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POLAND AND TURKEY IN EUROPE – SOCIAL, ECONOMIC AND POLITICAL EXPERIENCES AND CHALLENGES

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The European Union's Trade with Turkey under the Customs Union

A customs union makes one of initial stages of integration between states, ensuring customs-free trade exchange, lifting of any volume restrictions (quota) and other measures having equivalent effect to customs or quota. Together with a free trade area it provides a basis for further integration of economies through trade development. Both forms of integration are also approved by GATT/WTO; as forms of trade flow liberalization they are exempted from application of the most favoured nation clause[1] and as such they make the most common measure used in trade liberalization world-wide, including by the European Union in its relations with third countries.[2] A customs union between the EU and Turkey, in effect for over ten years now, is an example of this type of relations.

The aim of this study is to present the process of implementation, and trade consequences of import and export liberalization between the EU and Turkey under the customs union. The economic analysis was based upon the Eurostat data for years since 1988 i.e. since the time when, having filed the motion for the EU accession, Turkey restarted to carry out its obligations toward the Community, as well as eight years before the

[1] Article XXIV GATT/WTO.

[2] See: A.A. Ambroziak, E. Kawecka-Wyrzykowska, *Traktatowe stosunki Unii Europejskiej z państwami trzecimi* (*External trade relations of European Communities with third countries*) in: eds. E. Kawecka-Wyrzykowska, E. Synowiec, *Unia Europejska* (*European Union*), Vol. I, Warsaw 2004.

official establishment of the customs union. This research time-frame allows to trace down consequences of all types of liberalization measures undertaken by both partners with respect to their trade exchange.

Legal Bases for the European Union's Trade Cooperation with Turkey

A complex and lengthy process of development of trade cooperation between the European Union and Turkey consists of a number of stages, clearly marked on the latter country's way to achieve its principal goal which is to acquire full membership in the EU. The process started with the idea of establishing close relations between Turkey and Western Europe, in line with the logic of building a modern state which resolutely renounces any traditional forms in political, social or cultural area. This was first initiated by filing a motion to associate with the European Economic Community (EEC) on 31 July 1959 and its acceptance by the EEC Council of Ministers.[3] Some observe that reasons, both direct and indirect, of signing by Turkey of the Agreement on the Association with the EEC should be sought in economic and political aspects alike, including the following:[4]

- an attempt to tone down the differences between Turkey and Greece which filed for the association on 8 June 1959;
- an intent to gain access to the largest and closest market for Turkish goods;
- an opportunity to acquire stable funds for economy development;
- an opportunity to reduce the unemployment in Turkey through partial labour migration toward the EEC member states;
- an attempt to lift or at least reduce customs tariffs for import to Europe of Turkish goods, especially agricultural products.

For the EEC, on the other hand, signing of the Agreement was mainly dictated by other-than-economic considerations, because form economic point of view, Turkey in fact ranked far behind the level of economic de-

[3] Turkey-EU Relations, International Relation Office http://idari.mu.edu.tr/EN/say fa. aspx?skod=2269&bkod=01030004&mkod=3558, access 10.03.2013 and A. Ambroziak, *Aspiracje integracyjne państw Śródziemnomorskich – Turcja, Wspólnoty Europejskie* (*Integration aspirations of the Mediterranean countries – Turkey*), IKC HZ No. 3/1995.

[4] J. Redmond, *The Next Mediterranean Enlargement of the European Community: Turkey, Cyprus and Malta?*, Dartmouth 1993, pp. 24–25.

velopment of the EEC's 'original six'. Instead, there were a number of important political reasons to determine this decision, along with the country's strategic situation in a sensitive and conflict-prone East Mediterranean region. After all, this was a period of the conflict in the Middle East, of aggravating relations between Greece and Turkey and generally of increasing tension throughout the Middle East. Moreover, the Agreement made well fitted within first plans and then the final programme of the Global Mediterranean Policy from 1972.[5]

Trade-related Provisions of the Association Agreement

The Agreement establishing an Association between the European Economic Community and Turkey,[6] signed on 12 September 1963 in Ankara, entered into force on 1 December 1964. The aim of the agreement was to promote trade exchange between the parties, while taking full account of the need to ensure dynamic development of Turkish economy and to improve the level of employment and the living conditions of Turkish people. The Agreement was signed on the virtue of Article 238[7] of then-applying Treaty establishing the EEC, for an indefinite time, however it explicitly provided for an obligation to adopt Turkey to the Community following the lapse of an adequate period.[8] The key stage

[5] The results of the Conference, Meeting of the Heads of State or Government, Paris, 19–21.10.1972, The First Summit Conference of the Enlarged Community, Reproduced from the "Bulletin of the European Communities" No. 10/72, pp. 20–21.

[6] Agreement establishing an association between the EEC and Turkey, OJ L 217, 29.12.1964 and the Council Decision of 23.12.1963 on the conclusion of the Agreement establishing an Association between the European Economic Community and Turkey, OJ L 217, 29.12.1964.

[7] Article 238: '*The Community may conclude with a third country, a union of States or an international organisation agreements creating an association embodying reciprocal rights and obligations, joint actions and special procedures. Such agreements shall be concluded by the Council acting by means of a unanimous vote and after consulting the Assembly*' – The Treaty of Rome, establishing the European Economic Community, 1957.

[8] Article 28 provides that: '*As soon as the operation of this Agreement has advanced far enough to justify envisaging full acceptance by Turkey of the obligations arising out of the Treaty establishing the Community, the Contracting Parties shall examine the possibility of the accession of Turkey to the Community*', Agreement establishing an Association between the European Economic Community and Turkey, OJ L 217, 29.12.1964.

assumed to be achieved in trade relations between Turkey and the EEC was the customs union. It should be pointed out that at that time the customs union was actually the only clearly defined stage of economic integration within the EEC. Accordingly, one could conclude that the attainment of this stage of integration, together with the implementation of other freedoms of the common market and with the common policies (including, in particular, the common commercial policy and the common agricultural policy) should enable Turkey to become the EEC member state.

According to the provisions of the Association Agreement, the abovementioned customs union was meant to apply to all goods, except for those covered by the European Coal and Steel Community then-in-force and, in the sphere of bilateral trade, to consist in elimination by the EEC and Turkey of any import and export customs tariffs, quota and other measures off equivalent effect and intended to protect domestic production.

As regards time frame, the period during which Turkey was expected to gradually adopt the rights and obligations to create the customs union and become full member of the EEC was specified at 27 years. It was divided into three following stages.[9]

- 5 years of preparatory period (1964–1968) during which quota for import of some Turkish agricultural goods were to be applied and activities aiming at financial support for Turkey were planned;
- transitional period lasting 12 years (1969–1980), with introduction of the customs union on the basis of gradual adoption by Turkey of the Community customs tariffs and with policies aiming at liberalization of movement of persons, capital and goods;
- the final stage in which Turkey was to achieve an economic level enabling it to become full member of the Communities.

During the preparatory period Turkey was required to strengthen its economy in order to be able to meet the agreement provisions. At that time Turkey had mainly products of its agriculture and food industry on its offer. Accordingly, individual EEC member states (as EEC wasn't running its common commercial policy at that time) awarded Turkey with quota for four products accounting for 40%[10] of that country's

[9] Dates given in parentheses are approximate time frame for implementation of respective stages of the Association Agreement.

