

IKV BRIEF

EXPECTATIONS VS. REALITIES: IMPLICATIONS OF GERMANY'S EU PRESIDENCY FOR THE MODERNISATION OF TURKEY- EU CUSTOMS UNION

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Turkey-EU Customs Union (CU), that has been in force for almost 25 years, is undoubtedly one of the cornerstones of bilateral commercial relations. It has been implemented with the hope that Turkey's EU membership would occur in a short time period. Although this has unfortunately not been the case, it is a crystal-clear truth that Turkey-EU CU has brought a lot of benefits not only to Turkey but also to the EU. Bilateral trade has risen tremendously, Turkey has become integrated to the EU's supply chains, a lot of sectors including automotive have flourished a lot. Moreover, Turkey attracted a high amount of European investment consisting of worldwide known brands and achieved compliance with the relevant EU legislation and regulations.

However, some developments that have occurred since Turkey-EU CU's entry into force drew attention to the fact that this special form of trade relation between Turkey and the EU needs to be updated. Among these developments, increasing recognition of design faults and inadequacies of Turkey-EU CU have been on the first rank. Moreover, the unprecedented speed of global trade especially since the beginning of the millennium has unveiled the limited scope of the CU that cannot respond to the requirements of the new era. Due to these developments, there has been a rising awareness that the CU should be updated to find solutions for its faults and to make it more suitable with today's world. Its modernisation has been on table since the beginning of the 2010's although it was interrupted for a number of times due to political reasons. At the same time, Germany's EU Council Presidency that started on 1 July 2020 had been much awaited due to the belief that the EU's locomotive country would pave the way for the launch of the negotiations for the modernisation of Turkey-EU CU. On the other hand, Germany's EU Presidency has coincided with tensions in Turkey-EU relations stemming from Turkey's hydrocarbon exploration activities in the Eastern Mediterranean.

The positive agenda presented during the EU Council on 1-2 October includes promising steps for *inter alia* the modernisation of the CU. Although this gave hope to those waiting for the update of the CU for a long time, relations strained again as a result of Ankara's resend of Oruc Reis research vessel until 29 November ahead of its return to Antalya port on 30 November less than two weeks before the last EU Council of 2020. Therefore, while the EU is waited for keeping its promises on the one hand, the summit that will take place on 10-11 December may witness a decision to impose sanctions on Turkey due to its hydrocarbon exploration. All in all, whereas German Presidency has been relied upon for the modernisation of the CU in advance, its realities are and might be more different than expectations.

1. Same Old Story: Turkey-EU Customs Union

1.1. Its Features

Since 1 January 1996, Turkey and the EU have implemented the CU which has been one of the most important dynamics shaping not only the bilateral trade between parties but also regulations, standards and production techniques in Turkey among others. In

addition to the one with Turkey, the EU has two more CUs with Andorra and San Marino.¹ Apart from Turkey-EU CU, there are two other preferential agreements between Turkey and the EU; one for coal and steel products and the other for agricultural and fisheries products.² Together with Turkey-EU CU, these two preferential agreements constitute Bilateral Preferential Trade Framework (BPTF).³

Following Turkey's application to the then European Economic Community for membership in 1959, an Association Agreement, known as Ankara Agreement, was signed in 1963. The last phase of the Association envisaged in the Agreement anticipated the building of a CU between the parties. In pursuit of Ankara Agreement, Additional Protocol was signed in 1970 and it delineated the time table for the elimination of tariffs and quantitative restrictions on the goods traded between Turkey and the EU.⁴ Additional Protocol which entered into force in 1973 envisaged a 22-year-long transition period at the end of which Turkey-EU CU was set up on 1 January 1996 by the EU-Turkey Association Council Decision (Decision No 1/95).⁵

Turkey-EU CU covers only industrial goods and industrial components of processed agricultural products and thereby excludes primary agricultural products, services and public procurement.⁶ On the other hand, before the CU entered into force, most of the Turkish industrial goods began to be exported to the EU without custom duties since the 1970s.

Turkey-EU CU was the Union's first CU attempt with a country that is not an EU member. Thus, prior to becoming a member of the Union, Turkey had committed to adopt the EU's trade policy including common external tariffs for industrial goods and industrial component of agricultural goods along with tariffs vis-à-vis third countries. By entering a CU relation, both parties have accepted to eliminate custom duties, quantitative restrictions and charges with equivalent effect in the course of bilateral trade.⁷ In addition to accepting Common Custom Tariffs of Community while trading with the third countries, Turkey has also committed to align its intellectual property, competition and state aid rules with that of the Union. Moreover, in order to ensure institutional compatibility, Customs Union Joint Committee was set up to enable the smooth and proper functioning of the CU.⁸ Furthermore; Turkey-EU CU has cancelled out the rules of origin which is a matter of FTAs.

¹ European Commission, Trade Helpdesk, The EU's Customs Union
<https://trade.ec.europa.eu/tradehelp/customs-unions> Accessed: August 2020

² Ibid.

³ European Commission, (2016), Study of the EU-Turkey Bilateral Preferential Trade Framework, Including the Customs Union, and an Assessment of Its Possible Enhancement, https://ec.europa.eu/smart-regulation/impact/ia_carried_out/docs/ia_2016/turkey_anx6_en.pdf Accessed: August 2020

⁴ Official Journal of the European Communities, Additional Protocol, [https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:21970A1123\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:21970A1123(01)&from=EN) Accessed: August 2020

⁵ https://www.ab.gov.tr/customs-union_46234_en.html Accessed: August 2020

⁶ Ibid.

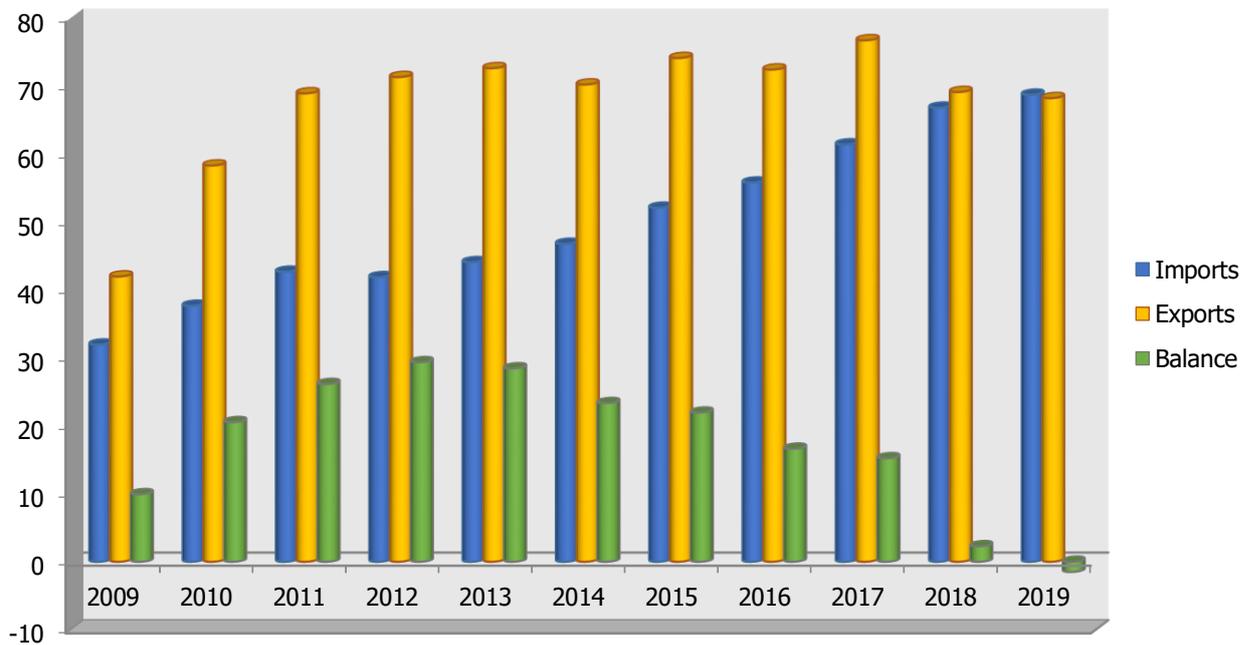
⁷ Dünya Bankası, (2014), Evaluation of the EU-Turkey Customs Union,
<https://www.worldbank.org/content/dam/Worldbank/document/eca/turkey/tr-eu-customs-union-eng.pdf>
Accessed: August 2020

⁸ Republic of Turkey Ministry of Foreign Affairs, (2011), Customs Union Joint Committee,
https://www.ab.gov.tr/279_en.html Accessed: August 2020

1.2. Its Benefits

Thanks to Turkey-EU CU, a number of improvements both in Turkish economy and Turkey-EU commercial relations have occurred. First of all, bilateral trade between Turkey and the EU has risen tremendously such that it is expressed to increase fourfold since 1996.⁹ According to the latest data available, Turkey is the EU's sixth partner in terms of both imports and exports whereas the EU ranks the first in Turkey's foreign trade. Accordingly, Turkey's share in European exports was 3.2 percent while imports from Turkey accounted for 3.6 percent of the goods imported from extra-EU countries.¹⁰

