

**Event Report**  
**Konrad-Adenauer-Stiftung Turkey**  
**Digital Forum “Customs Union – A business perspective”**  
**19.11.2020**

The digital forum “Customs Union – A Business Perspective” consisted of panelist from The Bilateral EU chambers, the TC Ministry of Trade, TEPAV, İKV, TOBB, The Directorate for European Union Affairs and Siemens Healthineers. The high-level dialogue addressed the needs for the modernization of the Customs Union (CU) agreement from an EU and a Turkish commercial perspective. It further served as an ideal platform to present the “Customs Union Position Paper” prepared by TEPAV, TOBB and the Bilateral European Chambers. Moreover, panelist discussed various aspects regarding the need for modernization and reform of the current European Union-Turkey Customs Union agreement from different perspectives in a collaborative manner. Panelists and participants engaged in a value-building discussion providing insight on the benefits of a modernized CU agreement for the EU and Turkey from their different perspectives.

The focus of the “Customs Union – A Business Perspective” digital forum aimed to underline the necessity of a modernized and reformed CU agreement from a pure business perspective. Different scenarios and specific obstacles regarding the current agreement’s framework were accentuated by panelists. The panelists clearly stated the advantages of a reformed CU and also emphasized that there is a need for expansion of the agreement. Moreover, they listed specific measures and aspects that must be part of a modernized agreement. It was stated that the current framework of the CU does not provide the required framework to meet the needs and demands of today’s economic environment. Panelist agreed that the update of the agreement is vital for a strong EU-TR partnership today, as well as in the future.

### **The EU-Turkey CU agreement**

The European Union (EU) remains one of the strongest engines for political and economic integration. Making Turkey, as a country of economical and geo-strategical importance, a vital partner in this scheme. Turkey first signed an Association Agreement with the European Economic Community (EEC) in 1963, also called the “Ankara Agreement”, laying the foundation to establish closer bonds and relations between the two.<sup>1</sup> Over time, customs duties on industrial goods were gradually removed. After a transitional period of 32 years, the CU agreement came into effect on December 31, 1995. The CU between Turkey and the EU was the first one of its kind with a non-EU member state. The CU’s aimed to remove trade barriers and enhance the circulation of goods for both parties. As a result, custom duties, as well as, quantity restrictions regarding the bilateral trade of industrial products and selected agricultural goods were eliminated. Furthermore, Turkey adopted the Common External Tariff (CET) by the EU for goods taking part in the bilateral trade.

### **The impact on bilateral trade between the EU and Turkey**

The bilateral trade relations have grown under the CU agreement due to the elimination of custom duties and quantitative restrictions on goods. From a Turkish perspective, machinery

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<sup>1</sup> [https://www.ab.gov.tr/\\_117\\_en.html](https://www.ab.gov.tr/_117_en.html)

and electronics are making up the majority of exports to the EU. In particular, in this sector the agreement has provided Turkey with a preferred margin in exports to the EU.

Moreover, 41.6 percent of Turkey's annual trade volume is with the EU. Turkey's import business with the EU amounted to \$63.9 billion in goods. On the other hand, the EU imported \$77.9 billion in goods from Turkey. The total bilateral trade volume in 2019 amounts to \$141.8 billion. From a European perspective Turkey is the fifth largest non-EU export destination. The EU also benefits from a preferential margin for transport equipment as well as electronics and machinery.<sup>2</sup>

The position paper highlights that the CU agreement has fostered and facilitated innovation and transformation over the years. Turkey expanded its export portfolio by making it more sophisticated. This was also driven by European Foreign Direct Investment boosting Turkey's export capabilities. Furthermore, bilateral trade relations laid the foundation for the integration of Turkey to Global Value Chains (GVCs) through the EU network.

The position paper has put forward that, considering the overall bilateral trade basket of both entities under the agreement, the CU has allowed a significant tariff advantage for both parties. In regard to current tariff rates under the CU agreement, 71.8 percent of trade flows with the EU face 0 percent tariffs, compared to 81.8 percent rate for Turkey.<sup>3</sup>

According to the position paper, particularly Turkey has benefitted through FDI's e.g., in the technology and industry sector, as well as being provided an infrastructure to build a rule-based and free-market economy. Further the position paper states that an updated CU agreement is expected to reform Turkey's political economy and aims to implement transparency, competitiveness, and respect for universal law.

### **The need for reform and modernization**

Over the last two decades, the CU has provided one of the main pillars fostering bilateral relations between Turkey and the EU. The founding of the CU agreement also laid a foundation for a potential membership Turkey's in the EU. Over the last decades, the membership process seems to be protracting and therefore will not replace the CU agreement in the near future. Thus, a modernization of the CU agreement has become essential due to the emerging and ever-changing global economic environment. The discussion started in 2014 with the initiative of the European Commission and would provide mutual economic benefits to both parties. The position paper highlights that the EU initiated impact assessments of a modernized CU emphasize the benefits by estimating an expected gain to reach €5.4 billion or about 0.01 percent of the EU's GDP and €12.5 billion or 1.44 percent of Turkey's GDP. On the other hand, impact assessments by the Republic of Turkey Ministry of Trade determined an increase for Turkey between 1 percent and 1.9 percent proportional to its GDP.<sup>4</sup> In conclusion, the position paper states that the conducted assessments prove the mutual value added by a modernization of the CU agreement for both entities.