[10] J. Redmond, *The Next Mediterranean Enlargement*..., op.cit., p. 20.

total export. These were tobacco, raisins, dried figs and hazelnuts.[11] Moreover, starting one year after the provisions in question entered into force, the Association Council could make decision on increasing the tariff quota, while after three years it could also decide on including a new group of goods into this sort of preferential measures. In performance of these provisions the Association Council adopted, in 1973, the Community declaration on application of various trade preferences to Turkish agricultural and food products.[12] Provisions in effect since 1 January 1974 brought significant reduction (by as much as a half) of custom tariffs applied to such goods as fresh, dried, frozen or processed vegetables and fruits (some), including grapes, hazelnuts, figs and noodles.

In line with the association agreement, the Association Council should define, one year before the start of a subsequent stage, conditions, principles and time-table for the implementation of trade provisions. It was also stipulated that, bearing an impossibility to specify such a protocol until the end of the fifth year after the association agreement entered into force, repeated measures in that respect should be undertaken within next three years.

Following over two years of negotiation, on 23 November 1970 an Additional Protocol was signed,[13] including provisions concerning the initiation of implementation of modified second stage of association between Turkey and the EEC.[14] A part of the agreement dealing with trade

[11] Article 2 and 3 of Protocol No. 1 – Provisional Protocol, Agreement establishing an association between the EEC and Turkey, OJ L 217, 29.12.1964.

[12] Decision No. 1/73 of Association Council on new concessions on imports of Turkish agricultural products into the Community, Turkey-European Union Association Council Decisions 1964–2000 Cilit 2, Ministry for EU Affairs, Republic of Turkey, Ankara 2001.

[13] Additional Protocol, OJ L 293, 29.12.1972. Due to accession of new member states to the EEC it was amended by: Additional Protocol to the Agreement establishing the Association between the European Economic Community and Turkey in result of the accession of new member states to the Community, OJ L 361, 31.12.1977 and Additional Protocol to the Agreement establishing the Association between the European Economic Community and Turkey, OJ L53, 27.02.1988.

[14] Separate provisions concerning trade are included in an agreement made also on 23 November 1970 between the European Coal and Steel Community and the Republic of Turkey on products within the province of the European Coal and Steel Community, OJ L 293, 29.12.1972.

affairs entered into force, in the form of a transitional agreement, on 1 September 1971, while the entire Protocol became effective on 1 January 1973.[15] As revealed by an analysis of measures undertaken compared to their time-table, they were implemented at the very latest moment before deadlines. This suggests serious delay in Turkey's economy preparation to integrate with the EEC in the area of trade. This is confirmed by the contents of the protocol preamble in which its signatories decided to sign it '*considering that conditions were met to proceed from preparatory to transitional stage*'. What seems pivotal in this context is the use of the word 'considering' instead of 'finding' or 'stating' – this expresses the lack of true certainty about progress really made by Turkey.

On the day the Additional Protocol came into force, the Community was to lift custom duties and other charges having equivalent effect with respect to import of industrial goods originating from Turkey. These provisions did not concern oil products on which some quota were retained (only 200,000 tons were admitted under annual duty-free quota) and certain textile goods (cotton yarn not for retail sale, other cotton cloths, carpets, knitted or woven) for which tariffs reduction was planned over a period of 12 years, in four subsequent decreases by 25% each. In addition, with respect to yarn and cotton products, the Community introduced preferential tariff quota with duty rates reduced by 75%.

Turkey, on its part, obliged to reduce custom duties on the EEC goods, adopting basic rates from the day the protocol was signed i.e. 23 November 1970. Also, Turkey undertook, as a principle, to lower the basic customs rate by 10% for each product, according to the following time formula: on the day the Protocol became effective, and then three and five years later. Fourth and subsequent reductions were to take place annually, so that the last reduction happened at the end of the transitional period.

However, in relation to import from the Community of sensitive goods , Turkey was to gradually lift, over a period of twenty two years, its basic customs rates in the following stages: 5% down on every customs duty on the day the Protocol came into effect, and three subsequent

[15] The Council Regulation (EEC) No. 2760/72 of 19 December 1972 on concluding the additional protocol and the financial protocol signed on 23 November 1970 and annexed to the Agreement establishing an Association between the European Economic Community and Turkey and relating to the measures to be taken for their implementation, OJ L 293, 29.12.1972.

reductions by 5% envisaged to take effect three, six and ten years later. Then, eight remaining reductions, by 10% each, were planned to take place twelve, thirteen, fifteen, seventeen, eighteen, twenty, twenty one and twenty two years after the entry into force of the Protocol.

The EEC and Turkey have always declared mutual abolition, within four years after the entry of the Protocol into force, of export duties and other charges having equivalent effect. Finally, both parties accepted that they would renounce introduction, in their mutual trade relations, of both export and import duties and charges of equivalent effect on the moment the Protocol's entry into force. Moreover, the Association Council had the right to agree on derogations from the *stand still* principle where it found this necessary for the implementation of the agreement's aims. This way both Turkey and the EEC secured themselves against potential protection of their economies should serious difficulties arise, for example due to intensified foreign competition.

It should also be observed that the Additional Protocol also included quite an interesting formula aimed to accelerate the rate of trade liberalization. Namely, it envisaged that partners may suspend, partially or completely, collection of custom duties on products imported from the other party, in particular from Turkey, in order to facilitate the import of some goods regarded necessary to stimulate that country's economic growth.

The principle of asymmetry, i.e. special treatment for Turkey as a weaker partner, is also visible in provisions concerning reduction of quota applied as the EEC declared its renouncement from introducing new measures having effect equivalent to quota. However, with respect to Turkey, this obligation was only meant to regard, since the day the Protocol became effective, 35% of its total imports from the Community in 1967; then the percentage in question was to increase to 40%, 45%, 60% and 80% three, eight, thirteen and eighteen years following the Protocol's entry into force, respectively. It's worth observing that six months before the due date of each such increase, the Association Council was meant to inspect the consequences of deepening liberalization for Turkey's economic development, having the right to resolve upon delays in the Turkish market opening.

The Community declared full elimination of quota imposed upon imports from Turkey on the day of the Protocol's entry into force. Turkey, on its part, was obliged to open up, one year after the same date, quota for the Community on import of any product not liberalized by Turkey. Moreover, three years after the Protocol became effective, Turkey should have increased the total of the quotas by not less than 10% compared to the previous year and not more than 5% of the quota volume for each product. Every two years the quota should be raised in the same proportions in relation to respective previous period. Starting with the thirteenth year after the Protocol's entry into force, each quota was to be increased every two years by not less than 20% in comparison to the previous period. Moreover, Turkey declared its readiness to waive all the import and export quota applied on the Community sooner than provided for in the Protocol, where general economic condition as well as that of the sector interested advised so.

Furthermore, the Community and Turkey were obliged to lift import quota as well as any other measures having equivalent effect, by the end of the transitional period. At the same time, both retained a possibility to apply such measures to an extent reckoned necessary for growth of individual sectors of their economies or to overcome deficits of such goods.

