

# Reinvigorating EU-Turkey bilateral trade: Upgrading the customs union

## OVERVIEW

The EU-Turkey customs union (CU), established more than two decades ago, together with a set of preferential trade agreements, has brought many benefits to both sides, enhancing trade and economic integration. However, this bilateral preferential trade framework (BPTF) has to be aligned to both the changing global trade environment and current EU trade policy, which prioritises the conclusion of bilateral agreements with more comprehensive coverage.

After exploratory discussions, both sides reached a consensus, at the EU-Turkey high level meeting of May 2015, to start preparations for future talks to update the EU-Turkey BPTF. In December 2016, the Commission asked the Council for authorisation to launch talks to modernise the CU. The EU's main objective is to enhance the BPTF by widening the scope of trade preferences and modernising the functioning of the CU, within a comprehensive negotiation process.

As a result of the implementation of the CU, Turkey's alignment with the EU *acquis* and EU-Turkey trade integration already began before the launch of accession negotiations. The bilateral trade framework will be upgraded in parallel, in complementarity with the accession negotiations.



**Recommendation for a Council decision authorising the opening of negotiations with Turkey on an agreement on the extension of the scope of the bilateral preferential trade relationship and on the modernisation of the customs union.**

*Committee responsible:* International Trade (INTA)  
*Rapporteur:* David Borrelli (EFDD, Italy)  
2016/2031(INI)

## Introduction

In [September 1959](#), Turkey applied for associate membership of the then European Economic Community (EEC). In September 1963, the EEC and Turkey signed an [Association Agreement](#), known as the Ankara Agreement, which has become the fundamental treaty basis of EU-Turkey preferential trade relations. This agreement sought to continuously enhance bilateral trade and economic ties, in particular through the three stage, progressive creation of a customs union. Subsequently, in November 1970, the parties signed an [Additional Protocol](#) to the agreement, in which they agreed on a timetable for the removal of tariffs and quantitative restrictions on industrial goods in bilateral trade. The Additional Protocol entered into force in 1973. The final phase of the customs union (CU) was established on [1 January 1996](#) by [Decision No 1/95](#) (CU Decision) of the EC-Turkey Association Council, which remains in force.

The established CU covers industrial goods, including only partial liberalisation for processed agricultural products. Coal, iron and steel products, covered by the European Coal and Steel Community (ECSC) Treaty, were excluded from the CU. The CU Decision also established the requirement that Turkey should align with the EU's customs tariffs and rules, common commercial policy, competition policy, intellectual property rights ([geographical indications](#) are not addressed), as well as with the EU's technical legislation in areas covered by the CU.

Two further bilateral preferential agreements followed. The ECSC and Turkey signed a [free trade agreement](#) (FTA) on trade in ECSC products in 1996. Association Council [Decision No 1/98](#) (amended by [Decision No 2/2006](#)) provided for bilateral trade concessions in certain agricultural and fishery products. The CU established by Decision No 1/95, together with these two bilateral agreements, is referred to as the EU-Turkey bilateral preferential trade framework (BPTF).

The institutional cooperation and decision-making provisions in the CU Decision intended to [ensure](#) that due consideration is given to the Turkish position on the EU's common commercial policy and draft legislation in the areas covered by the CU. As regards the institutional structure, the CU Decision sets up the Customs Union Joint Committee, the coordinating body delivering recommendations and opinions to the Association Council established by the Association Agreement. The latter is the main decision-making organ, and acts unanimously.

Upgrading EU-Turkey trade relations is a significant element in the efforts made by the EU and Turkey to further develop their relations in key areas of joint interest, and is [complementary](#) to ongoing accession negotiations.

Figure 1 – Turkey in figures (2015 values)



Data source: [World Bank](#).