Graph 1: EU-Turkey trade in goods by years (billion euros)



Resource: Eurostat

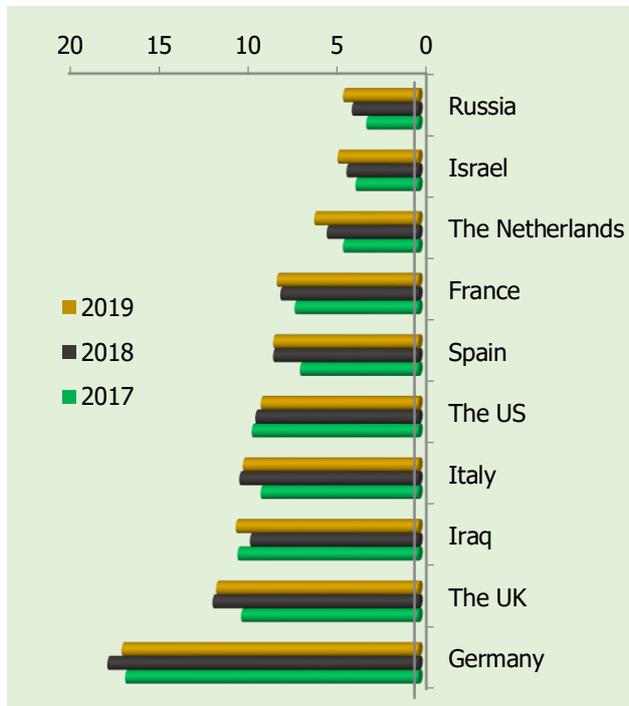
Examining the Member States with which Turkey realises the largest bilateral trade volume, Germany comes to the forefront in terms of export by a wide margin. Always being the most outstanding trade partner, Germany ranks the first in terms of the destination for Turkish exports costing around 17 billion dollars since 2014. Germany is followed by the UK, Italy, Spain, France and the Netherlands among the Member States regarding Turkey's largest export destinations in the EU, respectively. Similarly, analysing Turkey's first 10 import partners reveals that five of them are EU countries such that Germany comes again at the first place in congruence with exports. The value of Turkey's imports from Germany was around 20 billion dollars in the last three years and it is ensued by Italy, France, the UK and Spain, respectively. The dominance of the EU countries

⁹ TEPAV, (2017), A Modernized EU-Turkey Customs Union – Expert Interviews and Analysis, https://www.tepav.org.tr/upload/files/1491836076-0.A_Modernized_EU_Turkey_Customs_Union.pdf
Accessed: August 2020

¹⁰ European Commission, (2020), European Union, Trade in goods with Turkey, https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_turkey_en.pdf Accessed: August 2020

in Turkey's foreign trade may be easily associated with the Turkey-EU CU which has paved the way for the acceleration of trade between the parties.

Graph 2: First 10 export partners of Turkey (thousand dollars)



Graph 3: First 10 import partners of Turkey (thousand dollars)



Resource: Turkish Statistical Institute

Second benefit of the CU for Turkey-EU trade relations is the rise in foreign direct investments (FDI) coming to Turkey from the Member States throughout the years. This is stated to be the consequence of deeper integration of Turkish companies to European value chains in years thanks to the CU. Some of the well-known European brands including Mercedes-Benz, Bosch and Fiat have transferred part of their production facilities to Turkey thanks to Turkey-EU CU which has also been an anchor for Turkish producers to raise the quality and sophistication of their products.¹¹ Clothing and automotive are two sectors that are stated to benefit largely from the CU over the years.¹²

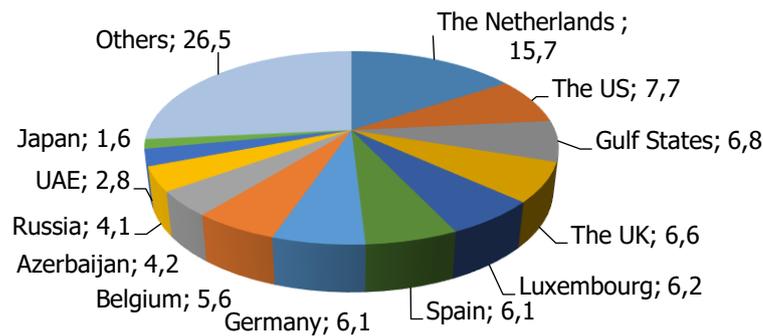
Analysing the FDIs between 2002 and 2018 demonstrates that the Netherlands was the largest investor in Turkey with a share of 15.7 percent. Shell, Unilever, ING Group and Philips are some of the most prominent Dutch companies having investments in Turkey.¹³ Furthermore, six of the first 10 foreign investors in Turkey were the EU countries; namely the Netherlands, the UK, Luxembourg, Spain, Germany and Belgium. In sum, three quarters of the FDIs coming to Turkey are originated from the EU.

¹¹ Ibid.

¹² Ibid.

¹³ Storia, <https://storia.me/tr/turkiye-de-faaliyet-gosteren-7-dev-hollanda-firmani-1r77sh/s> Accessed: August 2020

Graph 4: Top investors in Turkey between 2002 and 2018 (%)



Resource: Central Bank of Republic of Turkey

Third benefit of Turkey-EU CU has resulted from the requirement to make Turkey's trade policy aligned with that of the EU, which has brought Turkey's compliance with the EU *acquis* on the corresponding areas. This requirement is expressed to boost Turkey's productivity over the years as the country needs to comply with the European standards. Likewise, the requirement to align with the relevant EU *acquis* has led to improvements in technical regulations, customs reforms and trade facilitation, such as the establishment of Turkish Standards Institute and Competition Authority.

Last but not least, the profile of Turkey's exports to and imports from the EU changed substantially within years thanks to Turkey-EU CU. In addition to more than fourfold rise in trade volume between Turkey and the EU, the content of the traded good between CU partners has altered as years passed. Within this context, it is beneficial to state that Turkey-EU CU has increased the quality and sophistication of Turkish exports to the Union. Thanks to Turkey's integration to the EU's supply chains, the country has begun to export medium technology products more and more instead of low technology products. According to the study of the World Bank, while Turkey's medium technology exports to the EU consisting automobiles, textiles, iron and steel have also risen tremendously, it has unfortunately not been the case for high-tech goods such as R&D intensive products including pharmaceuticals and computers.¹⁴ Furthermore, Turkey's imports of machinery and capital goods from the EU has gone up and this is expressed to boost Turkey's competitiveness.

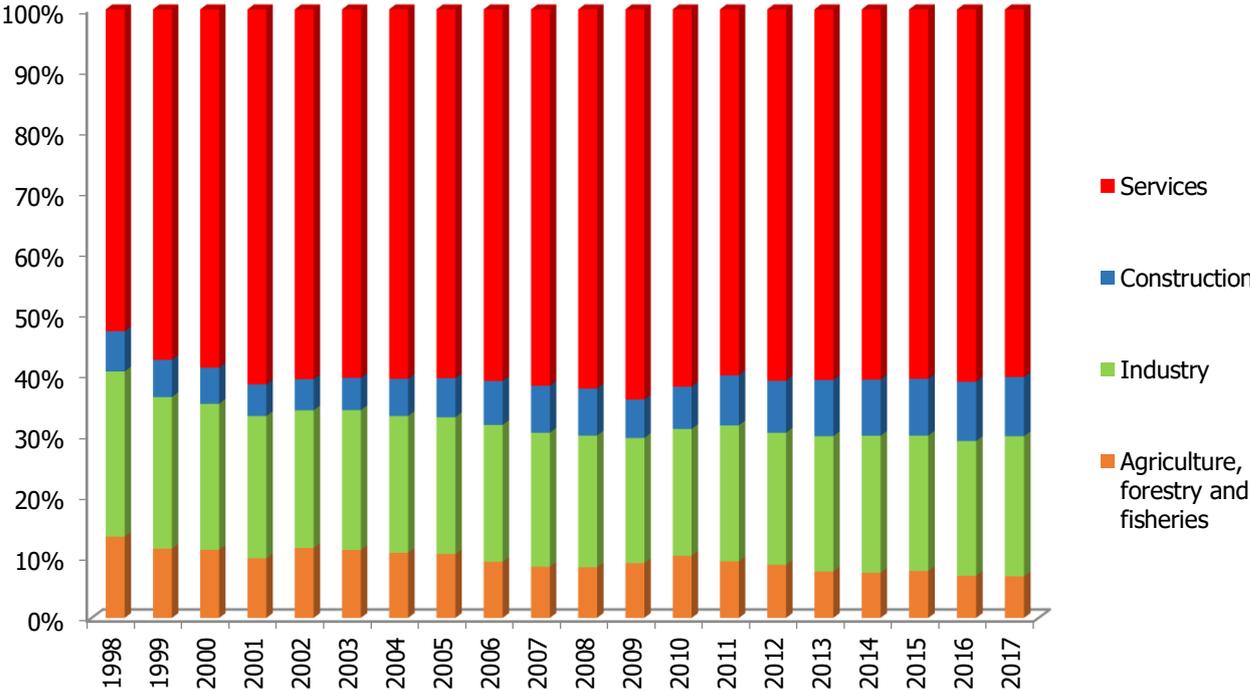
1.3. Its Problems

Despite of all benefits Turkey-EU CU has brought with it over the years, some of its shortcomings have become visible as time passed. The arise of the shortcomings coincided with the acceleration in international trade especially in the wake of the millennium due to the prevalence of global supply chains and transition of Turkish economy from predominantly agricultural to a more service based structure. Related to the increasing momentum of international trade, it should be noted that there has been a general trend all over the world entailing higher volume of trade in goods, services and investments along with more liberalisation in public procurement markets. In spite of

