



EUROPEAN PARLIAMENT

2009 - 2014

Session document

A7-0238/2010

17.8.2010

REPORT

on trade and economic relations with Turkey
(2009/2200(INI))

Committee on International Trade

Rapporteur: Metin Kazak

RR\441306EN.doc

PE441.306v04-00

EN

United in diversity

EN

CONTENTS

	Page
MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION	3
EXPLANATORY STATEMENT.....	8
RESULT OF FINAL VOTE IN COMMITTEE	11

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on trade and economic relations with Turkey (2009/2200(INI))

The European Parliament,

- having regard to the Commission’s Turkey 2009 Progress Report (SEC(2009)1334),
 - having regard to the Agreement of 12 September 1963 establishing an Association between the European Economic Community and Turkey,
 - having regard to the Additional Protocol to that Agreement of 23 November 1970, and in particular Article 41(1) thereof (‘Standstill Clause’),
 - having regard to Decision No 1/80 of the EC-Turkey Association Council of 19 September 1980,
 - having regard to Decision No 1/95 of the EC-Turkey Association Council of 22 December 1995 on implementing the final phase of the Customs Union (96/142/EC),
 - having regard to the rulings of the European Court of Justice concerning the four fundamental movements, in particular in the Demirel, Sevince, Savas, Abatay-Sahin, Tum-Dari and Soysal cases,
 - having regard to the latest WTO Trade Review on Turkey, published in 2007,
 - having regard to its previous resolutions on Turkey,
 - having regard to the Policy Department’s analysis of the 2009 annual programme for Turkey under the Pre-accession Instrument (IPA) in the context of the 2009 enlargement package,
 - having regard to the Council Conclusions of 11 December 2006,
 - having regard to Rule 48 of its Rules of Procedure,
 - having regard to the report of the Committee on International Trade (A7-0238/2010),
- A. whereas the Customs Union with Turkey remains one of the most advanced and close commercial relationships that the EU has with any third country,
- B. whereas Turkey is the seventeenth largest economy in the world, according to World Bank statistics, and the sixth largest economy in Europe, with industrial goods amounting to over 90% of its exports; whereas in 2008 Turkey ranked as the world’s twentieth largest receiver of FDI and its FDI inflow amounted to 18 billion,
- C. whereas Turkey has become the EU’s seventh largest trade partner and the EU is Turkey’s largest trading partner,

- D. whereas in 2009 Turkey exported EUR 33.6 billion's worth of products to the EU and imported EUR 40.4 billion's worth of products from the EU,
- E. whereas average unemployment in Turkey reached an alarming 13% in 2009, youth unemployment stands at 24% and the latest Poverty Survey (2007) indicates that 18.56% of Turkey's population lives below the poverty line,
1. Welcomes the fact that the EU's trade relations with Turkey are at an advanced level; calls on Turkey to simplify procedures and bureaucracy and remove remaining tariff and non-tariff barriers; stresses the importance of constructive dialogue between the two parties in order to further improve these relations;
 2. Recalls that, according to the combined reading of Article 205 of the Treaty on the Functioning of the European Union and Article 21 of the EU Treaty, the Union's external action, including the common commercial policy, seeks to promote '(...) democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law' as well as to build partnership with third countries which share the principles referred to above;
 3. Calls on the Commission to continue its engagement and dialogue with Turkey on trade, particularly within the Joint Consultative Committee and the EC-Turkey Customs Union Joint Committee; encourages both sides to use these platforms more effectively, by rapidly resolving outstanding issues such as Turkey's ban on imports of beef meat, live bovine animals and derivative products and some EU Member States' road quotas applied to vehicles registered in Turkey;
 4. Notes Turkey's long-term growth potential and demographic specificities; encourages both the EU and Turkey to pay due attention to their interlinked economies, to maintain open trade and investment regimes and their ability to withstand domestic protectionist pressures in line with their commitments in various international platforms, and to use trade defence instruments in compliance with the WTO;
 5. Is concerned about the low level of participation of women in the labour market and their employment in the informal sector; encourages Turkey to put women's employment at the core of its economic, social and employment policies;
 6. Stresses the severity of the youth employment situation and the lack of specific actions to tackle the problem; refers to a recent ILO study which describes employment creation in general and women's and youth employment in particular as the key labour-market challenge for Turkey's development; calls, therefore, for an employment strategy which targets youth employment in general and the situation of young women in particular;
 7. Welcomes the establishment of the Customs Union (CU) in 1996, which has provided increased market access and allowed trade volumes between the EU and Turkey to reach EUR 100 billion per annum at their peak in 2008;
 8. Highlights the fact that the CU covers manufactured goods and processed agricultural products; looks forward to the inclusion of agricultural products in the CU as soon as possible; considers that the CU can be deepened to include coverage of other areas such

as services and public procurement;