The Additional Protocol envisaged that free movement of agricultural products would be ensured between the Community and Turkey within twenty two years. During that time both parties were to award preferential treatment to each other, the scope and methods of implementation of which were to be defined by the Association Council. Nevertheless, the Community reduced its customs rates already on the day the Protocol entered into force, by the following percentages:

- 100% for import of raisins and unprocessed tobacco;
- 75% (90% during the second year and 100% in the third year after the Protocol's entry into force) for import of livestock (horses, cattle, swine), certain types of meat, tea, cocoa and other goods.
- 50% for import of fresh and conserved vegetables, figs, grapes, nuts, dried fruits, some fresh fruits (incl. mandarins and lemons) as well as fruit puree and pastes;
- 40% for import of fresh oranges.

The EEC also declared reduction of quota and additional charges on import of such goods as durum wheat, confectionery and pastry products. Turkey on its part only declared awarding to the EEC member states of such a preferential system as might have enabled satisfactory growth of import of agricultural products originating from the Community, without any details specified.

Implementation of Trade Provisions of the Association Agreement

On the day trade provisions of the Additional Protocol entered into force, the Community lifted all customs tariffs and quota imposed upon industrial goods imported from Turkey, except for textile and petrochemical products. In the segment of agricultural and food products, as much as 90% of Turkish export were covered by some kinds of trade preferences (mainly including tobacco, grapes, figs, nuts, citrus fruits, wines and various cereals).[16]

Since the date the Additional Protocol entered into force, it was only twice that Turkey reduced its customs on industrial products imported from the EEC (this happened in 1973 and 1976), by 10% compared to goods from the 12-years list and 20% to goods from the 22-years list. However, the country did not make decision on the implementation of reductions planned for subsequent years, including one by 10% in 1978.[17] Also, it was at that time that serious problems emerged on the Turkish part regarding its worsening trade balance.[18] As a result, the Community, in order to stimulate Turkish trade, reduced its customs rates in 1977 by 20–80% (in many cases under the tariff quota) for selected agricultural and food products, including live horses, meat, sea fish, some vegetables and fruits.[19]

At the same time, the EEC introduced quota for the import of Turkish cotton and textiles in order to protect its manufacturers. In effect, in its attempts to compete with Western European articles and to lower the prices of its domestic industrial goods, Turkey was repeatedly confronted with the Community dumping-preventing measures.

[16] Commission of the European Communities, Europe Information. External relations, The European Communities, Greece, Turkey and Cyprus, 71/74, p. 5.

[17] Commission of the European Communities, Europe Information, External relations, Turkey and the European Community, 9/78, p. 4.

[18] Decision No. 2/75 of the Association Council on the imbalance of the EEC-Turkey trade balance, Turkey-European Union Association Council Decisions 1964–2000 Cilit 2, Ministry for EU Affairs, Republic of turkey, Ankara 2001.

[19] Decision No. 1/77 of the Association Council on new concessions for imports of Turkish agricultural products into the Community, Turkey-European Union Association Council Decisions 1964–2000 Cilit 2, Ministry for EU Affairs, Republic of turkey, Ankara 2001.

Beside, there were other changes, disadvantageous from Turkey's point of view, taking place in the area of trade in agricultural products, resulting from general shift in the EEC member states agricultural policy towards third countries, including those from the Mediterranean region. It can be argued that in late 1970s Turkish food products were facing relatively strong barriers on their export to the Community market, as was the case with industrial goods which were often treated less favourably compared to products originating from other third countries. These problems, coupled with difficulties in maintaining the payment balance in proportion, forced Turkey to slow down its endeavours towards the customs union. Turkish industrial entrepreneurs reckoned the EEC applied a policy of preference only with respect to products with which Turkey was unable to compete with European goods, whilst goods potentially threatening to producers from the Community countries were not admitted to European markets.[20] Due to Turkey's worsening economic condition, the Commission suggested to freeze the process of liberalization for five years, to be potentially extended by two years more. In effect, the implementation of provisions of the Association Agreement and of the Additional Protocol was given up and the economic gap between the Community and Turkey became even larger.[21]

Witnessing the economic hardship and the failure to implement the assumptions for cooperation between Turkey and the Community, the Association Council made, on 19 September 1980 (with 1 July 1980 as the date of entry into force), Decision No. 1/80 on further development of the Association.[22] The attitude the Community adopted in its negotiation with Turkey was in fact quite flexible as the EEC prepared a package of measures to facilitate the cooperation. At the same time, it seemed to assume that further liberalization on export of Turkish agricultural products would be regarded as economic manifestation of that cooperation. Notably, lifting by the EEC of customs for Turkish agricultural products was envisaged and planned to take place over six years, in two

[20] J. Redmond: *The Next Mediterranean Enlargement*..., op.cit., p. 28.

[21] Commission of the European Communities, Information, Developments of relations with Turkey, 02.1979, P-13, p. 1.

[22] Decision No. 1/80 of the Association Council of 19 September 1980 on the development of the Association, Turkey-European Union Association Council Decisions 1964–2000 Cilit 2, Ministry for EU Affairs, Republic of Turkey, Ankara 2001.

aspects. On the one hand, where customs rates were 2% or less, they should have been eliminated since 1 January 1981. Quite understandably, this concerned goods regarded as least sensitive to the EEC. As to rates exceeding 2% (applied to goods more problematic and sensitive from perspective of the common agricultural policy) as many as four stages of reductions were defined: down to 70% of the starting reference level on 1 January 1981, to 40% – on 1 January 1983, to 20% by 1 January 1985, and finally to 0% by 1 January 1987. Moreover, the Community agreed on additional preferential tariff quota and upon reduction of customs rates on selected agricultural and food products, with their increased volume in certain seasons taken into account.[23]

In consequence of a military coup in Turkey in September 1980, the European Community, on the motion from the European Parliament, from 22 January 1982, suspended implementation of any provisions of the Association Agreement and of any later additional protocols. Turkey, on its part, increased tariffs on many goods from the EEC, starting from 1982, in order to protect its market. Economic relations between Turkey and the Community returned to normalcy after the election of democratic government in that country in 1983, with new Prime Minister Turgut Özal. It was then that Turkey applied the tariff reduction planned for industrial products. It occurred, however, that after twenty years of implementation of the Association Agreement, the process of trade exchange liberalization failed to run in compliance with respective provisions and that many factors emerged to seriously hinder the achievement of tasks undertaken.

In 1986 Turkey began negotiation about reinstatement of cooperation with the EEC which resulted in filing, on 14 April 1987, of an official motion for the accession into the Community. This was preceded by an elimination, by the EEC, of all tariffs, except for those concerning oil/petrochemical products and agricultural goods. On the part of Turkey, on the other hand, those tariff rates from the 12-year list of the Additional Protocol from November 1970, which should have been lifted altogether by that time, were first reduced by 20%, while those from the 22-year list were reduced by 10%, instead of 40%. In 1988 Turkey sped up the process

[23] See: letters exchanged between the European Economic Community and the Republic of Turkey, concerning Article 3(3) of the Decision No. 1/80 of the Association Council, OJ L 65, 11.03.1981.

of reduction of customs tariffs, lowering them on both lists by 40%. However, tariff reductions introduced by Turkey only covered one fourth of the list of 8000 goods listed in the Additional Protocol. Besides, in 1989 Turkey also introduced a border tax – a measure the EEC considered an infringement of principles with which both partners were bound.