¹⁴ *ibid.*

such a rocketing in global trade, the scope of Turkey-EU CU remains limited only to the industrial goods and processed agricultural products. Hence, the CU excludes one of the most important sectors of both Turkish and European economy, services, and a higher share of agricultural goods. In order to pinpoint, the share of services sector in Turkey's GDP has shown a constant rise during the last two decades, such that while it accounted for 52.7 percent of the whole economy two years after the CU's entry into force, 1998, it reached to 60.2 percent in 2017.¹⁵

Graph 5: Share of Turkey's economic sectors in its GDP (%)



Resource: Turkish Statistical Institute

Similarly, a small portion of agricultural products is covered by Turkey-EU CU although they have a considerably high share in bilateral trade such that 6 percent and 5 percent of the EU's imports and exports of agricultural products were realised with Turkey, respectively, in 2019.¹⁶ Moreover, Turkish economy started to become more and more integrated to the global economy every year with the help of both expansion in global markets and the appetite of European firms to invest in Turkey thanks to its cheap labour, improved production facilities and abundant young workforce. However, the limited scope of the CU constitutes an obstacle for both Turkey and the EU to get most of the advantages bilateral trade would present.¹⁷

¹⁵ TheGlobalEconomy.com, https://www.theglobaleconomy.com/Turkey/Share_of_services/#:~:text=The%20latest%20value%20from%202019%20is%2055.91%20percent.&text=The%20importance%20of%20services%20in,health%20care%2C%20and%20real%20estate. Accessed: August 2020

¹⁶ European Commission, (2019), European Union, Trade in goods with Turkey, https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_turkey_en.pdf Accessed: August 2020

¹⁷ *ibid.*



Another substantial shortage that Turkey-EU CU has is the asymmetric power the parties have. Due to unsatisfactory Doha Round of the WTO, the EU speeded up negotiating bilateral trade agreements with a number of partners around the globe. In spite of having a CU with the EU, Turkey is not able to express its opinion since it does not take part in negotiations. Likewise, as a requirement of the CU, Turkey has to conclude parallel FTAs with the countries that the EU has already made trade agreements. This obligation results sometimes in problems since it is not always that easy to conclude an FTA quickly. This arises from either the other country's unwillingness to start negotiations for an FTA with Turkey or delays due to the prolongation of negotiations.

In any case, this situation causes considerable delays and time gaps between the signing of an FTA by the EU with a third country and the conclusion of a similar agreement by Turkey with the same third country. As a result, whereas the third country concerned can have duty-free access to the Turkish market via the EU, Turkish producers cannot enjoy the same privileged access to the market of the third country in question. Therefore, trade between Turkey and the other country becomes deflected. This asymmetry of the CU and corresponding problems are encountered by Turkey more and more as the number of FTAs the EU concludes increases.

Another problematic area of Turkey-EU CU is about the EU's visa application for Turkish citizens. Although industrial goods and processed agricultural goods can enjoy free movement between Turkey and the EU, drivers of trucks that carry those goods need to get visa to enter the EU countries. This obligation brings a lot of burden in terms of time and financial costs. Likewise, Turkish citizens that have business relations with the EU in a way have to get visas even though they need to go to an EU country for business purposes. In a similar vein, the Member States that are not final destination for the goods so are only passed through issue transit permits. However, these permits sometimes deplete in the middle of the year, so the transport of goods to final destinations is confronted with the threat of being interrupted.

What is more, the design faults and the limitations of Turkey-EU CU are not restricted to the ones mentioned above. The Dispute Settlement Mechanism of CU that has been set up to solve the disagreements related to the areas covered by CU is stated not to work properly for a long time. As known, the problems arisen from the functioning of Turkey-EU CU are first discussed at CU Joint Committee (CUJC), then at Association Committee and finally at the Association Council.¹⁸ However, the CUJC did not gather for a long time due to political tensions between Turkey and the EU. Although the CUJC is foreseen to come together every month, it has not been the case in reality such that its last meeting took place in July 2019, more than a year ago.¹⁹ The modernisation of Turkey-EU CU has been envisaged to cease this implementation of Dispute Settlement Mechanism dated back to Ankara Agreement. The EU has adopted a different approach regarding the resolutions of disputes in its FTAs concluded since the 1980s. This approach avoids political mechanisms for settlement of disputes and brought the provision of compulsory passing of disputes to jurisdiction or arbitration. Therefore, the prospective modernised

¹⁸ İngiltere Büyükelçiliği & TÜSİAD, (2015), Gümrük Birliği'nde Yeni Dönem ve İş Dünyası, https://istanbul-ekonomi.com/Content/Media/dosyalar/Gumruk-Birliginde-Yeni-Donem-ve-Is-Dunyasi_1.pdf Accessed: October 2020

¹⁹ Republic of Turkey Ministry of Foreign Affairs Directorate for EU Affairs, (2019), Customs Union Joint Committee, https://www.ab.gov.tr/46237_en.html Accessed: November 2020

Turkey-EU CU ought to have similar implementations related to Dispute Settlement Mechanism not to make the resolutions of controversies victim of political tensions.

2. The Way to the Modernisation of Turkey-EU CU

Based upon Turkey-EU CU's design faults and inadequacies that have become more visible in time, the European Commission asked the World Bank to prepare a report evaluating the dynamics in addition to possible scenarios of renewing CU and the corresponding results of each scenario. The report entitled "Evaluation of the EU-Turkey Customs Union" was published in 2014 by the World Bank. It found that replacing Turkey-EU CU with an FTA would lower Turkey's exports to the EU by 3 percent due to the rules of origin. The evaluation figured also out that if the EU's partners of FTAs concluded parallel FTAs with Turkey, Turkey's real income would rise such that concluding FTA's with Mexico, South Africa and Colombia is calculated to increase Turkey's income by 111 million dollars, 115 million dollars and 41 million dollars, respectively.²⁰

At this point, the World Bank's suggestion was to strengthen "Turkey clause" which recommends the EU's FTA partners to start negotiating parallel FTAs with Turkey. Turkey clause that was used during the Union's negotiations with Algeria is not a binding statement, so third countries do not have to conclude FTAs with Turkey. Therefore, negotiating an FTA with Turkey within a certain amount of time might be advised to third countries and during that time interval Turkish goods can be regarded as European goods and imported to third countries without any tariffs until the FTA is concluded.

2.1. Findings of the World Bank on Agriculture and Services

Regarding the primary agriculture which is regulated by an FTA between Turkey and the EU, it should be noted that Turkey is one of the countries whose tariffs are very high in terms of agricultural products.²¹ The evaluation of the World Bank regarding the modernisation of Turkey-EU CU has figured out that enhancing trade relations between the parties in a way to include primary agriculture is likely to increase the welfare of both the EU and Turkey. However, the study has found that such a deepening would influence Turkey's rural employment negatively. Among the four scenarios presented in the World Bank's evaluation, it was found that extension of the CU in a way to include trade in primary agriculture would lead to highest increase in welfare. Under this scenario, the Turkey's agricultural products that are calculated to have the largest increase in terms exports are vegetables, fruits and nuts, vegetable oils and fats, dairy, sugar and food products (Evaluation of Turkey-EU CU, p. 66).

In terms of trade in services which is another non-covered area in current Turkey-EU CU, the evaluation of the World Bank indicated that services account for the largest share of Turkish economy and this substantial characteristics stems from the weight of tourism in country's economy. As a matter of fact, examining the shares of sectors in Turkey's GDP reveals that the contribution of services to the Turkish GDP has been around 60 percent during the last two decades. It is followed by industry, agriculture, forestry and fisheries and construction, respectively (*for more information please have a look at Graph 5*).

²⁰ *ibid.*

²¹ *ibid.*

The evaluation of the World Bank requested by the European Commission figured out that trade in services between Turkey and the EU is under potential indicating that there is room for improvement related to bilateral trade volume. Germany comes first in terms of services trade with Turkey and it is ensued by the UK, France and Italy.²² While Turkey is ascertained to export lower than the desired amount of services to most of the Member States, the number of countries Turkey's export of services is more than the others is a few including Hungary. This situation is not so different for the EU that most of the Member States' services exports to Turkey are relatively low. All of these demonstrate the presence of the possibility of deepening Turkey-EU trade in services.

The World Bank has recommended that some form of liberalisation in services trade between Turkey and the EU would carry the potential to bring gains for both parties although the ultimate aim of Turkey is to pursue accession negotiations that would provide full integration of Turkey's services sector to that of the EU. But now for the time being, some degree of liberalisation in services trade was recommended through either making it part of Turkey-EU CU or concluding a separate FTA. However, it was stated in the evaluation of the World Bank that concluding an FTA is less likely to integrate the services market of Turkey with that of the EU since it does not necessitate the technical and regulatory harmonisation.