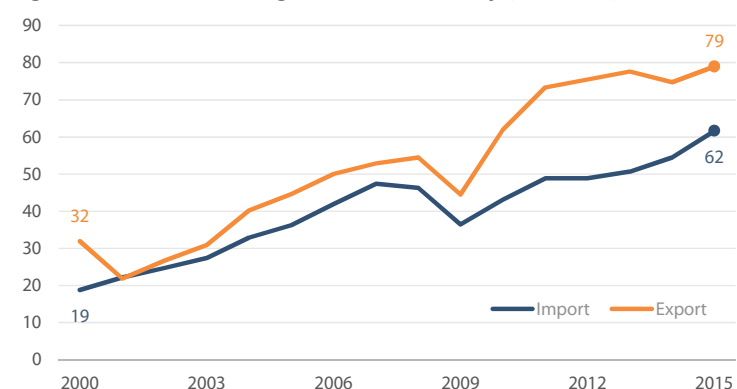
## Existing situation

### Development of trade relations and impact of customs union over the past two decades

In the 20 years following the establishment of the CU, Turkey has become the EU's [fifth](#) trading partner. In 2015, Turkey's share of total EU foreign trade was at 4 %. Over the same period, the value of the EU-Turkey bilateral trade in goods increased more than fourfold, reaching approximately €140 billion, with a trade surplus on the EU side of €17.5 billion in 2015. From the start of the BPTF and until recently, the share of EU exports to Turkey increased from approximately [3 %](#) to about 5 %, and of EU imports from Turkey from roughly 2 % to 3 %. Despite the increase in value and in trade flows, the EU's share in Turkey's total trade has tended to decrease, as the increase in Turkey's trade with third countries outstripped trade with the EU. The EU is Turkey's top trading partner, with a share of [40.6 %](#) in Turkey's global trade in 2015. In recent years, the [top five](#) EU export destinations for Turkey were Germany, the United Kingdom, Italy, France and Spain; these are also the Member States with the largest exports to Turkey. The EU is also the most significant source of foreign direct investment (FDI) in Turkey, mostly for services and manufacturing. In 2015, FDI inflows from the EU reached a share worth [57.6 %](#) of total FDI inflows into Turkey. More closely integrated production networks have been set up between Turkish and European companies in sectors such as automobile and clothing manufacture, contributing to the integration of Turkish producers in global value chains.

The 2014 [World Bank evaluation](#) carried out for the Commission found that trade integration between the EU and Turkey has progressed significantly in the last two decades, with substantial increases in the value of bilateral trade and in FDI inflows from the EU to

**Figure 2 – EU trade in goods with Turkey (€ billion)**



Data source: [Eurostat](#).

Turkey. A 2016 [study](#), commissioned by the Commission and prepared by the external consultant BKP, which complemented the World Bank study, indicated that the BPTF had a positive impact on both the EU and Turkey, significantly facilitating market access conditions in bilateral trade. Growth in bilateral trade in BPTF covered goods was much more significant than in goods not covered by the BPTF. The study estimated that in 2016, EU's exports to Turkey and Turkey's exports to the EU were 9.1 % and 6.5 % higher, respectively, than they would have been without the BPTF. Turkey experienced substantially greater gains, both in terms of percentage and in terms of value, showing that the BPTF had a much greater impact on Turkey than on the EU.

### Customs union deficiencies

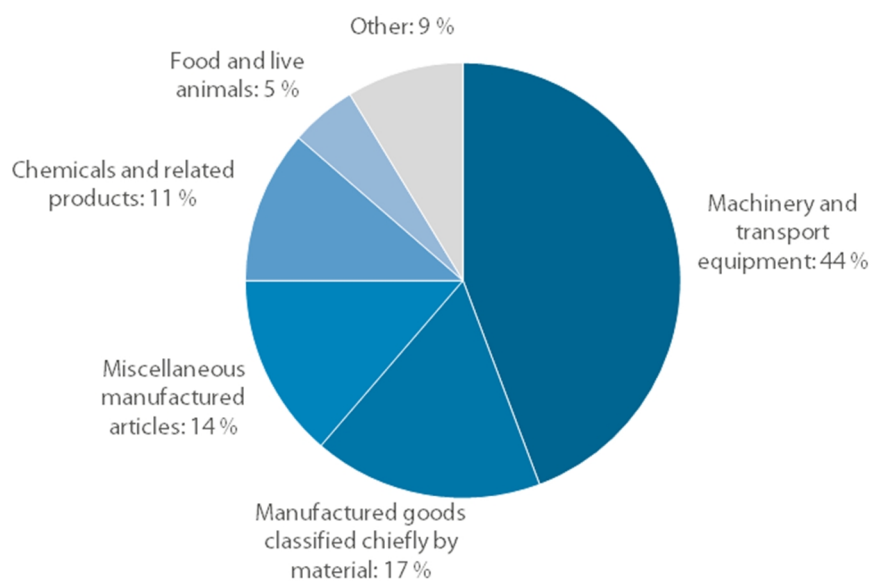
Notwithstanding the CU's positive impact on both sides, with the changing economic environment and the constant increase in EU-Turkey trade relations, the bilateral trade relations framework needs to be updated. According to the [impact assessment](#) (IA), published in December 2016 by the European Commission, three main drivers are behind the problems related to the existing preferential trade framework: the narrow scope of the BPTF, the BPTF design and Turkey's non-compliance with certain basic CU provisions.

