU has been enjoying steady

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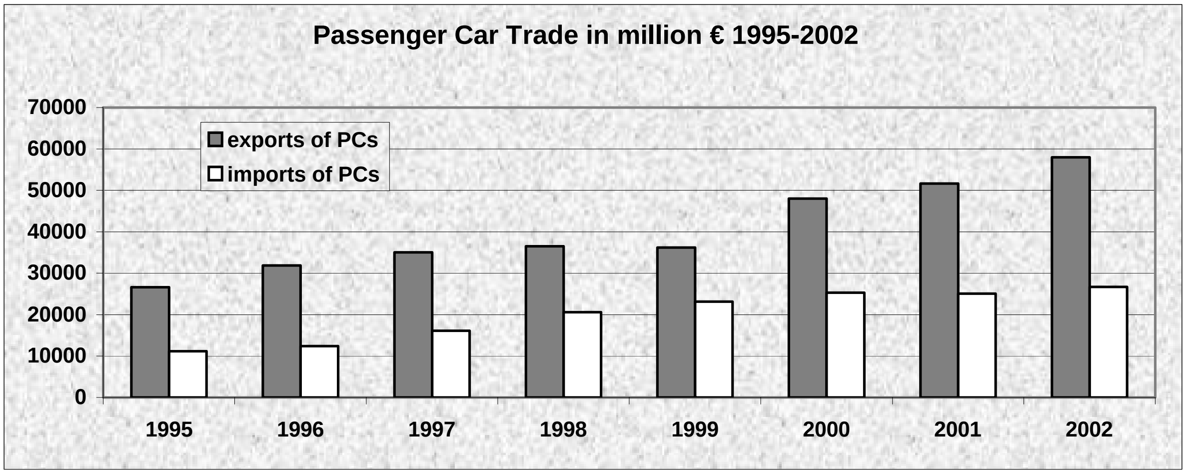
26 Yeltin (1999), 7-9.
27 European Union Car Sector Analysis: (retrieved on 5.4.2004) http://europa.eu.int/comm/enterprise/automotive/pagesbackground/sectoralanalysis/table2.htm
28 ACEA (Association des Constructeurs Européens d'Automobiles) covers the 13 major EU car, bus and truck manufacturers and represents about 95% of the EU automobile production.

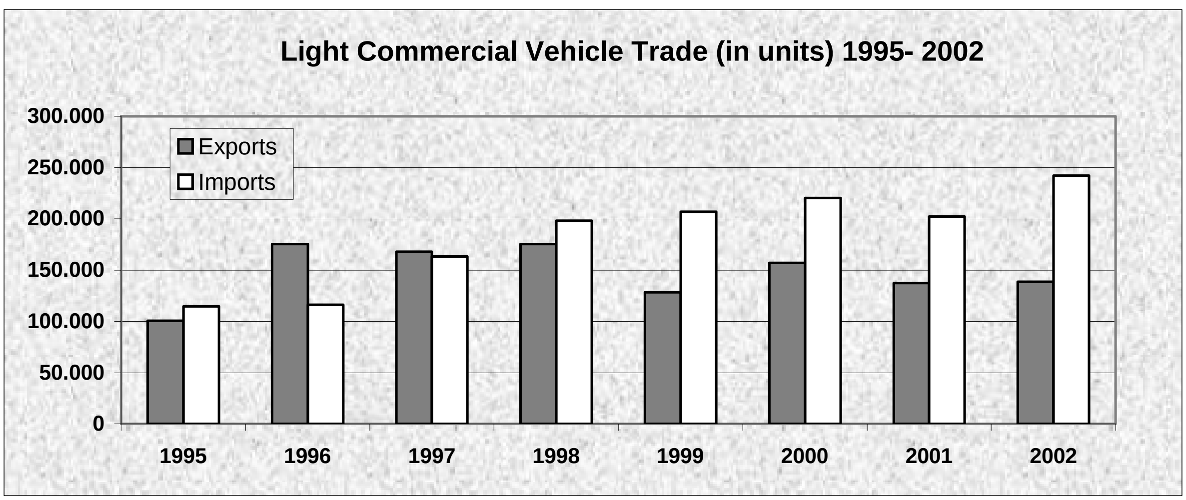
increase in export revenues of PCs which is due to the impulsive policies of the Commission that are explained in part 1.2.

Graph 5. EU-15 Passenger Car (PC) Trade (in million €) 1995-2002



Source: Official Website of European Automobile Manufactırers Association, www.acea.be; (retrieved on 23.4.2003); * Figures for 2001 and 2002 excluded Greece.

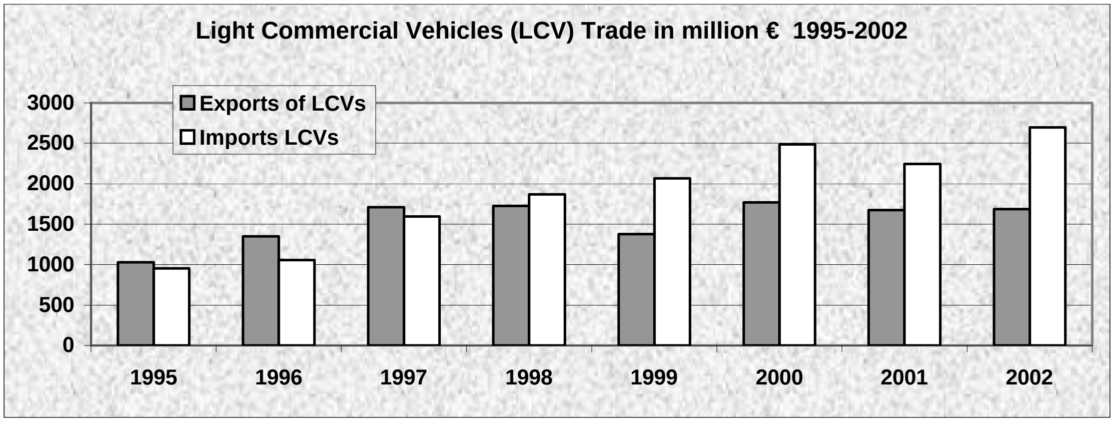
Graph 6. EU-15 Light Commercial Vehicle Trade (in units) 1995-2002



Source: Official Website of European Automobile Manufacturers Association, www.acea.be; (retrieved on 23.4.2003); * Figures for 2001 and 2002 excluded Greece.

Exports of Light Commercial Vehicles (LCVs) followed the same path as PCs and performed increase of 27% (from 100.582 units in 1995 to 138.706 units in 2002). The trend for LCVs is much volatile than PCs and imports increased more than exportsmainly since 1998. Imports increased 53% from 1995 to 2002 (from 114.790 units in 1995 to 242.005 units in 2002).

Graph 7. EU-15 Light Commercial Vehicle Trade (in million €) 1995-2002



Source: Official Website of European Automobile Manufactırers Association, www.acea.be; (retrieved on 23.4.2003); * Figures for 2001 and 2002 excluded Greece.

European car producers indicate non-tariff barriers that effectively ban EU export to and investment in third countries' markets (i.e. South East Asia, India, China, Russia) as one of their main problems of trade.[29] Declaration of derogation by Turkey to the 5th Article of the Association Agreement No. 1/95 is also on their agenda. The EU wants to eliminate this derogation or at least make changes on either content of the declaration or duration of it or both. Table 5 shows firstly how PCs and LCVs constitute main part in motor vehicle industry; secondly, it shows how extensive a market the EU is involved in; there is a vast amount of PCs that the European Union demands to export to other countries. For this reason, Turkey is a good target for these imports. In Part 3 entitled

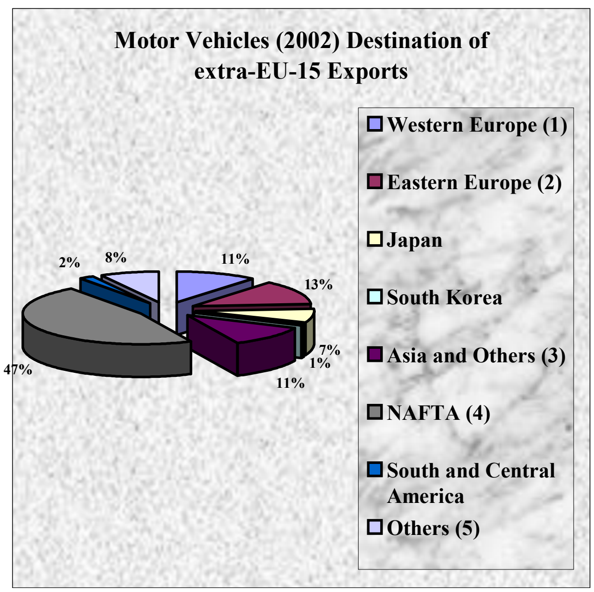
[29] Non tariff barriers applied by third countries can be listed as time consuming and burdensome certification requirements, standards and a lack of mutual recognition, additional testing requirements, excise and luxury taxes that add on to the sales prices and negatively effect a company's compatibility. With regard to trade related investment measures (TRIMs) very often i.e. local content requirements, tax incentives for local producers or strategic internal investment programmes for the sector are applied to the disadvantage of importers. If it comes to barriers to investment, strict rules for joint ventures, trading rights or majority owned foreign companies hamper the activities of European automobile companies. These type of trade barriers are the substance the WTO/DDA negotiations and bilateral trade negotiations, http://europa.eu.int/comm/trade/issues/sectoral/industry/auto/index_en.htm

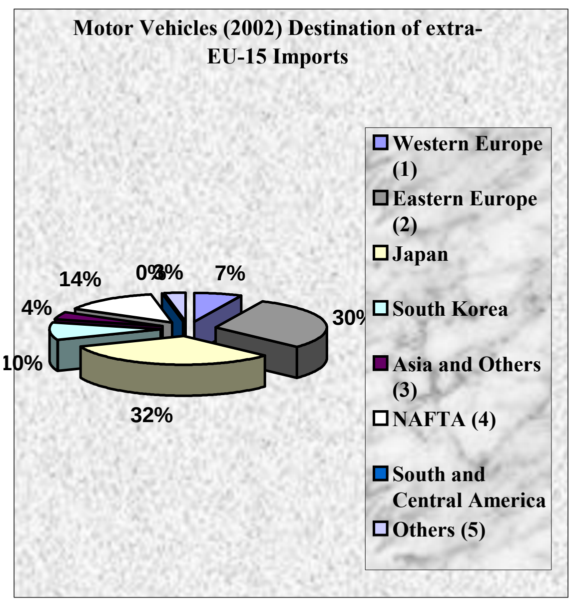
"Economic Aspects of Used Motor Vehicle trade to Turkey", this issue is explained in more detail from various aspects.

Table 5. European Motor Vehicle Market in 2004 from (January to May)

	Motor Vehicle	PCs	LCVs
EU (15)	**7.191.346**	**6.261.394**	**771.830**
New EU Members	423.260	376.227	37.126
Total EU23	7.614.606	6.637.621	808.956
Total EU23+EFTA*	7.806.444	6.803.905	829.873
Source: Official Website of European Automobile Manufactırers Association, www.acea.be (retrieved on 5.7.2004)			
* EFTA: Iceland, Norway, Switzerland.			

Graph 8. Imports and Exports of Motor Vehicles by EU-15 to outside of the EU (value)





Notes: (1) Western Europe includes EU-15 + EFTA countries + Turkey; (2)Eastern Europe includes Russia but not Turkey; (3)Asia (others) contains all Asian countries except Japan and S. Korea; (4) NAFTA includes US, Canada, Mexico; (5) Others include Africa, Oceania and other small world wide regions not mentioned in any of the regions abovestated.

Table is taken from the Brussel Office of ACEA, "Yearly Statistical Summary" prepared by Statistic Department by ACEA. (is published on internet for only members of the Association in the members area)

In terms of imports, main trade partners of the EU are Japan, Eastern Europe and NAFTA mainly. In the case of exports, on the other hand, main trade partners are again NAFTA and Eastern Europe. Graph 8 shows that European manufacturers are losing markets in 2002 to Japanese and Korean manufacturers. This was also the case for 2003 mainly due to overcapacity and pricing issues[30]. In 1991, the EU concluded a trade agreement with Japan aimed particularly at gradual opening of the EU market to Japanese cars and light commercial vehicles during a transitional period ending on 31 March 1999. Both Japanese and Korean markets have been opened further to European imports. As a result of the Uruguay Round, EU duties on automobile parts and components have been reduced by an average of one third.

[30] **European Union Car Sector Analysis:** (retrieved on 5.4.2004) http://europa.eu.int/comm/enterprise/automotive/pagesbackground/sectoralanalysis/table2.htm

1.3. MOTOR VEHICLE INDUSTRY IN TURKEY

1.3.1. IMPORTANCE OF MOTOR VEHICLE INDUSTRY FOR TURKEY

Motor vehicle industry (MVI) is an economically strategic sector in terms of its remarkable contribution to national production and development, direct and indirect employment and level of technology for all countries. From the side of government, it provides reliable sources of government income about 20 % of gross revenues (1.073.195.506 YTL in 2003[31]) because of easy and accountable tax collecting and high export potential. It provides employment for more than 500.000 people with related sub sectors and attracts foreign investors.[32]

More importantly, high export potential (14 % in total EU Export of Turkey) of MVI promotes external trade and Turkey's technological development. The European Union (EU) is our main trade partner in motor vehicle sector and 82% of MVI imports come from the EU and 66% of our MVI exports are directed towards the EU.

Table 6. Share of MVI Trade of Turkey with the EU-15

Total MVI Exports	$6.095.219.893	
MVI exports to the EU	$4.019.637.402	66%
Total MVI Imports	$7.345.408.458	
MVI Imports from the EU	$6.043.551.380	82%
Source: Calculated from the data in OSD Annual Statistical Bulletin 2004/1 (May 2004).		

[31] The revenues provided by MVI will be given in more detail in part 5.8.
[32] OSD, OSD Report, *Türkiye'deki Otomotiv Sanayii III. Ana-Yan Sanayii Forumu* (İTO) 08.05.2003; Bedir (November, 1999): *op. Cit.,* 10; TÜSİAD, *Taşıt Araçları Yan Sanayiinde Teknoloji ve Yeni Ürün Geliştirme Yönetimi*, TÜSİAD Rekabet Stratejileri Dizisi – 4, Yayın no. TÜSİAD-T / 98-12 / 256, TÜSİAD, İstanbul, 1998, 43-44.

In Turkey, motor vehicle industry is also third largest manufacturing industry after food and textile.[33] The automotive production (excluding buses, trucks, tractors...etc.) has constituted 70% of all motor vehicle production around the world and this ratio is valid also for Turkish automotive sector (64%).[34] For this reason, this study concentrates mainly on passenger cars (PC) and newly emerging segment of production, light commercial vehicles (LCV).

According to the study (July 2004) done by Istanbul Chamber of Industry (ISO)[35] in order to find out "500 Major Industrial Enterprises in Turkey", Ford Otosan comes 2nd, Oyak Renault comes 4th, Tofaş comes 7th, Toyota comes 11th, Mercedes Benz 17th, Hyundai Assan comes 29th when net sales income from production is considered. In the list of private companies ranged with regard to their exports, Oyak Renault comes 2nd, Ford Otosan comes 3rd, Toyota comes 4th, Tofaş comes 5th and Mercedes Benz comes 10th. In the table 7 also the amount of exports of these firms are given in $ terms. According to the table, 5 main motor vehicle producers are counted among the first ten companies with a realized export of 3.774.630.000 €. This current data is given in order to throw light upon position of MVI among other industries in Turkey.

Table 7 . First Ten Firms according their Exports (2003)

	Name of the COMPANY	Exports (1000$)
2th	OYAK-RENAULT Factory	1.015.902
3rd	FORD OTOMOTIVE INDUSTRY	864.683
4th	TOYOTA OTOMOTIVE INDUSTRY	831.170
5th	TOFAŞ TÜRK Passenger Car Factory	771.385
10th	MERCEDES-BENZ TÜRK Factory	291.490
	Total	3.774.630

Source: Istanbul Chamber of Industry: http://www.iso.org.tr/html/siteindex.html (retrieved on 28 July 2004).

33 OSD, Türkiye'nin 500 Büyük Sanayi Kuruluşu İçinde Otomotiv Sanayi. OSD Rapor No.2003/8 (Temmuz 2003).
34 Calculated from the data in OSD Annual Statistical Bulletin 2004/1.
35 Istanbul Chamber of Industry: http://www.iso.org.tr/html/siteindex.html (retrieved on 28 July 2004).

1.3.2. EVOLUTION OF MOTOR VEHICLE INDUSTRY IN TURKEY

Turkish motor vehicle industry developed under the import substituting industrialization policies that dominated the Turkish economy through the 1960s-70s. Established as an assembly industry in 1960s, the sector transformed itself into one of the major production and export sectors of Turkish economy[36]. First products were tractors and commercial transportation vehicles in 1960s. Passenger car production started in 1970s. The production of automobiles was started with Otosan and then developed with the investments of Tofaş and O. Renault. Small production units rapidly led the way to the establishment of big manufacturers that contributed to the dynamic state that the automotive sector possesses today, attracting foreign investors into establishing joint ventures and licensing agreements with Turkish counterparts.[37] 1980s brought economic cooperation with foreign investments in the sector. As the sector was included in the priority sectors category, 1990s was a time of restructuring in the industry. Capacity increase, technology improvements, quality management systems and new model developments were the trend. An average annual increase of 25% of domestic demand was realized in 1990s and both the main and the side industries made considerable investments.[38]

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[36] Bedir (November, 1999), *op. Cit.,* 80; Bedir (November, 2002), *op. Cit.*, 26-27.

[37] **"Turkish Automotive and Components Sector",** (October 2002), 2, Foreign Economic Relations Board Website: www.deik.org.tr; ISO (2002), *Otomotiv Sanayi Sektörü Raporu*, 4-6; McKinsey Global Institute, *Verimlilik ve Büyüme Atılımın Gerçekleştirilmesi*, McKinsey Global Institute, Turkey, 2003**,** 408.