In response to Turkey's motion, the European Commission prepared its opinion on Turkey's readiness to the EC membership.[24] While negatively judging the state of preparation of both the EEC and Turkey to start negotiation, the Commission still indicated that 80% of Turkish export consists of industrial products and that 1988 was the first year since the WWII when Turkey achieved a surplus in foreign trade. From the point of view of implementation of provisions concerning the establishment of the customs union, the opinion reckoned that Turkey had slowed down its process of trade liberalization, going as far as introduction of a new tax scheme upon imported goods which the Commission found in contradiction to provisions of the Association Agreement.[25] In effect, as one of the key measures which should aim at supporting the process of Turkish economy modernization, the Commission pointed out the completion of developing the customs union between the partners. On 5 February 1990 the Council of Ministers accepted the Commission's recommendations and postponed the prospects of Turkey's membership in the EU for an indefinite time. Acting upon the above-mentioned Opinion and having sought detailed information from the Commission,[26] the Council adopted, on 12 June 1990, a set of tasks prepared by the European Commission, known as the the 'Matutes' package' and concerning relations between the European Community and Turkey. This was meant to bring the process of establishment of the customs union forward to completion.[27] In consequence, during the summit of heads of governments and heads of states of the EU member states in Copenhagen[28] in June 1993, the European

[24] Commission of the European Communities, Commission opinion on Turkey's request for accession to the Community, SEC(89)2290 final /2. Brussels, 20.12.1989.

[25] Ibidem, p. 6.

[26] European Commission, Communication to the Council on Relations with Turkey, SEC (90) 1017/final, 14.06.1990 Brussels.

[27] H. Arikan, *Turkey and the EU: An Awkward Candidate for EU Membership?*, Hampshire 2006, pp. 72–74,

[28] Copenhagen European Council, Conclusions of the Presidency, 21-22.06.1993, SN 180/1/93 REV 1.

Council addressed the Council to corroborate effective implementation of the guidelines defined by the European Council from Lisbon on intensifying of cooperation and development of relations with Turkey in order to make the customs union reality.

Another very important step on the way toward the customs union was made as the Association Council presented, in November 1993, the time-table of work on a programme meant to adapt Turkey to demands of new form of cooperation with the EU.[29] One year later it was decided to apply a transparent customs tariff, including preferential treatment of states of the European Economic Area. Finally, a document was prepared and presented to the Association Council in 1994[30] summing up the provisions concerning the customs union. It expressed an idea to establish adequate structures for this agreement by the end of 1995, while 1 January 1996 was fixed as the date all the provisions in that context became effective.[31]

As Turkey prepared in early January 1994 to put the customs union into effect, it applied another reduction of tariff rates on goods imported from the EU, thus in fact achieving elimination of custom duties with respect to 90% of goods included in the 12-year list and 80% from the 22-list for liberalization.[32] In effect of further liberalization at the end of 1994 tariffs were lifted for import of 95% and 90% goods from the former and from the latter lists, respectively.[33]

[29] Decision No. 1/93 of the EEC–Turkey Association Council of 8 November 1993 amending Decision No. 5/72 on methods of administrative cooperation for the implementation of Articles 2 and 3 of the Additional Protocol to the Ankara Agreement (93/599/EC), OJ L 285, 20.11.93.

[30] Decision No. 1/94 of the EC–Turkey Association Council of 19 December 1994 concerning the application of Article 3 of the Additional Protocol to the Ankara Agreement to goods obtained in the Member States of the Community, OJ L 356, 31.12.1994.

[31] H. Arikan, *Turkey...*, op.cit., pp. 72–74.

[32] See: Decision No. 1/94 of the EC-Turkey Association Council of 19 December 1994 concerning the application of Article 3 of the Additional Protocol to the Ankara Agreement to goods obtained in the Member States of the Community, OJ L 356, 31.12.1994.

[33] Decision No. 3/95 of the EC–Turkey Association Council of 24 July 1995 amending Decision No. 1/94 concerning the application of Article 3 of the Additional Protocol to the Ankara Agreement to goods obtained in the Member States of the Community, OJ L 356, 31.12.1994.

Implementation of Arrangements Regarding Bilateral Trade under the Customs Union

On 6 March 1995, during the European Union – Turkey Association Council both the scope and calendar were specified for the introduction of the customs union between the partners. In the resolution on the customs union the date of 1 January 1996 was fixed, however, should Turkey have failed to prepare its economy and legal and administrative system by 30 October 1995, then the date would have been postponed by 6 months. Finally, the decision was made on 22 December 1995.

Decision No. 1/95 of the EC-Turkey Association Council concerning the customs union,[34] based upon Articles 2 and 5 of the Association Agreement of 1963, provided for complete liberalization of trade between the European Community and Turkey with regard to industrial products in circulation on both partners' territories.[35] Accordingly, both parties to the agreement have declared non-application of any tariffs or measures having equivalent effect in either import and export, effective from the day the Decision entered into force. This also concerned duties of fiscal nature, introduced several months earlier by the Turkish party. At the same time, all quota on trade volume were lifted in bilateral trade relations between the parties.

One category of goods that obtained special treatment were textile industry products. This happened because it was specified in the decision

[34] Council Decision No. 1/05 of the EC-Turkey Association Council of 22 December 1995 on implementation the final phase of the Customs Union, 96/142/EC, OJ L 35, 13.02.1996.

[35] Apart from the issue of trade preferences, the decision in question provided for cooperation in the field of customs, *i.a.* with respect to trade exchange between the parties to the Association Agreement – for more see: Decision No. 1/96 of the EC–Turkey Customs Cooperation Committee of 20 May 1996 laying down detailed rules for the application of Decision No. 1/95 of the EC-Turkey Association Council (96/488/EC), OJ L 200, 09.08.1996, Decision No. 1/2001 of the EC-Turkey Customs Cooperation Committee of 28 March 2001 amending Decision No. 1/96 laying down detailed rules for the application of Decision No. 1/95 of the EC-Turkey Association Council (2001/283/EC), OJ L 98, 07.04.2001, Decision No. 1/2006 of the EC-Turkey Customs Cooperation Committee of 26 September 2006 laying down detailed rules for the application of Decision No. 1/95 of the EC–Turkey Association Council (2006/646/WE), OJ L 265, 26.09.2006.

on the establishment of the customs union that the Community should eliminate any quota on import of such goods, provided that Turkey would ensure effective implementation of provisions concerning the protection of intellectual, industrial and commercial property, as well as competition, including with respect to public aid. On the other hand, Turkey emphasized that it was its intention to ensure free access for textiles to both markets, however in the case of any measures being applied by the EC, Turkey would also consider undertaking countervailing ones.

