

INT 426

**Customs Union and Its Aftermath**

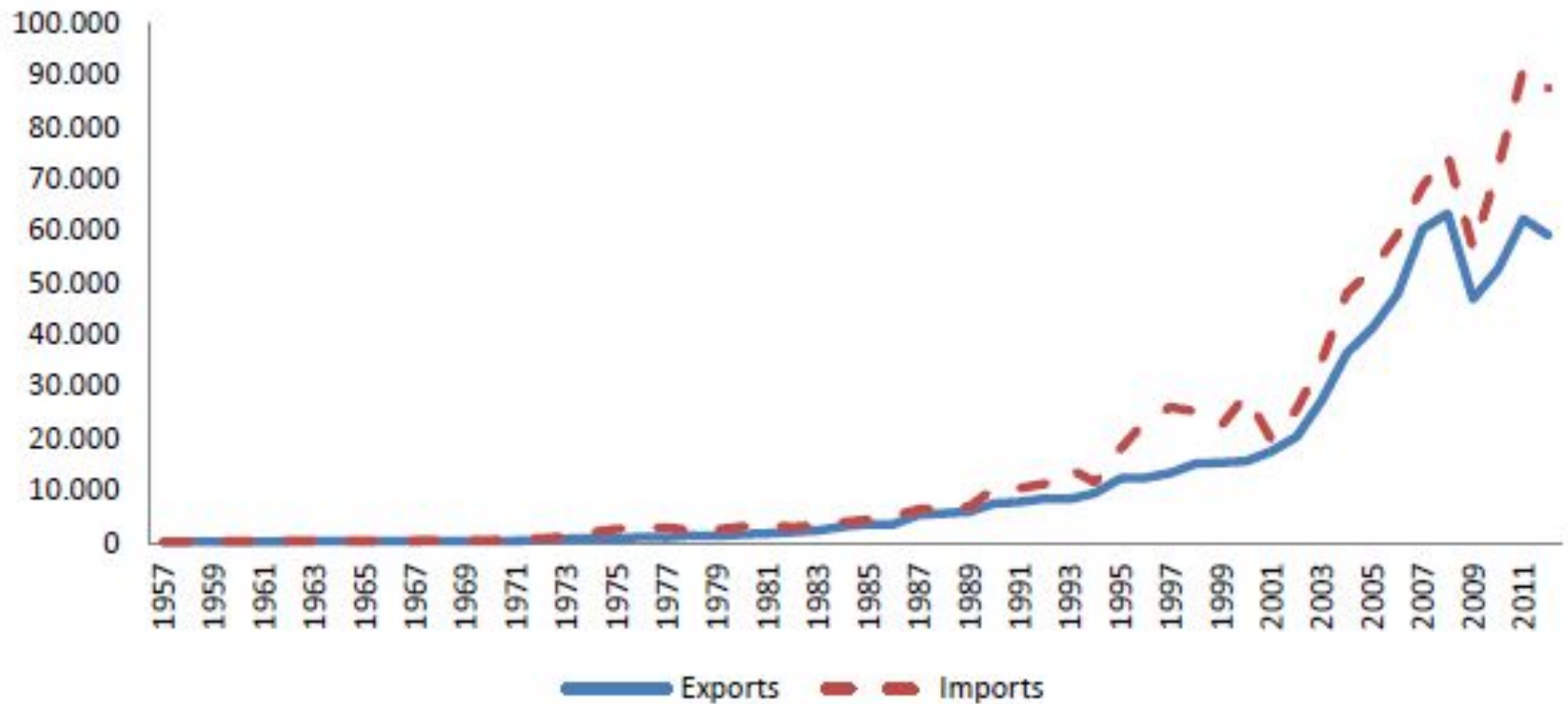
## ASSOCIATION COUNCIL DECISION OF 6 MARCH 1995 CONCERNING THE COMPLETION OF THE CUSTOMS UNION

- The decision No. 1/95 of 6 March 1995 enters into force on 1 January 1996. The onset of customs union underlines the transition to the **Final Stage** in the relations between Turkey and the EU.
- -Decision No. 1/95 consists of 64 articles, 16 explanations and 10 annexes. A common organ named Customs Union Joint Committee is set up to resolve disputes arising out of the implementation of the customs union so as to ensure the smooth functioning of the customs arrangement.

- Turkey dismantled all customs taxes and quantitative restrictions regarding the **industrial products** originating in the EU member states as of 1 January 1996.
- Likewise, with some exceptions, Turkey began to apply the common customs tariffs as set by the EU vis-à-vis third states.