The Turkish [Ministry for EU Affairs](#) points to problems related to CU implementation: risks of trade diversion and unfair competition due to the unwillingness of some of EU FTA partners to engage in FTA negotiations with Turkey; inadequate participation in EU decision-making mechanisms in CU related areas; and technical barriers due to road transport quotas imposed by some EU Member States and EU visa requirements for Turkish businessmen and truck drivers.

#### *Scope of the BPTF*

The CU's partial coverage generates unfulfilled trade potential in agriculture, services and public procurement. The IA also points out the lack of rules in certain areas where such rules (for instance, on transparency and sanitary-phytosanitary) could contribute to a stable and predictable business environment.

**Figure 3 – EU trade in goods with Turkey by product** (Total trade in goods, 2015)



Data source: [Eurostat](#).

The EU-Turkey preferential agreement on agricultural products (which is part of the BPTF) is asymmetric. For example, EU eliminated *ad valorem* duty on almost all agricultural and fishery products and for all processed agricultural products. Moreover, the majority of Turkish products (including all fishery products) are imported into the EU duty-free. For a selected number of agricultural products, tariff quotas are imposed, while a list of processed agricultural products are subject to duty-free quotas. The World Bank evaluation points out that between 2008 and 2010, an average of 85 % of Turkish agricultural products exported to the EU entered the EU duty-free. To the contrary, Turkey applies very few preferential tariffs on agricultural and fishery imports from the EU, and EU agricultural exports to Turkey are hampered by either high tariffs or restrictive measures. For a selected number of processed agricultural products, Turkey still imposes specific duties on their 'agricultural components'.

Provisions of the Ankara Agreement and of the Additional Protocol envisaged the abolition of restrictions on trade in services. In 1974, however, the process to liberalise trade in services was postponed. In 1987, efforts resumed but the concluded CU agreement did not ultimately contain provisions on services. The Parties' GATS (General Agreement on Trade in Services) commitments currently govern trade in services between the EU and Turkey.

In accordance with the CU, as soon as possible after its entry into force, the Association Council should decide the date for the launch of negotiations on the mutual opening of governmental procurement markets between the EU and Turkey. Nevertheless, owing to the various possible interpretations of this statement, public procurement was not included in the scope of the CU, and the reform of public procurement in Turkey was carried out in the framework of accession negotiations.

#### *Design of the BPTF*

Both the EU and Turkey face a growing number of trade and market access problems, which have arisen due to the design of the BPTF.

