

## **EU TRADE POLICY – LECTURE 2**

# **EU TRADE RELATIONS WITH MAIN EUROPEAN PARTNERS OUTSIDE THE EU**

# 1. Importance and Perspectives of EU-Turkey Trade Relations in the Framework of the Customs Union

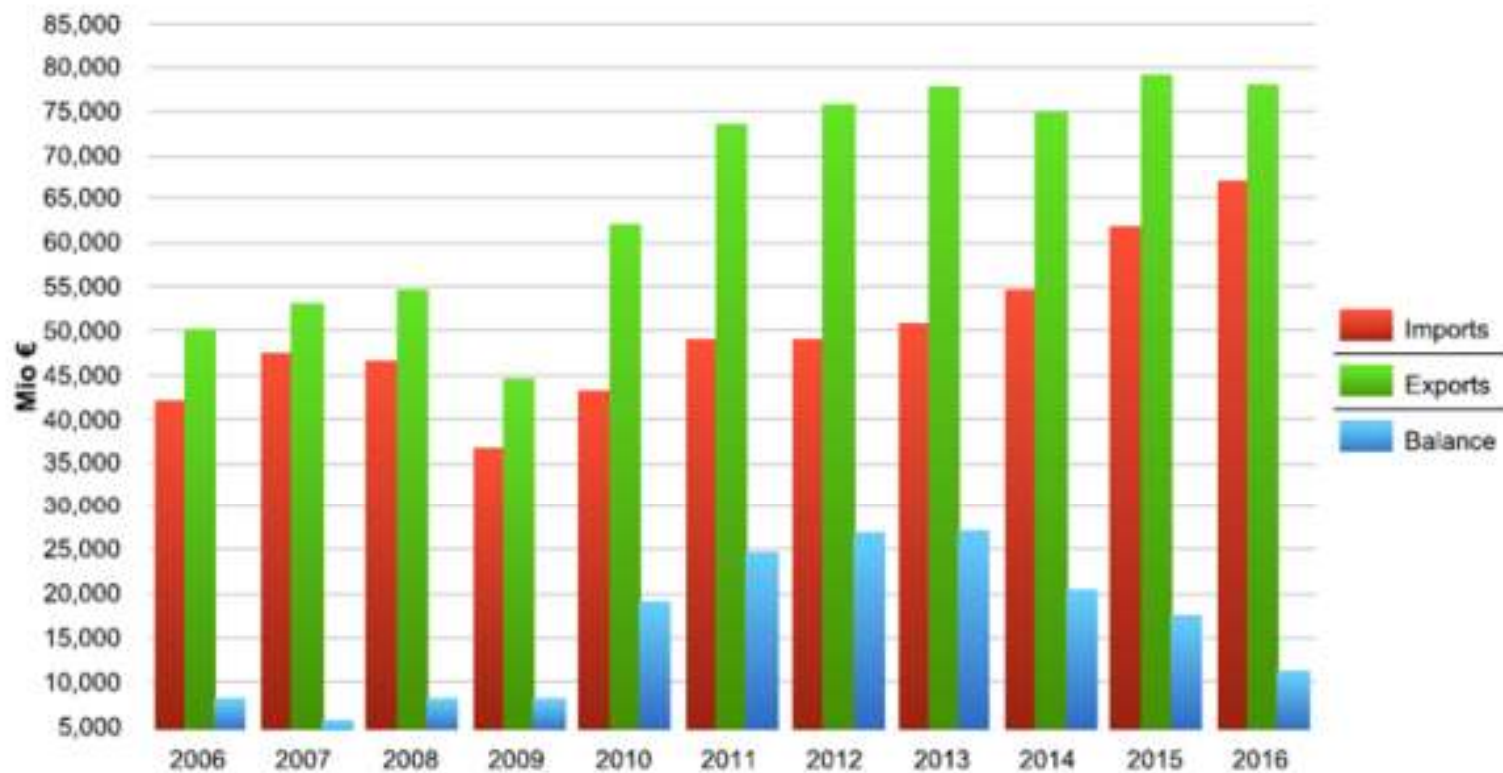
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# EU-Turkey Trade Relations

## European Union, Trade with Turkey

Total goods: EU Trade flows and balance, annual data 2006 - 2016

Source: Eurostat Comext - Statistical regime 4



- **Turkey is the EU's 4th largest export market and 5th largest provider of imports. The share of Turkey in EU exports is 4.5% and in EU imports 3.9%.**
- **Turkey's main export markets are the EU (44,5%), followed by Iraq, USA, Switzerland, United Arab Emirates and Iran.**
- **Imports into Turkey come from the following key markets: the EU (38%), China, Russia, USA, South Korea and Iran.**