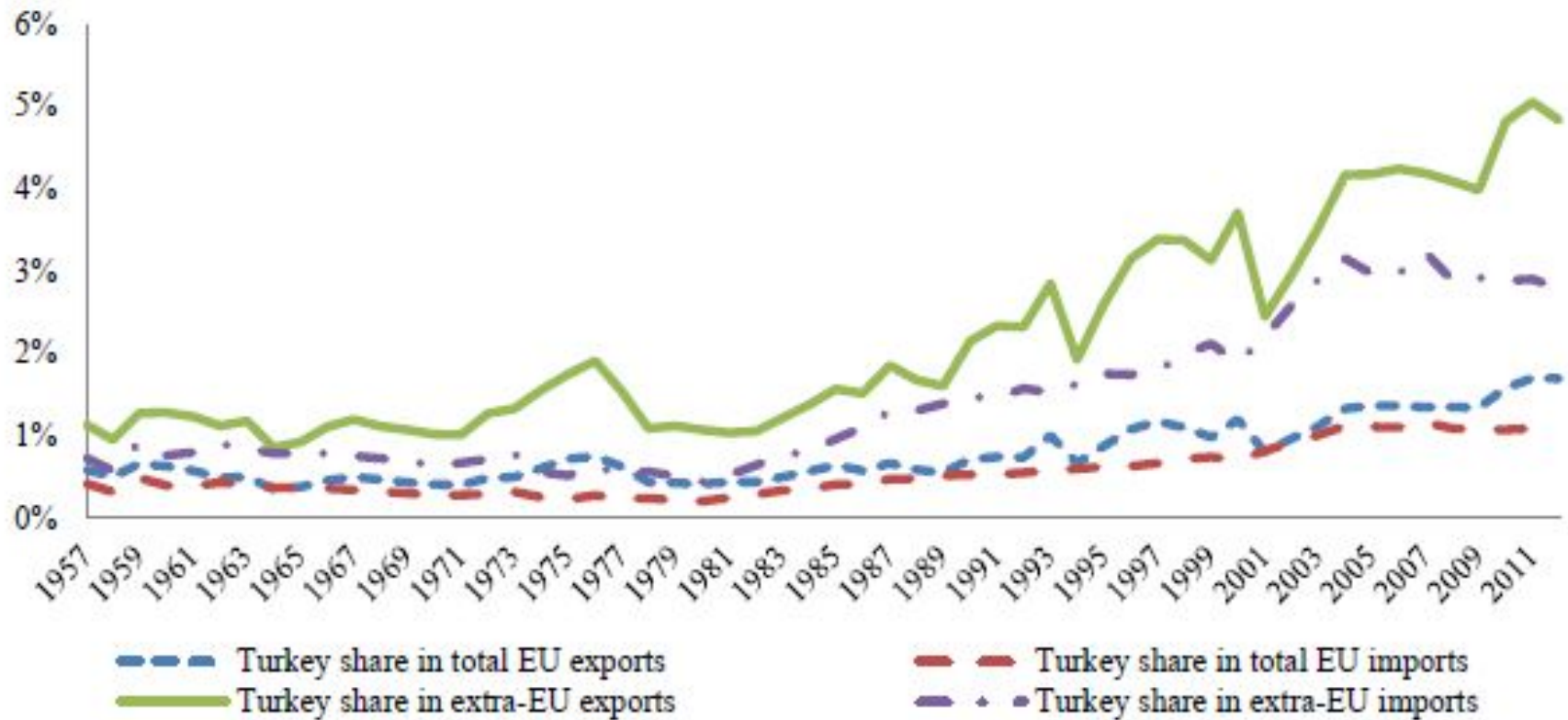
- This decision provides for an effective cooperation in the following areas: standardisation, calibration, quality, accreditation, testing and certification.
- Turkey will also adapt itself to the EU law in the areas of **intellectual, industrial and commercial property rights**.
- Similarly Turkey will try to gradually establish harmonization with the EU policies in regard to consumer protection and competition.
- The parties are barred from using domestic taxation so as to discriminate against the other party. They will likewise refrain from using tax rebates accorded to domestic businessmen as a way of subsidising exports to the EU markets

Figure 1: Turkey's trade  
(a) Nominal trade with the EU (US\$ millions)



Source: IMF Direction of Trade Statistics.