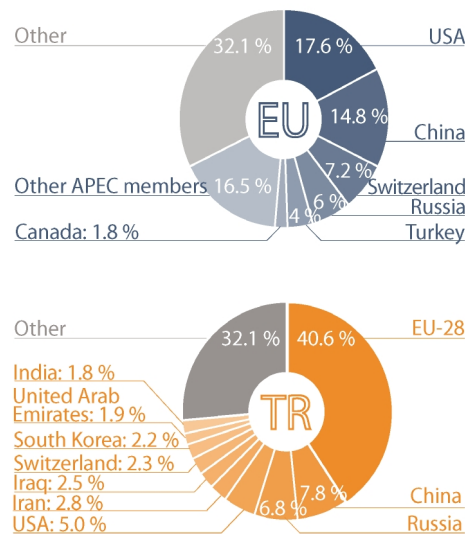
As a result of the CU, Turkey is in principle obliged to follow EU trade policy with third countries, and to open up its market to those countries with which the EU has signed FTAs.<sup>1</sup> However, some of the EU's FTA partners, such as Algeria and South Africa, have refused to negotiate a comparable agreement with Turkey. In certain cases where FTAs were signed with both Turkey and the EU, the former took effect considerably later than those concluded with the EU. In both cases, Turkish companies were left at a competitive disadvantage to EU exporters on the markets of the EU FTA partners, although in the case of the FTAs which took effect later, this was only a temporary disadvantage. Moreover, while exporters of EU FTA partner countries (benefiting from concessions through the FTA) may have access to the Turkish market through the CU, Turkey could not obtain preferential access to the markets of those EU FTA partners, as there are no similar FTAs in place with Turkey. These developments may also lead to preference erosion for Turkey within the EU markets should the EU provide more favourable market access in certain sectors (e.g. in agriculture) to its FTA partners than to Turkey.

These asymmetric FTAs, explained by the CU's design problems (as a non-EU Member State, Turkey is unable to participate in EU FTA negotiations), and which have a non-negligible implication for Turkish trade, also risk negatively impacting on the EU, should Turkey continue concluding FTAs with countries which don't have a similar agreement with the EU. The World Bank evaluation notes that the problem of unresolved FTAs also negatively affects EU majority owned firms in Turkey exporting to countries which are EU FTA partners, but with which Turkey has no FTA.

With the growing number and the more comprehensive scope and coverage of EU FTAs (and in particular the Transatlantic Trade and Investment Partnership, TTIP), the impact of the asymmetry problem for Turkey will be much greater.

In the areas covered by the CU, Turkey also has an obligation to align with EU technical legislation, to eliminate technical barriers to trade (TBTs). As import tariffs were eliminated, the impact of TBTs as obstacles to trade is potentially greater. Although

**Figure 4 – Main trading partners**  
(Total trade in goods, 2015)



Data source: [Eurostat](#) and [IMF](#).

Turkey's alignment process is at an advanced stage, areas remain where full alignment has yet to be achieved, and further efforts on implementation of the harmonised legislation are also needed.

Moreover, in response to the [perceived asymmetry](#) in the development of trade policy, Turkey has introduced a number of measures, such as surveillance and safeguard measures and regulatory restrictions. These measures impede the functioning of the CU: creating excessive administrative burden, contributing to discriminatory treatment of EU products and operators compared to Turkish domestic producers, and increasing costs for EU traders and manufacturers. The IA points to the surveillance measures on imports and the General Manufacturing Practice (GMP) certificate restrictions on pharmaceuticals as the most important TBTs. It also highlights that over the past few years, Turkey has erected even more trade barriers. Turkey has also expressed concerns with various issues that it considers as limiting trade or increasing operational costs for Turkish exporters.

The World Bank evaluation points out that the cooperation and decision-making mechanism established by the CU Decision does not function properly; while Turkey is required to align with EU trade policy and technical legislation in areas covered by the CU, it is not involved in all EU decision-making processes in CU related areas, and where it does take part, it does so as an observer without the right to vote. On the other hand, the IA notes that the level of Turkish participation in the various EU committees and working groups related to the CU differs greatly, ranging from very limited involvement as regards EU trade policy, to a participation in a number of EU committees working on technical legislation.

The lack of an efficient and operational dispute settlement mechanism (DSM) also poses a problem. The effectiveness of the DSM established by the CU is hindered because the DSM only covers disagreements on the duration of safeguards measures. On the other hand, while the mechanism set up by the Association Agreement is not restrictive in the same way, it requires both parties' consent to be triggered.