9. Finds it regrettable that, according to the latest WTO review, the average tariff rate on agricultural products applied by Turkey is relatively high and in some cases extremely high (on corn, for example the duty applied is 130%); calls on the Turkish Government to substantially reduce these barriers;
10. Welcomes the alignment of the Turkish Customs Code with that of the EU and, in particular, the adoption of the Generalised System of Preferences (GSP); calls for greater alignment of Turkish legislation with the Community acquis as regards free trade, combating counterfeiting, and post-clearance checks and authorisations for duty-free shops;
11. Deplores the fact that, for the fifth consecutive year, Turkey has neither fully implemented the Additional Protocol to the Association Agreement nor removed all the obstacles to the free movement of goods; calls on Turkey to implement fully and without delay all its obligations deriving from this Protocol in a non-discriminatory way that will contribute to the further development of its trade relations with all EU Member States, and recalls that failure to do so may further seriously affect the negotiating process;
12. Reiterates that Turkey's full compliance with its undertakings under the customs union is essential; considers also that there is a need for further harmonisation with the Community acquis in certain sectors such as free trade zones and customs duty relief;
13. Stresses that the CU would greatly benefit from a review of the Dispute Settlement Mechanism, which would allow a swift and fair resolution of pending issues;
14. Calls for the removal of all unnecessary barriers to trade between the EU and Turkey, including technical ones such as non-recognition of certification, duplicative testing, duplicative inspections, mandatory technical regulations and standards, in compliance with the WTO; also calls on the Commission to share good practice in this area;
15. Acknowledges the difficulties faced by Turkey in concluding Free Trade Agreements (FTAs) with third countries, which has negative effects on the Turkish economy by enabling unilateral preferential access to the Turkish market for the EU's FTA partners with which Turkey has not yet been able to sign FTAs; calls on the Commission and the Council to ensure that Turkey is included in the impact assessment studies of prospective FTAs between the EU and third countries and to further strengthen the transmission of information on the EU's position and the state of play of the FTA negotiations; encourages the Commission to take account, in the FTAs, of the CU between the EU and Turkey;
16. Calls on Turkey to remove the remaining import licences for goods which are in breach of the commitments under the Customs Union and to agree to update Decision 2/97 of the EC-Turkey Association Council on the removal of technical barriers to trade;
17. Welcomes the legislation on standardisation in foreign trade adopted by the Turkish Government in 2009; notes, however, the introduction of conformity assessment procedures and physical customs checks; encourages both the EU and Turkey to fully apply the principles of mutual recognition;

18. Calls on Turkey to withdraw the burdensome import procedures and to align its duty-free quota system for processed agricultural products which do not comply with the Customs Union;
19. Welcomes the positive conclusions of the latest WTO review on Turkey; urges the Turkish Government, however, to take the necessary measures to fulfil the recommendations therein and to accelerate structural and legislative reforms;
20. Calls on Turkey to suspend the new requirements on Good Manufacturing Practices as they de facto ban imports of certain pharmaceutical products, as well as to participate in, and adhere to, international initiatives for harmonising Good Manufacturing Practices procedures and standards such as those of the WHO and the EU;
21. Notes Turkey's dynamic international trade strategy and its conclusion of 16 FTAs to date; encourages the EU and Turkey to work together to deepen trade relations with Central Asia;
22. Notes the fact that 88% of total FDI stock in Turkey comes from the EU; points out, however, that the share of FDI in Turkey's GDP is relatively small;
23. Notes the role of Turkey within regional platforms such as the Black Sea Economic Cooperation Organisation, the Black Sea Trade and Development Bank and the South East European Cooperation Process; encourages Turkey to take a leading role in promoting open and fair trade with due regard for social, economic and environmental wellbeing;
24. Notes Turkey's role in the Mediterranean region as a founding partner of the Barcelona Process and calls on Turkey to fully respect all the states partners of the Process; emphasises that there is huge scope to improve Turkey's trade in the Mediterranean basin;
25. Notes that while the EU remains Turkey's largest trade partner, Russia, China, the United States and Iran were amongst Turkey's main trade partners as of 2009; underlines that the trade volume between Turkey and the EU decreased during 2009, while an increasing trend has been noted in the first two quarters of 2010; notes also that Turkey is diversifying its trade partners; asks the Commission to conduct a study on the causes, which may involve the financial crisis, and economic impact of the relative decline of EU's share in Turkey's foreign trade volume;
26. Notes that Turkey and the EU face similar challenges in energy supply; underlines the importance of the Nabucco project for the security of energy supply in the EU and therefore calls on Turkey to take the initiative to swiftly implement the Nabucco Intergovernmental Agreement; stresses the need to define a common external energy strategy and the opening of the energy chapter that would further increase cooperation in the field of energy; urges Turkey to ratify the Energy Charter Treaty Trade Amendment and encourages Turkey to invest in the enormous potential of its renewable energy sources;
27. Notes that the recurrent visa problems under GATS 4 substantially limit the movement of Turkish businessmen and lorry drivers into the EU; underlines the successive ECJ rulings