Turkey was also obliged to implement to its national legislation, within five years after the date of the decision's entry into force, instruments eliminating technical barriers in trade. In parallel, Turkey should have given up requiring additional inspection with respect to the Community goods previously subject to such a procedure on the EC territory. The same provision was to apply, on the principle of mutuality, in the EC member states in relation to Turkish goods. An appropriate decision of the Association Council, listing measures that have to be implemented, was adopted in 1997.[36]

As far as selected agricultural and food products were concerned, both parties arranged for a possibility to apply custom duties on the so-called agricultural component, listed basing on the contents of basic farming products – such as, *i.a.*, wheat, rice, white sugar, milk and butter, in imported goods.[37] For the remainder of agricultural products it was stipulated that an additional period was necessary for the Association Council to define conditions for the introduction of free movement in these goods. Over that time both parties should have gradually applied preferences in mutual trade while Turkey, in addition, should also harmonise its policy to the EU's common agricultural policy.

[36] Decision No. 2/97 of the EC–Turkey Association Council of 4 June 1997 establishing the list of Community instruments relating to the removal of technical barriers to trade and the conditions and arrangements governing their implementation by Turkey (97/438/EC), OJ L 191, 21.07.1997 and Decision No. 1/2006 of the EC–Turkey Association Council of 15 May 2006 on the implementation of Article 9 of Decision No. 1/95 of the EC-Turkey Association Council on implementing the final phase of the Customs Union (2006/654/EC), OJ L 271, 30.09.2006.

[37] Council Regulation (EC) No. 1216/2009 of 30 November 2009 laying down the trade arrangements applicable to certain goods resulting from the processing of agricultural products, OJ L 328, 15.12.2009.

Subsequent decisions of the Association Council, made in 1996[38] and in 1998,[39] became steps in carrying out these declarations and of conclusions from analyses prepared by the European Commission, suggesting that further liberalization of trade in the agricultural segment should be beneficial to Turkey by improving the pace of that country's economic growth,[40] The former one envisaged mutual preferences to be given by the partners to each other in the form of preferential tariff quota for processed cereal products, including pasta. The latter one, instead, indicated that any volume-restricting quota in either import or export of agricultural commodities between the EC and Turkey should be prohibited, with derogation for those which had been applied by the agreeing parties under their respective agricultural policies. As regards special custom duties or *ad valorem* duties imposed upon imported agricultural goods, both parties agreed to lift them, partially reduce them or to apply preferential rates (including a 0% rate) under tariff quota (on, among other things, import from Turkey of sheep meat, goat meat, turkeys, selected vegetables and fruits, and from the EU: live cattle, milk, some fruits, tea as well as selected types of wheat, and rice). Moreover, at that time both parties eliminated the industrial component altogether from tariff protection, leaving only the agricultural component for further reduction.[41]

Summing up, one may reckon that customs union which really went into effect as of 1996, covered all industrial products and processed agricultural and food products which then accounted for 93% of the total

[38] Decision (EC) No. 1/97 of the EC–Turkey Association Council of 29.04.1997 on the arrangements applicable to certain processed agricultural products (97/303/EC), Turkey-European Union Association Council Decisions 1964–2000 Cilit 2, Ministry for EU Affairs, Republic of Turkey, Ankara 2001.

[39] Decision 1/98 of the EC-Turkey Association Council of 25 February 1998 on the trade regime for agricultural products (98/223/EC), OJ L 86, 20.03.1998, Decision of the EC-Turkey Association Council No. 3/2006 amending Protocol 3 to Decision No. 1/98 of the EC–Turkey Association Council of 25.02.1998 on trade regime for agricultural products, CE-TR 110/06.

[40] Commission of the European Communities, Communication from the Commission to the Council and the European Parliament on the further development of relations with Turkey, COM(97) 394, Brussels, 15.07.1997, p. 4.

[41] Regular Report from the Commission on Turkey's progress towards accession – 1998, Brussels 1998, p. 31.

value of trade exchange between Turkey and the EC.[42] In the industrial goods segment, in spite of no proper tariffs applied any longer, Turkey still imposed some barriers hindering trade exchange. It did so in the form of all sorts of technical requirements, import licences, non-compliance to principles of public aid or to those concerning the protection of intellectual and industrial property.[43]

In the area of agricultural and food products, over 40% of their export from Turkey entered the EU market bearing zero tariff rate, while regarding half of them, the EU applied lowered specific rates. Still, some significant barriers have remained, such as, on the Community part: high specific rates on almost all key products covered by the common agricultural policy, specific rates on processed agricultural and food products, a system of entry price for 11 types of fruits, four types of vegetables and for grapefruit juice, and temporary restrictions within preferential quota for 9 vegetables and various types of fruits.[44] Turkey, on the other hand, still maintained quota for the import of cattle and

[42] D. Özdemir, *Trade and economic relations with Turkey*, Directorate-General For External Policies of the Union, Directorate B, European Parliament, PE 433.682/REV.1, 04.2010, p. 10.

[43] Turkey 2007 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2007–2008, SEC(2007)1436, COM(2007)663 final, Brussels, 06.11.2007, p. 5; Turkey 2008 Progress Report accompanying the Communication form the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2008–2009, SEC(2008)2699, COM(2008)674 final, Brussels, 05.11.2008, p. 5; Turkey 2009 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2009–2010, SEC(2009)1334, COM(2009)533 final, Brussels, 14.10.2009, p. 5; Turkey 2010 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2010–2011, SEC(2010)1327, COM(2010)660 final, Brussels, 09.11.2010, p. 5; Turkey 2011 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2011–2012, SEC(2011)1201, COM(2011)666 final, Brussels, 12.12.2011, p. 5; Turkey 2012 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2012–2013, SWD(2012)336 final, COM(2012)600 final, Brussels, 10.10.2013, p. 6.

[44] D.Özdemir, *Trade*..., op.cit., p. 11.

beef[45] and alcoholic beverages[46] – a measure that in fact negated preference to goods originating from the EC, although agreed licences were still applied, in line with the mutuality principles, by the Community.[47] Over the subsequent years the EC began to demand an indemnity for the practice of applying such prohibitions,[48] introducing, among other things, a system of licensing for export of Turkish hazelnuts to the Community market.[49] Nowadays, the problem has been gradually solved since 2011.[50]

Trade Exchange Between the European Union and Turkey

The EU Export to Turkey's Market

The value of the EU export to Turkey between 1988–2012 increased impressively, from the level of EUR 5.2 billion to over EUR 74.5 billion, thus translating into the growth in the value of goods sent to Turkish market by 14 times, compared to global growth of the EU's export to third parties which only managed to quadruple. The largest year-to-year rise was observed during the period in question just before formal establishment of the customs union. It was then that, due to liberalization, the value of export from the EU to Turkey increased by *c*. 50% in early and in

[45] Regular Report from the Commission on Turkey's progress towards accession – 1999, Brussels, 13.10.1999, p. 32; Regular Report from the Commission on Turkey's progress towards accession – 2004, SEC(2004)1201, Brussels, 06.10.2004, p. 6.

[46] Regular Report from the Commission on Turkey's progress towards accession – 2002, SEC(2002)1412, Brussels, 09.10.2002, p. 11.

[47] Regular Report from the Commission on Turkey's progress towards accession – 2000, Brussels, 08.11.2000, p. 8.