#### *Turkey's lack of compliance*

According to the World Bank evaluation, Turkey's lack of compliance is partly due to the design deficiencies of the CU, such as the issue of the partially ineffective notification obligation for draft technical legislation. To this effect, the BKP study notes that Party representatives have differing opinions regarding the degree to which the consultation and information mechanism has been used in practice. The IA points to the fact that the lack of compliance is often driven by domestic

#### **Comparative elements**

Customs unions are forms of economic integration where cooperating countries agree to [eliminate](#) tariff barriers within the customs union. They also agree to apply common external tariffs and a high degree of commercial policy alignment. Due to common external tariffs, there is no need within the customs union to prove compliance with preferential rules of origin, thus reducing the costs of trade. Compared to a customs union, in free trade areas the differences among the member countries' [external tariffs](#) are maintained and member countries also keep their independent trade policies with third countries. However, with the different external tariff rates, the preferential tariff treatment at the borders within the FTA can only be granted to goods, produced and sent from within the free trade area, that demonstrate compliance with the preferential rules of origin via certificates of origin. [Studies](#) agree that, although the CU covered the industrial goods sector only, it was more beneficial than an FTA, above all because it eliminated the need for origin controls in the trade between the two partners.



industrial policy considerations and Turkey's inability to align with EU law due to the lack of policy support or capacity in a specific product area.

### EU negotiation objectives

As described above, three of the EU's greatest concerns about the CU are the lack of an efficient dispute settlement mechanism, poor implementation of the current agreement and its limitation to industrial goods. These issues can only be addressed through a comprehensive approach as follows:

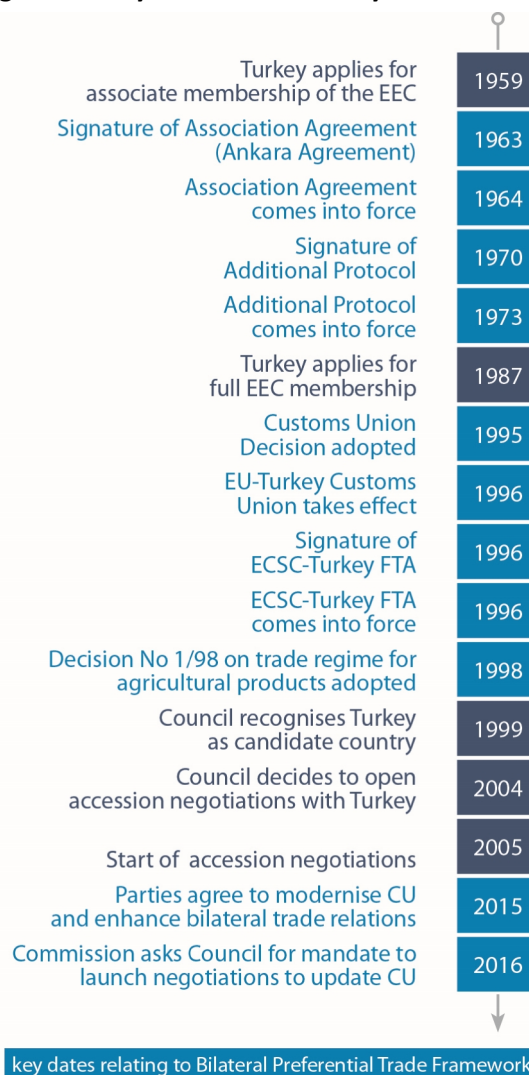
- 1) Widening preferential trade within the BPTF: mutually increasing market access in agricultural markets; improving market access for trade in services; enhancing access to the public procurement markets of both parties; agreeing on rules that enable a more stable and predictable environment for trade and investment (for example, rules covering trade in energy and raw material and sanitary-phytosanitary measures);
- 2) Modernising the functioning of the CU and the whole BPTF: establishing an effective dispute settlement system; addressing the problems related to the difficulty in concluding parallel FTAs by the EU and Turkey; facilitating Turkey's compliance with its obligation to align with EU law.