[38] Bedir (November, 1999), *op. Cit.,* 80-83; ISO (2002), *Otomotiv Sanayi Sektörü Raporu*, 4; McKinsey Global Institute, *Verimlilik ve Büyüme Atılımın Gerçekleştirilmesi*, McKinsey Global Institute, Turkey, 2003**,** 408-409.

Phases in the Development of the Turkish Automotive Industry

- 1960 - 70 Technical Integration with License agreements
- 1970 - 85 Development of the Components Industry
- 1985 - 90 Financial Liberalization and Foreign Investments
- 1990 - 94 Restructuring by Training Human Force and Quality Systems
- 1994 onwards - Full Integration with the EU

In the beginning of the 1990s, the fact that the demand especially for passenger cars was on an upward trend and reached a consistent 25% annually resulted in intense investments to be made in the motor vehicles and parts and components industries. It was during this time that rapid steps were taken in the areas of capacity increase, in addition to renewed technology and investments in new models geared especially towards competition, as well as in the research and development area. On the other hand, the 1990s also witnessed the finalization of re-structuring efforts in the manufacturer firms as well as marketing corporations of the motor vehicles and parts and components industries. It was also during this time that contemporary manufacturing techniques were implemented following intense training programs, and the establishment especially of quality management systems enabled these firms to obtain documentation concerning this issue from international organizations.[39]

Facing a boom in domestic demand in 1992 and 1993, automotive industry initiated rapid expansion plans and engaged in various investments. However, 1994 crisis has badly affected the sector, which continued till 1996. The production fell down from 421.000 motor vehicles to 243.000. The sector recovered in 1997 and revealed an upswing in 1997 and produced 344.000 units of motor vehicles in the first half of 1998. It

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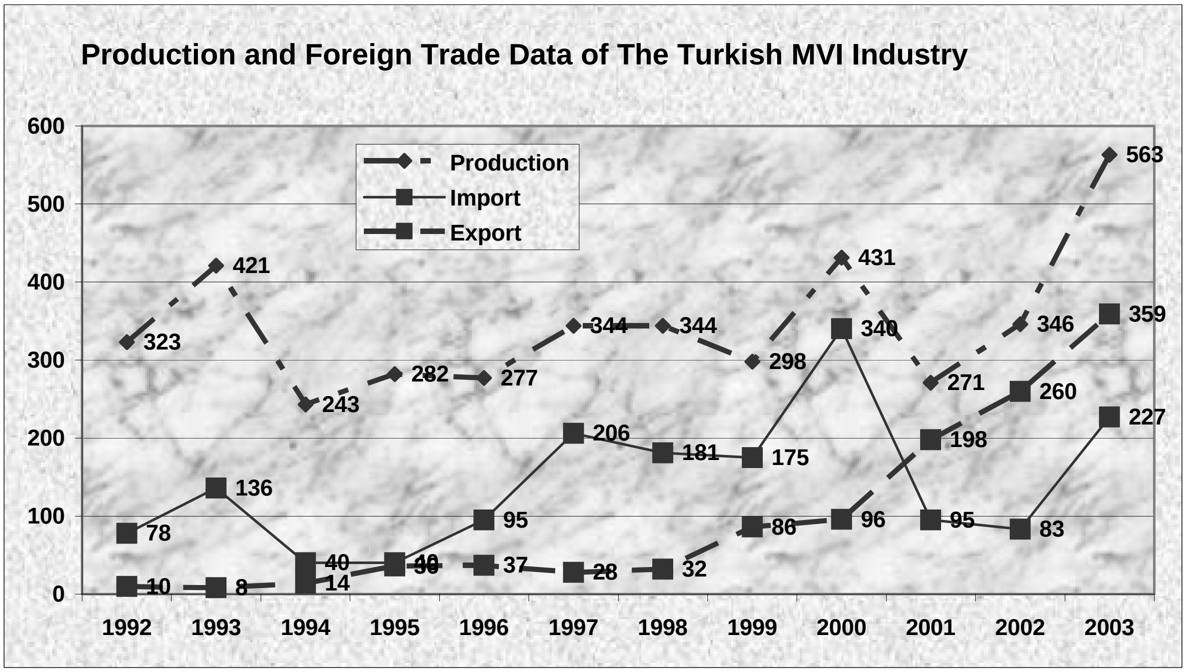
[39] Official Website of Association of Automotive Parts and Components Manufacturers: http://www.taysad.org.tr/ (retrieved on 12.10.2003)

again has begun to decline in 1999 as a result of the affect of both Far Eastern and Asian crisis. 2000 was a good year almost for all the sectors of the economy.

Graph 9. Production and Foreign Trade Data of the Turkish MVI Industry in units (x1000)[40]



Source: OSD, General and Statistical Information Bulletin Of Automotive Manufacturers, 2004 – I.

The delayed demand of 1998 and 1999 and also the future demand due to consumer expectations were realized in 2000. Both production and imports increased significantly. 431.000 motor vehicles are produced and 340.000 motor vehicles are imported. However, 2001 crisis depressed the production down to the 1990 level. It was the sharpest decline motor vehicle industry experienced. The sector recorded a recognizable increase in exports in an effort to manage the twin crises in late 2000 and 2001.[41] 2003 is a year of upturn and production increased from 271.000 units of motor vehicles to 563.000 units.

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[40] ISO (2002), *Otomotiv Sanayi Sektörü Raporu*, 4.
[41] "Turkish Automotive and Components Sector", (October 2002), *op. cit.*, 3; Bedir, (November, 2002), *op. cit.*5.

Ever since the beginning of the 1990s and with the aim of establishing the automotive industry as one that brings in foreign currency, incentives have been provided to investments concerning the manufacturing of new and modern model vehicles. During this period, the importing of technology and foreign capital partnerships were supported and made easier. Contemporary manufacturing techniques were applied after intense training programs especially through the establishment of quality management systems; firms received the relevant documents from international organizations. In relation to

Table 8. Major Events affecting Turkish Motor Vehicle Industry from Customs Union to 2001

1996-1997	**1998-1999**	**2000**	**2001**
• Custom Union • More Competitive market • Partial Market •Extensively Increased Imports	• Political Instability • Global Economic Crisis that began in Russia & the Far East caused stagnation &postponement of demand • Earthquakes	• Sharp Increase of Demand & Production • Total motor vehicles reached a peak level of the last 8 years	• Sharp decrease in demand and production due to the financial crises

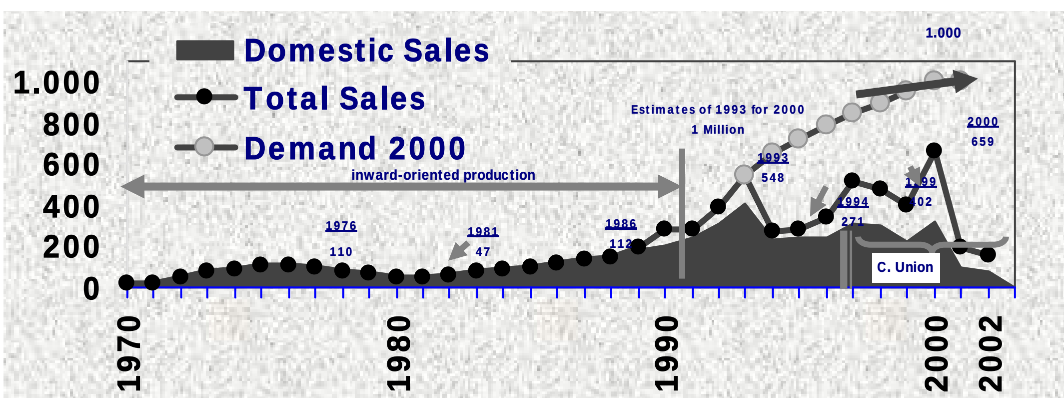
passenger cars and light commercial vehicles, a rapid increase was observed in imports following the Customs Union of 1996, reflecting a significant difference in relation to other industry goods.

In 1998, automobile industry came 7th with 1.5 billion $ exports and by 2002 the sector came 2nd after textile and apparel industry with 5.0 billion $ exports.[42] By 2003, automobile industry recorded an export level of 6.4 billion $ exports.

1.3.3. HISTORICAL TIES OF TURKISH MOTOR VEHICLE INDUSTRY WITH THE EU

The industry has been integrated with the EU automotive sector since 1960s. 1970s contained technical cooperation with licensing agreements. The Customs Union with the EU in 1996 brought new conditions as well as intensified competition in the sector.[43] A Customs Union means that goods can move freely as within one customs territory and each party applies the same external tariff for imports from third countries and the same commercial policy.[44]

Graph 10. Total Motor Vehicle Market in Turkey (1970-2003)



Source: OSD Presentation (Mücahit Sevim, Nisan 2004), "Türkiye'deki Otomotiv Sanayii – 2003 ve Gelecek", İstanbul.

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[42] OSD, Türkiye'nin 500 Büyük Sanayi Kuruluşu İçinde Otomotiv Sanayi. OSD Rapor No.2003/8 (Temmuz 2003).

[43] "Turkish Automotive and Components Sector", (October 2002), *op. cit.*, 2; Bedir (November, 1999), *op. Cit.,*86.

[44] Robson, Peter (1993): **The Economics of International Integration**. London ; New York : Routledge, 17-18.

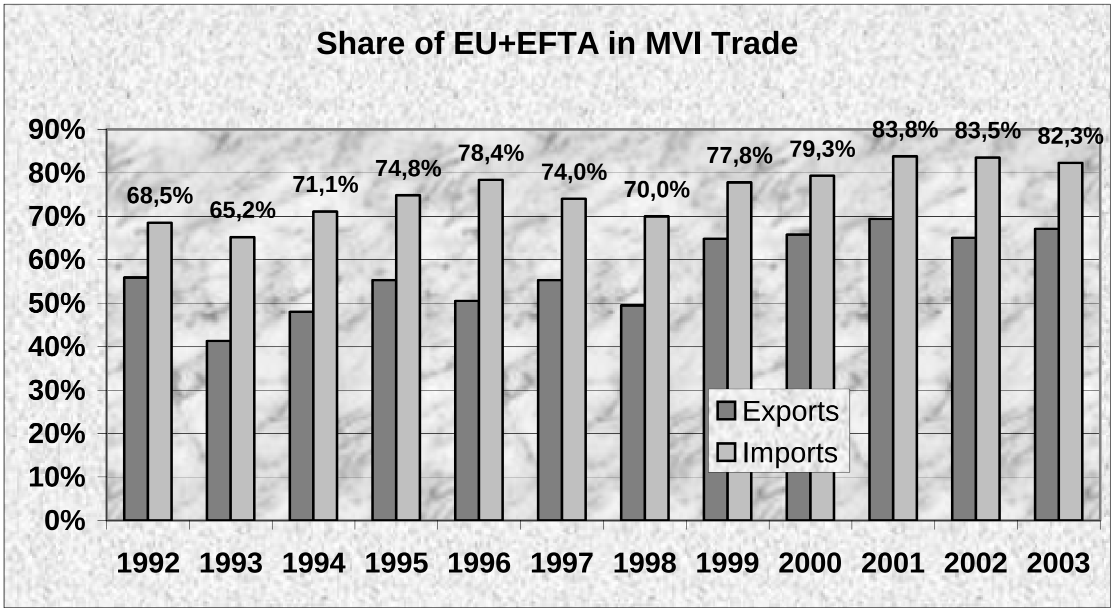
Turkey's Customs Union with the EU covers additional areas like competition, harmonization of technical legislation, abolishment of monopolies and protection of intellectual property, which make this agreement more than a typical customs union. These additional elements are designed to further integrate the markets and bring Turkey closer to the EU.

Graph 10 shows the evolution of the total motor vehicle market in Turkey and instability of the last decade. Until 1990, due to high rates of protection on MVI, domestic demand is met by domestic production. By the end of 1980s and mainly after the CU, imports have increased substantially. Before the CU, 20% of the motor vehicle demand was met by imports but afterwards in 2000 imports constitute 55% of the market.[45] Customs Union Decision is taken after a crisis of 1994 and followed by 1999 Asian crisis and 2000 and 2001 crises.

Although motor vehicle sector had to deal with financial crises, unstable demand and fluctuating market conditions, in all these years the EU kept on being our primary partner when it comes to MVI trade. As a result of the Customs Union process initiated in 1996, new conditions were created in the market, especially as importing became more and more relaxed, the ground was set for extreme competition. The Customs Union integration that was realized in 1996 increased the necessity for the main industry to protect its market share by manufacturing new models of vehicles and importing models not manufactured here.

[45] Bedir (November, 2002), *op. Cit.*, 30.

Graph 11. Share of EU+EFTA in Turkish Motor Vehicle Industry Trade



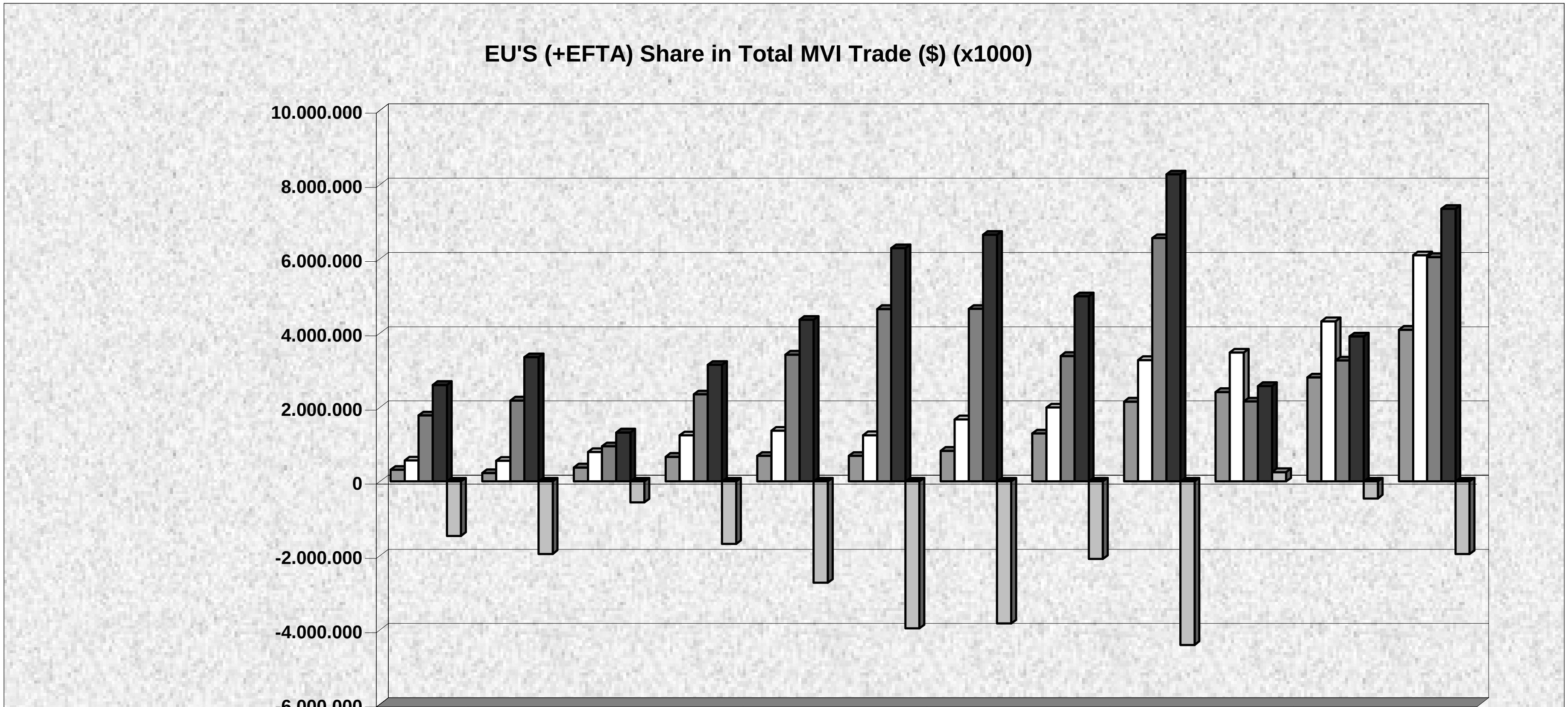
Source: OSD, General and Statistical Information Bulletin Of Automotive Manufacturers, 2004 – I.

Especially since 2000 more than 80% of our MVI imports are coming from the EU countries (Graph 11). Following the peak years of 2001 and 2002 (83.8% and 83.5% respectively), Turkey has still been faced with the huge amount of imports from the EU, 82.3% in 2003. This triggered a statement to Article 5 of Decision 1/95 on the EU-Turkey Customs Union in order to restrict the entry of used cars into Turkey. Since Turkey needs to protect its market from used motor vehicles. Moreover, Turkey always recorded deficits when trading with the EU of MVI products and only for the last three years, due to economic crises that resulted in less importing, this deficit has declined. But as the Graph 12 indicates, our imports are following a trend of increase.

Until 1998, Turkey's trade deficit for motor vehicle trade recorded a systematic increase. In 1998 and 2000, highest amount of trade deficit is recorded, -3.824.525.000$ and 4.402.941.000$ respectively. Due to financial crises that depreciated the Turkish Lira and damaged macroeconomic balances, imports in 2000-2001 were lowered. 2001 is the only year that our trade deficit is replaced by a small surplus of 255 million $ when compared to other years. The 1994 crisis also can be easily observed from Graph 12 since both imports and exports slowed down significantly. Moreover, it can be argued that, as motor vehicle exports of Turkey increase, the share of the EU and EFTA in our imports increase with similar amounts.

Exports of MVI always stay below the exports and in 2003, total MVI exports can only meet imports coming from the EU and EFTA countries.