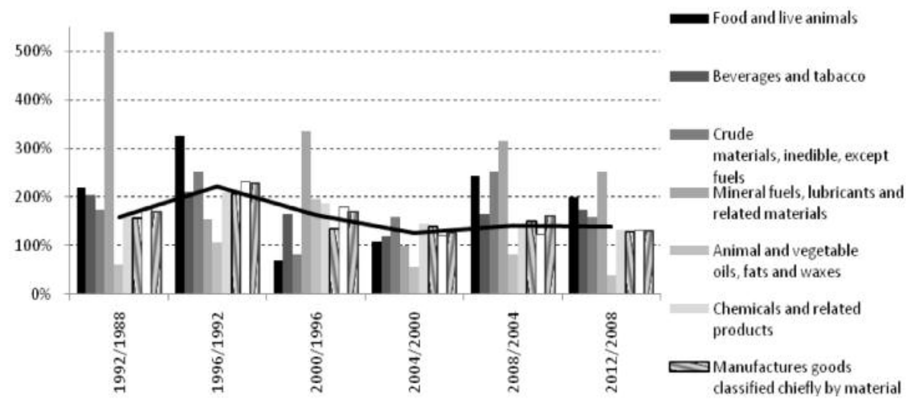
[48] Regular Report from the Commission on Turkey's progress towards accession – 2005, SEC(2005)1426, COM(2005)561 final, Brussels, 09.11.2005, p. 6; Regular Report from the Commission on Turkey's progress towards accession – 2006, SEC(2006)1390, COM(2006)649 final, Brussels, 08.11.2006, p. 55.

[49] Regular Report from the Commission on Turkey's progress towards accession – 2001, SEC(2001)1756, Brussels, 13.11.2001, p. 10.

[50] Turkey 2011 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2011–2012, SEC(2011)1201, COM(2011)666 final, Brussels, 12.12.2011, p. 5; Turkey 2012 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2012–2013, SWD(2012)336 final, COM(2012)600 final, Brussels, 10.10.2013, p. 55.

late 1994, and then, during the two subsequent years, again by 37% and 22%, respectively (see Figure 1). Over the next couple of years (1997–1998) the dynamics lost much of its momentum, recording a decline in the value of the Community export to Turkey to levels below those recorded in the previous years. This was compensated again by a significant growth in 2000 compared to 1999 (by 46%). During the first decade of the 21st Century, dynamics of the Community goods sales to Turkish market changed very often. One year that should be pointed out in this context was 2004 when an increase by 35% was recorded, mainly resulting from the accession of new member states to the EU, as well as 2010, boasting an even greater growth by 39% compared to 2009.

Figure 1. Dynamics of export from the European Union to Turkey in the years 1988–2012.



Source: The Author's own calculations, basing on the Eurostat data.

So remarkable growth of export to Turkey happening over almost a quarter Century, gave that country much more significant share as the Community's trade partner (see Table 1). In 1988 the value of export to Turkey accounted for meagre 1.4% of the total value of sales to third countries, while at the time the customs union was established, the share doubled to the level of 2.9% in 1996, to achieve as much as 4.5% in 2012 i.e. at the end of the period under consideration. In effect, Turkey left behind in that ranking such countries as India, Brazil or South Korea and by advancing to fifth place among the largest importers of goods originating from the European Union it was only preceded by the United States, Switzerland, China and Russian Federation.

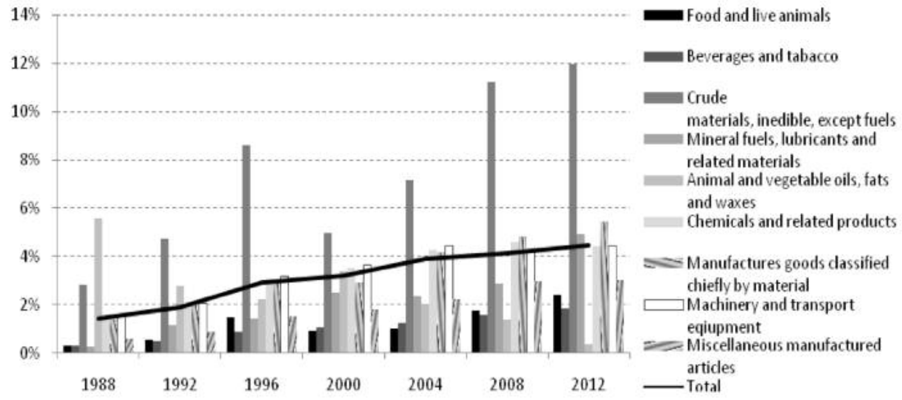
In late 1980s Turkey's position as importer from the European Union was mainly determined by trade in oils and animal and vegetable fats (5.6% of the total EU's export to Turkey) as well as of raw materials, including, in particular, metal ores, scrap metal and wood, cork and waste paper (2.8%) (see Figure 2). In subsequent years Turkey was becoming larger and larger importer of these raw materials – Turkish market's share in the EU's export to third countries of these goods more than tripled, up to 8.6% in 1996 and quadrupled to 12% in 2012. Notable growth of Turkey's share as a market for the EU's export had much in common

Table 1. Turkey's share in the EU's export to third countries in the years 1988–2012

	USA	China	Switzerland	Russian Federation	Turkey	Japan	Norway	Brazil	India	South Korea
1988	19.8%	1.6%	9.9%		1.4%	4.7%	2.3%	0.9%	1.6%	1.2%
1989	18.9%	1.5%	9.7%		1.4%	5.1%	2.1%	0.9%	1.7%	1.3%
1990	18.4%	1.3%	9.9%		1.9%	5.5%	2.2%	0.9%	1.4%	1.5%
1991	16.8%	1.3%	9.5%		1.9%	5.2%	2.3%	0.9%	1.2%	1.7%
1992	17.0%	1.6%	8.9%	1.3%	1.9%	4.7%	2.3%	0.8%	1.2%	1.4%
1993	17.5%	2.3%	8.1%	2.4%	2.4%	4.7%	2.1%	1.1%	1.3%	1.6%
1994	17.8%	2.3%	7.9%	2.2%	1.6%	4.9%	2.1%	1.3%	1.3%	1.9%
1995	18.0%	2.6%	8.9%	2.8%	2.3%	5.7%	3.0%	2.0%	1.6%	2.2%
1996	18.3%	2.4%	8.2%	3.1%	2.9%	5.7%	3.2%	1.9%	1.6%	2.3%
1997	19.6%	2.3%	7.4%	3.5%	3.1%	5.0%	3.2%	2.1%	1.4%	2.0%
1998	22.0%	2.4%	7.8%	2.9%	3.0%	4.3%	3.4%	2.1%	1.3%	1.2%
1999	24.1%	2.5%	8.2%	1.9%	2.7%	4.7%	3.1%	1.9%	1.4%	1.5%
2000	24.7%	2.7%	7.5%	2.1%	3.2%	4.8%	2.7%	1.8%	1.4%	1.7%
2001	24.3%	3.1%	7.6%	2.8%	2.1%	4.6%	2.7%	1.9%	1.3%	1.6%
2002	24.3%	3.4%	7.1%	3.1%	2.4%	4.3%	2.7%	1.6%	1.4%	1.7%
2003	22.6%	4.1%	7.0%	3.4%	2.9%	4.1%	2.6%	1.2%	1.5%	1.6%
2004	24.2%	5.0%	7.7%	4.7%	3.9%	4.5%	3.2%	1.5%	1.8%	1.8%
2005	23.5%	4.8%	7.7%	5.3%	3.9%	4.1%	3.1%	1.5%	2.0%	1.9%
2006	22.7%	5.4%	7.4%	6.1%	3.9%	3.8%	3.2%	1.5%	2.0%	1.9%
2007	20.9%	5.8%	7.5%	7.2%	4.2%	3.5%	3.5%	1.7%	2.3%	2.0%
2008	18.8%	5.9%	7.6%	8.0%	4.1%	3.2%	3.3%	2.0%	2.4%	1.9%
2009	18.5%	7.5%	8.1%	6.0%	4.0%	3.3%	3.4%	2.0%	2.5%	2.0%
2010	17.9%	8.3%	8.1%	6.3%	4.5%	3.2%	3.1%	2.3%	2.6%	2.1%
2011	16.9%	8.7%	9.0%	6.9%	4.7%	3.1%	3.0%	2.3%	2.6%	2.1%
2012	17.3%	8.5%	7.9%	7.3%	4.5%	3.3%	3.0%	2.3%	2.3%	2.2%