According to the IA, there are three options for improving bilateral trade relations and modernising the CU:

- 1) The baseline scenario would mean no substantial policy change; the current framework of the CU and the two sectoral preferential agreements would be maintained.
- 2) The second option would be to modernise the current CU for industrial goods by addressing its shortcomings, and to extend the trade preferences to cover new areas, in particular agriculture, services and public procurement, through a new FTA (CU+FTA).
- 3) The third option would be to replace the CU for industrial goods with a new deep and comprehensive FTA (DCFTA). This would, on the one hand, extend trade preferences to additional areas and, on the other, replace the CU with full liberalisation regarding trade in industrial goods.

The first option would likely lead to the loss of opportunities related to further trade liberalisation and rule making, and to the risk of a deterioration in overall bilateral trade relations, because the problems related to the functioning of the BPTF would remain unaddressed. The European Commission supports the second option. As the customs union is viewed as an

**Figure 5 – Key dates in EU-Turkey relations**



[intermediate step](#) in Turkey's EU accession process, not maintaining the CU may be negatively perceived from a political perspective.

Moreover, the second option offers more economic benefits for both sides. It continues to allow for the free movement of industrial goods, while the third option would introduce origin controls in bilateral trade and the related additional costs associated with the rules of origin. Furthermore, with the third option, parties may be less committed to undertaking trade liberalisation in the additional areas of trade preferences. The report of the EU-Turkey Senior Officials Working Group, which constituted the result of the scoping exercise, also mentioned the second option (CU+FTA) as the most advantageous.

### Turkey's position

The Turkish Ministry for EU Affairs notes that the reasons for Turkey's initiation of an update of the CU include the problems the country encountered during the CU's implementation, combined with the fear of disadvantage resulting from its exclusion from the TTIP. According to Turkish newspapers, several [options](#) to counterbalance the TTIP's implications were considered, such as the creation of a comparable FTA with the USA. Members of the Turkish government even raised the idea of leaving the CU, should Turkey be excluded from TTIP negotiations or should it not benefit from the results of the agreement.

The Ministry for EU Affairs also points out that upgrading of the CU should take place 'without creating an alternative path to Turkey's EU membership'. The [Turkish Economy Minister](#) has stressed that, with the CU's modernisation, its scope will be expanded to include services, public procurement and agricultural products, as this could increase the share of Turkish exports to the EU from [48.5 % to 60 %](#); Turkey would be involved in the CU decision-making mechanism; and become party to the EU's new FTAs. Based on the impact analysis carried out by Turkey, the Minister named [agriculture](#) as the most challenging sector for updating the CU; a significant transformation can be expected (agriculture accounted for [8 %](#) of Turkey's GDP in 2014). The Minister also mentioned that Turkey prefers the second option of modernising the CU. Another subject of interest is the requirement for road transport permits and of visas.

### Parliament's position

In November 2016, the European Parliament (EP) adopted a [resolution](#) on EU-Turkey relations. The Parliament strongly condemned the disproportionate repressive measures taken since the attempted coup of July 2016. While reaffirming its commitment to continued strong EU relations with Turkey, the EP called on the Commission and the Member States to impose a temporary freeze on EU accession negotiations with Turkey. The EP pledged to review its position when the disproportionate measures under the state of emergency in Turkey were lifted. Parliament stressed that the reintroduction of the death penalty would lead to a formal suspension of the accession process. In its resolution, the EP also noted that upgrading the CU was important for Turkey, and the suspension of this work would have serious consequences for the country's economy.

The adoption of the resolution prompted negative reactions from the Turkish side. The [Turkish Prime Minister](#) pointed out that relations with the EU were already tense, and qualified the vote as having little consequence. Before the vote took place, [President Erdoğan](#) had already dismissed the vote and threatened to cancel the EU-



Turkey joint action plan on migration if the EU failed to deliver on its promise regarding accession negotiations or visa liberalisation.