Graph 12. EU + EFTA Share in Total Motor Vehicle Trade in $ (x1000)



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Exports to EU+EFTA	318.394	230.666	381.561	668.948	692.737	691.454	828.948	1.295.916	2.155.973	2.412.164	2.806.147	4.090.375
Total MVI Exports	569.584	558.684	794.608	1.246.045	1.371.819	1.249.720	1.675.164	1.998.485	3.274.875	3.475.090	4.319.299	6.095.220
Imports from EU+EFTA	1.785.191	2.183.542	948.884	2.352.119	3.421.158	4.651.101	4.653.473	3.384.197	6.558.914	2.157.209	3.263.114	6.048.183
Total MVI Imports	2.604.896	3.351.322	1.323.986	3.145.658	4.361.040	6.287.502	6.649.279	4.992.745	8.275.931	2.573.789	3.908.220	7.345.409
Balance	-1.466.797	-1.952.876	-567.323	-1.683.171	-2.728.421	-3.959.647	-3.824.525	-2.088.281	-4.402.941	254.955	-456.967	-1.957.808

OSD, General and Statistical Information Bulletin Of Automotive Manufacturers, 2004 – I.

The collaboration of capital in industrial companies is reflected in the automotive marketing companies in the recent years. With the Customs Union, the interaction between partners in companies that have been investing heavily in Turkey for years progressed to a different level, and reached equilibrium in terms of capital and management. As a result, foreign partners included their facilities in Turkey within their own global strategic development projects. This process, entitled “Full Integration,” enabled facilities in Turkey to finally manufacture goods for sale in international markets across the world. Thanks to its intense efforts during the past five years, the Turkish automotive industry has completed to a large extent its adaptation to the relevant technical regulations and has established an efficient and exemplary cooperation with public institutions in the transformation of the EU regulations to national regulations and their implementation. In sum, by 1996:

1- Importing became more and more relaxed, the ground was set for extreme competition;

2- Incentives have been provided to investments concerning the manufacturing of new and modern model vehicles;

3- Technical cooperation was transformed into “economic co – operation” as a result of increasing foreign capital shares. [46]

For Turkey, the process of globalization and the Customs Union with the EU has been and will be expected to evolve the sector in the following ways:

➢ Suppliers’ industry will invest more on information transfer and quality education and take part in design, development and project management in parallel with the main industry that will result in a more trustworthy and long-term cooperation of both sides;

[46] ISO (2002), *Otomotiv Sanayi Sektörü Raporu*, 5.

- ➢ The partnerships among suppliers industry will increase;
- ➢ Companies have been and will be forced to adapt themselves to the conditions of global competition. Quality will be perceived not simply as meeting the standards but more like dynamic process necessitating continuous improvements.
- ➢ Cost will be perceived as a planning facility instead of accounting work. Therefore, the consumer price will not be determined according to costs but rather market conditions and customers' needs will be taken into account in consumer price planning.
- ➢ R&D will become an indispensable need. More investments will be done.

1.3.4. CURRENT SITUATION IN THE TURKISH MOTOR VEHICLE INDUSTRY

As of 2003, there are 17 companies producing passenger cars and commercial vehicles of all kinds. There are large-scale enterprises and operating under foreign licenses and/or shareholders with the multinational companies. Total installed capacity of the industry (passenger cars and commercial vehicles) is around 1.049.500 units/year in 2003 which was 812.000 units/year in 2002.[47]

Table 9. Profile of Turkish Motor Vehicle Industry

Yesterday	**Today**
Low Capacity ⇨	High Capacity
Competition limited to domestic manufacture ⇨	Competitive power at global markets
Fluctuations of manufacture due to economic crises ⇨	Reliable Manufacture Program
Customers limited to domestic market demand ⇨	Customers at Global Standards
Quality Satisfaction Standard ⇨	Quality Satisfaction
Production directed towards domestic market ⇨	Production directed towards exports

Total installed capacity of the industry which is around 1.049.500 units/year consists of;

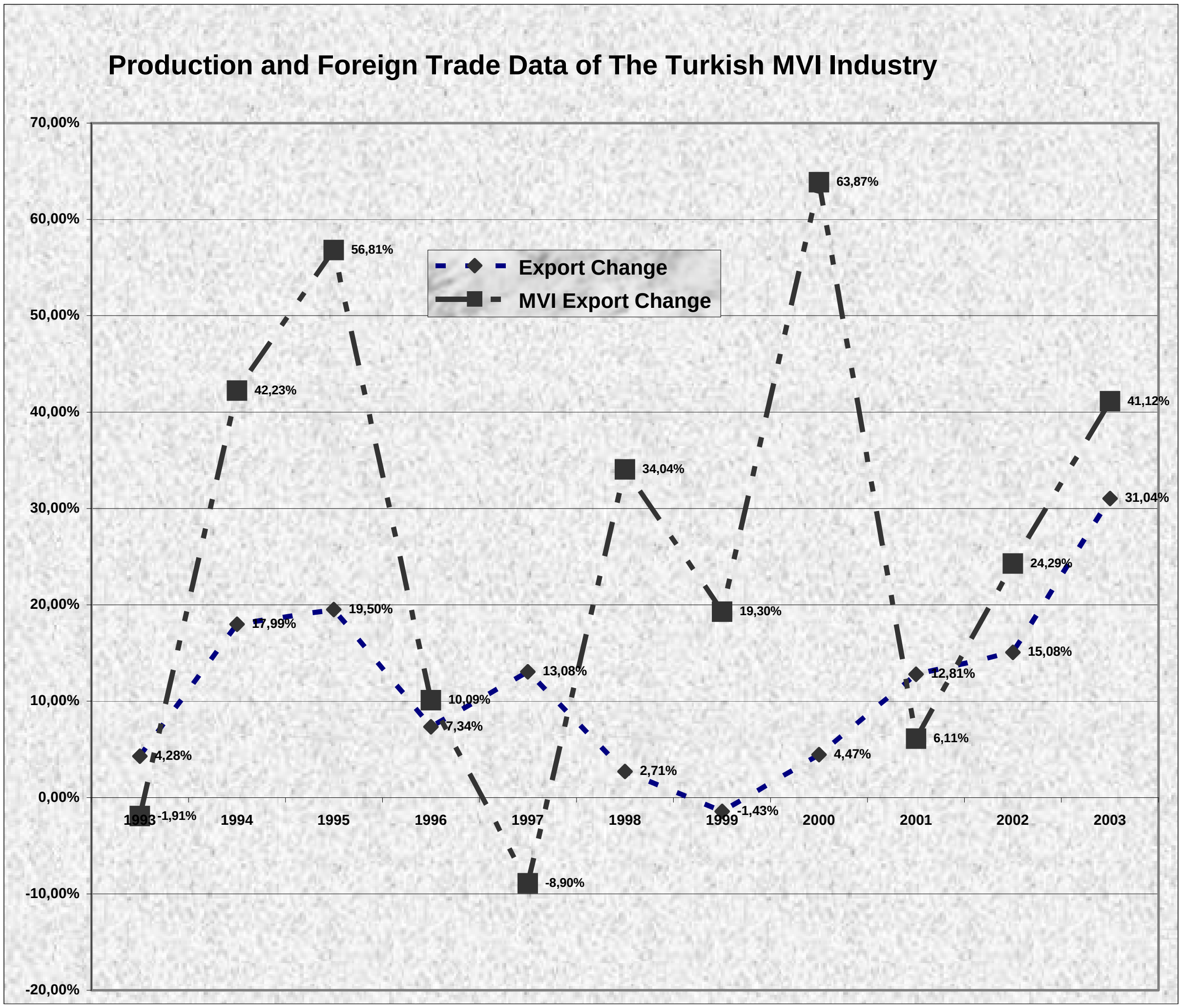
* 760.000 passenger cars and (635.000 passenger cars in 2002: increase by 19% compared to 2002)

* 289.500 commercial vehicles and farm tractors. (175.000 commercial vehicles in 2002: increase by 65% compared to 2002)

[47] Trade volumes are taken from the OSD Presentation (Mücahit Sevim, Nisan 2004), *op.cit.*

By 2003, when investments for export-oriented vehicles are completed, Turkey comes to a point where she is able to export 575.000 vehicles annually.

Graph 13. Production and Foreign Trade of the Turkish MVI Industry

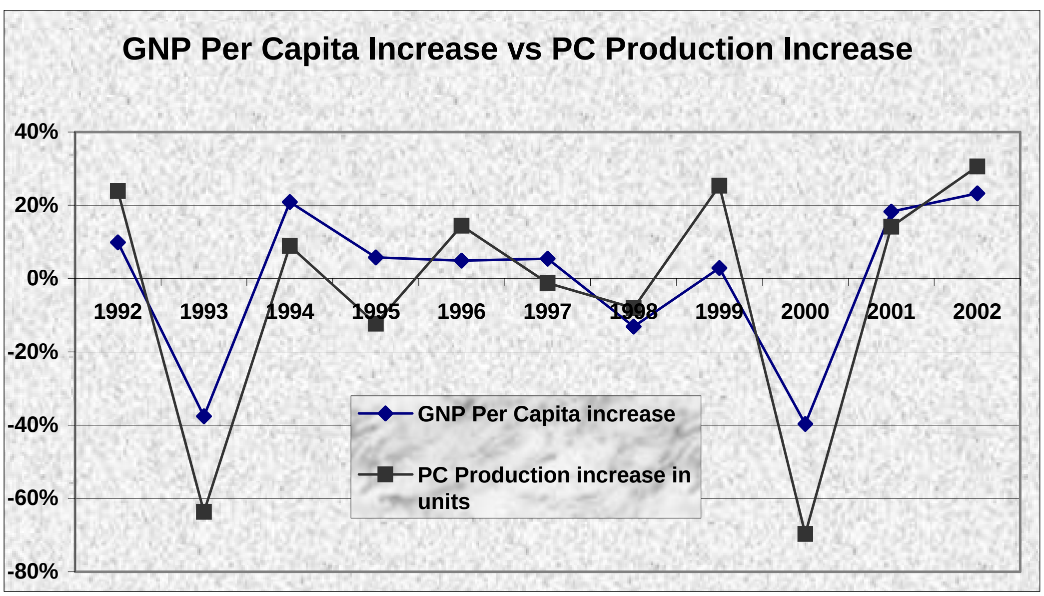


Source: Official Website of State Statistical Institute, www.die.gov.tr (retrieved on 7.9.2003); Also the data on trade volume of motor vehicles sent by DIE upon a personal request.

So, in the near future, Turkey aims to become the center of manufacturing the sedan type passenger cars and commercial vehicles, and alternative suppliers center for the global manufacturers.

Graph 13 is designed to show that motor vehicle sector is very sensitive to general exports increase and decreases. MVI exports follow general exports trend; however, it records sharper responses that means the sensitivity of the sector to general trading volume is very high. This fact can also be observed from Graph 14. Graph 14 shows that production of passenger cars increase as GNP per capita increases. Due to a sharp decrease in GNP per capita, sector recorded much higher decreases. For instance, in 1993, GNP per capita decreased 38% while PC production decreased 64%. Also in 2000, GNP per capita decreased 40% while PC production decreased 70%. These are substantial amount of losses for the MVI in Turkey. Having these sharp responses, MVI in Turkey is not ready for another shock like entrance of used vehicles to Turkey.

Graph 14. GNP Per Capita Increase versus PC Production Increase



Source: Official Website of State Statistical Institute, www.die.gov.tr (retrieved on 7.9.2003) (for GNP data) and Official website of OSD http://www.osd.org.tr (retrieved on 3.2.2004) (for PC production data)

Table 10. NEW Exports Projects for PCs for 2004

Brands	Units / Year
Renault Megane, Clio	120.000
Fiat Doblo, Palio, Albea	120.000
Ford Transit Connect, Transit	150.000
Toyota Corolla, MPV	120.000
Other Passenger cars (Honda, Hyundai)	50.000
TOTAL	**560.000**

Source: Official Website of Association of Automotive Parts and Components Manufacturers http://www.taysad.org.tr/ (retrieved on 12.10.2003).

Table 10 is designed to express the ongoing capacity increase projects in order to show that Turkish MVI is an evolving sector with a huge export potential. These kinds of projects will affect on export potential of the industry to a great extent.

Key Players

As of 2003, there are 17 automotive companies in the sector, 9 of them have business relations with foreign firms and 2 of them are subsidiaries with 100% foreign capital. EU firms that have invested in the Turkish market are Fiat (JV), Ford (JV), Rover (L), Man (JV), M. Benz (JV), Peugeot (L) and Renault (JV). 3 Asian firms, Toyota, Hyundai and Honda have acquired investment incentives from the Turkish government and have established joint ventures with Turkish firms. Especially since Turkey's entrance to the CU and its move closer to the EU membership, Asian firms have sought to increase their investments in the Turkish automotive sector which offers geographic advantages and strong Turkish counterparts to utilize export possibilities.

Six firms (Tofaş-Fiat, Oyak- Renault, Toyota, Hyundai Assan, Honda, and Ford-Otosan) manufacture passenger cars. Their share in the passenger car market is

3.564.529.669 billion$ and 81% of all production. With regard to production volume, these six firms constitute the 88% of all motor vehicle production. Oyak Renault and Ford Otosan dominate the market and constitute 43% in $ and 50% in units of all production. [48] The production capacity of these 6 firms is 690,000 cars per year. Of the total capacity, passenger cars have a share of 70% and commercial vehicles over 20%.

Table 11. Main Motor Vehicle Manufacturers (Jan 2002)

Firms	Production Place	Starting Year of Production	License	Products	Foreign Capital (%)	$ (2003)	Unit (2003)
Ford Otosan	Istanbul Eskisehir Kocaeli	1959 1983 2001	Ford	PCs, Trucks, Pick-ups, Mini bus	41	877.424.940 (20%)	114.515 (23%)
O. Renault	Bursa	1971	Renault	PC	51	1.015.902.547 (23%)	132.257 (27%)
Tofaş	Bursa	1971	Fiat	PC	37,8	767.782.515 (18%)	127.268 (26%)
Toyota	Sakarya	1994	Toyota	PC	100	676.300.634 (16%)	70.839 (14%)
A. Honda	Gebze/ Kocaeli	1997	Honda	PCs	100	57.870.150 (1%)	10.970 (2%)
Hyundai Assan	Kocaeli	1997	Hyundai	PCs, Pick-ups, Mini Bus	50	169.248.883 (3%)	36.730 (7%)
					Total	3.564.529.669 **(81%)**	492.579 (88%)
					Turkey Total	**4.347.455.530 (100%)**	562.466 (100%)

Source: "Turkish Automotive and Components Sector" Dış Ekonomik İlişkiler Kurumu Foreign Economic Relations Board, October, 2002 p. 6; ISO (2002), Otomotiv Sanayi Sektörü Raporu, p.7.
Trade volumes are taken from the 2004/1 Report of Production levels presented in the official website of the OSD.
Updated by the writer.

Motor vehicle park of 6 million vehicles in 2001 is consists of 75% passenger cars and 25% commercial vehicles.[49] Share of foreign capital in the Turkish automotive industry

[48] See in Table 11.
[49] "Turkish Automotive and Components Sector", (October 2002), *op. cit*., 7.

is 40%. Brands of European origin dominate foreign participation in the market.[50] New cars originating from the EU end up in Turkish market without any restriction. Turkey has declared her considerations when it comes to used motor vehicles since Turkish market is already dominated by European motor vehicles. This will be discussed in more detail in part 3.

According to OSD data, total number workers working in the sector is given as 33.145.[51]

Table 12. Jobs Related Directly or Indirectly to the Automobile in 2003 (x1000)

Automotive Manufacturing	**Equipment and accesories**	**Bodywork, trailers, caravans**	**Manufacturing and Energy Sector**	**Services**	**Sales, repairs, vehicle testing, short-term rentals, breakdown and recycling**	**Automotive Equipment Retailing**	**Insurance, experts, financing**	**Automotive fuel retailing**	**Driving schools, licencing**	**Motor sport, media, publishing, other**	**Road Transportation and related services**	**Police, health service, education, non-commercial administration**	**Roadbuilding and maintenance**
189	95	27	315	135	431	71	92	38	24	13	915	32	100
Automotive Ind.			**Raw Mat.&Serv.**		**Automobile Use**						**Transportation**		
311			450		669						1047		
TOTAL = 2477													

Source: Comite Des Constructeurs Français d'Automobiles, *Analysis and Statististics: The French Automotive Industry*, Comite Des Constructeurs Français d'Automobiles, 2004 Edition, 42.

[50] "Turkish Automotive and Components Sector", (October 2002), *op. cit*., 4-5.
[51] OSD, *General and Statistical Information Bulletin of Automotive Manufacturers*, 2004 – I, 37-40.

As explained previously[52], one qualified job in motor vehicle sector creates ten more jobs in related sectors. French Motor Vehicle Manufacturers' has made a calculation method which is explained in Table 12. According to this method, total number over employment in automotive industry is 8. (2.477.000/311.000 = 8). When we apply this ratio to Turkey, total number of workers reaches to approximately 300.000 people.

Table 13. Latest Data for Growth of Motor Vehicle Market in Turkey

Months	Passenger Car Market (x1000 units)			Total Motor Vehicle Market (x1000 units)		
	10 Year Average	**2004**	**%**	**10 Year Average**	**2004**	**%**
January	11.2	25.6	129.6	16.5	39.2	137.3
February	15.1	23.6	56.6	21.7	40.2	85.0
March	18.1	46.2	155.3	26.2	72.9	178.4
April	18.4	48.0	160.9	26.8	91.8	242.6
Total	**62.7**	**143.4**	**128.6**	**91.2**	**244.1**	**167.6**
Source: Yatırım Finansman Dış Ticaret Dergisi, Yıl: 10; Sayı: 226; 15.05.2004, p.51.						

In the 2000s, the Turkish automotive industry exhibits characteristics of an industry focusing on exporting. In 2002, with nearly 4,5 billion $ it ranked as the second exporter industry in the economy. The automobiles produced in Turkey with a mark "made in Turkey" are exported to 5 continents and 107 countries. In 2003, Turkey's automotive exports are increased 41% (compared to 2002).[53] Considering its total production capacity, Turkish motor vehicle industry has become a production base of Europe in some segments. The eight models Transit Connect (Ford Otosan), Doblo (Tofaş Fiat), Megane II Sedan and Clio Symbol (Oyak Renault), Corolla Sedan, Corolla

[52] Also explained in Part 1, "Definition of the Sector", page 6.
[53] See in Graph 13.