on this matter and calls on the Commission to ensure that Member States respect these rulings; calls on the Commission and the Council to re-examine visa procedures with a view to eliminating obstacles to trade;

28. Finds it regrettable that the legislation ensuring full respect for trade union rights in line with EU standards and the relevant International Labour Organisation conventions has not yet been completed, particularly with regard to the rights of trade union organisation and collective bargaining and the right to strike;
29. Urges Turkey to avoid discriminatory practices against foreign enterprises by giving a 15% price advantage to Turkish bidders in the field of public procurement; invites Turkey to become a party to the Agreement on Government Procurement (GPA) within the WTO;
30. Stresses that counterfeit products, including pharmaceuticals and cosmetics, represent a problem in EU-Turkey trade relations and reduce the attractiveness of Turkey for FDI; encourages Turkey to enforce the new IPR legislation effectively in order to foster trade relations with the EU; underlines the need to strike a better balance between international requirements in intellectual property law and domestic economic development needs when developing an intellectual property regime;
31. Notes that SMEs make up 99% of Turkish enterprises and provide 70% of employment opportunities in Turkey; encourages Turkey to improve SMEs' access to finance; welcomes Turkey's Ninth Development Plan, which focuses on the R&D spending that is crucial to increasing SME competitiveness;
32. Instructs its President to forward this resolution to the Council, the Commission and the Government of Turkey.

EXPLANATORY STATEMENT

Introduction

Turkey's role as a world trade actor has grown in recent years, particularly as the country is capitalizing more on its unique geopolitical position. It acts as a link amongst the Mediterranean, the Middle East, the Asian, the Black Sea and the Caucasus regions. The single most important trade relation that underpinned Turkey's growth on the world trade scene, however, has been its privileged relation with the European Union (EU).

The Customs Union (CU)

The roots of the CU date back to 1963, when Turkey and the EEC entered into an association agreement that provided for the attainment of a custom union by 1996. This allowed for the deepening of economic relations with the establishment of CU - one of the only three, the EU has entered into and the only one with a candidate for accession. A considerable degree of market integration has been achieved since, especially concerning the free movement of goods. A particular recent noteworthy achievement towards integration has been the adoption of the new Turkish Customs Code and the adoption of the Generalized System of Preferences.

Products covered by the CU include all industrial products and processed agricultural goods. The success of the CU can be seen numerically: Turkey has become a key commercial partner of the EU, ranking 7th in the EU's top import markets and 5th in the export markets. With two-thirds of overall FDI coming from the EU, Turkey has become an investment base for European business with increasing integration into the EU's supply and production chain, often in high value added segments. In 2009 Turkey exported € 33, 6 billion worth of products to the EU and imported € 40,4 billion worth of products from the Union. Turkey has also become 15th largest economy in the world.

Although the CU was established in 1996 CU, it is not, as yet, complete. Taking into account the accession negotiations, the CU can be deepened with the coverage of agricultural products and areas such as services and public procurement and can be redesigned to remove the current deficiencies.

The Customs Union is evidence on its own merits for the success of EU-Turkey economic and trade integration. The Customs Union contributed to enhance this growth spiral by anchoring Turkey to the European market and production system. Economic integration and enhanced trade and investment with the EU owe a significant share of their success to the CU and to the launching of the accession negotiations in 2005. However, the CU seems to be suffering from recurrent issues concerning remaining technical barriers to trade and excessive use of safeguard measures. Conformity assessment processes, and the use of technical regulations and standards as a means to protect domestic markets still remain in place.

The visa problems for Turkish traders entering the EU, as embodied by successive ECJ rulings, and the lack of parallelism in the negotiation and conclusion of Free Trade Agreements with third countries, and the lack of enforcement of intellectual property rights are other problems encountered in the framework of the Customs Union between the EU and Turkey. Taking into account the accession negotiations, deepening trade relations and market integration would certainly a way forward to making the CU wider and stronger.