2.2. Impact Assessment of the European Commission

Following the evaluation of the World Bank in 2014, Turkey's then Minister of Economy Nihat Zeybekci came together with European Commissioner for Trade Cecilia Malmström in Brussels on 12 May 2015.²³ After the meeting where the modernisation of 20-year-old Turkey-EU CU and bilateral commercial relations had been discussed, Minister Zeybekci and Commissioner Malmström held a joint press conference. There, the will of both sides to update the CU in accordance with the economic and commercial realities of the 21st century along with finding solutions for the long lasting design faults of the CU was emphasised. Afterwards, during the meeting among European Heads of State or Government with Turkey on 29 November 2015, it was agreed upon to initiate the preparatory steps for the modernisation of the CU. In the wake of the completion of this preparatory phase, negotiations to upgrade the CU were considered to get started by the end of 2016.

In order to start the negotiations for the upgrade of Turkey-EU BPTF (CU + two preferential trade agreements; one for coal and steel products and the other for agricultural and fisheries products), the European Commission needed to get mandate from the Council, for which an extensive study to evaluate the possible scenarios and corresponding outputs related to each of them was conducted. The 99-page-long impact assessment was published by the European Commission on 21 December 2016.²⁴ Among

²² *ibid.*

²³ Delegation of the European Union to Turkey, (2015), EU and Turkey announce modernisation of Custom Union, <https://www.avrupa.info.tr/en/news/eu-and-turkey-announce-modernisation-custom-union-1832> Accessed: September 2020

²⁴ European Commission, (2016), Commission Staff Working Document Impact Assessment Accompanying the document Recommendation for a Council Decision authorising the opening of negotiations with Turkey on an Agreement on the extension of the scope of the bilateral preferential trade relationship and on the modernisation of the Customs Union, https://trade.ec.europa.eu/doclib/docs/2017/january/tradoc_155238.pdf Accessed: September 2020

the key findings of the impact assessment, it was figured out that the exports from the EU to Turkey and from Turkey to the EU would have been 10 percent and 7 percent less than the current situation if the BPTF had not entered into force.²⁵ Similar to the findings of the World Bank, the Commission has confirmed that there are unfulfilled trade potential between Turkey and the EU especially in the areas of agriculture, services and public procurement.

The European Commission put an emphasis upon some of the trade barriers imposed by both the EU and Turkey, such as surveillance and safeguard measures on imports. Furthermore, some deficiencies in the implementation of Turkey-EU CU in the areas like sanitary and phytosanitary measures, intellectual property rights and conformity assessments were also touched upon. The European Commission indicated that these kinds of non-tariff barriers have been exacerbated since 2015. In a similar vein, the issues with the design of the CU including the asymmetric power the parties have in decision-making processes, obligation to negotiate parallel FTAs with the EU’s partners and the limited scope of the Dispute Settlement Mechanism were largely underlined by the Commission in its impact assessment.

The impact assessment of the European Commission was carried out as a complementary study to the evaluation of the World Bank and it figured out that the CU in addition to two preferential agreements on coal and steel and primary agricultural products have brought benefits to not only Turkey but also the EU though the gains have been much higher for the former. Examining the impacts of the BPTF on Turkey and the EU demonstrates that except for the bilateral exports, Turkey has gained more from the BPTF in every area. To go deeper, while Turkey’s real GDP growth was 0.722 percent during the examined period, the EU’s real GDP growth materialised 0.008 percent. Similarly, whereas European household income increased by 1.6 billion euros, the rise was 7.5 billion euros for Turkey’s household income. The only exception, bilateral exports, increased by 8.7 billion euros for the benefit of the EU whereas Turkish exports to the Union rose by 6 billion euros. Lastly, while real growth in total exports was 0.029 percent and 1.28 percent for the EU and Turkey, respectively, real growth in total imports became 0.029 percent and 2.60 percent for the parties.

Table 1: Main impacts of the BPTF on Turkey and the EU

	EU	Turkey
Real GDP growth (%)	0.008	0.722
Household income (billion euros at 2016 prices)	1.6	7.5
Bilateral exports (billion euros at 2016 prices)	8.7	6
Real growth in total exports (%)	0.029	1.28
Real growth in total imports (%)	0.029	2.60

Resource: European Commission Impact Assessment

²⁵ ibid.



After having examined the problems stemming from both the design and functioning of the CU and investigated its benefits for both sides over the years, the European Commission clarified its objectives under two headings: (i) modernising the functioning of the CU and (ii) extending its scope. Within the scope of the modernisation of the CU and the BPTF more general, Turkey's difficulties in concluding parallel FTAs with the EU's partners in addition to some complexities the country confronts with during the compliance with the relevant EU legislation and the ineffectiveness of the Dispute Settlement Mechanism were tackled.

Under the heading of extending the scope of the BPTF, the European Commission brought forward the trade of agricultural and fisheries products along with liberalisation in services trade. Moreover, the European Commission brought the bilateral access of the parties to each other's public procurement markets and introduction of similar rules in Turkey in the areas such as sustainable development, environmental standards, child labour, intellectual property rights and provisions on SMEs which are of utmost importance especially in the EU's new generation trade agreements.

In light of the Commission's objectives presented above, three scenarios were discussed in the impact assessment. The first one (option A) is to have no change from the current situation, so everything stays the same. The second scenario (option B) foresees the upgrade of the CU and extension of it to the new areas through FTAs and the last scenario (option C) is concluding a Deep and Comprehensive Free Trade Area (DCFTA).

✚ **Option A:** Under the first option which leaves everything the same, deteriorations in both commercial relations between the EU and Turkey in addition to Turkey's alignment with the rules of the CU are expected to occur. To give some examples, the number of the new generation trade agreements the EU concludes is going to likely increase and this might bring trouble on Turkey as more products can enter the country duty free. Similarly, the already ineffective Dispute Settlement Mechanism will come to a deadlock more and more the CU has problems. All in all, the European Commission did not take Option A under review as an alternative for the modernisation of Turkey-EU CU.

✚ **Option B:** This option stipulates modernisation of the CU by trying to solve its design defaults and extending its scope with extra FTAs in the areas of services, primary agriculture and public procurement.

Regarding Turkey's obligation to follow the EU related to the conclusion of the parallel FTAs, Option B is likely to make the EU think of alternative ways to ensure the start of track negotiations with Turkey. Moreover, the Union would need to solve the problems arising from time span between its FTAs with third countries and FTAs between Turkey and its FTA partners. Concerning another design deficiency of the CU, Dispute Settlement Mechanism, Option B and Option C foresee to make it more effective by bringing sanctions in case of non-compliance, introducing an arbitration panel and a conciliation method to find fast settlements in the event of trade disputes.

Related to the extension of the CU to new areas; namely agriculture, fisheries, public procurement, services and establishment, Option B is stated to bring a high level of trade liberalisation and regulatory harmonisation. Lastly, this option is stated to bring new rules in areas aiming to promote sustainable development, human rights, decent work and environmental protection.

✚ **Option C:** This option foresees Deep and Comprehensive Free Trade Area (DCFTA) which is going to include an extension of the current BPTF similar to the areas in Option B such as services, establishment and public procurement in addition to further liberalisation in agriculture. The difference between Option B and Option C is that the latter envisages free trade relation for industrial goods instead of a CU. As comprehensive as option B, option C is stated to bring big changes to trade between Turkey and the EU such that it would present large benefits to both parties. On the other hand, the impact assessment of the Commission regarding the modernisation of the CU asserted that replacing Turkey-EU CU with a DCFTA would damage the acquisitions of the CU gained over the years since the CU was envisaged as the last phase of Turkey's accession to the EU, so that it brought a number of technical and regulatory harmonisation.

What is more, Option C is likely to bring additional costs for both Turkey and the EU since rules of origin will be applied so that compliance with the requirements of rules of origin has to be proved and this will create extra burden for economic agents in Turkey and the EU. Moreover, the goods of third countries sold to either Turkey or the EU can no longer freely enter the market of the CU partner which is probably going to make production more expensive by raising the cost of inputs.

All in all, the similarities and differences between Option B and Option C can be summarised as follows: Whereas Option B foresees the modernisation of CU for industrial goods by solving three inherent problems of the current CU, Option C establishes an FTA relationship for industrial goods instead of the CU which causes reestablishment of the rules of origin. The aforementioned three inherent problems of Turkey-EU CU are (i) asymmetry stemming from Turkey's non-inclusion in the EU's FTA's with third countries, (ii) undesired level of legislative alignment and (iii) ineffective dispute settlement mechanism.

While Option B is a candidate to provide solutions for these problems, Option C comes up with different recipes for each problem. To enucleate, Option C resolves the need for Turkey to conclude parallel FTA's with the EU's FTA partner so there will not be such an asymmetry mentioned in (i) anymore. On the other hand, Option C makes it impossible for Turkey to get benefits from the EU's FTAs with third countries. Similar to the first design deficiency of Turkey-EU CU, Option C eliminates Turkey's obligation to achieve legal alignment with the EU arising from the necessities of the CU. Since there is no CU anymore, Turkey does not have to accommodate its legislation with that of the EU. For the last design problem of Turkey-EU CU, that is ineffective dispute settlement mechanism, Option C is also likely to make it more effective similar to Option B.

