



EUROPEAN COMMISSION
Regulatory Scrutiny Board

Brussels,
Ares(2016)

Opinion

Title

DG TRADE – Authorising the European Commission to open negotiations and to negotiate with Turkey a modernised bilateral preferential trade framework

(version of 29 September 2016)*

(A) Context

Turkey and the EU have been strategic partners for over six decades. Turkey is negotiating for EU accession, and has unique trade relations with EU under the EU-Turkey Customs Union. Bilateral trade in goods has increased more than fourfold since 1996 and currently amounts to EUR 140 billion. The EU is Turkey's largest trading partner, representing 41% of Turkey's foreign trade. Two thirds of foreign direct investment (FDI) in Turkey originates from the EU. Turkey is the EU's 5th largest trading partner, representing 4% of EU foreign trade.

The EU-Turkey Customs Union entered into force some 20 years ago. Its design is not fully suited for some modern day challenges of trade integration. Based on an evaluation carried out by the World Bank¹, both sides have agreed that the current framework is no longer sufficient.

On 12 May 2015, the EU Trade Commissioner and Turkey's Minister of Economy agreed to launch preparations to extend EU-Turkey trade relations. This was followed by an agreement by Heads of State or Government to launch preparatory steps for upgrading the Customs Union so that formal negotiations could start towards the end of 2016.

As regards the broader political context of EU-Turkey relations, the EU has expressed its solidarity with Turkish democratic institutions after the attempted coup of 15 July 2016. It has reaffirmed its commitment to working with a democratic, inclusive and stable Turkey. The EU has also called on the Turkish authorities to observe the highest standards in the rule of law and fundamental rights.

(B) Overall opinion: POSITIVE

The Board gives a positive opinion, with a recommendation to further improve the report in the following key aspects:

(1) Elaborate on the broader context of EU-Turkey trade within the EU relationship with Turkey. A key issue is the extent to which other, parallel processes could affect negotiations and outcomes. Distinguish the particular implications of a Customs Union as compared to a Free Trade Agreement.

* Note that this opinion concerns a draft impact assessment report which may differ from the one adopted.

¹ <http://www.worldbank.org/content/dam/Worldbank/document/eca/turkey/tr-eu-customs-union-eng.pdf>

(2) Clarify trade-offs between the two main options that the report identifies and their respective intended levels of ambition. Better explain why and how they differ.

(3) Qualify and improve the assessment of social and environmental impacts. Refer to relevant commitments that Turkey has already made or is expected to make either in trade negotiations or in parallel processes.

(4) Qualify the robustness of insights from the stakeholder consultation and modelling. Separate out the views of various stakeholder groups, and highlight any relevant major gaps in knowledge.

The lead DG shall ensure that these recommendations are duly taken into account in the report prior to launching the inter-service consultation.

(C) Further recommendations for improvements

(1) Policy context. The report should clarify how ongoing policy processes, such as the global monitoring exercise in the context of EU accession, might affect the outcome and impacts of an EU-Turkey trade agreement. It should clarify what implications are particular to a Customs Union. It should further explain what EU trade negotiations with third countries imply for EU-Turkey trade relations.

(2) Options. The distinction between options B and C should be made clearer, including on why option B is designed to be more ambitious and why under option C Turkey would not be ready to agree on an ambitious liberalisation agenda. One way to do this would be in an overview table that compares essential elements of the two options. The report could better explain the extent to which the respective options would address the trade asymmetry problem. The respective levels of ambition of the two scenarios would also be clearer if they were compared against existing EU trade frameworks. The links between the options and the modelling scenarios should be better explained, justifying these scenarios' assumptions (such as lower expected transaction costs). A qualitative assessment of the results should accompany the modelling exercises.

(3) Impacts. The report should further clarify the social and environmental impacts of the two options. It should identify and pay special attention to possible dislocation consequences in vulnerable sectors, such as agriculture and textiles. When assessing social impacts, the report should include information on compliance to fundamental rights as anchored in ILO conventions, as well as in the Council of Europe's European Convention on Human Rights and the European Social Charter – ratified by Turkey – and related case law. The report should consider in particular child labour, the rights of children and young persons to education and to special protection against hazards to which they are exposed. It should also consider individual and collective labour rights, including safe and healthy working conditions, fair remuneration, freedom of association and the right to bargain collectively. All of these factors influence how trade expansion affects Turkey. This concerns commitments that Turkey has already adopted. Similarly, the report should discuss environmental impacts and relevant commitments (on climate change, safety standards, etc.) that Turkey has already adopted or is expected to commit to, either in the EU acquis, in international conventions and agreements, or in the envisaged new trade agreement. The assessments of impacts on social and environmental aspects should indicate what protection level the modernised trade regime is likely to achieve in Turkey. Finally, the report should elaborate on how a modernised dispute settlement mechanism in the new trade framework would realistically operate to improve implementation and compliance.

(4) Consultation and economic modelling. To the extent that the stakeholder consultation did not result in a representative sample of stakeholders, the report should not report statistics that aggregate across all respondents. It should instead report the views of different stakeholder groups on various aspects of the options and their impacts. It should be transparent about gaps in knowledge about the views of certain stakeholder groups. Likewise, it should be transparent about the limitations of analysis that relies on a single computable general equilibrium model.

Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated into the final version of the impact assessment report.

(D) Procedure and presentation

The executive summary should take account of revisions to the report.

(E) RSB scrutiny process

Reference number	2016/TRADE+/035
External expertise used	No
Date of RSB meeting	26 October 2016