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## Customs Union an Anchor for Turkey–EU Relations

By Kadri Tastan

Germany is pushing its partners in the European Union to suspend any preparatory work on negotiations with Turkey pertaining to the modernization of the Customs Union agreement and to implement some measures to raise financial pressure on Turkey.

Tensions between Turkey and European Union member states have increased over the past year, and the division between Turkey and Germany was deepened significantly after the arrest of German human rights consultant Peter Steudtner along with other Turkish civil society actors accused of plotting against government.

Aside from cooperation on migration, energy, and security-related efforts to address terrorism, modernizing the Customs Union is an important agenda item for the future of their relations. The bloc remains Turkey's biggest trade partner, and the accession process continues to be source of credibility from an economic and a political perspective.

The Customs Union was finalized in the 1990s to bring momentum to the EU–Turkey relationship. Today the conditions are nearly the same: Turkey is facing serious political challenges and long-standing structural economic problems and its relationship with the EU is at a low point, leaving the Customs Union as an anchor for cooperation. Updating this agreement is the best way of bypassing the current impasse between the two parties.

The economic benefits of the Customs Union should not be underestimated. Since entering into force in 1996, it has provided a high level of integration between Turkey and European economies and provided many benefits for Turkish industry. The agreement helped bring competition and an international market for Turkish businesses, which lowered the cost of production and brought more discipline

and predictability to Turkey's business ecosystem. Today, the EU is Turkey's number one export (48 percent in 2016) and import (37 percent in 2016) partner, and Turkey is Europe's fifth biggest export and seventh import markets. The EU is the main source of the foreign direct investment in Turkey.

The Customs Union is narrowly focused on industrial goods, including components of agricultural products and goods wholly or partially manufactured from products coming from third countries, but which are in free circulation in the EU and Turkey. Customs Union reform is likely to cover many new areas of trade, including public procurement, agriculture, and services — involving nearly all facets of Turkish and EU economic activity. In this case, modernizing the agreement could push more economic integration between the EU and Turkey, thereby solidifying some positive cooperation.

The EU and Turkey need the Customs Union for their own economic welfare. The process for the modernization was officially initiated on May 2015 by the Turkish government and the European Commission. Prior to the negotiations, the European Commission and the Turkish Ministry of the Economy conducted impact assessments and consultations of stakeholders, concluding that addressing deficiencies in the agreement and extending trade preferences to new areas notably in services, agriculture, and public procurement is economically more beneficial — in terms of employment and GDP — for both sides, even if the lower competitiveness in agriculture and public procurement represents a risk for Turkey.

The European Council did not give the green light to the Commission last December when it asked for a mandate to launch talks with Turkey on modernizing the existing

Customs Union, due in large part to the strained relationship in the aftermath of the attempted coup in July 2016 and questions regarding the outcome of Turkey's presidential referendum in April 2017. President Erdogan responded to Europe's accusations that he has dictatorial tendencies by publicly stating that European countries are acting like Nazis and supporting alleged coup plotters. This negative rhetoric continues to spread, greatly jeopardizing relations between Turkey and its Western partners.

It is important for Turkey to update the Customs Union agreement with the EU, as it would improve the problem of trade diversion — the disadvantageous situation in which Turkey loses its competitive trade as a result of new free trade agreements signed by the EU and third countries. The applications of quotas to Turkish trucks and visa to Turkish businessmen have also been important factors for the Turkish side to update the Customs Union. Modernization is also important for the EU, as it will help reboot growth at home and increase economic ties with its strongest defense partner on NATO's Eastern Flank.

The issue of human rights and fundamental freedom as a key condition of any new agreement can hamper the start of negotiations. The EU will bring these issues to the table, but Turkey will certainly not accept them as part of a new deal. The mood among European member states was made clear on July 6, 2017 when the Parliament released a resolution on the Commission Report on Turkey, stating that “calls on the Commission to include a clause on human rights and fundamental freedom in the upgraded Customs union between Turkey and the EU...”

Resolving the Cyprus problem is still desirable and should be addressed to set the conditions for other areas of cooperation. In the same decision, the European Parliament “recalls that the Customs Union can only achieve its potential when Turkey fully implements the Additional Protocol vis-a-vis all member states,” which include Cyprus. An earnest attempt to reunite Cyprus in July 2017 from both Turkish and Greek leaders failed, unfortunately. As Turkey has not implemented the existing Customs Union rules to Greek Cyprus since it joined the EU, and refuses to open its ports and airports to Greek Cyprus' vessels, the European Council will face some troubles for introducing these conditions.

The Turkish government's claims that Germany is protecting members of the Gülen Movement — officially defined by Turkey as Fetullahist Terrorist Organization (FETO) and accused by Ankara to be behind the failed coup d'état — and PKK (Kurdistan Workers' Party), will only further impede positive relations — both economically and politically.

The divisions are deep and economic benefits might not be enough to bring a new positive agenda between Turkey and the EU. Political rhetoric from both sides can seri-

ously damage relations and the possibility of partnership on mutually beneficial areas. The Customs Union remains an essential area of cooperation, but constructive communication and respectful dialogue between Turkey and EU member states is necessary before any formal negotiations can begin.

Turkey should seriously consider the concern of the EU on fundamental rights, independence of judiciary, and rule of law while at the same time taking the necessary efforts to bring the perpetrators of the failed coup to justice. Turkey cannot continue to be ruled under the state of emergency, which is not tenable in the eyes of Turkey's allies in the democratic world and which also accelerates the deterioration of the once-flourishing Turkish economy.

The EU should understand the series of Turkish tragedies. Ankara's decisions are in direct response to the security threats at its southern border and the decades-long effort by Gülenists to infiltrate the state apparatus. The EU can help normalize the situation by revitalizing cooperation through a new positive agenda with Ankara. Turkey needs a clear definition of the relationship moving forward.

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#### **About the Author**

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