For the second part of the concern, that is the extension of the BPTF to new areas, both options envisage liberalisation of trade in services, agriculture and fisheries in addition to having more access to each other's markets for public procurement. However, Option C has the risk to lower Turkey's determination acquired under Turkey-EU CU because it is likely to be perceived as a political set-back going from CU to an FTA and it is probable to discourage Turkey to follow the EU standards. Lastly, within the scope of the extension of CU to new areas, both options foresee the introduction of new rules related to the areas of trade and sustainable development, SME's, intellectual property rights, climate change and so on.

2.2.1. Impacts of the Options Presented by the European Commission

Under Option A where there is no policy change at all, it is stated by the Commission that waiting for any improvement in BPTF is unrealistic. It stems from some facts. First of all, as the number of the FTAs the EU concludes increases in the future, Turkey will continue to lag behind these agreements and this is probably going to deteriorate the problem of trade deflection. Under these circumstances, Turkey might increase the number of trade barriers and measures that are implemented. Secondly, Turkey's legislative and technical alignment with the EU is expected not to get improved when there is no policy change. Shortly, no improvement is stipulated under option A.

Investigating the impacts of Option B and Option C on main economic indicators of Turkey and the EU reveals that exports of the EU to Turkey are going to increase by 27.1 billion euros whereas Turkey's exports to the EU is expected to rise by 5 billion euros under Option B. It is calculated by the Commission that if the BPTF is modernised in accordance with Option B, it will result in 5.4 billion euros in terms of economic welfare in the EU while it is much higher for Turkey, namely 12.5 billion euros. Moreover, the real GDP increases are calculated as 1.44 percent and 0.01 percent for Turkey and the EU, respectively. Regarding the increase in real GDP as a consequence of Option B, it is found that Turkey's gain is higher than the EU such that while Turkey's real GDP increase is expected to be 1.44%, it is 0.01% for the EU. This stems from the fact that the importance of the EU in Turkey's trade is higher than Turkey's share in European economy.

Table 2: Impacts of option B and option C on main economic indicators of Turkey and the EU

	Option B		Option C	
	Turkey	EU	Turkey	EU
Export (billion euros)	5	27.1	-4.3	8
Economic welfare (billion euros)	12.5	5.4	-144	2
Real GDP (%)	1.44	0.01	0.26	-0.01

Resource: European Commission Impact Assessment

Proceeding with the repercussions of Option C for Turkey and the EU unveils that this option comes up with more modest impacts compared to Option B. That is to say, the EU's gain in terms of its export rise to Turkey is calculated as 8 billion euros whereas in Turkey's case it comes out as a decline in exports by 4.3 billion euros. This is because of the transition from the CU to FTA for industrial goods which is going to cause an increase in trade costs due to the introduction of rules of origin. Looking at the impacts of Option C as regard to economic welfare, it is seen that Turkey is likely to have a loss worth of 144 billion euros while the EU experiences a quite modest gain of 2 billion euros. Finally, effects of Option C in terms of real GDP are 0.26 percent increase and 0.01 percent decrease for Turkey and the EU, respectively. Although both parties will experience negative shocks due to trade costs stemming from rules of origin, DCFTA will bring some positive impacts because of lower non-tariff barriers in goods and services. For the EU, the impacts of rules of origin are calculated to suppress the gains of reduction in non-tariff barriers, so that real GDP will decrease by 0.01 percent.

In addition to the impacts of different policy options on the main indicators of Turkish and European economies, the Commission has conducted how the corresponding policy options might affect various sectors in Turkey and the EU. The other industrial sector, chemicals, energy, coal and steel are forecasted to have the largest export gains under Option B. In comparison with trade in goods, services trade is estimated to experience smaller amount of rise in bilateral exports. Out of 31 sectors that are analysed within the scope of the Commission's impact assessment; all of them is found to have increases in exports from the EU to Turkey. Looking at Turkish side, other industrial goods, textiles and footwear are forecasted to experience the biggest export increase to the EU. Among the 31 sectors under analysis, 29 of them are ascertained to experience growth in exports while the decreases in others are negligibly small.

Turning to Option C, the largest benefit for the EU is found to come out in agriculture - especially in cereals- thanks to Turkey's ambitious liberalisation. The EU's export of industrial goods to Turkey is also forecasted to increase because of the reductions in non-tariff barriers imposed by Turkey. Out of 31 sectors, 28 of them are expected to have export growth although the level of decreases in the remaining three sectors is close to zero. With regard to Turkey, export increases in agriculture and processed foods are expected as a result of Option C but they will not be large enough to counterbalance the sharp decline in the exports of industrial goods. All in all, although 28 of 31 sectors are calculated to have export rise, they will be suppressed by the export reduction in industrial goods, namely other industrial goods, textiles and footwear, chemicals and plastics.

Passing from the impacts of different policy options on the economic indicators of Turkey and the EU to environmental analysis, it is forecasted that Option B is probably give more harm to the environment than Option C. To clarify, while carbon emissions in Turkey and the EU may rise by 2.1 million metric tonnes and 303 thousand metric tonnes, respectively, the rest of the world would emit carbon by 1.7 million metric tonnes, so that global emissions are going to increase marginally. On the other hand, Option C is figured out to result in decrease in overall level of carbon emissions as the increase in Turkey's emissions by 1.2 million tons is offset by the reductions in the emissions of both the EU and the rest of the world. In contrast with the negative impact of Option B on carbon emissions, the impact assessment of the Commission found that Option B is likely to lead positive effects on the areas such as employment of the unskilled and youth alongside income inequality and poverty.

What is more, the options are evaluated regarding their repercussions on consumers in terms of the areas such as expenditure, prices, safety and quality. It is found that Option B which foresees the update of Turkey-EU CU and FTAs for additional areas would increase household expenditure, prices and quality of goods. Likewise, Option C is expected to result in similar but much lower results. Furthermore, increased competition due to higher liberalisation is going to potentially raise the standard of living by supplying more goods at lower prices although small farmers can be negatively affected by the rise of competition in agricultural products under Option B. Besides, despite Option B would have impacts close to zero regarding the right to work in the EU, it is expected to accelerate investments in Turkey which might in turn create new job opportunities. Lastly, both options are anticipated to bring improvements in fields like transparency, public procurement and Turkey's administrative capacity.

Taking everything into account, the impact assessment of the European Commission regarding the modernisation of Turkey-EU CU came to the conclusion that Option B may offer better solutions to the problems of BPTF and developments in the global trade. As compared to the Option B, Option C would mean for Turkey to move from its commitment to align with the corresponding legislation and the parts of the EU *acquis*. Nevertheless, Turkey could no longer benefit from the FTAs the EU has concluded with third countries, nor has it the incentive to conduct parallel negotiations with those countries to realise similar trade agreements. All in all, the European Commission's assessment has revealed that modernisation of Turkey-EU CU for industrial products and concluding FTAs for new areas is the best scenario among others.

3. Political Developments on the Way to the Modernisation of Turkey-EU CU

The way to the modernisation of CU in the wake of the publication of the Commission's impact assessment has come to several deadlocks for a number of times due to political tensions in Turkey-EU relations. However, the process once initiated has the potential to accelerate Turkey's alignment to the European values and norms such as the rule of law, freedom of expression and media along with other related reforms.²⁶ Though Prime Minister of the time, Tansu Çiller, asserted that Turkey would enter the EU in three years at most when Turkey-EU CU entered into force, it has been more than 24 years passing without the EU membership.²⁷ By the increase in the number of new generation FTAs that are negotiated or concluded by the EU such as the Transatlantic Trade and Investment Partnership (TTIP) with the US (although the negotiations were suspended by Trump), Comprehensive Economic and Trade Agreement (CETA) with Canada and Economic Partnership Agreement with Japan, the concerns of Turkish authorities related to staying out of these agreements and being obliged to open Turkish market to the goods of these countries duty free have risen.

Turkish politicians expressed their dissatisfaction with Turkey-EU CU during the years and allegorise that they would prefer an FTA instead of CU. However, one of the most important political developments on the way to the modernisation of Turkey-EU CU occurred on 12 May 2015 when Turkey's Minister of Economy of that time Nihat Zeybekci came together with European Commissioner for Trade Cecilia Malmström in Brussels.²⁸ Minister Zeybekci and his European counterpart Malmström stated their commitment to launch the negotiations for the modernisation of CU after getting mandate from the Council. It was exactly this meeting which has paved the way for the preparation of the impact assessment related to the modernisation of Turkey-EU CU that was published by European Commission in December 2016.