Figure 2: Turkey's trade share of the EU



## Turkey-EU Trade relations (latest statistics)

### EU share of Turkey's total export

- 1995: 56,4 %
- 1996: 54,1%
- 2000: 56.4%
- 2005: 56,3%
- 2006: 56%
- 2007: 56,3%
- 2008: 48%
- 2009: 46%
- 2010: 46,3%

### EU share of Turkey's total import

- 1995: 50,5 %
- 1996: 55,8 %
- 2000: 52,3 %
- 2005: 45,1%
- 2006: 42,6%
- 2007: 40,4%
- 2008: 37%
- 2009: 40,2%
- 2010: 38,9%



# Customs Union

- Covers all industrial goods but does not address agriculture (except certain PAPs), and coal and most steel products; both are covered by bilateral concessions (FTA type)
- Commits TR to align to the *acquis communautaire* in several essential internal market areas, notably customs legislation, common commercial policy, industrial standards, IPR, competition policy.



# Benefits of the Customs Union

- Turkey has benefited from an “early” legislative alignment process before its accession negotiations started.
- Turkey is participating to a large extent in the EU single market for goods.
- Turkish producers gained competitive advantage in adopting (most) EU technical standards.

## Benefits of the Customs Union (cont'd)

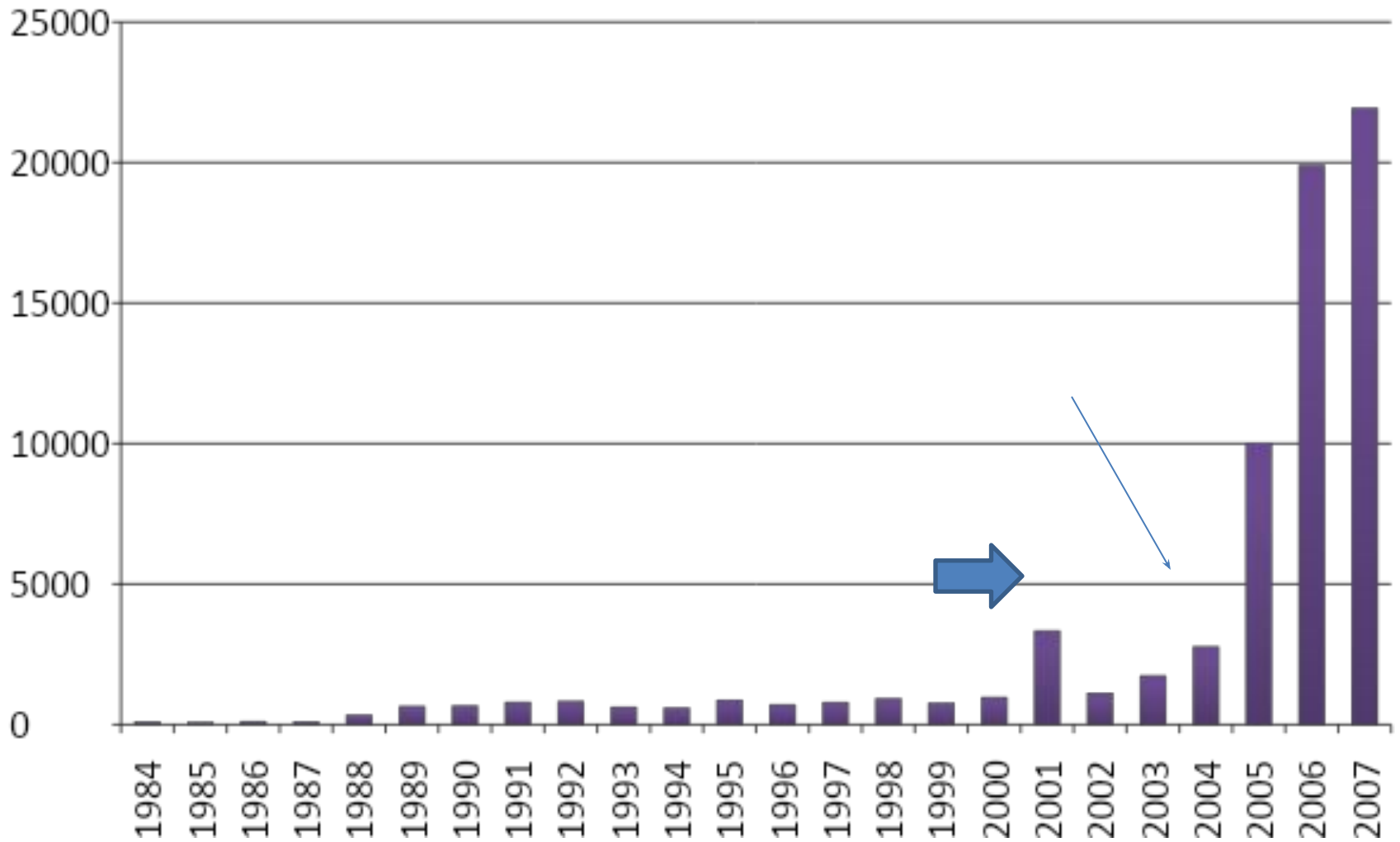
- Customs Union: driving force for trade liberalisation and integration into global markets
- Turkish companies are more and more integrated into the production network of the EU
- Increased sophistication of Turkish exports



