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# WHY THE REVISION OF THE FRAMEWORK AND THE SCOPE OF TURKEY-EU CUSTOMS UNION WAS INEVITABLE?

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## **Why the revision of the framework and the scope of Turkey-EU Customs Union was inevitable?**

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On the 12<sup>th</sup> May 2015, the European Commissioner for Trade Cecilia Malmström and Turkish Minister of Economy Nihat Zeybekci announced their decision to revise the framework and to expand the scope of the Customs Union between Turkey and the EU that was established 20 years ago. This represents an opportunity for both parties not only to strengthen their bilateral economic and trade relations but also to give a new momentum in Turkey-EU relations and to Turkey's EU accession process.

The following additional problems were clear indication that the revision of the Customs Union was long overdue: the number of complaints voiced out has increased over the last few years in regard to the functioning of the Customs Union, especially Turkey's absence in the decision making mechanism and EU's negotiation processes of trade agreements with third countries. The application of quotas to Turkish trucks and visa to Turkish businessmen have also been important causes of concern for the representatives of the Turkish private sector since these discriminatory treatments put the free movement of goods in jeopardy.

Since the framework of the Customs Union was drawn with the Ankara Agreement (1963) and details were laid down by the Additional Protocol (1971) not only Turkey and the EU but also world trade have gone through tremendous changes. Turkey has undergone a profound economic transformation, lifting the country from the status of a developing country to an emerging market. In the same time frame, the EU has been taking steps to further deepen its economic integration with the establishment of the Economic and Monetary Union and Single Market. Moreover, when the Customs Union was being built up between Turkey and the EU, it was envisioned that Turkey will join the EU in the near future. But since the entry into force of the Customs Union, 13 countries became members of the Union whereas Turkey is still a candidate country undergoing accession negotiations since 2005.

In parallel to the transformation in the economic structure of Turkey and the EU, the international trade scene has been also undergoing important changes. Along with globalization, the world trading system is facing an increase of trade in services, an expansion of international investments, emergence of global value chains, an increase of economic interdependence among countries, the rise of new economic actors and new emerging trade related topics such as intellectual property rights, competition and state aid rules, public procurement. While important achievements have been made in reducing the tariffs on goods, it became essential to deal with new forms of protectionism and to better tackle non-tariff measures in multilateral trade negotiations in order to push the trade liberalization further. With its 161 members, it has become nowadays even more difficult to find consensus on complex issues among countries and to advance in the multilateral trade negotiations conducted under the auspices of the WTO. The failure to still conclude the Doha Round which was officially launched in 2001 is a clear indication of this impasse.

With the difficulties in further liberalizing trade at multilateral level, aiming to access new market and increasing their exports, global economic and trade actors shifted their efforts by focusing more on regional and bilateral free trade agreements (FTA). Within this context, the EU has been one of the frontrunners in terms of negotiating and signing FTAs as a means to further enhance trade relations with third countries. Over the past ten years, the European Commission's latest trade policy strategies have revealed EU's interest in regional and bilateral FTAs and their choice of partners made according to their market potential measured by the economic size and growth as well as to the level of protection (customs duties and non-tariff barriers) applied against EU exports. As a result, within this time period, the number of trade agreements signed by the EU with third countries has increased and the scope of these agreements went beyond the simple tariff reduction. Indeed, the agreements lately signed and under negotiation not only foresee the tariff reduction and the liberalization of trade in goods, but they also aim better market access with the elimination of non-tariff barriers and the liberalization of trade in services. These agreements also cover a wide range of trade related issues such as intellectual property rights, public procurement, investment, competition rules, regulatory cooperation and sustainable development (labour rights and environment).

It goes without saying that EU's new trade policy and its attention shifted towards FTAs had direct impacts on Turkey, since the latter has committed itself with the Customs Union to align its trade policy to EU's preferential trade regimes. While at the beginning, the conclusion of FTA between EU and third countries did not constitute such a big threat to Turkey's competitiveness, this began to be perceived as a major source of concern once EU started to deal with stronger trade partners such as the USA and Japan but also with emerging and competitive countries such as South Korea, China and India. At an early stage, Turkey was already facing difficulties in convincing some of the countries (such as Algeria and Mexico) with whom the EU has signed FTAs to conclude a separate one. By signing a FTA with EU, these countries benefit from the free movement of goods ensured by the Customs Union since they can enter to Turkish market via the European market without paying the customs duties. While this is the case, Turkey does not benefit in return from the same concessions granted to EU in terms of trade facilitation. As a result, this creates an asymmetric situation that goes against Turkey's economic and trade interests. The main problem lying beneath this asymmetric situation is Turkey's absence in the negotiation and decision making processes of EU's trade policy while these agreements concluded with third countries cover the customs union area to which Turkey belongs along with the current 28 EU Member States. And this has taken a new shape with the ongoing negotiations of the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the USA.

Some studies reveal that Turkey will face loss in term of economic welfare due to its being left out of this TTIP process. According to the evaluation of the EU-Turkey Customs Union carried out by the World Bank, it is estimated Turkey will undergo a welfare loss of at least 130 million dollars. Another study conducted by the German IFO Institute lists Turkey with a 2.5 percent of GDP among countries that is foreseen to face a loss in terms of welfare following the conclusion of TTIP. The possible economic losses put aside, it is essential for Turkey to take part in the TTIP which will constitute an important benchmark for future FTAs to be negotiated but also for setting new trading standards at global level.

In a context where the number of FTAs signed by the EU with third countries has increased and their scope expanded, it is beyond the shadow of doubt that the framework of the Customs Union established 20 years ago has become outdated. Turkey-EU Customs Union needs to be revised not only in the light of the new global tendencies of world trade but also in the light of shortcomings resulting from Turkey's absence in the decision making process and the obstructions encountered in the free movement of goods. In this respect, it is essential not only to revise the framework of the Customs Union but also to expand the scope of the agreement to new areas such as agriculture, service and public procurement.

Before the negotiations start for the revision of Turkey-EU Customs Union, both parties have around one year to make the necessary impact assessments and consultation of stakeholders. It is important at this stage for Turkey to enhance the dialogue between the public authorities, the private sector and the civil societies. It is imperative to take into account the interests and the problems of the Turkish private sector before determining the terms of the new agreement, especially in the areas of agriculture, service and public procurement. In this respect, it is also necessary to identify which products in agriculture for instance should be listed as "sensitive products" in order to ask during the negotiations for longer transitional periods regarding the progressive removal of customs tariffs. The services could prove to be one of the most problematic areas where both parties will seek to gain better market access by removing the non-tariff barriers and enhancing regulatory cooperation. Without doubt, Turkey and the EU, that are already negotiating at the same platform along with other WTO members a plurilateral agreement on trade in services have become experienced in determining each other's position. When talks on services will be carried out, one of the key items of the agenda for Turkey will probably be the question on whether the mobility of service providers will be put on the table. On the other hand, regarding public procurement, the previous FTAs signed by the EU and other ongoing negotiations indicate clearly that Europeans advocate an ambitious opening of public procurement markets outside the EU. In this area, the position of Turkey should be duly assessed.

The revision of the Customs Union will be an opportunity for Turkey, above all, to address its problems deriving from its absence in the negotiations of EU's FTA with third countries and in the consultation and decision making processes. It will also provide a platform for both parties to expand the scope of their economic and trade integration. It is hoped that the revision of the Customs Union will also pave the way for a speedy and balanced accession of Turkey to the EU.

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A shorter vision of this article has been published on the Hürriyet Daily News in its 1<sup>st</sup> June 2015 issue. To reach the article, please click [here](#)