



TURKISH PERSPECTIVE ON FTAs under the Turkey-EU CU (with a Special Emphasis to TTIP)

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I. TURKEY-EU ASSOCIATION RELATIONS & THE CUSTOMS UNION



TURKEY-EU ASSOCIATION RELATIONS

1959: Turkey applied to the EEC for membership

At that time, Customs Union within the EEC was not established.

1963: the Association (Ankara) Agreement signed

*Integration was set to be completed in 3 phases: preparatory, transitional and final stage. The establishment of the Customs Union was planned at the end of the transitional stage as an **interim phase** for the integration.*

1995: the Customs Union established

*the Customs Union was established with a view to paving the way for **the full membership**.*

2005: Accession negotiations started

Deadlock



ASYMMETRIC STRUCTURE OF THE CUSTOMS UNION

The course of the accession relations has brought an asymmetry in Turkey-EU integration, especially the Customs Union.

- The Customs Union and the principle of free movement of goods require Turkey to adopt Common Commercial Policy of the EU.
- Turkey is obliged to undertake and implement a huge bulk of EU acquis **without having a say in decision shaping.**

FREE TRADE AGREEMENTS

- Asymmetric structure has substantial consequences on FTAs of Turkey since Turkey's FTA policy is indexed to that of the EU's.

Turkey handed over its trade policy to the EU

While Turkey is obliged to follow EU's FTA perspective, EU decides the FTA partner, the scope and timing of the negotiations based on its own priorities **without any reference to the Customs Union**.

EU has ignored Customs Union

Due to the stalemate in Doha talks, EU focused on bilateral FTAs. This policy shift became more prominent with the Global Europe Strategy in 2006. However, EU did not take into account the CU in this process.

Henceforward, EU has been negotiating deep and comprehensive FTAs with specific countries and regions around the world.

The problem of asymmetry has become more complicated

II. FTAs of TURKEY

State of Play

GATT Article XXIV:

Turkey and the EU should apply the same duties to the third countries as a principle of the Customs Union under WTO system.

Decision 1/95 Articles 16 and 54:

The CU Decision requires Turkey to align its commercial policy with the EU's Common Commercial Policy which includes, inter alia, FTAs of the EU.

Decision 1/95 Article 56:

Turkey and the EU are jointly responsible for proper functioning of the Customs Union.

In economic and commercial terms the FTAs provide,

- Better market access opportunities,
- Supply for raw materials at lower costs,
- Better competition conditions,
- Offsetting negative effects of other FTAs (Domino Effect)
- Attracting foreign investment and technology
- Complementary instrument for other political and economic policies.



FTAs of TURKEY

EUROPE	MIDDLE EAST	AFRICA	ASIA	LATIN AMERICA	N.AMERICA
EFTA	Israel	Tunisia	Georgia	Chile	
Macedonia	Palestine	Morocco	S.Korea		
Croatia	Syria	Mauritius			
Bosnia Herz.	Egypt				
Albania	Jordan				
Montenegro	Lebanon				
Serbia					

ONGOING NEGOTIATIONS

Moldova	Libya	Cameroon	Malaysia	Colombia	
Ukraine	GCC	D.R. Congo		Ecuador	
Kosovo		Ghana		MERCOSUR	
Faroe Islands		Seychelles			

ATTEMPTED/PLANNED NEGOTIATIONS

		Algeria	Japan	Central America	USA
		South Africa	India	Peru	Canada
		ACP Countries	Indonesia		Mexico
			Vietnam		
			Thailand		

Turkey's 18 FTAs in force represent:

273 million population

3.5 trillion \$ GDP

1.2 trillion \$ import market

Exports: increased by 454% with FTA partners whereas 323% in total in 2002-2012*

Share of FTA partners (2012):

9,6% in exports, 4,5% in imports*

**Korea and Mauritius are not included*

Share of EU (2012): 39% in exports, 37% in imports

III. FTA Matter in the Customs Union

TIME GAP IN THE ENTRY INTO FORCE OF CERTAIN FTAs			
PARTNER	EU	TURKEY	TIME GAP
Palestine	1997	2005	8
Tunisia	1998	2005	7
Morocco	2000	2006	6
Egypt	2004	2007	3
Chile	2003	2011	8
Jordan	2002	2011	9
S.Korea	2011	2013	2
Lebanon	2003	-	>10

POTENTIAL GAP IN ECONOMIC TERMS

FTAs of the EU *		Prospective FTAs of the EU	
Partner	Imports (bil.\$)	Partner	Imports (bil.\$)
Mexico (2000)	371	USA	2.336
South Africa (2000)	102	Japan	886
Central America (2012)	80	India	462
Algeria (2005)	47	Canada	455
Colombia (2012) **	55	MERCOSUR	400
Peru (2013)	38	Thailand	248
		Malaysia**	197
		Vietnam	114
TOTAL	693	TOTAL	5.098

* Negotiations with Turkey are not launched yet

** Negotiations with Turkey continue

The situation can be described as a moving target

That results in;

- Disadvantages for Turkish exports in third country markets
- Unfair competition conditions within the CU due to the disadvantage in the access to low-cost raw materials
- The value chains established within the CU cannot benefit from the FTAs
- Trade deflection (Mexico Case)

Action Plan of Catherine Ashton-2008:

“Turkey clause, enhanced bilateral dialogue, taking into account Turkey’s sensitivities, impact assessments, feasibility studies etc.”