The CU could greatly benefit from the establishment of an effective Dispute Settlement Mechanism. Any substantial reform to the CU appears, however, to be difficult to carry out as it is being hindered by the issue of Turkey's candidacy to the European Union.

Turkey and International Trade

Turkey has been a WTO member since 1995, although it is not party to the Government Procurement Agreement. The recent Trade Policy Review Mechanism has praised Turkey's reforms as they favoured growth, disinflation and the decline of public and external debt burdens. Yet, problems relating to the widening current account deficit, and barriers to imports (i.e. customs duties and internal taxes) remain which is much criticised by the TPR.

Turkey is also a founding partner of the Barcelona Process and a key player in the establishment of a Euro-Mediterranean Free Trade Area. In fact, to date, Turkey has the most complete network of South-South FTAs with Euromed partners. Despite the obvious role of Turkey in the Mediterranean region trade with Euromed countries remains rather low in absolute and relative terms. In fact, trade with Mediterranean partners only makes up 4% of Turkish imports and 7% of its exports.

Turkey is a founding member of the Black Sea Economic Cooperation, and has signed FTAs with the Former Yugoslavian Republic of Macedonia, Croatia, Bosnia-Herzegovina and Albania. Turkey is also a member of the South East European Co-operation Process.

The EU is the major trade partner of Turkey by far but with a decreasing share. Russia and China have been increasing their shares in Turkey's trade. Turkey's top non-EU trade partners are Russia, China, United Arab Emirates, the US and Iran.

Statistics show that Turkish exports to the EU rose by only 5% and that only 48% of Turkey's exports went to the EU in 2008, compared to 56% last year. On the other hand, Turkish imports from the EU rose by 9% while imports from other countries rose by 25% during the same period.

Turkey faces stiff competition in its traditional key industries, such as textiles. The biggest competition comes from the developing economies such as India and China. Trade relations with China are increasing, particularly in the energy sector and the two countries have agreed on a number of economic measures and bilateral cooperation agreements covering trade, diplomacy, tourism, energy, culture and the media. Turkey recorded a trade deficit of nearly 16 billion dollars with China in 2008. Further cooperation and concerted action between the EU and Turkey might help in finding common solutions to the current difficulties in both trade and investments.

As regards Foreign Direct Investments, the EU continues to be the biggest source of FDI inflows in Turkey. In 2008 75% of FDI inflows in Turkey came from EU countries, while in the first five months of 2009 the figure increased to 88%. Yet, the role of FDI in Turkish economy is low and there is a great scope for improvement in this area, mostly by reaping the benefits of the global economic recovery. The issue of counterfeit products and lack of IPR enforcement is directly linked with FDI inflows, as it has a significant impact on Turkey's attractiveness to FDI.

The resilience of the Turkish banking system to the financial crisis has been noteworthy. This

is largely the result of a series of reforms following the 2001 crisis in Turkey. Evidence shows that the Turkish economy is bouncing back from the crisis. The Turkish Statistics Institute reported a GDP rise of 6% in the last three months of 2009, which is a remarkable turnaround from the 14.5% drop registered in the first quarter of the year.

Conclusion

Given the important trade volume and rooted relations between Turkey and the EU, their trade and economic relations should be paid due attention. In this context, necessary steps should be taken to further improve these relations.

To date, several technical issues remain to be resolved and immediate actions should be taken in this respect.

Customs Union has to be rendered more functional; pending issues need immediately attention and Turkey and EU should further align their trade policies, especially in the context of FTAs and regional trade. These actions are likely to lead to a win-win situation which will be beneficial to both economies.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	14.7.2010
Result of final vote	+: 25 -: 2 0: 2
Members present for the final vote	William (The Earl of) Dartmouth, Laima Liucija Andrikiienė, Kader Arif, Christofer Fjellner, Joe Higgins, Yannick Jadot, Metin Kazak, Bernd Lange, Vital Moreira, Cristiana Muscardini, Godelieve Quisthoudt-Rowohl, Niccolò Rinaldi, Helmut Scholz, Peter Šťastný, Robert Sturdy, Gianluca Susta, Keith Taylor, Iuliu Winkler, Pablo Zalba Bidegain, Paweł Zalewski
Substitute(s) present for the final vote	Francesca Balzani, Catherine Bearder, George Sabin Cutaș, Béla Glattfelder, Salvatore Iacolino, Maria Eleni Koppa, Elisabeth Köstinger, Jörg Leichtfried, Georgios Papastamkos, Miloslav Ransdorf, Jarosław Leszek Wałęsa
Substitute(s) under Rule 187(2) present for the final vote	Franziska Keller, Kyriakos Mavronikolas, Georgios Papanikolaou, Giommaria Uggias