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## **IKV BRIEF**

# **REVISION OF TURKEY-EU CUSTOMS UNION: AN IMPERATIVE NEED**

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## **THE REVISION OF TURKEY-EU CUSTOMS UNION: AN IMPERATIVE NEED**

During the past few years, the multitude of complaints raised by Turkish business community regarding the functioning of the Customs Union established with the EU have fuelled serious debates over the need of a revision of the Customs Union. Undermining all the benefits withdrawn since its establishment, some circles even laid forth the idea of downgrading the Customs Union into a simple format of a Free Trade Agreement. However it should be recalled that the decision to establish the Customs Union was conceived at that time as a step forward to Turkey's accession to the EU. In the process where Turkey is undergoing accession negotiation with the EU, downgrading the Customs Union to a Free Trade Agreement would be definitely perceived as a backward step in Turkey-EU's relations.

Over the time, the latest changes in the world trading systems and thus EU's trade concept as well as the transition of Turkey from a developing country into an important emerging market have revealed the shortcomings of the Customs Union. With the WTO negotiations within the Doha Round entering an impasse, major economic and trade actors such as the EU and US have switched their focuses towards regional and bilateral free trade agreements. While Turkey has committed itself to align its trade policy with the EU's preferential trade regimes, the third countries with whom EU have signed free trade agreements show reluctance in negotiating a separate agreement with Turkey since they gained access to Turkish market via the European Union. The losses resulting from this trade diversion are expected to be potentially higher when the third country in question is a major economy like the US. Indeed the negotiations of the Transatlantic Trade and Investment Partnership between the EU and the US urged the need to revise the framework and scope of the Customs Union.

In February, Turkish Minister of Economy Nihat Zeybekci shared these concerns with Trade Commissioner Karel De Gucht during a meeting which resulted with the decision to establish a committee and technical team that would explore the possibilities to better equip the Customs Union against these challenges. Furthermore considering that the current free trade agreements under negotiations are covering various areas such as agriculture, services, public procurement and non tariff barriers, the Committee would also assess the possible impacts for both parties when widening the scope of the Customs Union to new areas. In this regard, the conclusions of the report on Turkey-EU Customs Union prepared by the World Bank following a request of the European Commission should be taken into consideration during these technical meetings.

In its report, the World Bank concluded that the benefits of the Customs Union are greater than the alternative of a free trade agreement, thus casting a shadow to the supporters for the downgrading of Turkey-EU Customs Union. The conclusions of the report indicates that according to the extent of restrictions on the rules of origins, Turkey's export to the EU could have decreased of 3 percent to 7,2 percent with a free trade agreement.

The report prepared was in general well received by Turkish business community since their main concerns related to road transport quotas applied to Turkish trucks, the visa obligation against Turkish citizens (especially businessmen) as well as the free trade agreements signed by the EU with third countries were acknowledged via the report by the World Bank. In this respect, among the key recommendations was the liberalization of road transport quotas and transit permits at least for the goods that can freely circulate within the Customs Union. Acknowledging the importance for businessmen to travel without barrier to EU, the creation of a special business visa category providing facilitation on documents and easing the costs was also suggested in the report.

Against the asymmetric situation created with the free trade agreements, the World Bank supports the engagement of parallel negotiations of the third country with the EU and Turkey. To prevent any trade diversion it is essential that the EU and Turkey both start and conclude negotiations for trade agreement with third party simultaneously. This could be for instance achieved through the reinforcement by European authorities of the "Turkey Clause" by legally binding third countries concerned to conclude a separate agreement with Turkey. The main problem lying beneath is Turkey's absence in the negotiation and decision making processes in EU's trade policy. In its report, the World Bank recommends the development and the improvement of consultation and information sharing mechanisms between European and Turkish authorities. Without doubt, on the long run, the best solution will be the acceleration and completion of EU accession negotiation which will allow Turkey a seat in the decision process.

In its report, the World Bank also laid down the benefits that would be gained both by Turkey and the EU if the scope of the Customs Unions was to be extended to the agriculture and service sectors. Taking into consideration the existing unexplored huge potential in the trade in services between Turkey and the EU, the World Bank encourages EU authorities to grant Turkey a better access to EU's single market for services or to conclude a free trade agreement in this field. According to its estimations, Turkey would gain around 1.1 billion dollars if cross border services are liberalized. In this respect, the fact that Turkey and the EU are already negotiating trade in service in the platform of Trade in Service Agreement (TISA) is already an important step forward. Nevertheless, in order to move on further the negotiations in trade in services, it is imperative for Turkey to reinforce its administrative and negotiation capacity. And this can be only achieved with better exchange of information between the private and public sectors as well as among public institutions and the development of more comprehensive statistics on service sector and trade in service.

Lastly, the report also encourages the inclusion of the agriculture produces into the scope of the Customs Unions since still important tariff barriers exist between Turkey and the EU. Taking into account the existing sensitivities in both parties for some of these produces, the optimal solution could be achieved through a negotiation of market accesses on a product-by-product basis. Turkey has already made important reforms in the area of agriculture policy since the chapter on Food Safety, veterinary and phytosanitary Policy was opened to negotiation in June 2010. Nevertheless, Turkey would need to further harmonize its food safety, veterinary and phytosanitary measures with EU standards if the agricultural goods would be covered by the Customs Union.

In conclusion, it is evident that within the current trade and economic context, it has become imperative for Turkey and the EU not only to upgrade the scope of the Customs Union but also to accelerate the accession negotiations. Important steps have been made with the launching of the visa liberalization dialogue and the decision to set up technical committees to explore the options of improvement for the Customs Union. But one wanders whether these positives developments could be further supported by the new composition of the European Parliament after the results of the recent election.