Then, refugee crisis erupted in 2015 when thousands of refugees tried to cross the Member States through the Aegean and the Mediterranean. In order to bring irregular migration under control, Turkey and the EU needed to collaborate closely and within this

²⁶ Nas, Ç., (2018), Turkey-EU Customs Union: Its Modernization and Potential for Turkey-EU Relations, Insight Turkey, <https://www.insightturkey.com/commentaries/turkey-eu-customs-union-its-modernization-and-potential-for-turkey-eu-relations>, Accessed: October 2020

²⁷ Friedrich Naumann Foundation, (2019), Turkey's Accession to the EU No Motivation on Both Sides, <https://turkey.fnst.org/content/turkeys-accession-eu> Accessed: October 2020

²⁸ Deutsche Welle, (2015), AB ile Gümrük Birliği genişletiliyor, <https://www.dw.com/tr/ab-ile-g%C3%BCmr%C3%BCK-birli%C4%9Fi-geni%C5%9Fletiliyor/a-18446726> Accessed: October 2020

scope the Joint Action Plan dated on 29 November 2015 and EU-Turkey Statement of 18 March 2016 were agreed upon. In addition to dealing with the irregular migration and aiming to improve the conditions of Syrian refugees, both documents touch upon some of the other outstanding issues in Turkey-EU relations including CU.

The documents include articles regarding the CU such that the 10th article of the Joint Action Plan envisages that subsequent to the preparatory works, the negotiations for the modernisation of the CU could be started by the end of 2016.²⁹ Similarly, the pleasure regarding the ongoing work for the modernisation of CU is remarked by EU-Turkey Statement of 18 March 2016.³⁰ At that time, the preparations of the European Commission for upgrading Turkey-EU CU which had been incorporated in most of the dynamics of the time was going on and finalised with the above-mentioned impact assessment published on 21 December 2016. A similar but shorter analysis was carried out by Turkey's Ministry of Economy, but instead of the whole analysis one-page press release was published.³¹ Turkey's study tackled four scenarios:

- ✚ Solving the structural problems of the CU, liberalisation of trade in agricultural products by 50 percent and mutual opening of services and public procurement markets,
- ✚ In addition to the first scenario, full liberalisation of trade in agricultural products,
- ✚ Transforming the CU into an FTA for the industrial goods,
- ✚ Transforming the CU into a deep and comprehensive FTA covering agriculture, services and public procurement.

The study carried out by Ministry of Economy concluded that the second scenario would likely to bring the best outcomes for Turkey such that the GDP was forecasted to rise by 1.9 percent. Moreover, Turkey's exports to the EU countries were calculated to increase by 24 percent concurrently with the rise of our exports to all over the world by 15 percent. Furthermore, the reduction in consumer prices by 1.5 percent and the increase in household consumption by 1.6 percent would affect consumer welfare in a positive way.

Although both impact assessments came to the conclusions that modernisation of CU and addition of new areas to its scope would benefit Turkey and the EU in addition to the Commission's recommendation for the launch of the negotiations, tensions between Turkey and some of the Member States along with Turkey's backsliding in most of the European values including the rule of law, freedom of expression and separation of powers made it difficult for the process to continue. The EU conditioned the launch of negotiations for the modernisation of CU on the removal of the state of emergency that had been declared in the wake of the 15 July failed coup attempt.

²⁹ European Council, (2015), Meeting of heads of state or government with Turkey - EU-Turkey statement, 29/11/2015, <https://www.consilium.europa.eu/en/press/press-releases/2015/11/29/eu-turkey-meeting-statement/> Accessed: October 2020

³⁰ European Council, (2016), EU-Turkey statement, 18 March 2016, <https://www.consilium.europa.eu/en/press/press-releases/2016/03/18/eu-turkey-statement/#:~:text=On%207%20March%202016%2C%20Turkey,migrants%20intercepted%20in%20Turkish%20waters.> Accessed: October 2020

³¹ Gümrük Birliği'nin Güncellenmesi Etki Analizi Çalışması Basın Bildirisi <https://ticaret.gov.tr/data/5b87239113b8761450e18ee6/Etki%20Analizi%20-%20Bas%C4%B1n%20Bildirisi.pdf> Accessed: October 2020

The launch of the negotiations for the modernisation of Turkey-EU CU was confronted with strict oppositions by some Member States such as Austria, Germany, the Netherlands, Denmark and France.³² While Austria uttered its disagreement with Turkey's EU membership in 2016, the UK used Turkey as a tool to promote leaving the EU during the referendum in 2016. Under these circumstances, it has not been logical to wait for these countries to give green light for the start of the negotiations to modernise CU. On the other hand, as opposition towards Turkey's membership rises among the Member States, support for another type of relation, mostly transactional, based on the most essential components of the bilateral tie has raised.

Within the scope of increasing opposition towards Turkey, German Chancellor Angela Merkel expressed that she was in favour of ending accession talks with Turkey in September 2017.³³ Afterwards, on 30 August, she sent a letter to then President of European Commission, Jean-Claude Juncker, declaring Germany's rejection of any step for the start of negotiations on the way to the modernisation of CU and mentioned that her country would veto if such a procedure started.³⁴ Germany's attitude stems extremely from the concerns related to the deterioration of freedom of expression in Turkey and obviously detention of journalists including German-Turkish journalist Deniz Yücel. In March 2018 with an almost six-month-delay, the coalition between Angela Merkel's Christian Democrat Party (CDU) and Social Democrats (SDP) led by Martin Schulz was formed and stipulated that neither new chapters would be opened nor the opened ones would be closed in Turkey's accession process along with no planned steps regarding either the visa liberalisation or the upgrade of Turkey-EU CU.³⁵

In a similar vein, at the General Affairs Council held on 26 June 2018, it was noted that Turkey's accession process is not going forward and no further work is envisaged regarding the modernisation of CU due to the country's deviation from the EU values.³⁶ The conclusion of the General Affairs Council was not unexpected in the sense that it was an inevitable result of the general opinion among the EU circles and the Member States. This conclusion was reiterated in the following meetings such as the one on 18 June 2019.³⁷ However, although Turkey has been brought under suspicion due to drifting away from the EU by breaching the Union's fundamental values, the adherence to CU's modernisation has found a place for itself at Turkey's official documents. To illustrate, Objective 5.3 of the Strategic Plan for 2019-2023 period prepared by Turkey's Ministry of Trade stated that "the effective operation of the current Customs Union between Turkey

³² European Parliament,(2018), Future EU-Turkey relations, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2018/628290/EPRS_BRI\(2018\)628290_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2018/628290/EPRS_BRI(2018)628290_EN.pdf) Accessed: October 2020

³³ Deutsche Welle, (2017), Can Merkel push the EU toward a new Turkey policy? <https://www.dw.com/en/can-merkel-push-the-eu-toward-a-new-turkey-policy/a-40360392> Accessed: October 2020

³⁴ Hürriyet Daily News, (2017), Merkel conveys Germany's veto on Customs Union update with Turkey to Juncker, <https://www.hurriyetdailynews.com/merkel-conveys-germanys-veto-on-customs-union-update-with-turkey-to-juncker-117422> Accessed: October 2020

³⁵ English bianet, (2018), <http://bianet.org/english/politics/193273-condition-of-coalition-in-germany-no-new-chapter-with-turkey> Accessed: October 2020

³⁶ Republic of Turkey Ministry of Foreign Affairs Directorate for EU Affairs, (2019), Turkey-European Union Relations, https://www.ab.gov.tr/turkey-eu-relations_4_en.html Accessed: October 2020

³⁷ European Council, (2019), Council conclusions on enlargement and stabilisation and association process, <https://www.consilium.europa.eu/en/press/press-releases/2019/06/18/council-conclusions-on-enlargement-and-stabilisation-and-association-process/> Accessed: October 2020

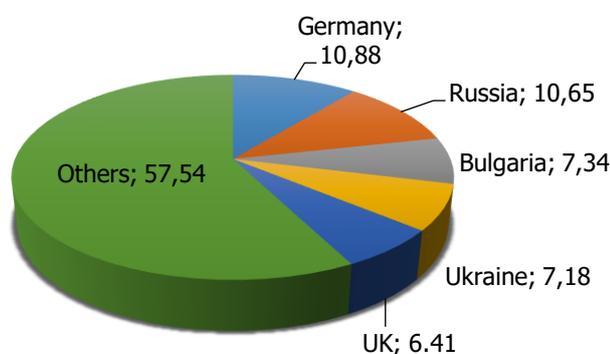
and the EU besides the preferential regime regarding the agricultural products will be ensured and the work for the modernisation of the Customs Union will be sustained.”³⁸

4. Germany’s EU Presidency and Repercussions for the Modernisation of CU

The rotating presidency of the EU Council that was assumed by Germany on 1 July 2020 had been much-awaited because proponents of revitalisation in Turkey-EU relations and modernisation of CU as part of it had hopes that German Presidency could change the direction of Turkey-EU relations. This stems from some features of deeply-rooted relations between Turkey and Germany.

First of all, a very high number of people with a Turkish background went to Germany either to work or to study and somehow settled there. According to the latest data of Federal Statistical Office of Germany, there are approximately 4 million people with Turkish background in Germany and this is the largest Turkish population in Western Europe.³⁹ Second feature of deeply-rooted relations between Turkey and Germany is that German tourists account generally for one of the largest foreign populations in terms of international arrivals to Turkey. According to the statistics released by Turkey’s Ministry of Culture and Tourism, in the first eight month of 2020, there has been a reduction of 76.6 percent in the number of incoming foreign tourists due to the coronavirus.⁴⁰ Out of 7,255,107 foreign tourists, Germans came at the first place with a share of 10.88 percent which was equal to 789,602 people. Germany is followed by Russia, Bulgaria, Ukraine and the UK, respectively.