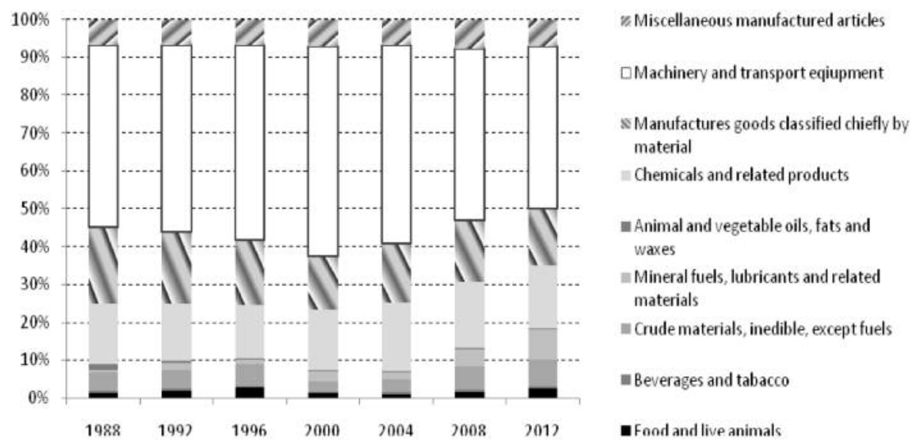
Source: The Author's own calculations, basing on the Eurostat data.

Figure 2. Share of export to Turkey in the European Union's total export to third countries in the years 1988–2012



Source: as in Figure 1.

Figure 3. The structure of the European Union's export to Turkey in the years 1988–2012.



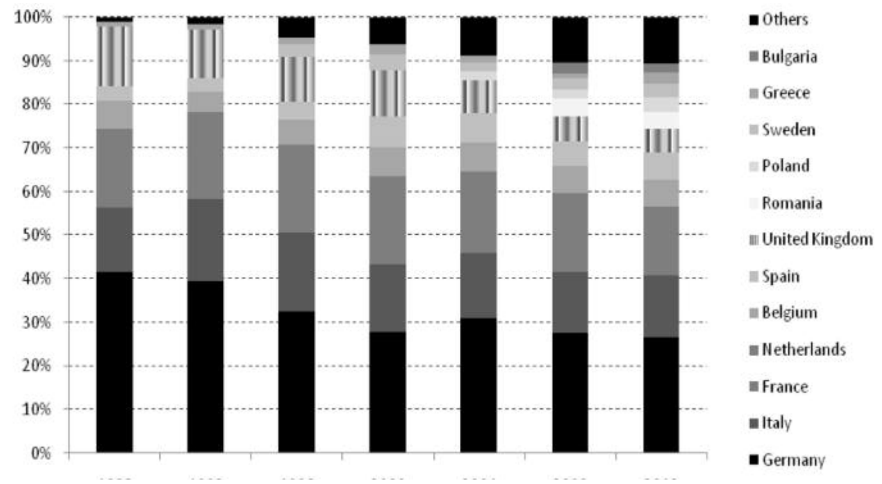
Source: as for Figure 1.

with preparations and then establishment of the customs union and concerned as follows: industrial machinery, vehicles and transport equipment, including in particular passenger cars, chemicals and chemical products and other industrial products, including cast iron and steel, paper, paperboard and products from paper pulp, and ferrous and non ferrous metals. The share of Turkey in reception of the EU export of the above-mentioned groups of commodities increased over years from a level of *c*. 3.0–3.2% in 1996 to 4.4-5.5% in 2012.

During the implementation of the customs union idea in the 90s., the structure of export of the Community goods to Turkish market underwent minor changes (see Figure 3). In late 2012 the value of export of machinery and equipment, together with the sector of transport, accounted for around 41.8% of the EU export, while further 23.0% going to other industrial goods and 16.3% to chemicals and their derivative products. It should be observed, however, that while the share of products included in the common agricultural policy increased during the period of the customs union establishment from 1.2% in 1988 to 2.5% in 1996, later on over a period of several later years it slowly shrank back to a level below 1%, in order to begin growing up again following the enlargements of 2004 and 2007 and to reach 2.3% in 2012.

Other factors influencing the commodity structure of export from the EU to Turkey include specific directions from which goods from the EU originate (see Figure 4). At the beginning of the period under scrutiny

Figure 4. Share of the EU member states in export to Turkey in the years 1988–2012



Source: as for Figure 1.

Table 2. Intensity of export from the EU member states to Turkey in the years 1988–2012

	1988	1992	1996	2000	2004	2008	2012
Bulgaria						5.4	5.1
Greece	2.1	2.1	2.3	3.0	2.5	2.4	4.2
Romania						5.4	4.1
Luxembourg				0.9	1.2	3.0	3.2
Slovakia					1.2	2.2	1.9
Poland					1.5	1.1	1.6
Hungary					1.1	1.4	1.4
Italy	1.2	1.4	1.3	1.3	1.3	1.2	1.3
Czech Republic					1.4	0.9	1.3
Spain	0.9	0.7	1.0	1.8	1.7	1.2	1.2
Belgium	1.2	0.9	1.1	1.2	1.1	1.1	1.0
Germany	1.2	1.1	1.2	1.0	1.1	1.0	1.0
Netherlands	1.0	1.1	1.2	1.2	1.1	1.1	0.9
France	0.8	0.8	1.0	0.9	0.9	0.9	0.9
Estonia					0.8	1.5	0.8
Malta					0.1	0.2	0.8
Slovenia					0.8	0.5	0.7
Austria			0.8	0.6	0.8	0.7	0.7
Latvia					0.1	0.1	0.8
Finland			0.4	0.9	0.5	0.5	0.6
Sweden			0.6	0.9	0.5	0.6	0.6
Portugal	0.3	0.4	0.5	0.6	0.8	0.5	0.6
United Kingdom	0.8	0.8	0.7	0.7	0.6	0.5	0.5
Denmark	0.2	0.3	0.3	0.3	0.4	0.6	0.4
Lithuania					1.3	0.4	0.4
Ireland	0.2	0.2	0.3	0.4	0.2	0.3	0.3
Cyprus					0.0	0.0	0.0

Source: as for Table 1.