Verso and station wagon models (Toyota), Starex (Hyundai) are produced only in Turkey and exported to the EU.[54]

According to Table 13, in the first 4 months of 2004, Turkey has sold 244.100 units of motor vehicles and this sale amount is 168% higher than the 10-year average (91.200 units of car). Again for the first 4 months of this year, Turkey has sold 143.300 units of passenger cars that constitute an increase of 128% compared to 10-year average (67.200 units of cars).

[54] Hürriyet News Paper Attachment "Oto Yaşam", 28.01.2004.

2. TRADE OF USED MOTOR VEHICLES WITH THE EU

The Association Agreement Decision No. 1/95 regulates free movement of industrial goods without putting any differentiation between new/used products. Considering the principle of the Ankara Agreement about protecting “the common interests of the Parties”, Turkey declared her demand to put **derogation** as a precaution to the risk of excess amount of imports of used motor vehicles from the EU. European Union was demanding elimination of this derogation at least by either changing the scope of the declaration or its duration. Turkey resists this approach and mainly motor vehicle producers in Turkey want to keep this declaration valid (there is no time limit in the derogation) until Turkey becomes a member of the European Union. This chapter is designed to analyze the arguments of Turkey and the European Union on this issue.

In this part, different aspects of trade of used motor vehicles will be clarified. To begin with, the definition of a ***used vehicle*** is given, then legal aspects and the base of Turkish argument about not allowing the entrance of second hand motors and motor vehicles to Turkey will be explained with reference to the Association Agreement Decision No. 1/95. In this part also similar trade arrangements from the Accession Agreement of Greece, Nordic Accession Agreement, and Accession Agreement of Ireland, Spain, Portugal are given as examples of other types of derogations. Poland is taken as a case study and rationale behind her maintenance of a total ban on the import of used motor vehicles for a ten-year period is mentioned in order to make a comparison between Turkey and Poland. Also, different trade arrangements for motor vehicles in Hungary and NAFTA are briefly used as examples.

Secondly, economic arguments are put forward and trade data are interpreted. The share of European motor vehicles in Turkish market, imports of motor vehicles from the European Union, and capacity usage are explained in more detail in part 3.

Thirdly, issue of prices is taken up and depreciation of prices of Turkish and European used motor vehicles is compared. Fourthly, used motor vehicle trade issue is considered as a matter of consumer law and the need to restructure the mechanisms to protect the rights of the consumer when buying a used vehicle. Application of the consumer law should be sustained before the elimination of the derogation.

Fifthly, a structural part is dedicated to infant-industry theory and arguments together with the protectionist measures applied by European Union countries mainly France who applies those measures in a strict sense. Turkey has to guarantee the price levels of new and used motor vehicles in the market; and different practices of Turkey and the EU are introduced.

2.1. DEFINITION OF A USED VEHICLE

As a general rule, the definition of a used motor vehicle is linked to its registration. Any motor vehicle that has previously been registered is a used motor vehicle. For instance, in Belgium the description of what a used car is that "a used motor vehicle is to be understood as being one which has previously been registered". In Germany, the German Federal Authority for Automotive Transport (KBA) publishes monthly statistics on the number of registrations of "new" and "used cars" which is based on the information collected by approximately 460 local authorities for the registration of vehicles. The application forms for such registration contain an entry that requires the year of first registration to be reported to the KBA for statistical analysis.[55]

Examples for such cases that exemplifies what is a used car are as follows:

1- *Private owner sells car to another private owner- change of registration*;
2- *Previous registration abroad, new domestic registration – identified by year of first registration.*

A new car is the one which has been "put aside" and never before registered for road transport.

The EU Combined Nomenclature which is the single EU coding system introduced in 1988 is based on the harmonized system (developed by the Customs Cooperation Council). It provides detailed classification and categorization of over 5000 articles of trade. It sets forth the definition of "Vehicles other than Railway or Tramway Rolling Stock and Parts and Accessories thereof" in Chapter 87. The general comments at the outset of chapter 87 focus precisely on the definition of the "new" and "used" vehicles as follows[56]:

"Throughout the Combined Nomenclature, "***new vehicle***" means vehicles which have never been registered".

"Throughout the Combined Nomenclature, "***used vehicle***" means vehicles which have been registered at least once".

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[55] Official website of German Federal Authority for Automotive Transport, http://www.kba.de/ (retrieved on 4.4.2004)

[56] The Combined Nomenclature is the common nomenclature of the European Community. The 8-digit sub-headings in the nomenclature are used in export declarations and in statistical declarations on internal trade. There are changes to the nomenclature every year and the nomenclature that will come into force in the beginning of the following year is published yearly in the Official Journal of the European Union, by the end of October at the latest. http://www.tulli.fi/en/03_Foreign_trade_statistics/02_CN/index.jsp Official Website Helsinki National Board of Customs.

In sum, both definitions embrace the same classification and in this part this definitive separation is taken as a reference point.

2.2. LEGAL ASPECTS OF USED MOTOR VEHICLE TRADE TO TURKEY

Articles 4, 5 and 6 of the Association Agreement Decision No. 1/95 regulate free movement of industrial goods and procurement of competitive trade environment with the EU. In these Articles, there is no difference between new/used products. Considering the negative effects of this decision, Turkey declared her demand to put a derogation measure to the Decision No.1/95 as a precaution to the risk of excess amount of imports of used motor vehicles from the EU. This was a unilateral demand and the EU took this into account and aforementioned declaration was approved by the European Parliament and published in the Official Journal of the European Union (13 February 1995 and L 35 European Union Official Journal).[57]

Above –named Articles are explained in more detail:

Article 5 of Decision 1/95 says:

Article 5: "Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between the Parties."

Turkey put forward a statement to Article 5 of Decision 1/95 on the EU-Turkey Customs Union.

[57] ISO (2002), *Otomotiv Sanayi Sektörü Raporu*, 23.

Statement By Turkey on Article 5: "Without prejudice to Article 5 of this Decision, Turkey intends to retain the provisions of its import regime decree (Turkish Official Journal No 22158bis, 31.12.1994) on used motor vehicles whereby subjecting the importation of such products to prior permission; for a certain period following the entry into force of this Decision."

The EU side, in particular the European Commission, has not challenged the validity of the Statement as such, either at the outset or subsequently. But about 90% of the used motor vehicles coming into Turkey are from Germany. Mainly Germany, being the biggest beneficiary of the opening-up of the Turkish market to sales of motor vehicles, demands a change in this approach. The EU, taking into account the concerns of the German side, claim to undertake two points about the statement of Turkey:

- the scope of the products covered by the statement;
- the duration of the derogation contained in the statement.

In respect to this approach, Turkish side lists several arguments below with regard to the content of the derogation as follows:

- Turkey constructed her argument on her economic concerns and as a result, the Statement is based on the economic development needs of Turkey, as recognized by the EU.
- The Statement is legally valid and has not been challenged in this regard.
- The EU, as mentioned above, is seeking clarification as to the scope of products covered by the Statement, as well as its intended duration.
- The Statement applies to all used motor vehicles, without distinguishing between passenger cars and other types of vehicles.

• The Statement does not apply to other used products.

• The definition of what constitutes a used motor vehicle is to be determined by reference to *the date of first registration*. The attempt to distinguish between "young" and "old" used cars is not justified in relation to Turkey.

• The Statement does not establish a definite time frame. This is open to negotiation. Turkish automotive manufacturers are arguing that the date should be fixed to full membership of Turkey to the EU.

2.2.1 Examples of Trade Restrictions from Other Member Countries

With the CU Decision (on 6 March 1995 and Decision No. 2/95), the imports of motor vehicles from extra-EU countries were subject to customs duty more than the European Common External Tariff (CET). As a result, Turkey implied 33% customs duty instead of 10% CET in 1996 and gradually decreased it to levels of CET by 2001. Turkey applied 33% of customs duties between 1996-2000 for passenger cars.[58] The distribution of customs duties among years is given in Table 14.

Table 14. Customs Duties on Imports of Passenger Cars from the European Union

Customs Duties on Imports of Passenger Cars from the European Union							
	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
< 1000 cc	26,8	26,8	25,1	23,4	23,4	0	0
1000-1500 cc	32	32	29,8	27,6	27,6	0	0
1500-1600 cc	33	33	30,7	28,4	28,4	0	0
1600-2000 cc	33	33	30,7	28,4	28,4	0	0
Notes: Over 2000 cc motor vehicles are not produced domestically, they are being imported to Turkey. **Source:** www.gumruk.gov.tr (retrieved on 2.12.2004)							

[58] ISO (2002), *Otomotiv Sanayi Sektörü Raporu*, 14; Haluk Kabaalioğlu (1999): "Turkey and The European Union: Converging or Drifting Apart?", Marmara Journal of European Studies, Vol.7, No:7, No:1-2, 116-119.

Regarding Article 19/2 of Additional Protocol and Article 15 of the Association Council Decision, for products that were considered sensitive concerning their competitiveness against the European goods, Turkey was given again the right to implement higher customs duties than CET for 5 years until 2000. These goods also contain passenger cars and all commercial vehicles, except passenger cars and buses over 2000cc. On 1 January 2001, Turkey started to use the EU CET.[59] However Turkey was the only country which has signed Customs Union Decision without being a member of the Union. This is also a disadvantage for Turkey in general and specifically in the case of the trade of used vehicles.

Previous associate agreements with the Member states comprise similar trade arrangements. The EU has permitted quotas and the continued application of customs duties. Exceptions to be justified and structured on a case-by-case basis between the parties are possible. Turkey also benefited from the transitional period designed in the context of the CU. The difference is that below mentioned countries have taken such exceptions during their accession and after being full member so that these exceptions will exist only for a specific time period. On the other hand, Turkey is the only country which is a part of the CU without being a member of the EU. Turkish side for this reason prefers to hold the elimination of these restrictions in delay until being a full member to the Union.

[59] ISO (2002), *Otomotiv Sanayi Sektörü Raporu*, 25.

Several implications of temporary trade restrictions are exemplified below:

Greece:

Although Greece is a member of the EU since 1981, abolishment of limits to used motor vehicle trade is only eliminated last year.[60] According to the Accession Treaty signed between Greece and the EU, the country was expected to abolish trade restrictions on motor vehicles by 1985. This accession Treaty gave Greece a right to implement quotas on a broad range of manufactured products until December 31, 1985 – for 5 years from the date of accession. The Accession Agreement of Greece[61], Article 36:

Chapter 2 mentions the elimination of quantitative restrictions and measures having equivalent effect. Article 35 says, "*Quantitative restrictions on imports and exports and any measures having equivalent effect shall, from the date of accession, be abolished between the Community as at present constituted and Greece.*"

Article 36.1. *Notwithstanding Article 35, the Hellenic Republic may retain quantitative restrictions until 31 December 1985 on products listed in annex III* (which cover a wide range of products varying from motors, motor vehicles, electronic products, fertilizers to many agricultural products) *to this Act coming from the present Member States.*

2. The restrictions referred to in paragraph 1 shall take the form of quotas…

3. With regard to motor vehicles, volume quota can be raised by 15% yearly and value quota can be raised by 20%.

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[60] Aksam Newspaper, http://www.aksam.com.tr/arsiv/aksam/2004/03/22/otomobil/otomobil1.html (retrieved on 22.3.2004)

[61] Treaty between the Kingdom of Belgium, the Kingdom of Denmark, the Federal Republic of Germany, the French Republic, Ireland and Italian Republic, the Grand Duchy of Luxemburg, The Kingdom of the Netherlands, the United Kingdom of Great Britain and Northern Ireland (member states of the European Communities) and the Hellenic Republic to European Atomic Energy Community including the act concerning the conditions of accession of the Hellenic Republic and the adjustments to treaties and Final Act, Athens, 28 May, 1979. London: H.M.S.O., 1979. Official Journal L291, 19 November 1979.

Ireland, Spain and Portugal

Ireland, Spain and Portugal were allowed to apply quotas specifically for motor vehicles. In the case of Spain, the quotas were in addition to the phase-out of customs duties over a six-year period as of the date of full EU membership for a broad range of products, including motor vehicles:

Ireland Accession Treaty[62] part 4, transitional measures, title VII other provisions, Article 135 (OJ L073, 27/03/1972, p.0042): *1. If before 31 December 1977, difficulties arise which are serious and liable to persist in any sector of the economy or which could bring about serious deterioration in the economic situation of a given area, a new member state may apply authorization to take protective measures in order to rectify the situation and adjust the sector concerned to the economy of the common market.*

3. The measure authorized under the paragraph 2 may involve derogations from the rules of the EEC Treaty and of this act to such an extent and for such periods as are strictly necessary in order to attain the objectives referred to in paragraph 1…

Article 137: 1. Notwithstanding article 136, Ireland may, until 31 December 1977, take the necessary measures in cases of extreme urgency. It shall forthwith notify such measures to the Commission, which may decide to abolish or modify them.

As a result of this arrangement, Ireland benefited from the derogations designed to protect its local economy. Spain and Portugal followed the same pattern.

[62] Treaty concerning the accession of the Kingdom of Denmark, Ireland, the Kingdom of Norway, and the United Kingdom of Great Britain, and Northern Ireland to the European Economic Community, and the European Atomic Energy Community [with final act] and Decision of the Council of the European Communities concerning the accession of the said states to the European Coal and Steel Community, Brussels, 22 January, 1972. Publication: London, H.M.S.O., 1972. Official Journal L73, 27 March 1972.

Spain[63]: Protocol 6 - concerning annual Spanish Tariff quotas on the import of motor vehicles falling within subheading 87.02.AI b) of the Common Customs Tariff referred to in Article 34 of the Act of Accession. Article 34 (p.29):

Tariff quotas subject to reduced duty, resulting from Article 30, for the import into Spain of certain new passenger motor vehicles falling within subheading ex 87.02 AI b) of the Common Customs Tariff, shall be abolished upon accession in respect of vehicles imported from the Community as at present constituted.

From 1 January 1986, the Kingdom of Spain shall open annual tariff quotas subject to reduced duty for the import of motor vehicles for the transport of persons, with either a spark ignition or a compression ignition engine, other than motor coaches and buses falling within subheading ex 87.02 AI b) of the Common Customs Tariff, originating in the Community as at present constituted. The admission of such motor vehicles to those tariff quotas shall be governed by the provisions of the Protocol 6.

Spain has progressively abolished basic duties for Union products, over a period of thirteen years after the entry into force of this membership agreement. For trade with the EU, level of quotas for each manufacturer is designed according to their operation capacity and these quotas were increased throughout time and a fixed level of 17,4% tariff duty is implied for imports within the quotas. At the same time, for companies to enter into market, new conditions are set such as 50% domestic content, 500 motor vehicle production per day, and the obligation to export 2/3 of production.[64]

There are two protocols to design motor vehicle trade with Portugal (with EU countries and others). Like Spain, imports from EU countries were subject to quota

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[63] Documents concerning the Accession of the Kingdom of Spain and the Portuguese Republic to the European Communities. Official Journal of the European Communities L 302 Vol 28, 15 November 1985, 143.

[64] Orhan (1997), *op. Cit.,* 76.

system without differentiating the models of motor vehicles. For instance, in 1986, 700 units for 25 models of car with less than 3.500 kg were permitted and in 1987, 800 units were allowed. For motor vehicles more than 3.500 kg the quota was 770 units of cars in 1987.[65]

Austria

Concerning quotas and licensing arrangements for alcoholic beverages, Austria is given a similar exception until January 1, 1996. Accession Agreement of Austria, Sweden, Finland [and Norway] to the EU ("The Nordic Accession Agreement[66]"), Art.72:

Until 1 January 1996, the Republic of Austria may maintain, in respect of other Member States, the customs duties and licensing arrangements which it applied on the date of its accession to spirituous beverages and undenatured ethyl alcohol of an alcoholic strength by volume of less than 80% vol falling within heading 22.08 of the HS. Any such licensing arrangements must be applied in a non-discriminatory manner.

2.2.2. ARGUMENT BY THE EU: TECHNICAL LEGISLATION

One of the arguments of the EU is related to the technical legislation which Turkey has to comply with in the content of the CU Decision. The Statement of Turkey is not linked to technical standards; instead, the basis of the derogation is whether a motor vehicle is used or not. The wording of the statement is clear and says that the derogation is limited to used motor vehicles (not only cars), without distinguishing between passenger cars and other types of vehicles. The EU, on the other hand, keeps

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[65] *İbid.,* 77; ISO (2002), *Otomotiv Sanayi Sektörü Raporu*, 33-34.

[66] Documents concerning the accession of the Republic of Austria, the Republic of Finland and the Kingdom of Sweden to the European Union, Luxembourg: Office for Official Publications of the European Communities, 1996, ECSC-EC-EA-EC, Brussels, Luxembourg 1996, 37.

referring to “second-hand cars”. The underlying rationale of such derogation lies in the acceptance by both parties concerned that the Turkish motor vehicle industry needed and continues to need assistance to be able to grow in the face of significant EU imports of new and used motor vehicles. The argument of the Turkish side is that the influx of motor vehicles from abroad-mainly from Germany- has a restraining effect on the sale of domestically produced new motor vehicles. As a response, the EU attempts to link the Statement to the technical harmonization obligations imposed on Turkey. Turkey’s obligations to harmonize its legislation with the EU’s technical legislation are specified in detail in Articles 8 and 11 of the Association Council Decision. Article 8 mentions the binding clause that explains the obligation of Turkey to remove the technical barriers to trade within 5 years.

Article 8 states that:

1. *Within five years from the date of entry into force of this Decision, Turkey shall incorporate into its internal legal order the Community instruments relating to the removal of technical barriers to trade.*
2. *The list of these instruments and the conditions and detailed arrangements governing their implementation by Turkey shall be laid down by decision of the Association Council within a period of one year from the date of entry into force of this Decision.*
3. *This provision shall not preclude the application by Turkey, with effect from the date of entry into force of this Decision, of Community instruments deemed to be of particular importance.*

4. *The Parties stress the importance of effective cooperation between them in the fields of standardization, metrology and calibration, quality, accreditation, testing and certification.*

Particularly, Article 11 envisages compliance with relevant EU directives regarding motor vehicles within the framework of "Type Approval". A five-year transition period has been granted for compliance with "Type Approval" procedures, and this article like Article 8 has no relevance to used vehicles.