Graph 6: First five countries from where foreign tourists come to Turkey in the first eight months of 2020 (%)



Resource: Ministry of Culture and Tourism

³⁸ Türkiye Cumhuriyeti Ticaret Bakanlığı 2019-2023 Stratejik Planı, https://ticaret.gov.tr/data/5b921d6513b87613646656ac/TICARET_BAKANLIGI_014_STRATEJIK_PLAN_WEB.pdf Accessed: October 2020

³⁹ Statistisches Bundesamt, Foreign population by sex and selected citizenships, <https://www.destatis.de/EN/Themes/Society-Environment/Population/Migration-Integration/Tables/foreigner-gender.html> Accessed: October 2020

⁴⁰ T.C. Kültür ve Turizm Bakanlığı, Turizm İstatistikleri, <https://yigm.ktb.gov.tr/TR-9851/turizm-istatistikleri.html> Accessed: October 2020

What is more, Germany is the most important trade and investment partner of Turkey not only in the EU but also around the globe. According to the recent data released by Turkish Statistical Institute, Germany became the largest export partner of Turkey with 9.7 trillion dollars in the first eight months of 2020.⁴¹ It was followed by the UK, the US, Iraq, Italy, France, Spain, the Netherlands and Israel. In terms of imports during the same time period, Germany came into prominence after China with 12.6 trillion dollars and it is succeeded by Russia, the US, Iraq, Italy, France and South Korea. Furthermore, the German FDI's directed to Turkey between 2002 and 2018 account for 6.1 percent of all investments came to the country.⁴² With the background of such a historic and deeply-rooted relation, Turkish authorities were very hopeful that the Germany's EU Council Presidency could be a chance for both Turkey and the EU to launch the negotiations for the modernisation of CU as it is also for the benefit of Germany.

While Turkey had been very optimistic for German Presidency well in advance, the world was tumbled by coronavirus spread from Chinese city of Wuhan starting from the end of 2019.⁴³ The coronavirus has taken the world by storm in a short time period, such that its epicentre changed from China to the EU and from there to the US very fast. The global pandemic that has made near 65 million people to get infected and 1.5 million people to lost their lives has also various impacts on a number of areas ranging from global trade and economy to tourism and education. The contraction in the volume of global trade and the underwhelming forecasts on short and medium run does not depict a bright future even if the coronavirus comes to an end. The World Economic Outlook released by the IMF in June 2019 made a forecast that trade in goods and services would shrink by 11.9 percent in 2020 similar to the reduction in expected global GDP by 4.9 percent this year.⁴⁴ In a similar vein, the WTO has made its forecast that while the global trade would decrease by 13 percent in the best scenario; it would plummet by more than 32 percent in the worst case scenario.⁴⁵

What is more, the disruptions in global value chains caused the production of most of the goods to be interrupted and thereby shortages in these areas. This was prominently obvious for the goods of which production has been heavily centred in China. This dependence reveals the need of diversification of production hubs and not to depend on one single place or country for the production. Therefore, companies have started to inquire other options and keep in mind alternative places for their production. At this point, Turkey has come to the forefront for especially European countries to think of as an "Option B" thanks to some of its advantages such as geographical proximity, abundance

⁴¹ Türkiye İstatistik Kurumu, İstatistik Veri Portalı, <https://data.tuik.gov.tr/tr/main-category-sub-categories-sub-components2/#> Accessed: October 2020

⁴² Presidency of the Republic of Turkey Investment Office, FDI in Turkey, <https://www.invest.gov.tr/en/whyturkey/pages/fdi-in-turkey.aspx> Accessed: October 2020

⁴³ Oxford Academic, Spread of Coronavirus 2019 From Wuhan to Rural Villages in the Hubei Province, <https://academic.oup.com/ofid/article/7/7/ofaa228/5856718> Accessed: October 2020

⁴⁴ SDG Knowledge Hub, IMF Finds Deeper COVID Impacts than Previously Projected, WTO Forecasts Trade Rebound in 2021, <http://sdg.iisd.org/news/imf-finds-deeper-covid-impacts-than-previously-projected-wto-forecasts-trade-rebound-in-2021/#:~:text=The%20WEO%20June%20Update%20forecasts,an%208.0%25%20expansion%20in%202021.> Accessed: October 2020

⁴⁵ World Trade Organization, (2020), Trade set to plunge as COVID-19 pandemic upends global economy https://www.wto.org/english/news_e/pres20_e/pr855_e.htm#:~:text=World%20merchandise%20trade%20is%20set,effectiveness%20of%20the%20policy%20responses. Accessed: October 2020

of young labour force, familiarity with the European standards and advanced production facilities.

Last but not least, during the first and very acute days of the spread of the coronavirus among the Member States, the EU was harshly criticised to be late to provide the necessary support especially for Italy. At this point, Turkey served as a role model not only to the EU but also to the whole world with its lower mortality rates thanks to its developed healthcare system. Turkey, which portrayed a self-sufficient country in its fight with coronavirus pandemic, sent medical devices and pharmaceuticals such as masks, gloves, personnel protective equipment and ventilators to more than 150 countries including Italy and Spain.⁴⁶ Hence, the coronavirus pandemic made the EU and Turkey much closer partners for the possibilities of future production and collaboration in health. The German Presidency of the EU Council started in this turbulent but promising atmosphere at the same time.

Contrary to the expectations, the programme of the German Presidency depends heavily upon overcoming the devastating effects of the coronavirus under the motto of “together for Europe’s recovery”.⁴⁷ The priorities of Germany’s EU Presidency are shared as follows: (i) overcoming the COVID-19 pandemic permanently, as well as the economic recovery, (ii) a stronger and more innovative Europe, (iii) a fair Europe, (iv) a sustainable Europe, (v) a Europe of security and common values, (vi) a strong Europe in the world.⁴⁸ With regard to minimising the destructions of the coronavirus, lifting the restrictions in the Schengen Area and Single Market along with the transition to sustainable economy with the help of implementing the Green Deal and digital transition are emphasised. Nonetheless, the rising unemployment, vulnerabilities of the global supply chains, inadequacy in supplies of medical products, pharmaceuticals and personal protective equipment are stated as the headings that are aimed to be addressed during the German Presidency. Regarding a stronger and more innovative Europe, it is highlighted during the fight with the coronavirus that digital sovereignty is of utmost importance than ever not only in healthcare sector but also in whole economy and production. Furthermore, programme of the German Presidency drew attention to the importance of implementation of the Green Deal, improvement of transport sector and renewing the business environment in line with the new requirements arisen during the pandemic.

Third priority of the German Presidency, a fair Europe, insists upon reducing the inequalities within the EU, correcting deficiencies in labour market and improving social protection especially in time of pandemic. With rising poverty and inequalities exacerbated by the coronavirus in the Union, minimum national wage is received wide attention. The German EU Council Presidency sets also forth its determination to work for gender equality by means of striving at equal pay for equal works and elimination of gender-based violence. In addition to gender equality, support for the young people and

⁴⁶ AA, (2020), 'Turkey has sent medical aid to 150 countries': President, <https://www.aa.com.tr/en/health/turkey-has-sent-medical-aid-to-150-countries-president/1936658#>
Accessed: October 2020

⁴⁷ Eu2020.de, (2020), Programme, <https://www.eu2020.de/eu2020-en/programm> Accessed: October 2020

⁴⁸ Eu2020.de, (2020), Together for Europe’s recovery Programme for Germany’s Presidency of the Council of the European Union 1 July to 31 December 2020, <https://www.eu2020.de/blob/2360248/e0312c50f910931819ab67f630d15b2f/06-30-pdf-programm-en-data.pdf> Accessed: October 2020

higher inclusion of civil society are emphasised under the third priority. What is more, mitigating the impacts of coronavirus pandemic with the help of more ambitious climate, environment and biodiversity policies to enhance the EU's compliance with the UN's 2030 Agenda fell into the priorities of the German Presidency. EU's objective to become the first climate neutral continent in the world by 2050, its emission reduction targets and plans for the first Climate Law are, among others, key components of Germany's fourth priority during its Council Presidency.

Within the scope of the fifth priority of Germany's EU Presidency, a Europe of security and common values, it is highlighted that for a well-functioning EU, strengthening the fundamental rights and particularly the rule of law is of utmost significance. Moreover, the fight against terrorism and all forms of xenophobia along with the regulations of the Union's migrant and asylum policies inter alia to mitigate the devastating impacts of the coronavirus take place in the scope of Germany's priorities. Finally, Germany's last but not the least priority, an effective EU for a rules-based international order, envisages a closer cooperation in international arena not only to minimise the undesired consequences of the COVID-19 crisis but also to prevent the possible pandemics in the future. The US, the UK, China, the countries in Western Balkans and Africa come to the forefront as important partners with whom Germany aims to collaborate during its EU Presidency. Furthermore, the trade agenda of the EU including the reform of the WTO, finalisation of the FTA with Mercosur, reaching the end of negotiations with New Zealand and Australia is an outstanding item of Germany's Presidency.

