10 January 2008

Screening report

Turkey

Chapter 33 – Financial and budgetary provisions

Date of screening meetings:

Explanatory meeting: 6 September 2006
Bilateral meeting: 4 October 2006

I. CHAPTER CONTENT

This chapter covers the rules concerning the financial resources necessary for the funding of the EU budget ('own resources'). These resources are made up mainly from so-called traditional own resources from customs and agricultural duties and sugar levies, which are levied by the Member States on behalf of the EU; furthermore a resource based on value-added tax; and finally, a resource based on each Member State's gross national income. Member States must have appropriate administrative capacity to adequately co-ordinate and ensure the correct calculation, collection, payment and control of own resources. The *acquis* in this area is directly binding and does not require transposition into national law.

II. COUNTRY ALIGNMENT AND IMPLEMENTATION CAPACITY

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

Turkey indicated that it can accept the *acquis* regarding chapter 33: Financial and budgetary provisions. Turkey indicated that it does not expect any difficulties with implementing the *acquis* by accession. Turkey presented its current degree of alignment and its plans for further *acquis* alignment in the underlying policy areas as well as its plans for institutional and administrative capacity building to correctly apply and implement the EU's own resources rules.

II.a. Traditional Own Resources

Turkey focused its presentation on alignment with EU customs legislation, including the operational set-up of the customs administration and its implementing capacity. The Customs Law forms the main legal basis for the procedures concerning the collection of customs duties. Customs issues are essentially covered by chapter 29: Customs union.

As regards the administrative conditions necessary for compliance with the traditional own resources rules as laid down in Regulation 1150/2000, Turkey indicated that appropriate procedures for accounting and making available of traditional own resources including necessary administrative and IT infrastructure were still to be put fully in place. Currently there are no separate accounts within the accounting system to distinguish recovered/guaranteed and outstanding debts. Customs duties (paid and secured debts) are accounted for on the basis of cash accounting while accrual records of customs duties are kept by the Undersecretariat of Customs outside the accounting system. The writing-off of irrecoverable debts is only possible for small amounts.

No sugar production levies are charged in Turkey. There are eight sugar producing companies with 33 factories in total. A quota system is applied, managed by the Turkish Sugar Authority. Turkey will set up the necessary administrative and legal framework for sugar levies, possibly under the responsibility of the Ministry of Finance and the Sugar Authority.

Turkey recognised the need to further develop post-clearance control at trader's premises.

II.b. VAT resource

Turkey focused its presentation on alignment with EU VAT legislation. The VAT Law N° 3065 forms the main legal basis for the procedures concerning the collection of VAT. The Revenue Administration within the Ministry of Finance is the responsible institution for the collection of tax within the country and the Undersecretariat of Customs for the collection of VAT at importation. This issue is essentially covered by chapter 16: Taxation.

Turkey's legislation is partly aligned with the EU's VAT rules. There are a number of exemptions including for small taxpayers with a turnover below a certain threshold who may opt for taxation, allowing the recovery of their input VAT. 96% of all VAT receipts are accounted for automatically (computerised). Both cash and accruals accounting are applied.

Turkey is aware that compensations will have to be calculated for own resources purposes to neutralise the budgetary impact of any derogations allowing continued taxation or exemptions based on annex X of Council Directive 2006/112/EC (the VAT Directive).

Turkey indicated it was well aware of the need to calculate a Weighted Average Rate (WAR) as a multiple rate structure (18%, 8% and 1%) applies. For the screening a simplified calculation method was used arriving at an average rate of 15.83%. It also indicated, as discussed under the chapter 18 – Statistics screening, the need for improved statistics and in particular a more accurate calculation based on the Supply and Use Table so that the WAR can be calculated with accuracy. On the basis of a relatively basic first preliminary calculation, Turkey estimates that its VAT base relative to GNI will be below 50%.

II.c. GNI resource

Turkey focused its presentation on alignment with ESA 95 standards. This issue is essentially covered by chapter 18: Statistics.

The calculation of GNI/GDP in Turkey is carried out by the statistical office, Turkstat. The GNI calculation is not harmonised with ESA 95 standards. Currently, national accounts and GDP calculations are established following SNA 1968. Work with EUROSTAT began in 2000 with the aim of switching to ESA 95. In its negotiating position for Chapter 18 – Statistics (CONF-TR 4), Turkey announced that national accounts figures referring to 2002 onwards and compiled in accordance with ESA 95 would become available in 2007. At present, the impact of the informal economy on GDP is unknown.

