

DECLARATION PAPER FOR MODERNIZING THE CUSTOMS UNION BETWEEN TURKEY AND THE EU

During the course of the Customs Union for SMEs project, TURKONFED realized several activities including roundtables, study visits and a launch event that contributed to the research outcomes of this project. Further, interested parties and relevant stakeholders including the representatives of SMEs and business organizations continue to express their voice on the topic through the online platform of the project.

TURKONFED calls for the modernization of the EU – Turkey Customs Union. The following policy recommendations highlight some of the key points moving forward with the modernization of the Customs Union to invigorate the economic governance of Turkey and continue contributing to the welfare and integration of both parties in the changing global economy and trade dynamics of the 21st Century. All the global factors determining the current commercial and economic relations require a more comprehensive economic integration that reflects the realities of today rather than a technical update of the current Customs Union between the EU and Turkey. Specifically, digitalization, climate policies and sustainable development should be considered as the key dimensions of a modernized EU – Turkey Customs Union.

1) **SME chapter:**

The Customs Union could work more efficiently should it contain a dedicated chapter for SMEs, which would ensure the application of the ‘Think Small First’ principles. Such modernization efforts may operate aptly by adapting to the needs of the modern economic structures such as e-commerce and digitalization. The modernization of the Customs Union should be supported by additional set of special financial instruments that serve the needs of SMEs and help them overcome the challenges that a potential modernization could bring.

2) **Efficient Arbitration Mechanisms:**

The asymmetries that result from Turkey not participating in the EU decision-making processes as a non-EU but a candidate country create diversions in the regulatory framework and result in disputes in addition to the trade diversions. Problem-solving mechanisms are required to be adapted to the specificities of the relationship between the EU and Turkey in order to make sure that the Customs Union works coherently. Specifically, TURKONFED advises that Turkey participates regularly in the relevant EU committees to improve bilateral dialogue between parties for the design of a common commercial policy. The solution should establish an effective, de-politicized, dispute settlement mechanism.

3) **Continuous Trade and Investment Monitoring:**

A modernized Customs Union can explore its full potential as long as it regularly addresses existing barriers to trade and investment, define standards and regulations, and address asymmetries in trade and investment conditions. Requirement of additional import certificates that are not rooted in legal foundations or enforceability may complicate trade on both sides.

4) **Implementation of the Customs Union:**

Implementation and the operation of the Customs Union as well as the negotiation stage require active and involving participation of both sides. TURKONFED calls for encouraging the feedback of civil society actors, business associations and academic institutions which can provide needed analysis on sectors and enterprises as well as reflect the demands of the interest groups. In addition, parallel track negotiations of Turkey and the EU with third countries may prove useful in third country FTAs.

5) Inclusion of the Service Sector and Broadening the Scope of the Agriculture Sector:

Service sector plays an increasing role as part of the recent trade agreements. Therefore, services should be included, and service restrictions are to be avoided since they hinder goods trade, as is the practice within the current Customs Union implementation. Agriculture, livestock and dairy sectors should be included into the Customs Union along with unprocessed products under the condition of an EU-supported transition period and initially complying with the EU standards as a guideline first.

6) Foreign Direct Investment:

Foreign Direct Investment policy can be encouraged with an intention of including links to local suppliers and liberalization of foreign investment in the services sector.

7) Visa Liberalization:

TURKONFED and PAS argues that visa related issues acts as a barrier against the free movement of people that is a prerequisite for thriving businesses in a single economic area. A transitional visa facilitation for businesses is needed for the efficient participation of SMEs in the modernized Customs Union until the comprehensive visa liberalization for Turkey is achieved. This could reduce some administrative burden on the public servants.

8) Inclusion of Public Procurement:

Bilateral market expansions in public procurement should be achieved in the Customs Union. If SMEs on both sides had the chance to participate in an open and competitive government tenders, competition would be increased in government procurements and new business opportunities would be created. Clear and enforceable rules can play a positive role.

9) One Stop Shops for SMEs:

In order to make sure that information regarding the working of the CU is communicated concisely and accurately towards the SMEs, formation of help desks or one stop shops can help them maximize their potential in terms of internationalization.

10) Climate, digitalization and sustainable development:

Current global dynamics triggered a debate on the interconnected relationship between trade, climate and social aspects. Digitalization, climate policies and sustainable development should be considered as the key dimensions of a modernized EU–Turkey Customs Union.