European Parliament Resolution-21 September 2010:

“Acknowledging the difficulties faced by Turkey and calling the Commission and the Council to ensure that Turkey is included in the impact assessment studies of prospective FTAs and to further strengthen the transmission of information”

Strategy Paper-2011:

“Seeking closer coordination in the negotiations on free trade agreements”

Strategy Paper-2012:

“The Commission is examining ways to address Turkey’s concerns under the CU, including on the FTAs concluded by the EU with third countries”

EU-Algeria FTA (2005): In the Joint Declaration annexed to the Agreement, EU invites Algeria to negotiate an FTA with Turkey. Algeria takes notes and commits to consider the matter when the time comes

EU-Albania FTA (2006): In the Agreement, Albania undertakes to conclude FTA with Turkey within a pre-defined period of time

Ashton's Proposal (2008): EU invites the FTA partner to start negotiations with Turkey as soon as possible

EU-Central America FTA (2012): In the Joint Declaration, EU invites Central America to start negotiations with the States with which EU has established a Customs Union. Central America responds that they shall make best efforts

IV. POSSIBLE SOLUTIONS

1. EU and Turkey negotiates FTA together as a single CU
2. Commission negotiates FTAs for whole CU area
3. Turkey negotiates parallel FTA while goods in free circulation benefit from the FTA reciprocally

()limited with the scope
of the Customs Union*

OPTION-1: NEGOTIATING TOGETHER

- In line with the definition and obligations of the CU in WTO Agreement, **Turkey and the EU consult on** the FTA partner, timing of the negotiations and the scope of the agreement
- Parties negotiate FTAs jointly, observing priorities of each other
- As it provides equal rights and obligations for both Parties of the Customs Union, theoretically this option can be described as the **ideal case**



OPTION-2: COMMISSION NEGOTIATES

- Turkey **hands over its negotiating authority to the Commission** and the **Commission conducts the negotiations** on behalf of the EU and Turkey
- Association Council can take decision for this purpose. Such decision would constitute the legal basis subject to the Parties' internal legal system
- Each FTA needs to be handled separately



OPTION-3: TURKEY NEGOTIATES PARALLEL FTAs

- Turkey continues to negotiate separate FTAs
- EU will include a legally binding instrument in its FTAs, such as [Reinforced Turkey Clause](#)
- The Reinforced Turkey Clause
 - invites the FTA partner to negotiate and conclude parallel FTA with Turkey as nearly as possible same time with the EU
 - in the meantime provides the Turkish products in free circulation benefit from EU's FTA reciprocally
- This option will be applied until Turkey and the concerned third country conclude an FTA and prevent the application of different duties by the CU Partners, which actually constitutes a breach of WTO obligations
- FTA partners will be encouraged to conclude FTAs with Turkey instead of indirect trade
- Implementing this option is valid in law and feasible



REINFORCED TURKEY CLAUSE: OUR PROPOSAL

JOINT DECLARATION/PROVISION CONCERNING TURKEY

The EU recalls the Customs Union between the EU and Turkey based on the principle of free movement of goods, whereas goods originating in third countries can freely circulate between Turkey and the EU once all the import formalities are completed in Turkey or in the EU, and the requirement of the parties within the Customs Union to apply common commercial policies including preferential trade agreements and the common custom tariffs in accordance with Article XXIV of the GATT.

In this context, the EU and (Country X) have declared as follows:

- 1.(Country X) and Turkey shall conclude an agreement establishing a free trade area (FTA) between the two parties on a mutually advantageous basis, to enter into force simultaneously with the entry into force of the agreement between the EU and (Country X).
- 2.If the agreement between the EU and (Country X) enters into force before the agreement between (Country X) and Turkey, products originating in Turkey falling within Chapters 25 to 97 of the Harmonized System and which are in free circulation in the EU shall be accepted by (Country X) as originating in the EU within the meaning of [Part..., Title...] of this Agreement, until the entry into force of the FTA between (Country X) and Turkey.
- 3.The rules established to define the originating status of the products subject to this Agreement shall apply *mutatis mutandis* for the purpose of defining the originating status of the products mentioned in paragraph 2.

V. TTIP and TURKEY

TTIP: LAST STRAW in the CU

- The EU and US are strategic and important partners of Turkey in terms of foreign policy, economics, trade and security
- TTIP is expected to be a game changer agreement in terms of trade rules. In this respect, Turkey has much interest in the agreement (likewise the other third parties such as Mexico, Canada)
- When the scope of TTIP is considered, the CU will be effected inevitably and the asymmetric structure will be deepened dramatically
- Turkish business circles are very eager to have an FTA with USA and worried about the risks of being left out of the TTIP process
- In the absence of a parallel FTA, the European companies in Turkey will not benefit from the gains of TTIP

Within this framework, Turkey intends to launch FTA negotiations with the US in parallel with TTIP negotiations



ROAD TO TURKEY-US FTA

- Turkey is putting a great effort to launch FTA negotiations with USA as soon as possible
- Turkey raised the matter with USA at the highest political level
- The President Herman van Rompuy and the Association Council stated that EU is looking into the best way to keep Turkey involved in the TTIP process.
- EU's concrete support from all levels is very crucial in the process to ensure establishment of a parallel FTA

As a requirement of the CU, Reinforced Turkey Clause should be tabled at the very beginning of TTIP negotiations



THANK YOU

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