Article 11 states that:

During the period required for the application by Turkey of the instruments referred to in Article 9, the Community will accept the results of the procedures applied in Turkey for assessing the conformity of industrial products with the requirements of Community law, provided that those procedures are in conformity with the requirements in force in the Community, and on the understanding that, in the motor vehicles sector, Council Directive 70/156/EEC of 6 February 1970 on the approximation of the laws of the Member States relating to the type-approval of motor vehicles and their trailers (2) shall apply in Turkey.

The technical legislation concerns new models. Within the EU, the legislation regarding used vehicles is implemented for the technical inspection of vehicles in traffic, taking into consideration different national legislations of member countries. Turkey's insistence on a special clause restricting the free movement of used motor vehicles does not arise from the non-compliance of these vehicles to technical standards. It arises from the potential economic damage that would be caused by the free movement of relatively more competitive used vehicles of EU origin.

The reasoning is that at least “young” used motor vehicles should be allowed free access to the Turkish market, because they meet the relevant technical standards. However, Turkey’s declaration does not concern “the restriction of importation of used cars which do not meet standards”. The Statement itself, is not in anyway linked to technical standards; the criterion it specifies is whether a motor vehicle is used or not. Therefore, whether “young” or “old”, importation of used motor vehicles negatively impacts the sale of domestically manufactured new motor vehicles.

Polish Case

Europe Agreement which dates back to December 13, 1993 between EU and Poland (O.J. L No.348, p.1) can be a good example with its Article 10 (4) and Annex 5. These provisions set forth the terms of Poland’s derogation from abolishing quantitative restrictions on used motor vehicles.

Poland was able to maintain a total ban on the import of used motor vehicles for a ten-year period as of the entry into force of the Europe Agreement, *based on age*, except for motor vehicles with two stroke engines (the Trabant), on which there was no age limit to the prohibition. The rationale for the Polish derogation appears to be fundamentally different from Turkey: it is a *pollution-related issue*. The aim of the Polish derogation was to keep automobiles of 10 years or older and vans and trucks of six years or older from entering the country. This is because of a flood of very old and polluting vehicles into East Europe from the EU immediately after the fall of the Berlin Wall. The European Commission enacted a Directive called End-Of-Life Vehicle (ELV) aiming at decreasing more than 8 million tones of waste generated by about 12 million cars that are at the end of their useful life. This legislation sets forth requirements for member states to set legislation to re-use, recycling and other forms of recovery. Additional key requirement of the **ELV Directive**[67] is "free-take-back" of ELVs which mandates vehicle owners can deliver ELVs to authorized treatment facilities (ATF) at no additional cost. Due to high cost of the Directive, manufacturers in the EU also want to get rid of these ELVs by importing them to other countries. Poland considered this point and declared her insistence on ban on imports of used motor vehicles for ten year period. This protection will no longer be needed as of 10 years after the Europe Agreement enters into force, because by that time the relevant technical standards applicable to motor vehicles manufactured and/or put on the road in the EU will have resolved the pollution issue through technical improvements. This example also can be a basis for German approach regarding "young" used motor vehicles that meet modern technical standards. However, issue for Turkey is quite different since Turkey has an "*economic rationale*" for derogation while Poland has "*environmental concerns*". Turkey's concern basically rests on the notion that used motor vehicles of EU origin have a cost advantage that attracts demand. However, Turkey also should be aware of the seriousness of the ELV issue which motivates the EU to push for abolishment of quotas for used vehicles implied by Turkey.

Hungary

Association Agreement of Hungary with the EU covers a quota application between 1.1.1992 – 31.12.2000 without declaring any difference between new or used cars. According to this arrangement, Hungary primarily permitted imports of 50.000 motor vehicle originating from the EU and then Hungary designed a quota increase of

[67] **OJ L 269, 21/10/2000,** Directive 2000/53/EC of the European Parliament and of the Council of 18 September 2000 on end-of life vehicles - Commission Statements; also in Price Waterhouse Coopers Website: www.pwc.com.

50% each year which meant a quota increase of 3500 units yearly. By 31.12.2001 all kinds of quantitative restrictions were eliminated.[68]

NAFTA

Mexico undertook a similar regulation when she became a party to North Atlantic Free Trade Area (NAFTA) in 01.01.1994. Mexico restricts used vehicle imports originating from the USA and Canada for 15 years until 01.01.2009. Between 01.01.2009 and 01.01.2019, She reserves the right to implement quota restrictions related to the ages of the vehicles.[69]

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[68] From the "Meeting Notes on Used Vehicle Trade" (1996) OSD Archives prepared by Mucahit Sevim.
[69] Orhan (1997), *op. Cit.,* 77.

3. ECONOMIC ASPECTS OF USED MOTOR VEHICLE TRADE

Turkey's first experience about elimination of trade restrictions for used vehicles was in 1984. With the amendment of the Turkish Import Regime in 1984, the importation of used motor vehicles was deregulated. In a short period of time, a flood of low-cost used motor vehicles started to pour into Turkey mainly from Germany. OSD Report named "Free Movement of Used Motor Vehicles within the Context of the Customs Union and the Turkish Automotive Industry" (2003) gives also volume of imports for this year. The local production of cars was 54.832 while the imports reached to 16,873, meaning imports constituted 31% of production. Due to excessive importation, factories had to suspend production[70].

In a short while, imported used vehicles were scrapped because of problems regarding maintenance and spare part availability. At the end of the same year, this practice was abandoned considering its unfavorable consequences.

Learning from this experience, Turkey was well-prepared when negotiating the Association Agreement Decision No. 1/95. Bearing this extensive entrance of motor vehicle imports in mind, Turkish side proposed derogation. The same OSD source argues that the share of EU products in the total market was 93% in 2002 and 91% in 2003.

3.1. Role of Imports in the Motor Vehicle Industry

Years 1995 and 2001 are when the Motor vehicle sector sharply dissociates from the normal import trend. Just before the CU Decision was enacted in 1995, MVI

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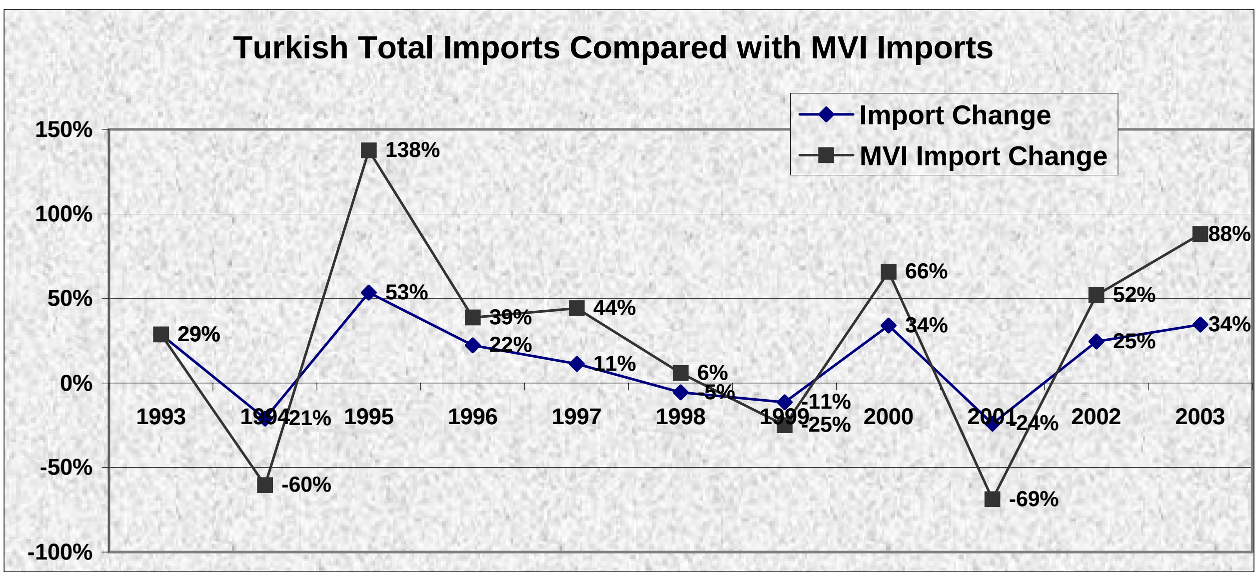
[70] OSD, "Free Movement of Used Motor Vehicles within the Context of the Customs Union and the Turkish Automotive Industry", OSD Report (August 2003).

imports increased by 138%, far above the total imports increase. In 2001, due to crises in Turkey a sharp diversion is observed just like the one in 1995 but this time a decrease of 69% in imports happened. As Graph 15 summarizes, when Turkish total imports increase, MVI imports tend to increase respectively but when the total imports recorded a decrease, motor vehicle industry is faced with a significant downturn and sectoral imports decrease far more than the general trend. The importance of this relatedness in Graph 15 is that the sector is sensitive to main downturns and upturns in the economy and MVI in Turkey is not sound enough to stand against the major changes in the economy which means it is very risky to abolish trade restrictions to used motor vehicles.

Graph 15. Turkish Total Imports Compared With MVI Imports



Source: Official Website of State Statistical Institute, www.die.gov.tr (retrieved on 7.9.2003) (for General Imports data) and Official website of OSD http://www.osd.org.tr (retrieved on 3.2.2004) (for PC import data).

When we look at Table 15, this time imports compared to domestic production and total market size can be observed. This table is used in order to show how high the import penetration is in the motor vehicle sector. In 2003, imports are 118% of domestic production and 54% of total market. Turkey has already been faced with high amount of imports that strengthens the risk posed by the free entrance of the used motor vehicles.

Table 15. Production of Motor Vehicles in units (x1000)

	1992	**'93**	**'94**	**'95**	**'96**	**'97**	**'98**	**'99**	**'00**	**'01**	**'02**	**'03**
Imports	79	137	41	41	97	204	180	177	340	95	88	194
Domestic Production	317	432	241	246	246	313	298	226	319	101	87	165
Imports as a(%) of production	25	32	17	17	39	65	60	78	107	94	101	**118**
Imports/ Total (%)	20	24	15	15	28	39	38	44	52	48	50	**54**
Total	396	569	282	279	343	517	478	403	659	196	175	359

Source: OSD, General and Statistical Information Bulletin of Automotive Manufacturers, 2004 – I.

According to Table 15 also other results can be drawn. Demand, which had significantly declined due to negative economic growth in 1994, 1995 and 1999, has undergone a revival with the favorable conditions of 2000. Total market size reached 659.000 vehicles in 2000, breaking the sales record of 1993. As a result of this market trend, the market share of imported vehicles doubled, rising from its 1993 level of 25% to 52%. Products of EU origin have a large share in imports. As a result of the crises after 2000, the total market size dropped to 175.000 in 2002 which means 74% lower than 2000. However market share imports is increasing in a stable manner. In 2003, the sector made an upturn and total market size increased by 105%, and again the share of imports exceeded domestic production.

This is a brief look at the current situation of production trend for the last 11 years. By looking at the data, the excessive amount of imports of motor vehicles can be observed.

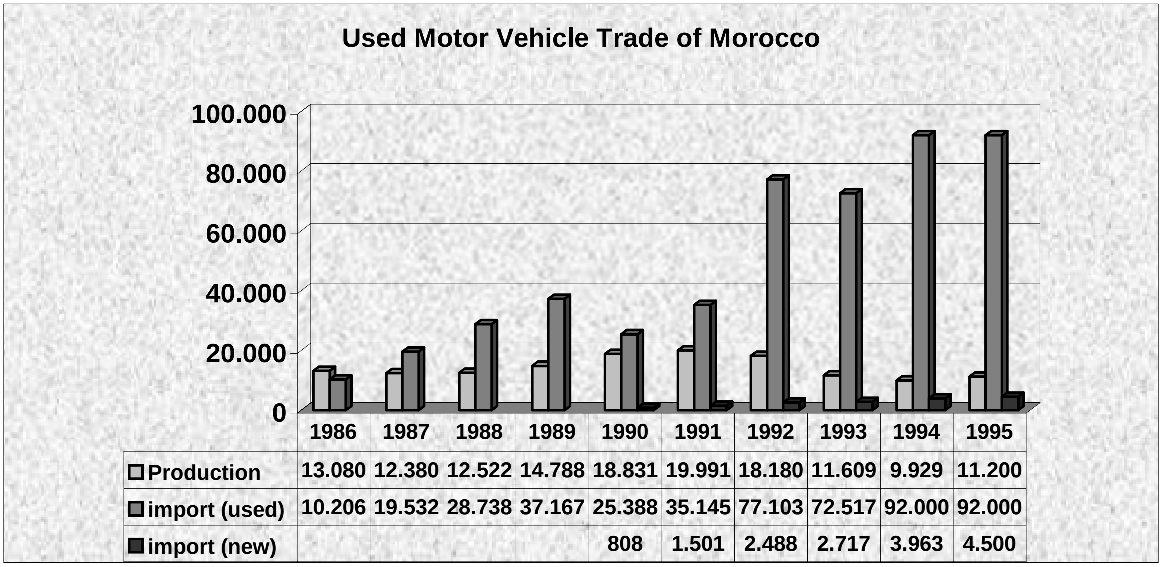
Morocco

Morocco is pursuing its process of economic and trade reforms, launched in 1983. Like Turkey, the EU is Morocco's main trading partner. It supplies about 54% of merchandise imports, receives 63% of exports. According to a WTO Secretariat report on Morocco's trade policies[71], MVI has been experiencing difficulties for several years. Accordingly, the Government has undertaken to revitalize the local content system introduced in 1982, according to which motor vehicle assembly firms must incorporate, in their production, 60 to 70% of parts of Moroccan origin or offset by exports.

Below in Graph 16, used motor vehicle of Morocco is given and the reasons behind difficulties of the MVI in Morocco are shown. As a result of the economic and trade reforms, motor vehicle sector in Morocco was adversely affected. Between the years 1986 to 1995, used motor vehicle imports of the country has increased by 803% (10.206 to 92.000 units of cars). Huge amounts of imports enter into the country and especially a sharp increase was observed between 1991 and 1992 (54%). It can not be argued that socio-economic conditions or MVI in Morocco and Turkey are similar however, one main reason behind these problems related to MVI is the *sudden* liberalization of used motor vehicle trade.

[71] http://www.wto.org/english/tratop_e/tpr_e/tp23_e.htm#The Secretariat (retrieved on 20.05.2004)

Graph 16. Used Motor Vehicle Trade of Morocco



Source: http://www.wto.org/english/tratop_e/tpr_e/tp23_e.htm#The Secretariat (retrieved on 20.05.2004)

Passenger Cars (PCs)

The share of imported cars in the total car market was 19% in 1992, 23% in 1993, 12% in 1994 and 10% in 1995. With the impact of the Customs Union, this ratio has increased in a continuous manner after 1996, reaching 55% in 2000 and 2001.

Table 16. Passenger Cars Production vs Imports (x1000)

PCs	**'92**	**'93**	**'94**	**'95**	**'96**	**'97**	**'98**	**'99**	**'00**	**'01**	**'02**	**'03**
Imports	60	101	28	22	58	125	112	131	259	72	55	140
Domestic Production	259	340	201	195	182	220	204	158	208	59	36	70
Imports /domestic production%	23	30	14	11	32	57	55	83	125	122	153	200
Imports/ total %	19	23	12	10	24	36	35	45	55	55	60	67
Total	319	441	229	217	240	345	316	289	467	131	91	210

Source: OSD, General and Statistical Information Bulletin of Automotive Manufacturers, 2004 – I.

In 2003, in the total market 67% of passenger cars are imported and this number shows that imports doubled the amount of domestic production. This shows that Turkey has already had a problem of importation of passenger cars. With the abolishment of the derogation, existing situation will be worsened.

For the last five years, the distribution of imports among regions shows that EU and EFTA has a dominant position for the imports.

Table 17. Allocation of Imports of Passenger Cars[72]

	1999		2000		2001		2002		2003	
Region	**Unit**	**%**	**unit**	**%**	**unit**	**%**	**unit**	**%**	**unit**	**%**
EU+EFTA	109.689	**83,6**	226.734	**87,5**	65.921	**91,2**	54.583	**90,5**	136.228	**88,5**
East Europe	10.088	7,7	21.031	8,1	3.123	4,3	2.074	3,4	8.707	570,0
Far East	11.438	8,7	11.222	4,3	3.215	4,4	3.626	6,0	9.072	5,9
Total	131.215	100,0	258.987	100,0	72.259	100,0	60.283	100,0	154.007	100,0

Source: OSD, General and Statistical Information Bulletin of Automotive Manufacturers, 2004 – I.

In the car market, the share in imports of products originating from the EU, which was 33% in 1993, increased with the Customs Union, reaching 91% in 2002 and in 2003 this ratio did not change much and is around 89%.

Light Commercial Vehicles (LCVs)

Light commercial vehicles production is a newly developing sub-sector of motor vehicle industry. Although the data introduced on production showing the levels of production are not very stable, the share of this sub-sector in production and exports is increasing year by year.

[72] OSD, *General and Statistical Information Bulletin of Automotive Manufacturers*, 2004 – I, 25.

Table 18. Light Commercial Vehicles vs Imports (x1000)

LCVs	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03
Imports	19	36	13	20	39	79	68	45	81	22	28	54
Domestic Production	59	92	40	43	64	94	94	69	111	42	56	95
Imports/ domestic prod.%	32	39	33	47	61	84	72	65	73	52	50	57
Imports/ Total%	24	28	25	32	38	46	42	39	42	34	33	36
Total	78	128	53	63	103	173	162	114	192	64	84	149
Source: OSD, General and Statistical Information Bulletin of Automotive Manufacturers, 2004 – I.												

The share of imports in total light commercial vehicles market was 24% in 1992, 28% in 1993, 25% in 1994 and 32% in 1995. After the Customs Union, this ratio increased after 1996, reaching 46% in 1997 and 42% in 1998. The market share of imports remained at 36% in 2001 and 2002.