As it is clear from the programme of the Germany's six-month rotating Council Presidency that the priorities of the EU's *de facto* leader is extremely shaped by the realities of the coronavirus pandemic and challenges posed by it.⁴⁹ The coincidence of the outbreak of the coronavirus pandemic with Germany's much-awaited Presidency caused Turkey's hopes to be destructed as a result of finding no place for itself in the presidency programme. Instead Germany's agenda is full with topics such as reaching a compromise on EU's next long-term budget and recovery package in addition to finalising negotiations with the UK regarding the future of bilateral relations.

Another topic on the agenda of Germany's Council Presidency becomes tensions between Turkey and Greece stemming from Turkey's drilling activities in the Eastern Mediterranean to explore hydrocarbon. Turkey has sent its drilling ships to the region and asserted that its activities are legitimate according to the continental shelf and international law. One of the sticking points in Turkey-EU relations, Cyprus issue, has caused the blockage of 14 out of 35 chapters of the EU *acquis*. The accession of the Greek Cypriot Administration of Southern Cyprus to the EU as if the only country on island was so disregarding that the rights of Turkish Cypriots are paid no attention. Therefore, Turkey insists on both preserving its legitimate rights of continental shelf and standing behind Turkish Cypriots.

As it can be easily figured out that Germany's agenda is not only too busy with cushioning the economic and social aftermaths of the coronavirus but also politically distant to Turkey because of tensions over hydrocarbon examination in the Eastern Mediterranean. On the other hand, the political deadlocks in Turkey-EU relations starting from the

⁴⁹ Şahin, Y. (2020), Germany at the Helm: What the EU's Most Ambitious Presidency Holds for Turkey-EU Relations, https://www.ikv.org.tr/images/files/ikv_brief_57_German_EU_Presidency_Turkey_YS.pdf

declaration of the state of emergency following the failed coup attempt of 15 July reached on further impasse by the addition of new problems and brought Turkey's EU accession process to a standstill. Hence, the modernisation of Turkey-EU CU was regarded as one of the rare areas of the bilateral relations where there are still room for manoeuvre. However, as stated above, such a purely technical and mutually beneficial issue has even been politicised by some of the Member States.

Despite of not giving an inch by the EU to the modernisation of CU, German Chancellor Angela Merkel raised Turkey's expectations for the launch of the negotiations during the virtual migration summit among Turkey, Germany, the UK and France on 17 March 2020.⁵⁰ The statement of Angela Merkel regarding Germany's awareness of Turkey's anticipations for CU modernisation was perceived as an affirmative development. Similarly, the EU Council on 1-2 October 2020 ended up with some promising conclusions for Turkey regarding the modernisation of CU. After having warned Turkey to stop drilling activities in the Eastern Mediterranean, the EU Council welcomed the latest compromising steps between Turkey and Greece. In case of Turkey's conclusion of hydrocarbon exploration activities and adoption of a constructive approach towards Greece and Southern Cyprus, a positive political agenda including concrete steps for launching negotiations for CU modernisation, high level dialogues, people to people contacts, trade facilitation and support on migration has been promised to start.⁵¹ At the same time, the EU leaders did not abstain from adopting a menacing stance against Turkey by means of sanctions if it continues its "unilateral activities". Presenting a political agenda and hinting sanctions were likely done at the same time in order to calm down Greece and Southern Cyprus while make Turkey stop its drilling activities.

Afterwards, prior to the next EU Council on 15-16 October, Ankara sent Oruc Reis seismic research vessel to the Eastern Mediterranean on 12 October to give message to the EU that it will be a close follower of the implementation of the positive agenda presented on 1-2 October though it has a feeling of the agenda would not be actualised in the near future.⁵² Although it was not waited for Turkey to be discussed at Council, it came to the table due to re-sending Oruc Reis to the disputed area.⁵³ Due to rising tension once again, German Foreign Minister cancelled his official visit to Ankara after which he was expected to continue with Southern Cyprus and Greece.

Moreover, German Chancellor Angela Merkel and French President Emmanuel Macron made a joint statement indicating that Turkey has been raising tension and straining the relations. This attitude of Germany that plays the role of mediator between Turkey and Greece over Eastern Mediterranean tension is not very promising for the launch of the negotiations of the CU modernisation. Furthermore, the dispute between French President Macron and Turkey's President Recep Tayyip Erdoğan has been accelerating

⁵⁰ AA, (2020), German chancellor pledges support for refugees in Idlib, <https://www.aa.com.tr/en/europe/german-chancellor-pledges-support-for-refugees-in-idlib/1769753#>
Accessed: October 2020

⁵¹ European Council, (2020), Special meeting of the European Council (1 and 2 October 2020) – Conclusions, <https://www.consilium.europa.eu/media/45910/021020-euco-final-conclusions.pdf> Accessed: October 2020

⁵² Hürriyet Daily News, (2020), Turkey sends Oruç Reis back to east Med, <https://www.hurriyettodaynews.com/turkey-sends-oruc-reis-back-to-east-med-159047> Accessed: October 2020

⁵³ European Council, (2020), European Council meeting (15 and 16 October 2020) – Conclusions <https://www.consilium.europa.eu/media/46341/1516-10-20-euco-conclusions-en.pdf> Accessed: October 2020

with the leaders' call for boycotts.⁵⁴ Within the time period, Oruc Reis research vessel returned to Antalya port on 30 November after the expiration of the last Navtex on 29 November indicating that the vessel has completed its exploration activities that had started on 10 August.⁵⁵ Now, the summit on 10-11 December where sanctions against Turkey may be brought to table is curiously awaited.

5. Conclusion

It will not be wrong to indicate that CU forms the basis of bilateral trade relations between Turkey and the EU. Apart from countless benefits it has brought over the years, the CU has on the other hand undeniable deficiencies and asymmetries which require radical and well-designed solutions and arrangements. Additively, the huge expansion of global economy and trade in consequence of rapid globalisation has brought the limited scope of Turkey-EU CU and thereby the need for its extension to light. In this direction, a number of studies and analyses including the evaluation of the World Bank and impact assessment of the European Commission were carried out and found that the modernisation of CU and extension of it to new areas would bring benefits to Turkey and the EU.

The European Commission has been waiting for the Council's mandate to commence the negotiations, but the process comes to a deadlock due to the opposition of some Member States stemming from political disagreements. In short, a purely technical, commercial and advantageous procedure is sacrificed to political frictions. However, Germany's six-month rotating EU Presidency during the second half of 2020 has been anticipated to play a significant role in initiating the process. The hope for Germany's EU Presidency results from intense ties between two countries in a number of areas ranging from foreign trade and investment to tourism and education. Although the modernisation of Turkey-EU CU does not officially appear in the programme of Germany's EU Presidency, particularly Turkish business world that has close affiliations with its German counterpart is insistent on the start of the process.

On the other hand, the rising tensions between Turkey and Greece blended with the EU's and especially France's support in guise of solidarity have come to the forefront recently in Turkey-EU relations. While Turkey seeks its legal rights based on international law and tries to stand behind Turkish Cypriots, the EU has been successively warns Turkey to stop its hydrocarbon exploration activities. A promising development on the issue occurred at the EU Council on 1-2 October 2020 where the EU leaders presented a positive agenda to Turkey in case it stops its activities in the Eastern Mediterranean and starts a constructive dialogue with Southern Cyprus and Greece. In addition to trade facilitation, people-to-people contacts and high level dialogues, the committed positive agenda involves modernisation of Turkey-EU CU.

On the other hand, Ankara resent the Oruc Reis research vessel to the controversial area days after the EU Council to show its determination to be a close follower of the

⁵⁴ Independent, (2020), Turkey's Erdogan calls for boycott of French goods after Macron's 'anti-Islam' comments, <https://www.independent.co.uk/news/world/europe/erdogan-macron-boycott-france-turkey-islam-samuel-paty-b1343971.html> Accessed: October 2020

⁵⁵ Euronews, (2020), Oruç Reis sismik araştırma gemisi Antalya Limanı'na döndü, <https://tr.euronews.com/2020/11/30/oruc-reis-sismik-arast-rma-gemisi-antalya-liman-na-dondu> Accessed: December 2020

implementation of the positive agenda. Likewise, it is commented that Ankara administration has the feeling that the EU leaders are not so eager to materialise the positive agenda so that the Oruc Reis vessel was resent and Navtex announcements were made one after another until 29 November.⁵⁶ After these steps, Turkey came to the table again during the EU Council on 15-16 October where it had not been anticipated to be discussed. When the solution is closely approached and the positive agenda including the modernisation of CU is pronounced, the EU leaders condemned Turkey again to raise tension in the area and brought to impose sanctions at the last EU Council of the year on 10-11 December. But during this time, Oruc Reis research vessel returned to Antalya port on 30 November. Therefore, the conclusions of the EU Council regarding Turkey and mostly spoken sanctions will be the curiously followed topics of the coming days.

⁵⁶ Hürriyet, (2020), Oruç Reis için yeni Navtex, <https://www.hurriyet.com.tr/dunya/oruc-reis-icin-yeni-navtex-41651600> Accessed: November 2020