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TIME TO ENHANCE THE CUSTOMS UNION

Everyone seems to agree that the time has come to expand the Customs Union between Turkey and the European Union. A quarter of a century has gone by since it was launched at the start of 1996. At the time it was considered a step towards the full political and economic integration of Turkey into the EU. That is why it was modelled on the 'Zollverein', a 19th century customs union between German states. Turkey had – and still has – no objection to that. It has also been promised full EU membership, which in either case would supersede the customs union.

But despite the passage of time, the accession negotiations opened in 2005 never led to membership. Turkey is no further than where it was then. The basic reason for this is that the EU chose to admit a much later and smaller applicant for EU Accession, Greek Cyprus, and then allowing them to manoeuvre the entire EU into solidarity with it, making the EU a party to the dispute and creating an ever-widening split between Turkey and Europe.

History will judge whether the EU has served anyone's interests – and perhaps especially those of its own people – by preferring to back the nationalism of this tiny country against a strategically crucial industrialized nation of 80 million. The Greek Cypriots after all (aided by some other countries it is true) impose a de facto veto on Turkish accession. Personally I think that this short-sighted response has done harm even to the interests of Greek Cypriots. If Turkey had joined the EU, the divisions on the island would undoubtedly have waned, and perhaps even disappeared entirely. But that was not to be.

The EU gave repeated assurances to Turkey over the decades that it was eligible for membership but when it came

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to the point of honouring its promises, it failed, and used its subsequent dealings with the Greek Cypriots as an excuse. It was, I believe, a fateful error.

A large part of the disorder in the international system comes from cases where large states allow themselves to be driven by the nationalist extremists in small ones. The EU-Greek Cyprus relationship could be compared perhaps to the way in which US relations with the Middle East are bedevilled by the influence of Israel in Washington.

Rejection – or at least a block that amounts to rejection in practice – meant that the customs union of 1996 has never been taken forward, even though it has been a considerable success for both sides. It has made Turkey into the fifth largest trading partner of the Union and inside Turkey helped foster the surge in growth that has transformed our country over the last 25 years.

That is the good side of the story and it has been a profoundly beneficial influence, helping stabilize Turkey-EU relations. That is important because, by effectively rejecting Turkish accession and freezing negotiations for a mixture of reasons - many of them to do with Cyprus, others stemming from hostility towards Turkey in other countries, the EU has undermined the pro-European orientation of Turkey. Ankara since has been forced to look other, less European directions. The freezing of various chapters of the negotiations at the instance of Greek Cyprus, e.g. (just for example) the chapters on energy cooperation; justice, freedom and security; and the chapter on the judiciary and fundamental rights. It should be fairly obvious how blocking these areas has worsened the situation. It cuts across the interests of the people of the EU as well as of Turkey, but perhaps in Brussels they do not yet perceive this.

Let us be realistic. That blocks currently looks likely to continue indefinitely and certainly for as long as the EU leadership in Brussels and the European Council do not speak out against it. So the alternatives are either to see Turkey and the EU drift on in their present state, with new political rifts opening up between them, or to work together on the more limited aim of strengthening the trade and economic relationship between the two sides.

The idea that a revision and expansion of the customs union would provide some improvement is not new, and exists on both sides. One important issue is that Turkey has voice in making commercial policy and where third countries are concerned, it is treated as if it is not an EU member. This means that Turkish exports to other countries unfairly have an extra tariff slapped upon them, unless Turkey has an FTA with the concerned parties. In 2010, the EU decided to commission a report on this from the World Bank (apparently choosing an outside agency to do this in order to avoid it becoming entangled with issues inside the EU) and by 2014 the report and its recommendations were ready.

It's concluded that that expansion of the customs union would benefit both sides.

Some of its proposals include;

- There should be informal bodies for consultation within the framework of common commercial policy. These would include working groups that would allow Turkey to interact with the Trade Policy Committee. There would be 'parallel track' talks linked to main EU negotiations with third countries to enable the creation of supplementary free trade agreements integrating Turkey into new arrangements between such

countries and the EU. As such the World Bank underlined the importance of a strong “Turkey Clause” to encourage trading partners to start negotiations also with Turkey.

- Road transport permits, especially for transit, should be liberalized at least for those goods covered by the CU.
- Visa liberalisation, with at least the establishment of a specific business visa category for Turkish nationals traveling to the EU. “The costly visa process for businessmen and other professionals is a perceived barrier to trade,” wrote the World Bank.
- Setting up a proper Dispute Settlement Mechanism (DSM) to replace the unsatisfactory temporary one.
- Creating a ‘dialogue dividend’ to reduce the notification deficit.

But the two biggest opportunities would be to liberalize:

- Services between the EU and Turkey allowing Turkish firms to participate in the EU’s single market for services conditions close to those EU member states.
- Trade integration in basic agricultural goods. The World Bank thought that this could also bring big mutual gains, though it would have to be done carefully, respecting sensitivities on both sides.

Finally, there is also the question of procurement and competition, and what a recent writer on EU-Turkish relations describes as “transparency and fair competition provisions to enhance overall governance.”

In its report, the World Bank noted that there were piecemeal ways of carrying out these changes, but advised that they would be best done in a single swift package. The report’s authors wrote; “The urgency of several of the problems listed above, the potential gains from their resolution, and the dynamic changes in the global economy and trade environment put a premium on making progress fast.” Furthermore, the European Commission in its impact analysis proposed further integration in trade and possible enhancement of the customs union.

Four years on however, a package deal is still no closer and the political relationship looks even more ragged. The Commission proposal for a mandate to start the customs union negotiations were declined by the European Council on political grounds. Along the way however, thinking about what is needed has also taken place on the Turkish side and some additional ideas for change have emerged.

One new suggestion, put forward in 2017 by the Turkish think-tank, IKV (Economic Development Foundation) was to create mechanisms for trading on the internet for goods between Turkey and the EU. This could be done slowly on an item - by item - basis or form part of an overall package.

Prominent think-tanks like TEPAV and IKV also pointed to the need to relieve the practical obstructions suffered by business and transport to Europe. Delays on trucks and drivers hinder business. These too are practical measures that hurt business links and exporters on both sides. They are administrative questions without political overtones and as such they ought to have been addressed long ago.

But in the present political atmosphere that is probably going to be very difficult and would draw opposition from within those sectors of the EU permanently committed to opposing Turkey.

So perhaps the time has come for a pragmatic approach in which different problems are addressed one by one, without arousing the political opposition which unfortunately now seems to cloud Turkish-EU relations. As EU integration is based, first and foremost on economic integration, this will pave the way for further political cooperation and understanding. Therefore Turkey's economic integration should not be hindered solely for political reasons, creating a paradoxical situation.

How could this work? The first step would have to be for the EU Commission and the Turkish authorities to have a clear understanding of how this process would work and design some sort of agenda. They should identify which bits could be done right away and which might be handled later. This could be done on an unobtrusive practical basis, without unnecessary fanfare. The important thing would be for both sides to share a road map for cooperation and regard it as a non-political matter.

An approach of this kind would surely be welcome for businesses on both sides, eager to maximize trade and investment. It would be practical in that it would delay the most difficult issues till last, but by boosting the circulation of goods, and perhaps even some services, it would encourage a sense of common interest and interdependency.

Is this route possible? We cannot know until we have tried it. But in the present climate, it is going to be very difficult to progress with a comprehensive package deal which would incur opposition, and perhaps outright vetoes, on several fronts. However let's not forget that as several specialist studies point out, further integration in the context of customs union will be for mutual benefit. After all, glass is half full.