II.d. Administrative infrastructure

Turkey intends to establish a coordinating body to ensure the correct calculation, forecast, collection, payment and control of own resources and reporting to the EU for implementation of the own resources rules. In order to carry out the necessary preparations, it is planned to establish an ad hoc working group within the Ministry of Finance with the participation of representatives from related public institutions. The Turkish Treasury will open an account in the name of the Commission with the Central Bank of the Republic of Turkey. The latter applies SWIFT.

III. ASSESSMENT OF THE DEGREE OF ALIGNMENT AND IMPLEMENTING CAPACITY

Overall, Turkey has reached a good level of alignment with and capacity to implement the *acquis*. There are no significant divergences between the Turkish and the EU system concerning the basic principles and institutions in the underlying policy areas linked to the application of the own resources system. In order to prepare for the full application of the *acquis*, Turkey needs to continue to align with the relevant *acquis* chapters, in particular customs union, taxation, statistics and financial control. Although the *acquis* in this area does not require transposition, Turkey will need to establish coordination structures and implementing rules so as to ensure the correct calculation, collection, payment and control of own resources and reporting to the EU for implementation of the own resources rules. Also, effective instruments are to be set up to combat customs duty and VAT fraud so that the financial interests of the EU can be protected.

The Commission will assess the budgetary impact of Turkey's accession at a later stage of the negotiations. The results of the impact assessment will be presented together with the financial framework for concluding the negotiations.

III.a. Traditional Own Resources

As indicated under chapter 29 – Customs union, there is already considerable legislative alignment in the customs field. The level of alignment of the Turkish Customs Law with Community acquis is facilitated by the fact that since the establishment of the EC-Turkey Customs Union in 1996, Turkey has already adopted and begun enforcing much of the acquis. The level of administrative capacity is considered globally satisfactory.

However, appropriate procedures and systems for accounting and making available of traditional own resources will have to be put in place. In particular, separate accounts to distinguish between recovered/guaranteed and outstanding debts as required by Regulation 1150/2000 (the so-called 'A' and 'B' accounts) will need to be established. Turkey also needs to establish a write-off system for irrecoverable debts in line with Article17(2) of Regulation 1150/2000, in particular for the established customs duties deemed irrecoverable in an automatic way after a certain time limit.

Direct links between the electronic customs clearance system (BILGE) and the accounting system of the Ministry of Finance needs to be installed. The fact that the Undersecretariat of Customs falls under the Prime Minister Office and the central bookkeeping is done at the Ministry of Finance will not facilitate this linkage process. The customs clearance itself is nearly completely automated, with 99.5% of all import and export declarations being automated).

Post-clearance control at trader’s premises needs developing. It remains to be established what types of independent internal and external control/audit will be performed on the collection, accounting and making available of traditional own resources. This issue will also be followed-up in the framework of chapter 32: Financial control.

Although a sugar quota system is applied, no production levies are charged. Turkey will need to create the legal framework for sugar levies and create the necessary administrative framework, possibly by expanding the competences of the existing Turkish Sugar Authority.

III.b. VAT resource

As indicated under chapter 16: Taxation, Turkey has partly aligned its legislation in the field of VAT. Its VAT system follows the main structure of the legislation of the EU. However, there are a large number of differences of a structural nature, including deductions, exemptions, special schemes, tax refunds, and the application of reduced rates.

Turkey will need to develop the capacity to calculate accurately the Weighted Average Rate, notably through improved statistics and to calculate the compensations and corrections to offset the negative impact of possible derogations on the VAT resource base. Turkey's first preliminary estimates suggest the VAT base would be below 50% of GNI. Further improvements in the calculation will be needed to verify its accuracy and whether the capping at 50% provided for in the Own Resources Decision will apply, also taking into account the need for improvements in the GNI calculation.

III.c. GNI resource

As indicated under chapter 18: Statistics, the calculation of GNI/GDP in Turkey is not harmonised with ESA 95 standards. Currently, national accounts and GDP calculations are established following SNA 1968.

Turkey will need to continue aligning its statistics with ESA 95, particularly as regards the exhaustiveness of national accounts as it is currently particularly difficult to assess the impact of the informal economy on GDP.

III.d. Administrative infrastructure

In addition to further strengthening administrative capacity in the underlying policy areas (customs, taxation, statistics, financial control), a fully operational coordination structure will be required so as to ensure the correct calculation, forecast, collection, payment and control of own resources and reporting to the EU for implementation of the own resources rules. Turkey's plans to establish an ad hoc working group for overall coordination of preparations in the field of own resources could form the basis of such a structure.