Table 19. Allocation of Imports of LCVs

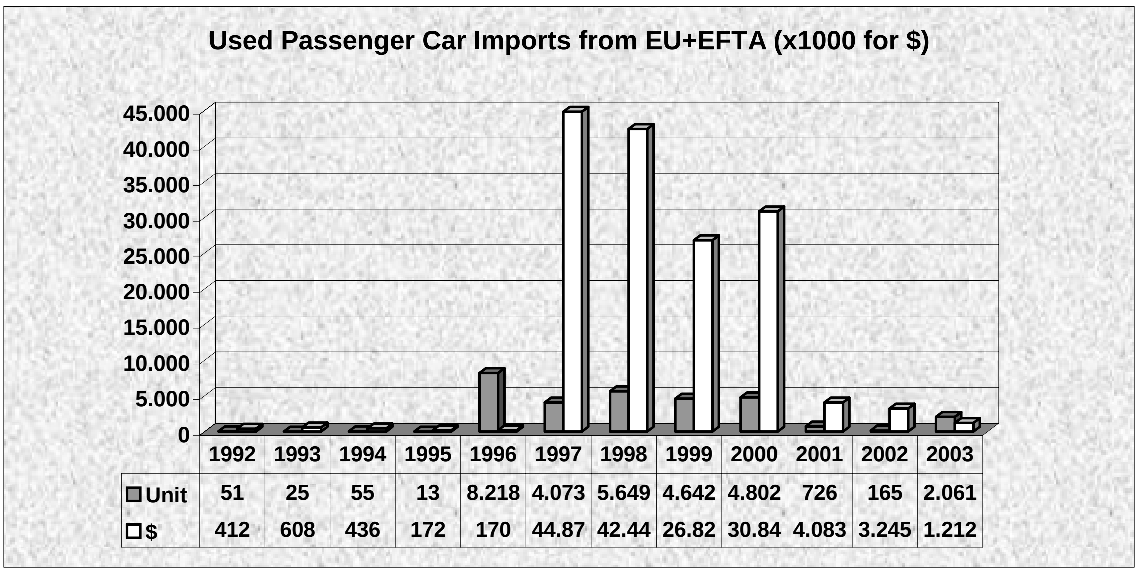
LCV	1999		2000		2001		2002		2003	
Region	**unit**	**%**	**unit**	**%**	**unit**	**%**	**unit**	**%**	**unit**	**%**
EU+EFTA	20.928	15,9	45.073	17,4	11.081	15,3	15.740	26,1	43.961	28,5
East Europe	1.406	1,1	1.996	0,8	130	0,2	13	0,0	653	0,4
Far East	19.394	14,8	30.226	11,7	7.586	10,5	8.279	13,7	14.844	9,6
Total	41.728	31,8	77.295	29,8	18.797	26,0	24.032	39,9	59.458	38,6
OSD, General and Statistical Information Bulletin of Automotive Manufacturers, 2004 – I, p.25.										

Likewise, in the light commercial vehicles market the share of imports of products originating from the EU increased rapidly from 1% in 1993 to 65% in 2002. The shares of Far East and East Europe have decreased substantially in car imports. The Eastern Bloc has completely disappeared from the light commercial vehicles market.

3.2. Imports of Used Passenger Cars to Turkey

Due to restrictions a limited number of used motor vehicles can enter into Turkey. 1997, 1998, 1999, 2000 and 2001 are the years when the highest unit of motor vehicles was imported following the CU Decision. In 1997 and 1998, these imports reached to the highest levels of about five thousand units and 44 million dollars. Then again due to trade restrictions this number was lowered.

Graph 17. Used Passenger Car Imports from the EU and EFTA Countries



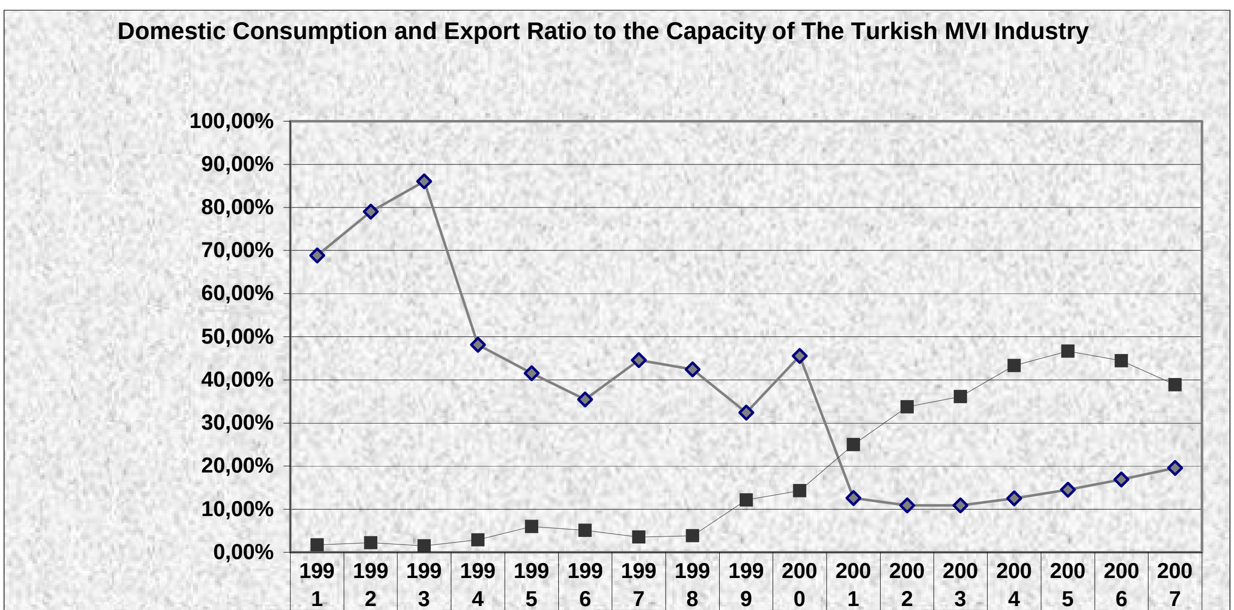
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Unit	51	25	55	13	8.218	4.073	5.649	4.642	4.802	726	165	2.061
$	412	608	436	172	170	44.87	42.44	26.82	30.84	4.083	3.245	1.212

Source: OSD Report (August 2003), "Free Movement of Used Motor Vehicles within the Context of the Customs Union and the Turkish Automotive Industry".

3.3. Capacity Usage

Regarding the capacity issue, one can also add the effect of permitting the second hand vehicle trade to Turkey upon the European Union producers in Turkey. European factories located in Turkey are numbered as 7 and these EU firms that have invested in the Turkish market are Fiat (JV), Ford (JV), Rover (L), Man (JV), M. Benz (JV), Peugeot (L) and Renault (JV). Their share in the passenger car market is 3.564.529.669 billion$ and 81%. Oyak-Renault and Ford-Otosan dominate the market and constitute 43% of all production[73]. The production capacity of these 6 firms is 690,000 cars per year that means they constitute 77% of the whole capacity. At this point, such a new regulation to eliminate the trade restriction on second hand vehicles again will threaten the production of European manufacturers in Turkey. For instance, Ford Otosan Kocaeli Factory has been chosen by the European Auditors as the “Best Ford Motor Vehicle Manufacturing Plant” for three times between 2002-2004. This example also indicates how these European manufacturers have undertaken huge investments in Turkey and their concern also has to be taken into consideration when it comes to make a decision about used motor vehicles.[74]

Graph 18. Domestic Consumption and Export Ratio to the Capacity of the Turkish MVI Industry



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
% domestic/capacity	68,8	79,0	86,0	48,1	41,5	35,4	44,5	42,4	32,4	45,5	12,6	10,8	10,8	12,5	14,5	16,8	19,5
% exports/capacity	1,71	2,25	1,46	2,92	6,03	5,14	3,57	3,86	12,1	14,2	25,0	33,7	36,1	43,3	46,6	44,4	38,8

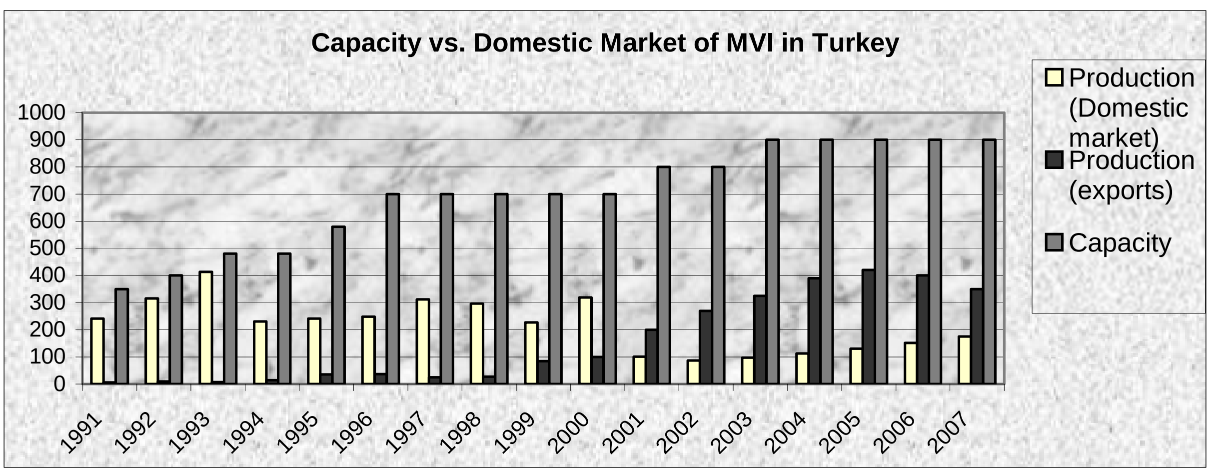
Source: Data used for the table is taken from: OSD, *General and Statistical Information Bulletin of Automotive Manufacturers*, 2004 – II.

[73] See in table 11.
[74] Radikal Newspaper 02.07.2004.

Graph 18 shows that capacity usage in MVI in Turkey has got more export-oriented since 1999, on the other hand, capacity used to meet domestic consumption has been decreasing since 1993.

Below in Graph 19, capacity usage is compared with production levels. As the data introduced in the Third Forum for Turkish Main and Suppliers Industry Meeting and Graph 19 show that capacity usage in main industry is 45% and this percentage for suppliers industry is around 30%[75]. One important reason for this fact is financial crises that fluctuates the consumer demand in Turkey. In 1993, the year that Turkey has done the highest production with 453.465 units of motor vehicles, the capacity of production was 480.000 motor vehicles. In 2003, 562.466 units of motor vehicles were produced while the capacity to produce was 1.183.705 units.[76]

Graph 19. Capacity to Produce Motor Vehicles and Domestic Market Data in Turkey



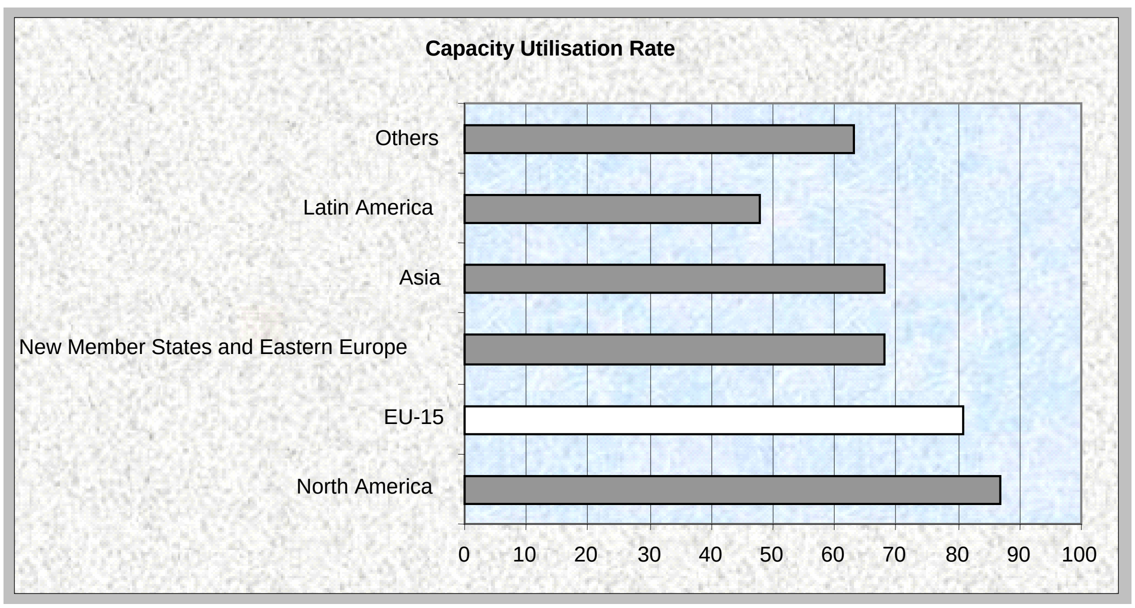
Source: OSD, General and Statistical Information Bulletin Of Automotive Manufacturers, 2004 – I, 21; "Otomotiv Sektörünün Sorunları ve Çözüm Önerileri", Yatırım Finansman Dış Ticaret Dergisi Yıl:10 Sayı: 222, 15.03.2004, 46-47.

[75] OSD, OSD Report, *Türkiye'deki Otomotiv Sanayii III. Ana-Yan Sanayii Forumu* (İTO) 08.05.2003; Yatırım Finansman ve Dış Ticaret Dergisi, "Otomotiv Sektörünün Sorunları ve Çözüm Önerileri", Yatırım Finansman ve Dış Ticaret Dergisi, Tokay Haber Ajansı, Yıl:10, Sayı: 222, 15.03.2004, 42-50, 46.
[76] OSD, *General and Statistical Information Bulletin of Automotive Manufacturers*, 2004 – I, 21; **"Otomotiv Sektörünün Sorunları ve Çözüm Önerileri"**, Yatırım Finansman Dış Ticaret Dergisi Yıl:10 Sayı: 222, 15.03.2004, 46-47; TÜSİAD, *Taşıt Araçları Yan Sanayiinde Teknoloji ve Yeni Ürün Geliştirme Yönetimi*, TÜSİAD Rekabet Stratejileri Dizisi – 4, Yayın no. TÜSİAD-T / 98-12 / 256, TÜSİAD, İstanbul, 1998, 45.

This unused capacity is in extreme percentages. If used motor vehicles are permitted to enter Turkey, this will worsen current conditions.

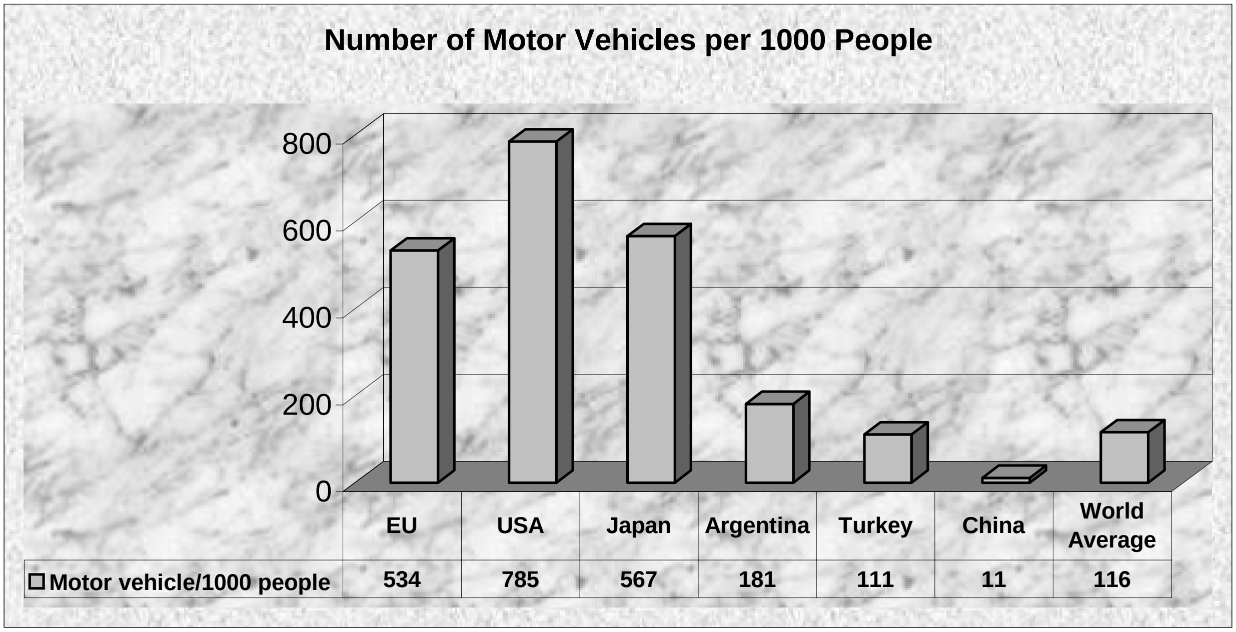
According to Graph 19, production for domestic market decreases and is expected to make a slight upturn after 2004. Production had been very low up until 1999 and after 2000 it began to increase faster and exceeded domestic market production. In the long-term, these two data are expected to balance. Red lines symbolize the capacity and as it is seen from the graph, Turkey unfortunately uses about half of its capacity. Capacity utilization of regions are given below in Graph 20 and Turkey is far behind the average EU-15 capacity utilization which is over 80%.

Graph 20. Capacity Utilisation Rates (%) in Car Assembly Plants by Major Region during the 2000 Boom



Source: European Commission, Enterprise and Industry Committee, *European Competitiveness: Competitiveness and Benchmarking Report 2004*, SEC(2004)1397: Luxembourg: Office for the Official Publications of the European Communities, 2004, 170.

Graph 21. Number of motor vehicles per 1000 people[77]



Source: Atilla Bedir (November, 1999), *op. Cit.,* 22.