In its [draft own-initiative report](#) of January 2017, Parliament's Committee on International Trade (INTA) noted that strengthening of bilateral trade relations should take place in the context of the Parties' commitments to share and implement the set of values and principles laid down in the EU's founding treaties. The report also called for the specific consideration of the condition under which the negotiations would take place, and for the transparency of and full access to the proceedings. On the issue of the CU's modernisation, the INTA Committee considered it a prerequisite that Turkey refrain from adopting any protectionist and restrictive measures, and called for the harmonisation and alignment of Turkish legislation with the *acquis*. The Committee suggested improving Turkey's participation in the EU trade policy decision-making process, and considering Turkey's involvement as an observer in the negotiations of trade agreements with third countries. The Committee deemed it important that a dispute settlement mechanism be included in the CU. Regarding the general framework for bilateral trade relations, the Committee put forward a series of suggestions, such as the progressive and binding liberalisation of sectors currently not covered by the CU, while also paying attention, for example, to data protection and to the exclusion of audiovisual services and services of general economic interest from the liberalisation of the services sector.

The Committee on Civil Liberties, Justice and Home Affairs (LIBE) gave its [opinion](#) in February 2017, noting that the modernisation and balancing of the CU would be beneficial for both the EU and Turkey. The development of a long-term multiple-entry visa or even possible visa-free travel for business professionals would affect bilateral trade positively. However, the LIBE Committee recalled that Turkey has to fulfil all 72 benchmarks of the visa liberalisation roadmap in order for visa requirements to be lifted regardless of the revision of the CU. Parliament's Foreign Affairs Committee (AFET), also gave a [draft opinion](#), in January 2017, noting that the upgrading of the CU could enhance bilateral relations and alleviate political tensions regarding fundamental rights. As, at present, there is no progress on political integration, strengthening economic cooperation could provide an opportunity to move forward together. The AFET Committee called on the Commission to include political benchmarks on human rights and fundamental freedoms in the upgraded CU.

### Advisory committees

In December 2016, the European Economic and Social Committee (EESC) adopted an [opinion](#) on the enhancement of EU-Turkey bilateral trade relations and the modernisation of the CU. The EESC was in favour of a new, modern CU that reflects current needs. It suggested that the modernisation of the CU should be carried out either by a review of Decision No 1/95 through a new decision of the Association Council, or ultimately by a new protocol to the Accession Agreement. In the EESC's view, negotiations must focus on the immediate implementation of the necessary radical reforms of Turkish legislation, and suggested areas that should be included in the regulatory framework of the new agreement. It called for effective consultation and inclusion of social partners and civil society organisations in both the negotiation and the implementation stages of the agreement. Although the EESC condemned the coup attempt of July 2016, it expressed deep concern for the response of the Turkish government and the subsequent political developments in the country. It called on

Turkey to protect and uphold universal human rights, to comply with democratic principles and to abide by the rule of law.

### Preparation of the agreement

For Turkey, reinforcement of bilateral trade relations was [closely associated](#) with the accession process. With the development of the Turkish position during 2013-2014, upgrading of bilateral trade relations became more likely.

In February 2014, therefore a joint Senior Officials Working Group was set up to explore the possible options for future economic and trade relations. This high level group carried out a 'scoping exercise' to explore the expectations of both sides regarding the scope of coverage and the level of ambition for modernisation of the BPTF.

In [May 2015](#), EU Trade Commissioner Cecilia Malmström and the Turkish Economy Minister agreed to begin preparations for future talks to update the EU-Turkey BPTF. On the occasion of the EU-Turkey Summit of November 2015, EU Heads of State and Government and Turkey adopted a [statement](#), in which they took note of the preparatory steps for modernising the CU, with formal negotiations to be opened towards the end of 2016, following the conclusion of the preparatory work. In March 2016, the [EU-Turkey statement](#), adopted at the level of Heads of State and Government, also welcomed the ongoing work towards an upgraded CU.

The Commission presented its [impact assessment](#) in December 2016. This report analyses the impacts of possible options for the upgrading of the EU-Turkey BPTF. The Commission's work was supported, inter alia, by a [study](#) undertaken by external consultant BKP, and by a [public consultation](#) conducted by the Commission between 16 March and 9 June 2016.

On 21 December 2016, the European Commission [asked](#) the Council for authorisation to launch negotiations for the modernisation of the EU-Turkey CU. The request took the form of a recommendation for a decision of the Council, accompanied by the draft negotiating directives.