- **Trade balance is positive for the EU. In 2016 it was about €11 BN. In the same year Turkey's trade deficit to the world was about \$56 BN (about €49 BN). It means that the share of the EU in the Turkey's global trade deficit is about 22%.**
- **Turkey almost compensates the deficit in trade with commodities with the trade surplus in trade with services, which makes bilateral trade in general balanced.**

## EU Imports 2016

## EU Exports 2016

### SITC product Groups

Product	Value Mio €	% Total	Product	Value Mio €	% Total
Primary products	8,264	12.4	Primary products	10,193	13.1
Manufactures	55,134	82.6	Manufactures	65,505	84.1
Other products	3,149	4.7	Other products	1,308	1.7
Other	216	0.3	Other	884	1.1

### Top 5 - HS sections

Product	Value Mio €	% Total	Product	Value Mio €	% Total
XVII Transport equipment	15,889	23.8	XVI Machinery and appliances	21,743	27.9
XI Textiles and textile articles	14,444	21.6	XVII Transport equipment	16,028	20.6
XVI Machinery and appliances	11,591	17.4	VI Products of the chemical or allied industries	8,825	11.3
XV Base metals and articles thereof	5,761	8.6	XV Base metals and articles thereof	7,849	10.1
VII Plastics, rubber and articles thereof	3,544	5.3	VII Plastics, rubber and articles thereof	5,841	7.5

- **EU exports to Turkey are dominated by machinery and transport material, chemical products and manufactured goods.**
- **Turkey's exports to the EU are also mostly machinery and transport equipment, followed by manufactured goods.**

**We see a case of well developed intra-industry specialization and trade with high value added in both directions of trade.**

## ➤ Other benefits of the intra-industry specialization (Johnson and Taylor, 2009):

- Increases the variety of products in the same industry, which is beneficial to both, businesses, as well as consumers.
- Gives opportunity for businesses to benefit from the economies of scale. **This is a very important advantage in time of globalization when differences in capital and labor prices decline.**
- Stimulates innovation in industry, and can assist the economy in cases of short-term economic fluctuations.

**55,639 companies with international capital are established in Turkey including 22,145 companies with partners from the EU**




## **EU-Turkey Customs Union**

**The final phase of the customs union (CU) was established on 1 January 1996.**

**CU covers industrial goods, including also partial liberalization for processed agricultural products.**

**CU established the requirement that Turkey should align not only with the EU's customs tariffs and rules, but also with the EU Common Commercial Policy, Competition policy, Intellectual Property Rights, as well as with the EU's Technical Legislation.**


**In this way CU is more than free trade, it is free movement of goods. This is a very important precondition for successful industrial cooperation!**



## EU-Turkey Customs Union

- **However, CU has to be aligned to current EU trade policy, which has as priority the conclusion of more and more bilateral agreements with quite comprehensive coverage.**
- But Turkey is not adequately involved in EU decision-making process concerning the CU related areas, and where it does take part, it does so as an observer without the right to vote.
- **And this is a problem...**

## **There is also a need to:**

- **Mutually increase market access for agricultural products and services;**
  - **Enhance access to the public procurement markets**
  - **Improve environment for trade and investment (energy, raw materials, sanitary and phytosanitary measures);**
  - **Establish an effective dispute settlement system, etc.**
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## 2. EU TRADE RELATIONS WITH EFTA MEMBER STATES

# European integration models

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**1957- The EU model (EEC/EC/EU): supranationality**

**1960- The EFTA model: intergovernmental cooperation**

**1973- The bilateral free trade model**

**1994- The European Economic Area model**

**1999- The Turkey model with CU**

**1999- Swiss bilaterals model**

# The birth of the European Economic Area

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1984 - First EFTA-EU Ministerial meeting, Luxembourg

Declaration on a dynamic "European Economic Space"