Also, when we look at Graph 21 for the number of vehicles per 1000 people in Turkey with a population of 70 million people, we see this number is far below (EU is approximately five times more) when compared with European Union average. In the EU, among 1000 people 534 of them have cars and in Turkey 111 people among 1000 have cars. [78] According to this data, Turkey has a great potential for motor vehicle ownership with its unsaturated market. For this reason, used motor vehicle entrance to the market will shake the balance of the sector which in return will be reflected to other sectors of the economy as well since motor vehicle industry is very closely linked to many other sectors. Another reason of the EU to demand abolishment of the derogation can be its saturated motor vehicle market with a yearly growth rate of 2-3%. Also the motor vehicle market is expected to stay stable in the long-term.[79] A transfer of the used

[77] Bedir (November, 1999), *op. Cit.,* 22.
[78] Bedir (November, 1999), *op. Cit*., 11.
[79] Growth rates are taken from Otomotiv Sanayicileri Derneği Bulletin, June 2002,15-16.

motor vehicles to other countries like Turkey will help European MVI to recover from this slow trend.

3.4. Prices

According to the EU Customs Code, a used motor vehicle is "a vehicle which has been registered with road transportation authorities". In the EU market, used motor vehicles depreciate more quickly compared to the Turkish market.

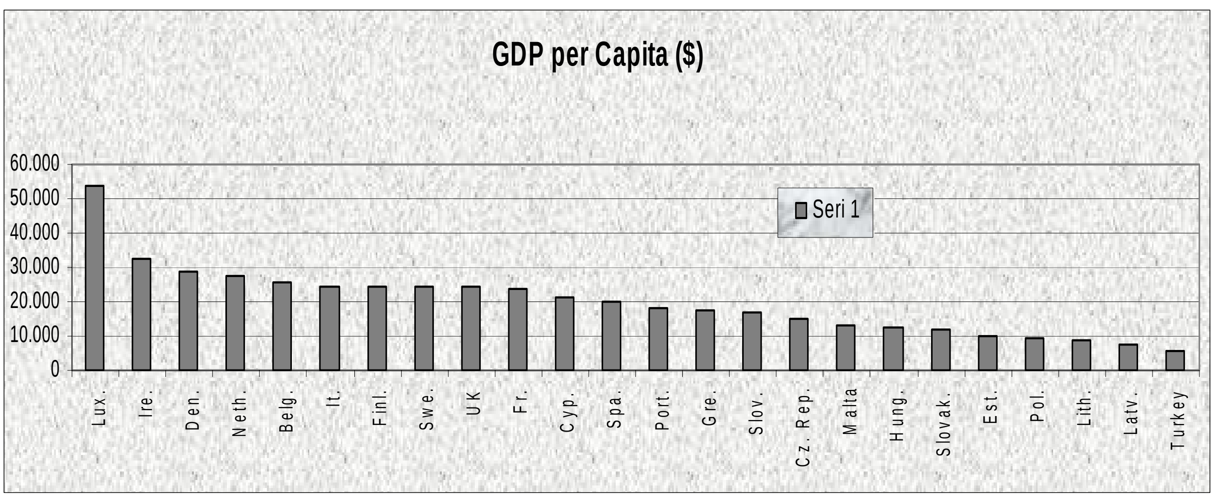
Table 20 Comparison of Value Loss in Used Vehicles between Turkey and the EU

Loss of value in used vehicles			
Age of vehicle	**Turkish Market**	**EU Market**	**Price Difference (%)**
	A	**B**	**B/A**
New	100	100	1
1	93	72	23
2	87	62	29
3	78	50	36
4	71	39	45
5	64	32	50
6	58	25	57
7	53	18	66

Source: "Meeting Notes on Used Vehicle Trade" OSD Archives prepared by Mücahit Sevim; OSD Report, (August 2003), "Free Movement of Used Motor Vehicles within the Context of the Customs Union and the Turkish Automotive Industry".

According to the EU Customs Code, a used motor vehicle is "a vehicle which has been registered with road transportation authorities". In the EU market, used motor vehicles depreciate more quickly compared to the Turkish market. In the EU market, the loss of value in the first year is 28%. This rate rapidly increases to 82% within seven years. After seven years, used vehicles of EU origin are 66% cheaper. Average annual depreciation is 8.9% in the EU and 5.7% in Turkey.[80] A new motor vehicle can be bought with a lower financing rate, generally. However, the fact that “new vehicles depreciate in value rapidly” has to be taken into consideration. Many new vehicles lose about 40% of their value within three years. After three years, depreciation slows down.[81] At the same time, in Turkey demand for cheap used motor vehicles is very high due to low purchasing power unlike the EU. Gross Domestic Product (GDP) per Capita in Turkey is 3.803$[82] according to DIE but Graph 21 is drawn with respect to the data of United Nations Development Program (UNDP) which record Turkish GDP as 5.890$.[83] This amount is not only lower than old member and new member countries but also it is 28% of the EU-25 average GDP per capita. A used vehicle is generally less expensive (Lower purchase price and lower monthly payments). Major depreciation has already occurred. The previous owner has absorbed the cost of depreciation.

Graph 22. EU-25+TURKEY GDP per capita in $



Source: United Nations Development Program Website: (retrieved on 4.7.2004) http://www.undp.org/hdr2003/pdf/hdr03_HDI.pdf

80 OSD, “Free Movement of Used Motor Vehicles within the Context of the Customs Union and the Turkish Automotive Industry”, OSD Report (August 2003).
81 Ford Motor Company Website, (retrieved on 3.3.2004) http://www.ford.com/en/vehicles/vehicleShowroom/shoppingAdvice/gettingStarted/newOrUsed.htm
82 Official website of OSD http://www.osd.org.tr (retrieved on 3.10.2003); Radikal Newspaper 1.4.2004.
83 United Nations Development Program Website: (retrieved on 4.7.2004) http://www.undp.org/hdr2003/pdf/hdr03_HDI.pdf

Moreover, reparation costs are lower in Turkey due to lower labor costs and non-standard spare parts. In Europe; instead, reparation is expensive and European consumers, for this reason prefer to change their car instead of bothering with costs of reparation. Europe prefers to export these unwanted but low-milage cars to other countries like Turkey.

Another very well-known fact is that the road standards in Turkey are very low and Turkish consumers favor used vehicles instead of new ones due to this extra cost factor. Lastly, there is a huge difference between the real interest rates in Turkey and the European Union. Real interest rates are around 10-15% in Turkey while in Europe, it is around 3-4%.[84] This is an extra investment cost for new motor vehicles. This cost is higher than the repair and maintenance cost of used motor vehicles. Therefore, demand for used motor vehicles rises.

3.5. Consumer Law

Another aspect of importation of second hand cars is about the consumer law. In Turkey, the existing Law for Consumer protection (No. 4077, date 23/02/1995; publication in the Official Gazette No. 22221 on 08/03/1995) necessitates that goods to be traded has to guarantee designated criteria. These criteria are listed within the law and 3 articles are directly related to importation of second-hand cars: Article 4, 15 and 20.

Article 4 regulates the rules related to a “defective good”. It guarantees the consumer rights when a sold good does not provide the qualities it declared.

[84] ACEA, *European Union Economic Report,* ACEA, Brussels, L2985 Luxembourg, February 2004.

The Consumer is obliged to notify the defect within 30 days. But still a product has to provide 2-year-guarantee. Consumer has the right to demand a new and sound replacement of the defective good; a discount for the defect or cost-free reparation. In addition to these choices, consumer also has the right to demand compensation for extra problems caused by the good such as involuntary manslaughter or injury or damage to another product which is used together with the defected good.

A brand new vehicle's warranty has greater coverage. If a new vehicle is turned out to be defective, you have more protection and a greater chance for reimbursement. Used vehicles can have warranties, but they usually are not as comprehensive as the coverage for a new vehicle.

Article 15 deals with the after-sales services that explain the obligation of manufacturers and importers to provide life-long (physical life of a product) maintenance and repair services.

A specific stock of spare parts has to be kept within the limits determined by the Ministry and if a good goes out of order after the guarantee period, reparation services have to be provided and all of these rights are assured by law.

Article 20 regulates the Certificate of Guarantee and service station.

Manufacturers and importers have to provide a certificate of guarantee approved by the Ministry that covers a period of 2 years beginning from the delivery of the good. Salesperson is obliged to repair the good without demanding any payment except in the cases where the defect is caused by misuse by the consumer. If the problem with the good persists, consumer has the right to demand the alternatives listed in Article 4 (a new and sound replacement of the defective good; a discount for the defect or cost-free reparation). Salesperson could not refuse these demands. In the case of non-fulfillment of these demands, salesperson, dealer, manufacturer and importer are jointly and severally bound.

As a result of these legal responsibilities together with the fact that motor vehicles has to meet many safety standards, prior preparations have to be done in terms of consumer rights by the importers. Even though one buys a used motor vehicle, the safety standards still have to be assured by the importer or distributor. In this case, the time and place at which one acquires the vehicle does not eliminate the right of a consumer to demand compensation.

When one look at the situation from the perspective of consumers, limiting used motor vehicles imports can be evaluated as an unjust application since consumers have to pay more with this regulation to buy a used car. As in theory a trade restriction distorts consumption by making domestic price higher. However this limitation has been taken considering its effects for the whole economy. For instance, even the costs of the spare parts constitute another important amount of foreign exchange transfer abroad. According to the Report by OSD, spare part supply of second hand cars will be met by the foreign suppliers is calculated as more than 200 million for 100.000 motor vehicles.[85]

[85] OSD, "Free Movement of Used Motor Vehicles within the Context of the Customs Union and the Turkish Automotive Industry", OSD Report (August 2003).

3.6. Structural Reasons

One argument of the automotive industry for the existence of the import restriction for used vehicles is that the sector is an infant-industry. The oldest existing argument for protection is the infant-industry argument. The infant-industry argument is an argument for temporary protection to correct a distortion that disappears gradually with the passage of time.[86] Cases of successful infant-industry protection are difficult to prove or disprove. According to popular beliefs, the Japanese government played a key role in the development of such industries as steel, automobiles, electronics, fertilizers, and synthetic fibers. Other alleged examples of successful infant industries are steel, automobiles, and cement in Korea, and automobiles in Brazil.[87] As seen from the examples, MVI historically tends to hide behind the argument of infant industry.

The main reasons for the need to the infant industry are given by Södersten and Reed as: "A firm (or firms in an industry) cannot compete if it is small; it has to be large before it can harvest all the economies of scale in production and become competitive. Therefore, it has to be protected for sometime and be permitted to grow, without meeting immediate competition from abroad. When the firm has become fully developed, free trade can be allowed.[88]"

Two major arguments that necessitate intervention are: 1- absence of necessary labor skills, the pioneering entrepreneur of a particular industry must train the labor force; 2- acquisition of knowledge of production technique.[89] Labor skills issue is crucial for MVI since sector needs to have necessary skilled labor to function properly.

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[86] Chacholiades, Miltiades (1990): **International Economics.** Singapore: McGraw-Hill Publishing Company, 174.
[87] Chacholiades (1990), 178.
[88] Bo Södersten, and Geoffrey Reed (1994): **International Economics**, New York: St. Martin's Press, 256; Chacholiades (1990), 172.
[89] Chacholiades (1990), 176.

This is one of the arguments in this thesis that a quick decrease in production which is linked with labor loss would harm the sector in the loon-run. Considering these two points, labor skills and production technique and also the amount of production and level of technology, Turkish automotive sector has completed in its infancy period. However, the detailed data of production comparative to world leading automotive producers are given below. From a general point of view, Turkey is still lagging behind and a long way to go in terms of improvement in production.

When looking at the general data about distribution of motor vehicle production among countries and regions, Japan alone is the leader and it is followed by NAFTA countries (United States, Canada, Mexico) and Germany. Japan alone has produced nearly 9.000.000 of passenger cars. Turkey only produces 204.000 units of passenger cars which is far behind the main producers in Europe like Germany, France and Spain. This is given in order to indicate the position of Turkish MVI with other countries.

As shown in table 21, Turkey meets 0,7% of World PC production and 1,3% of LCV production. This data shows that Turkey has still way to go in terms of increase in MVI production. Although it cannot be counted as an infant-industry, it is still in the process of improvement.

Table 21. Comparison of Turkish Motor Vehicle Production with the Rest of the World

World Motor Vehicle Production in Units (x1000)									
	PCs		**%**	**LCVs**		**%**	**Total**		**Change**
(x1000)	**2002**	**2003**	**2003**	**2002**	**2003**	**2003**	**2002**	**2003**	**02/03**
Europe	17.237	17.244	41,0	2.585	2.761	14,8	19.822	20.005	0,9
West.Europe	14.741	14.602	34,8	2.130	2.179	11,7	16.871	16.782	-0,5
Germany	5.123	5.145	12,2	346	361	1,9	5.469	5.507	0,7
France	3.293	3.220	7,7	409	400	2,1	3.702	3.620	-2,2
Spain	2.267	2.399	5,7	588	630	3,4	2.855	3.030	6,1
UK	1.630	1.658	3,9	193	189	1,0	1.823	1.846	1,3
Italy	1.126	1.026	2,4	301	295	1,6	1.427	1.322	-7,4
Cent.&East Eur.	2.291	2.348	5,6	313	342	1,8	2.605	2.690	3,3
TURKEY	***204***	***294***	***0,7***	***142***	***240***	***1,3***	***347***	***534***	***54***
Africa	9.020	8.273	19,7	9.698	9.974	53,6	18.718	18.246	-2,5
NAFTA	7.348	6.630	15,8	9.366	9.580	51,5	16.714	16.210	-3
South Ame.	1.672	1.643	3,9	332	394	2,1	2.004	2.037	1,6
Asia/Pacific	14.852	16.228	38,6	5.224	5.744	30,9	20.076	21.971	9,4
Japan	8.618	8.478	20,2	1.639	1.808	9,7	10.257	10.286	0,3
China	1.102	2.019	4,8	2.185	2.425	13,0	3.287	4.444	35,2
South Korea	2.651	2.768	6,6	496	410	2,2	3.148	3.178	1
Total	41.358	42.012	100,0	17.636	18.607	100,0	58.994	60.619	2,8

Notes: Double counting is eliminated in regional totals. * NAFTA: Canada, the United States and Mexico.

Source: Comite Des Constructeurs Français d'Automobiles, *Analysis and Statististics: The French Automotive Industry*, Comite Des Constructeurs Français d'Automobiles, 2004 Edition, 6.

Light commercial vehicle market is newly evolving and therefore in Europe, Turkey's position is better when we are comparing the LCV production data. However, the need to invest on MVI and improve the potential of Turkey is a priority. Considerations on importation of used motor vehicles should also cover the status of MVI among the global competitors.

The main resistance of the industry for the elimination of trade barrier for used motor vehicles is resulted from the competitiveness levels of the industry. In the report by Istanbul Chamber of Industry[90], the competitiveness levels of the sector are summarized by a Swot Analysis. To summarize the main dynamics, one can list strong points and weak points of the Turkish MVI.

Although production and design technologies are at the same level with the EU and IT is widely used, still there is not enough fund for R&D and also national production policies are nonexistent. Experience of exportation to the EU is a valuable asset but at the same time, sector has inefficient coordination between the departments of production and marketing. Costs in general are higher compared to Europe and sector produces at low capacity. As explained in part 1.3.3, financial crises also hit the sector many tşmes and current human resources and whole production process affected adversely. This is another reason behind problems about competitiveness.

[90] ISO, *Otomotiv Sanayi Sektörü Raporu*, Avrupa Birliği'ne Tam Üyelik Sürecinde İstanbul Sanayi Odası (ISO) Meslek Komiteleri Sektör Stratejileri Geliştirilmesi Projesi, İstanbul, Yayın No: 2002/22, Şubat 2002 , 44-45.

Table 22. Swot Analysis of the Sector

Strong Points	Weak Points
Technology	
• Production and design technologies are brought about by foreign investors to Turkey • Efficient production • Widely used information technologies (IT) • General level of technology infrastructure is at the same level with international standards • Role of the R&D is highly appreciated in the sector.	• Level of technological production is still not enough in all production lines • Lack of funds for R&D projects • National production policies are quite insufficient
Market	
• Experience of exporting to the European Union • Wide network of marketing and distribution.	• Inefficient coordination between the departments of production and marketing
Economy	
• Strategic geographical position • Free movement of exported goods in the European Union • Sector is fully transparent • Due to customs Union, sector is not dependant on internal market for raw materials and intermediate goods • Opportunity to trade with the countries who has signed Free Trade Agreements under the Customs Union	• Insufficient financing instruments for the suppliers industry • Interest rates are high and costs of basic inputs are high • Higher cost of production due to production under low capacity • Production with lower capacity
Human Resources	
• Qualified entrepreneurs and competitive human resources. • Competitive cost of labour • Capability to create ongoing value added.	• Due to financial crises, human resources may be lost or motivation of workers is hard to sustain.

Quality Management Systems	
• Quality management systems are systematically used.	• There are still some plants uncompetitive due to lack of total quality management system
Institutional and Legislative Issues	
• Consciousness level about the implementation of the technical legislation. • Existing installed capacity potential of main and supplier industries, • high level of integration with the foreign producers	• Sector still lacks necessary technical documents, • Physical infrastructure is needed to be improved • No national master plan for the sector • Organizational deficiencies • Criteria of consumer law is subjective • Data about new registrations are not liable • High energy prices • The quality of petroleum products is not same as European counterparts • Environment law also brings about new costs like renewal of technology
Source: ISO, *Otomotiv Sanayi Sektörü Raporu*, Avrupa Birliği'ne Tam Üyelik Sürecinde İstanbul Sanayi Odası (ISO) Meslek Komiteleri Sektör Stratejileri Geliştirilmesi Projesi, İstanbul, Yayın No: 2002/22, Şubat 2002 , 44-45.	

Table 22 is given in order to illustrate the reasons behind the demand to continue the trade restriction for used commercial vehicles by the sector. Many reasons are listed in the context of swot analysis. Södersten and Reed explains that a protectionist policy (tariff) will cause a production and consumption cost. An alternative policy should be to gradually reduce the tariff as the process continued.[91] Also they argue that tariffs are not the most suitable means of dealing with the problem created by infant industries. It is always possible to reach a better solution by using subsidies, perhaps in combination with taxes. State should deal with imperfections directly.[92] In order to make a direct

[91] Södersten and Reed (1994), 258.
[92] Södersten and Reed (1994), 260.

intervention, one has to reconsider the list of weaknesses above. An ongoing tariff will not help to resolve the issue of problems on competitiveness on its own.