In the EU's [new trade strategy](#), 'Trade for all – towards a more responsible trade and investment policy', published in 2015, the Commission already set an objective to establish a new, more ambitious framework with Turkey, by updating the CU.

### The changes the agreement would bring

As stated in the [joint statement](#) of January 2016, accession negotiations remain the cornerstone of EU-Turkey relations. However, modernisation of EU-Turkey trade relations is an important factor in the context of the broader bilateral relationship, and in particular in Turkey's accession process.

A Bertelsmann Stiftung [study](#) of 2016 states that deepening the CU would generate substantial welfare gains for the EU and Turkey, should the EU conclude new trade agreements with third countries or not. The World Bank evaluation notes that opportunities that could be developed further exist for both parties, recommending in particular the inclusion of services and agriculture in the scope of the CU.

According to various simulations described in the study carried out by BKP, there is a realistic prospect of significant economic gains from upgrading bilateral trade relations. Were the CU enhanced and an FTA for additional areas introduced (option two, preferred by both Parties), the EU economy would increase by €5.4 billion (evaluated at 2016

prices), and EU exports to Turkey by €27.1 billion. The EU's real GDP would rise by approximately 0.01 %, with the major source of gain coming from the reduction of non-tariff barriers for goods in Turkey and with additional gains from the liberalisation of agriculture and cross-border services. For Turkey, the study predicts that the enhanced CU would boost the country's real GDP by 1.44 %, and its economy by €12.5 billion. The value of Turkish exports to the EU is expected to grow slightly, by €5.0 billion. At sectoral level, the main EU export gains would be in the industrial sector, with the largest gains in 'other industrial' sector goods, followed by the chemicals, energy, coal and steel sectors. Significant gains can also be expected in EU cereals, dairy and oilseed exports. As regards the value added in various sectors, the increase would be largest in the coal and steel sectors, while textiles, clothing and footwear is likely to drop. In agriculture, value added would grow in most sectors, while decreasing in vegetables and fruits.

### Stakeholders' views

In the course of the online public consultation mentioned above, the Commission received 169 eligible responses, mainly (158) from companies and business associations. According to the majority (approximately 75 %) of the respondents, the current state of bilateral trade and economic relations is only partly satisfactory or not satisfactory. The major problems identified by the respondents are the technical barriers to trade, as these have a significant negative impact on trade activities. Respondents considered both the second and the third options as having potential; however, taking into account the different economic impacts, they deemed the second option more beneficial than the third.

A [TÜSIAD](#) (Turkish Industry and Business Association) study, published in October 2015, considered CU modernisation an important opportunity for the Turkish economy, as it would have a positive impact on Turkey's economic governance, and play a role in strengthening Turkish independent regulatory institutions. By increasing competition in the service sector and public procurement, a revamped CU would improve the productivity of the economy. The more efficient dispute settlement mechanism and restriction on the state's ability to distort fair competition are also considered beneficial results. The study notes that, for Turkey, the most challenging task will be choosing the best model for integration and regulatory harmonisation.

## EP supporting analysis

Dawar, K., Togan, S., [Bringing EU-Turkey trade and investment relations up to date?](#), Directorate-General for External Policies, European Parliament, May 2016.

## Other sources

[Commission Staff Working Document – Impact Assessment](#), European Commission, December 2016.

[Study of the EU-Turkey Bilateral Preferential Trade Framework, Including the Customs Union, and an Assessment of Its Possible Enhancement](#), Final Report, European Commission, October 2016.

[Evaluation of the EU-Turkey Customs Union](#), World Bank, March 2014.

Yalcin, E., Aichele, R. and Felbermayr, G., [Turkey's EU integration at a crossroads](#), Bertelsmann Stiftung, April 2016.

[Towards a new trade framework between the EU and Turkey and the modernisation of the customs union](#), European Parliament, Legislative Observatory (OEIL).

## Endnotes

<sup>1</sup> The BKP study states that 'as of August 2016, the EU has 35 trade agreements in place (in addition to the BPTF), almost half of which (16) are also not in place with Turkey. Conversely, Turkey has 18 FTAs in place, one of which, with Malaysia, is also not in place with the EU.'

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