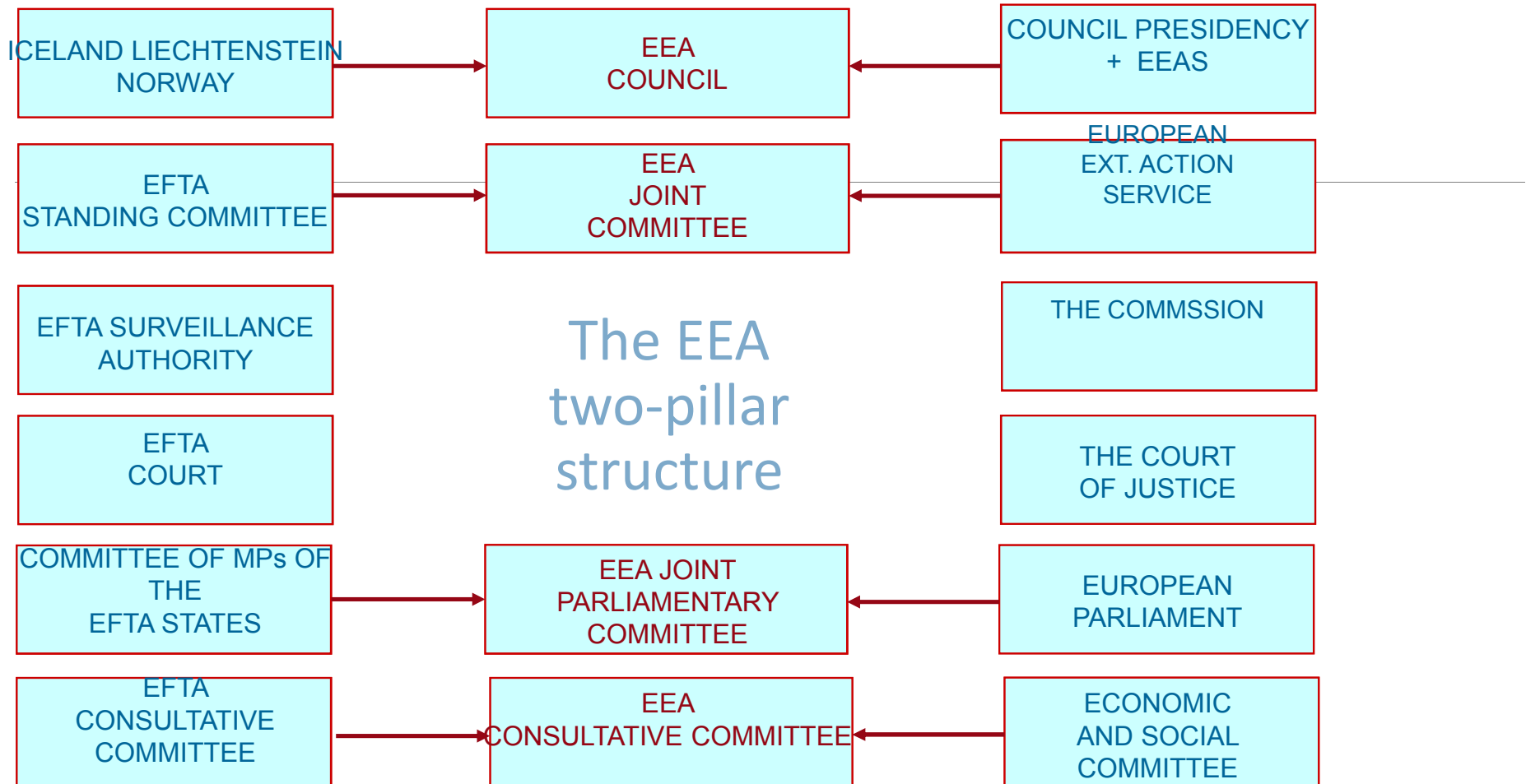
1989 - Commission President Delors offers the EFTA countries an EEA solution

1992 - EEA negotiations finalized (signature)

1993 - Swiss no-vote to European Economic Area (EEA)

1994 - Entry into force of the EEA





# European Economic Area - extending the EU Internal Market

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## FOUR FREEDOMS

- FREE MOVEMENT OF GOODS
- FREE MOVEMENT OF SERVICES
- FREE MOVEMENT OF CAPITAL
- FREE MOVEMENT OF PERSONS

## HORIZONTAL POLICIES

- ENVIRONMENT
- SOCIAL POLICY
- CONSUMER PROTECTION
- STATISTICS
- COMPANY LAW

## Common Rules

- State Aid
- Competition

## Cooperation

- EU Programmes
- EU Agencies

## Cohesion

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- EEA and Norway Grants
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# The EEA - static and dynamic

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## Static in scope

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Covers the EU internal market (with some exceptions)

No additional areas foreseen to be included

## Dynamic in character

Updated continuously by adding new EU legislation in areas already covered by the Agreement

Ensuring homogeneity with the EEA



# The EEA does not cover

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**Third country issues (some exceptions)**

**Common Trade Policy**

**EU Customs Union (towards third countries)**

**Common Agricultural and Fisheries Policies**

**EU Regional Policy**

**Economic and Monetary Union**

**Justice and Home Affairs**

**Common Foreign, Security and Defense Policy**



# Challenges

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## **Changes to the EU Treaties**

**Abolition of the EU pillars (combining areas)**

**EU Agencies with legislative competence**

**Extended geographical scope (offshore/maritime)**

**Efficient "take over" of EU legislation (homogeneity)**

**EEA EFTA influence on EU decision making**

**Making the EEA Agreement known**



# EEA position taking on the EU side

European Commission

EEA EFTA States' position

Council

If adaptations or financial contributions are involved

DIRECTORATE-  
GENERALS

LEGAL SERVICE

DG BUDGET

European External Action  
Service  
(EEAS)

COUNCIL  
(Ministers)

COREPER  
(Ambassadors)

WORKING GROUP  
ON  
EFTA MATTERS

EU's position



Is there a veto right?

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EEA Article 102 procedures

What does history tell us?

No veto yet.