# Increased trade and investment relations

- Since 1996, trade between the EU and Turkey has increased more than fourfold (from 22.6 bn € in 1995 to 105.3 bn € in 2012, for EU 15 only)
- The EU has been an open and secure market for Turkish exporters
- Despite increased trade, diminishing share of Turkey's exports to the EU (in 2012 below 40%).
- However, to be emphasized that both the EU and Turkey are benefiting from the CU

# FDI Inflow from the EU to Turkey



-In pursuance of Decision No. 1/95, Turkey passed **new laws** in the following areas:

- a) In the area of the dismantlement of technical barriers to the (industrial) products originating in the EU member states;
- b) In the area of intellectual, industrial and commercial property rights;
- c) In the area of competition law whereby Turkey undertakes to phase out state monopolies and subsidies earmarked by government for exporters.

# AGRICULTURE EXCLUDED!

- -The customs union arrangement only comprises industrial products and processed agricultural products. In the area of agriculture (unprocessed), the parties pledged themselves to apply a preferential trade regime whose scope will be gradually improved.
- This arrangement, then, suggests that Turkey and the EU do not commit themselves to doing away with customs taxes in their respective trade in agricultural produces, albeit they will possibly progressively alleviate customs duties and other restrictions.

# Customs Union

- **-Financial provisions:** According to Decision No. 1/95, Turkey will receive a total of **2,4 billion ECU** in credits for the period between **1996-2000**, a portion of which will be in grants.

# CCT Compliance

- Customs union arrangement also requires Turkey to adapt itself to the **common customs tariffs and common trade policy of the EU with regard to non-member countries.**
- With regard to the EU's **preferential trade regime**, Turkey undertakes to adapt itself to this regime within five years vis-à-vis states which have signed such agreements with the EU. In addition to that, Turkey will align itself to the common customs tariffs for some products within five years.
- Turkey accordingly signed **free trade agreements** with the following states most of which later became EU members: former EFTA states, Romania, Hungary, Estonia, Czech Republic, Slovakia, Bulgaria, Slovenia, Poland and Israel.



# Turkey Lost in Trade

- -As a result of the customs union, the rate of customs duties which Turkey applies to the industrial products of the EU and EFTA states drops from 10 to 0 percent.
- As to Turkey's industrial imports from third states, **the customs taxes which it applies falls from 15 to 5,6 percent.**

- - **The loss of revenues** which Turkey used to obtain from customs duties has amounted to **5 billion dollars annually as a result of customs union.**
- Turkish exports to the EU markets grew by 7 percent in 1996, while its imports from the same increased by 40 percent.
- One reason for this dramatic rise was the diffusion of Turkish markets with **consumer products coming from EU member states.**
- By contrast, **investment goods from Europe did not go through a similar meteoric rise**, simply because the import regime in such products had been fully liberalised before.

**The annual trade deficit which Turkey has suffered in its trade with the EU member states since 1995 is indicated below:**

- 1995: 5,8 billion dollars. (Before customs union)
- 1996: 11,6 \_\_\_\_\_
- 1997: 12,6 \_\_\_\_\_
- 1998: 10,6 \_\_\_\_\_
- 1999: 7 \_\_\_\_\_
- 2000: 12,1 \_\_\_\_\_
- **2001: 2,15 \_\_\_\_\_**
- 2006: 10 \_\_\_\_\_
- 2007: 8,2 \_\_\_\_\_

Composition of Turkish exports: Figures from 1997 reveals the following data:

- Industrial products: 88 percent (textile: **39 percent**, metal: 10 percent, processed food: 9 percent).
- Agriculture and animal husbandry: **10,4 percent**
- Mining: 1,5 percent.
- Today, nearly 40 percent of Turkish imports originate from the EU states.