Chacholiades underlines “Rule for Optimal Intervention” which means policy intervention restores *pareto optimality*[93] when it takes place at the exact point at which the underlying market imperfection occurs and is equal to the degree of distortion, thus offsetting the distortion completely.[94] To illustrate the application of this rule, Chacholiades gives an example from hi-tech industries. These companies cannot fully benefit from their investment on high technology since the improved technology soon spills over to other firms. Automotive industry is also a high technology industry. A support is needed and following the rule for optimal intervention, best solution according to Chacholiades is to adopt an industrial policy by means of which resources can be channeled into the high technology industries.

In the Turkish MVI sector, investments for technology and R&D together with a better understanding of Total Quality Management can be a first step. Considering the existence of financial crises that weaken not only MVI but also all other sectors, subsidies for labour in manufacturing can be another policy to contribute to sectors’ competitiveness. Another approach can be subsidies for manufacturing production which encourages the use of non-labor factor in manufacturing.

In the case of Turkish MVI, sector suffers from high taxes which are rooted from unregistered economy. Not only for MVI but also for all the sectors this is a general and crucial problem. Since the MVI (main industry) is fully under registration,

[93] Pareto optimality is a situation in which economic welfare is maximised. In other words when no one can be made better off without someone else being made worse off, following a reorganisation of production or distribution.
[94] Chacholiades (1990), 173.

sector pays its taxes (710.372.666$ in 2003[95]) regularly and is subject to also additive taxes. At this point, gradual reduction suggestion is very meaningful which is also compatible with the sectors demand for gradual eliminated in time.

One can also analyze the trade restriction issue from the side of the European Union. In the late 80s, there were trade restrictions on imports from Japan to France, Italy, the United Kingdom, Portugal and Spain. Since 1977 Japanese imports have been restricted to 3% of the French market and 11% of the UK market. Italy, Spain, and Portugal have long-standing and tight limits on Japanese imports. Both the Italian and Iberian restrictions are modeled, like French and UK restrictions, as limiting Japanese market shares. In the German market, there is no explicit restraint on Japanese sales.[96]

1990s were more problematic for the sector due to stagnation in the economy and approximately 20% of decrease in the new car registrations. Therefore, the EU implemented a preferential trade agreement with Japan and set a voluntary quota for imports again. For example, in 1993 the quota for passenger cars (PC) was 1.1 million but then it was revised and decreased to 980.000 PCs. At the same time, knowing the importance of the sector, European Commission chose motor vehicle sector as pilot sector when designing the new industrial policy of the Union in the context of the Maastricht Agreement. Between 1995-1999, the industry enjoyed a period of special status for 5 years in order to invest on the competitiveness of the sector. [97] As incentives

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[95] The revenues provided by MVI will be given in more detail in part 5.8. Amount in YTL is 1.073.195.506 YTL in 2003 and it is changed to $ by using the 2003 Dollar/Turkish Lira yearly exchange rate taken from TCMB.

[96] Smith, Alasdair and Antony J. Venables (1991): "Counting the Cost of Voluntary Export Restraints in the European Car Market" in the book edited by Elhanan Helpman and Assaf Razin, **International Trade and Trade Policy**. Massachusetts: Massachusetts Institute of Technology, pp. 192-194.

[97] Osman Z. Orhan (1997), **Gümrük Birliği sürecinde Türk otomotiv sanayii'nin ve otomotiv yan sanayii'nin rekabet gücü,** Yayın no:1997-54, İstanbul: İstanbul Ticaret Odası, 50-53; Meral Varış Tezcanlı ed. (October, 1995): **Otomotiv Sektörü**, İstanbul Menkul Kıymetler Borsası, Sektör Araştırmaları Serisi/ No:1, 56.

from the EU budget, 154 million ECU is allocated for the sector. This can be named as second-best policy which is to subsidize manufacturing production according to Table 22. According to the European Parliament Factsheet on MVI (2001)[98], elimination of barriers to intra-community trade, maintenance and expansion of a competitive automobile industry in the EU, use of voluntary import restrictions are still among the sectors' priorities. Consequently, the EU prefers the abolishment of trade barriers enforced by Turkey on used motor vehicles.

To illustrate the situation in European MVI, France is taken as an example for importation. The reason for taking France is that she has been for the strictest trade limitation and implied the lowest quota for foreign motor vehicles as also explained above. Table 23 summarizes new passenger car registrations in France. Three domestic companies meeting more than half of the countries passenger car supply while 37 international car manufacturers meet only 40,4% of imports of passenger cars. The reason for this small amount of imports can be explained by "Type Approval" being used as a non-tariff barrier. In Turkey, imports were 140.000 units in 2003 and domestic production for the same year is 70.000 which was almost 70% of all production.[99] The share of the European Union among these imports was 88,5%.

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[98] European Parliament Fact Sheet on Automobile Industry (01.10.2000); http://www.euparl.eu.int/factsheets/4_7_4_en.htm (retrieved on 10.10.2003)
[99] Explained in Table 16.

Table 23 . New Passenger Car Registrations in France

New Passenger Car Registrations in France					
(in units)	**1980**	**1990**	**2000**	**2002**	**2003**
Total France	1.444.686	1.404.889	1.261.533	1.299.911	1.196.780
Total Foreign	428.516	904.241	872.351	845.160	812.466
Total	1.873.202	2.309.130	2.133.884	2.145.071	2.009.246
French Makes (%)	77,1	60,8	59,1	60,6	59,6
Foreign Makes (%)	22,9	39,2	40,9	39,4	40,4
Notes: Total France covering Citroen, Peugeot, PSA Peugeot Citroen.					
Total foreign covers Alfa Romeo, Audi, BMW, Chrysler, Daewoo, GM Daewoo, Daihatsu, Fiat, Ford, Honda, Hyundai, Jaguar, Jeep, Kia, Lada, Lancia, Land Rover, Mazda, Mercedes, Mini, Mitsubishi, Nissan, Opel, Porsche, Rover, Saab, Santana, Seat, Skoda, Smart, Ssangyong, Subaru, Suzuki, Toyota-lexus, Volkswagen, Volvo.					
Source: Comite Des Constructeurs Français d'Automobiles, *Analysis and Statististics: The French Automotive Industry*, Comite Des Constructeurs Français d'Automobiles, 2004 Edition, 61.					

The demand for used motor vehicles can be examined through French data. In 1980, 66% of PCs are used and in 2003, 75% of PCs are now used PCs. The demand for used cars in France, where GNP per capita is over 20.000$, is considerably high. Turkey's concern about used vehicles penetration has its roots from these examples.

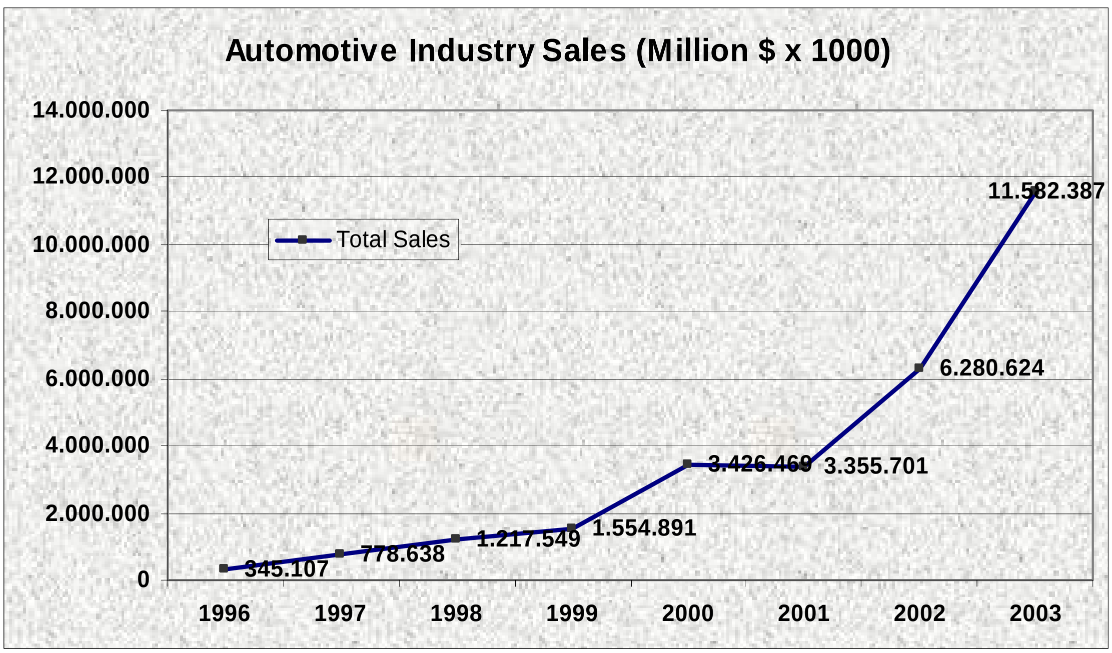
Table 24 . Ratio of Used and New Passenger Car in France

Ratio of Used and New Passenger Car in France					
	1980	**1990**	**2000**	**2002**	**2003**
Ratio used/new	2,4	2,1	2,4	2,5	2,6
Source: Comite Des Constructeurs Français d'Automobiles, *Analysis and Statististics: The French Automotive Industry*, Comite Des Constructeurs Français d'Automobiles, 2004 Edition, 61.					

3.7. Special Conditions of Motor Vehicle Industry

As explained previously, motor vehicle industry is an economically strategic sector in terms of its remarkable contribution to national production and development, direct and indirect employment and level of technology for all countries because of easy and accountable tax collecting and high export potential. In this part, the amount that MVI contribution to Turkish economy in general is tried to be illustrated.

Graph 23. Automotive Industry Sales (million $ x 1000)



Source: OSD, General and Statistical Information Bulletin Of Automotive Manufacturers, 2004 – I, 27.

The revenues transferred to the state budget increase as the sectors' sales are increase. Above in Graph 23, the sales of the MVI are given in order to elucidate the increasing trend. When several tax items, salary payments are considered, the sector has paid to the state around 715.463.670 million $.

Table 25. Revenues created by the Motor Vehicle Industry in Turkey

Taxes, Wages and Salaries Paid by Automotive Manufacturers -2003	
Net wages, salaries and bonuses	496.722.743 YTL
Income tax	135.150.235 YTL
Social Insurance Premium paid by employee and employers	174.243.077 YTL
Total Production and tax payment	831.245.198 YTL
Stamp Duty	4.160.344 YTL
Value Added Tax	63.817.519 YTL
Association Tax	111.915.723 YTL
Total (covering other taxes and payments)	**1.073.195.505 YTL** **710.572.666 $**
Source: OSD, General and Statistical Information Bulletin Of Automotive Manufacturers, 2004 – I, 29-32. 1 $ = 1.510.750 (2003 yearly exchange rate, TCMB)	

On the other hand, there are also many investments undertaken by the sector which amount to 486.000.000$ (see in Table 26) in 2003. Total realized investments since 2000 amount to 1.813.000.000$. As it is mentioned in part 1.3.1, 1.2 million people have been working in motor vehicle industry and together with these investments, the sector provides an alternative employment area for the unemployed.

A sector like motor vehicle industry which is a highly technical area and systematically renewed and supported by new technologies has to have enough capable and qualified staff in order to handle hi-tech manufacturing process that is necessary to compete with other manufacturers in different countries. It takes not only money but also time to train these staff and for this reason, permission to used cars involves a risk of decreasing the size of the sector which means, apart from loss of all the revenues coming from taxation, foreign trade of products of motor vehicle industry and investments, there will be a huge loss in terms of qualified employment which is quite hard to replace.

The trade of automotive products with the EU has developed especially after the Customs Union. Foreign trade volume reached 10$ billion in 2003.[100]

Table 26. Realized Sectoral Investments ($)

Realized Sectoral Investments ($)				
Project type	**2000**	**2001**	**2002**	**2003**
Capacity Development	5.000.000	15.000.000	51.000.000	118.000.000
Modernization	32.000.000	40.000.000	67.000.000	27.000.000
New Model Development	224.000.000	343.000.000	282.000.000	230.000.000
Quality Development	13.000.000	12.000.000	3.000.000	3.000.000
Localization	29.000.000	26.000.000	42.000.000	72.000.000
Others	118.000.000	14.000.000	11.000.000	36.000.000
Total	**421.000.000**	**450.000.000**	**456.000.000**	**486.000.000**
Source: OSD, *General and Statistical Information Bulletin of Automotive Manufacturers*, 2004 – II.				

In part 2.1, the definition of a *used vehicle* is given, then legal aspects and the base of Turkish argument about not allowing the entrance of second hand motors and motor vehicles to Turkey will be explained with reference to the Association Agreement Decision No. 1/95. In addition to the legal base, economic arguments are put forward and trade data are interpreted. The share of European motor vehicles in Turkish market, imports of motor vehicles from the European Union, and capacity usage shows that the issue of elimination of trade restriction to used motor vehicles is a sensitive issue. Also, prices and consumer law has added.

[100] See in table 6 (6.043.551.380 imports + 4.019.637.402 exports)

Lastly, infant-industry theory is given and it is argued that Turkish MVI has passed this stage. However, the sector is still sensitive in terms of competitiveness and elimination of derogation should be gradual. It is underlined that there are other protectionist methods applied by European Union countries mainly France who applies those measures in a strict sense.

CONCLUSION

This thesis focused on the trade restrictions of used motor vehicles imported into Turkey from the European Union. The basis of these restrictions is grounded in the derogation that is attached by Turkish efforts to the Association Agreement Decision No. 1/95 starting a Customs Union between Turkey and the Community. Ten years ago Turkey had and continues to have many concerns for demanding this arrangement. The risk of excess amount of imports of used motor vehicles from the EU triggered Turkey to take a precaution for all used motor vehicles for an unlimited period of time.

European Union, on the other hand, has been demanding the elimination of this derogation at least by either changing the scope of the declaration or its duration. The analysis carried on in this work concerning the motor vehicle industry with respect to the imports into Turkey of used motor vehicles from the EU reveals that the derogation of Turkey against the said imports should be kept valid until Turkey becomes a full member of the European Union.

Following a descriptive presentation of the general motor vehicle production and trade in the world and the MVI in the European Union, the importance of MVI for Turkey is taken up in greater detail. Being a locomotive and comparably more reliable sector, MVI is very important for Turkey. The EU is the main trade partner of Turkey in the motor vehicle sector; 82% of MVI imports come from the EU and 66% of Turkish MVI exports are directed towards the EU. The volume of this trading was over 10 billion $ in 2003.

Turkey's EU membership perspective requires that the sector in Turkey should make further progress in its integration to the EU. The Customs Union with the EU in 1996 has already resulted in considerable reflections on trade and has intensified competition in this sector, as well as in many other sectors. While the related Articles of the Association Agreement Decision No. 1/95 (Articles 4, 5, 6, 8, 11) show that there has been no unlawful practice between the parties, previous associate agreements with other candidate or member states (Greece, Ireland, Spain, Portugal, Sweden, Austria, Finland, Poland, Hungary) show that similar derogations in trade arrangements have permitted quotas and the continued application of customs duties. Turkey, which is still not a member country and the process of full membership to the EU is still not clearly defined has justly tried to protect its economic interests through legal measures by this decision.

Adverse effects of abolishment of earlier trade restrictions for used cars have already illustrated in 1984 the seriousness of this issue in Turkey. Furthermore, there has been an increase both in the share of imported cars in the total car market and in the amount of domestic production since 1992. Turkey, with its still unsaturated market, has a great potential for motor vehicle ownership. Due to low purchasing power, used motor vehicles of EU origin have a cost advantage that attracts demand. The economic data provided in the thesis also indicate the possible adverse results of abolishing the trade restrictions.

At the same time, capacity usage in main industry is very low (45%) and average annual depreciation of cars in the EU is much higher than in Turkey and this results in cheaper used vehicles imports.

Another legislation that complicates the issue of used vehicle imports coming from the EU is "Consumer Law". A brand new vehicle's warranty has greater coverage. If a new vehicle turns out to be defective, there is greater protection and a greater chance for reimbursement. Used vehicles can also have warranties, but they usually are not as comprehensive as the coverage for a new vehicle. Another justification for Turkey is the need for guarantees for consumer rights by used car importers prior to abolishment of the trade restriction.

Lastly, the revenues of state from MVI, like taxes, wages, salaries and investments, strengthen Turkish arguments which claim that the contribution of this sector to the whole Turkish economy is crucial and abolishment of this derogation can severely harm the sector. Also, the possible effects of the limitation of the derogation to seven, out of seventeen EU origin companies (and other manufacturers) whose share in the passenger car market is 81% is also taken as another legal ground for import restrictions of used cars into Turkey. In the structural reasons part, it is explained that Turkish automotive sector has completed in its infancy period. However, the detailed data of world production comparative shows that Turkey is still lagging behind and is in need of improvement in production. The swot analysis of the sector is given in this part and weaknesses related to the sector are listed in order to underline the existence of problems of competitiveness. Risk of educating the necessary labor force is another crucial point when considering the elimination of import restrictions. Sector has high technology production and important trade moves should not be applied all at once rather a Södersten and Reed's gradual reduction can cause less distortions. Also the European Union uses incentives for the sector.

It would be a failure to abolish the said derogation at the moment all at once since abolishment of the derogation poses a serious threat to the existing industrial base of Turkey that would clearly violate the principle of the Ankara Agreement about protecting "the common interests of the Parties." Turkey needs more time to prepare itself legally like preparing the necessary legislation (consumer law, etc) and Turkey also needs to overcome ongoing problems of the MVI sector like unused capacity, insufficient and unstable demand, import increases, high taxes and lack of coordination between main and supplier industries. Keeping in mind that there is always a possibility for global manufacturers to transfer their plants to other countries, Turkey should give the sector the importance that it deserves and the sector should pay attention to the competitiveness level of the MVI.

For MVI in Turkey, the process of globalization and the Customs Union with the Community have been highly enhancing. In recent years, since 1996, the Turkish automotive industry shows great progress in achieving “Full Integration” that enables participation of Turkish-foreign partnerships in international markets across the world. EU regulations have been successfully transformed into national regulations and fully implemented. While importing also became more and more relaxed, an environment has been created for fair and lively competition.

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