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<sup>2</sup> Customs Union Position Paper, Version 2, 16.11.2020

<sup>3</sup> Customs Union Position Paper, Version 2, 16.11.2020

<sup>4</sup> Customs Union Position Paper, Version 2, 16.11.2020

Both parties aim for a reform of the CU agreement, as it fails to meet the demands and requirements of today's economic environment. Moreover, it would further strengthen and offer new mutual opportunities to both parties. From a Turkish perspective, Gonca Yılmaz Batur, Deputy Minister at the TC Ministry of Trade stated, "As EU and Turkey we need to equip our countries with the necessary tools and instruments such as a revised and modernized agreement to cope with the 21st century trade and economic environment." Furthermore, Mrs. Yılmaz Batur noted that Turkey has shown a high-level of commitment in regard to a modernized agreement. From a Turkish perspective, the current visa regime, the asymmetrical structure of the CU including the obligation to align with EU decision-making without involvement as well as the limitation in sectors covered under the agreement are the main obstacles imposed. The Deputy Minister concluded by stating "The world has witnessed dramatic changes since 1996. Today e-commerce, trade in services and digitalization, which are not covered under the current Customs Union have become as important as trade in goods. We see that deeper regional trade agreements are also proliferating all over the world. Therefore, we need to equip the Customs Union with necessary tools and instruments to cope with the 21st century trade and economic environment. In that respect, the update of the Customs Union is promising a win-win situation for both the EU and Turkey"

Panelists also emphasized the aspect of the agreements inability to meet today's requirements and the widely conceived perception that it is outdated. In recent years, aspects such as the green treaty or the rising importance of online trade are not reflected in the current agreement. Ayhan Zeytinoglu, the Vice President the Union of Chambers and Commodity Exchanges of Turkey stated, "The current agreement is not enough anymore. It is behind today's reality." From the Turkish perspective, a modernized and reformed trade agreement can foster the integration of the EU and Turkey.

From a bilateral European chamber perspective, panelists highlighted rising bureaucracy levels, trade tariffs hindering exports to Turkey and transport quotas impeding trade flows as the main issues in the current framework. On the other hand, they also emphasized the importance of the CU for bilateral trade and the EU-TR partnership. Moreover, a reform of the agreement is a key factor for the future of bilateral trade as AHK President Dr. Markus C. Slevogt emphasized "The current setup is not enough. Our aim is to increase bilateral trade and investments." Walter Glos, Director of Konrad-Adenauer-Stiftung Turkey emphasized that "Modernization of the Customs Union is ultimately important for Germany and contributes increasing joint economic cooperation." Panelists agree with their Turkish counterparts that the scope of the agreement has to be expanded. Sectors such as services, agriculture and public procurement must be covered under the agreement due to the changed economic environment. In addition, instruments and institutions must be integrated e.g. a dispute settlement mechanisms or a safeguard to ensure the implementation of the agreement.

In addition, panelists highlighted the recent pandemic adds a new focus point to the reform of the agreement, as many companies are considering regionalizing their supply chain and aim for locations with a higher proximity. AHK President Dr. Markus C. Slevogt regards this as an opportunity for new business ties between Turkey and the EU. Dr. Markus C. Slevogt says that, "Turkey with its capabilities, can provide the infrastructure and meet evolving supply chain requirements needed by EU companies." Under the reform areas such as new the

monitoring of the implementation of the CU, regulatory measures in regard to third-party FTA's, as well as liberalizing services, public procurement and the agriculture sectors.

## **Conclusion**

The findings from the position paper and forum clearly state the necessity of a modernization of the CU agreement. But reforming the current framework after 25 years is not sufficient due to the changed economic environment and the disruptive impacts of the recent pandemic on the economic world. Turkey and the EU must use the CU as an instrument to sustain a strong partnership on the European continent and further strengthen the region in the global context. The initiation of a new agreement facilitates communication and collaboration between the EU and Turkey. At the same time, it fosters the integration process of Turkey in the EU. Both parties have to mutually benefit from the agreement and must be part of the decision-making process. Mutual regulations and legislations have to further be implemented and made efficient. Moreover, instruments and institutions have to be put in place to provide intermediary elements, to ensure the safe implementation of the agreement and to prevent conflict. Additional economic sectors such as digital commerce, services or agriculture and corresponding policies have to be integrated in the framework of the modernized agreement. A modernization of the CU agreement covering the aspects mentioned above, will have a beneficiary impact on bilateral trade and business relations. Further, it will strengthen the position of the European continent as an economic hub in the world. A modernized agreement is vital for a strong EU-TR partnership today, as well as in the future.