Germany was the principal supplier of goods to Turkish market (41.5% of total export to Turkey), followed by Italy (14.9%) and by the United Kingdom (13.6%) and France (12.2%). Since 1992, however, Germany's position as the key supplier of goods from the EU has begun to shrink rapidly. This trend was made even more pronounced by stronger positions of new countries which became the EU member states in three subsequent rounds of enlargement i.e. in 1995 (Sweden with 2.1% share in the EU export to Turkey), in 2004 (Poland with 1.9%) and in 2007 (Bulgaria with 2.9% and Romania with 3.9%). At the end of the period under study i.e. in 2012 one could observe a well-marked decrease in the share in export to Turkey from such countries as France (9.2%) and the United Kingdom (5.6%) to the benefit of growth recorded in the same terms by new member states: Romania up to 3.8%, Poland to 3.3%, and Bulgaria to 2.1%.

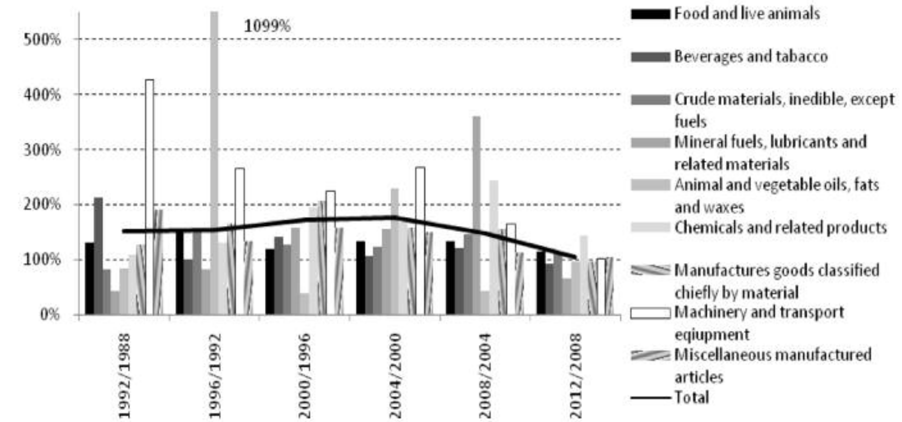
One parameter that evidences the interest on the part of individual EU member states in Turkish market is the index of intensity of their total export outside the Community. The index was calculated as relation of share of individual member states in the export to Turkey to the share of the same countries in the EU's global export (see Table 2). Since the beginning of the period in question i.e. since 1988 the largest intensity of export to Turkey was recorded in Greece, Italy, Belgium and Germany. As the trade exchange developed and the access to Turkish market grew more and more liberalized under the finally-achieved customs union, the intensity of export to that country was increasing – not only in the case of such EU suppliers as already mentioned Greece, but as Spain, too. It is also worth observing that two rounds of the European Union enlargement – in 2004 and 2007 – did not result in the interest in Turkish market on the part of hitherto-active exporters from the old EU-15 being limited in any way. Moreover, their group was then joined by such new member states as Slovakia, Poland, Hungary as well as Bulgaria and Romania. As regards Germany, by then by far the largest exporter to Turkey, despite its share in export to that market still being considerable, actually it more or less fits the average levels of Germany's involvement in the EU's global export. Hence it wouldn't seem right to consider German producers' interest in Turkish market particularly vivid.

The European Union's Import from Turkey

In 1988 the European Union imported from Turkey a total of EUR 4.3 billion worth of goods, while twenty-four years later this number skyrocketed to EUR 47.7 billion. This translates into the growth of the value of goods imported by more than eleven times which is very remarkable, if not as spectacular as in the case of export. It should be observed that over the same period the total EU's import from third countries increased from the level of EUR 387.7 billion to 1.7 trillion and this was only quadrupling. Therefore, mutual trade exchange between the European Union and Turkey grew up radically during the period in question, compared to general EU's involvement in trade with third countries.

The dynamics of the Community import from Turkey was only slightly lower than that of export (see Figure 5). This mainly resulted from elimination by the Community of most tariffs and other trade barriers as soon as the Association Agreement and the Additional Protocol entered into force; then, next steps toward liberalization in the period we consider only related to individual single commodity groups or categories. In the years 1988–2012 the largest growth of import, at a level of 16% year-to-year, was recorded in 1997 – just after the official forming of the customs union. For another so outstanding growth one had to wait until 2005 i.e. one year after the EU enlargement, and then until 2010, the time of the economic crisis (by 24% compared to 2009). However, as mentioned before, in the final standing the increase of trade exchange between the EU and Turkey, both in terms of import and export, was similar and its dynamics may be estimated at *c*. 7% *per annum*, on the average.

Figure 5. Dynamics of the European Union's import from Turkey in the years 1988–2012



Source: as for Figure 1.

In effect of fast-paced growth of the EU's import from Turkey the latter country has become, over almost a quarter Century, a relatively significant supplier of various products to the EU market – its share as the EU partner increased considerably (see: Table 3). In 1988 the value of the EU import from Turkey only accounted for 1.1% of the total value of

Table 3. Turkey's share in the EU's import to third countries in the years 1988–2012

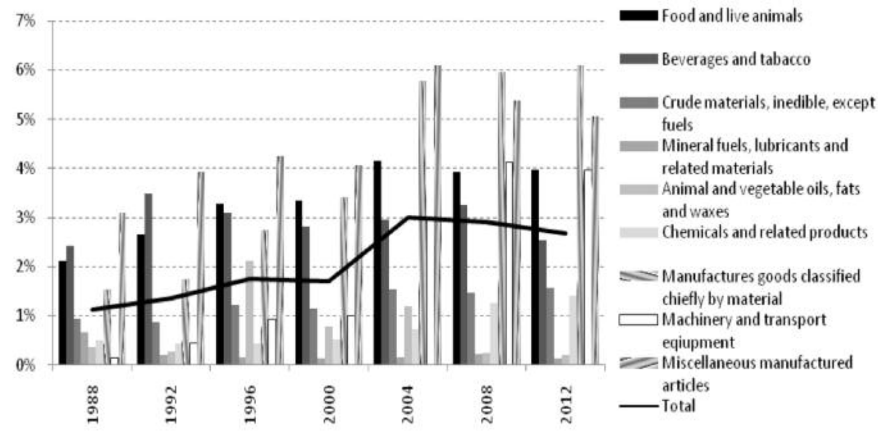
	China	Russian Federation	USA	Switzer-land	Norway	Japan	Turkey	India	Brazil	South Korea
1988	1.8%		17.6%	7.6%	3.2%	10.7%	1.1%	0.8%	2.4%	1.9%
1989	2.0%		19.0%	7.2%	3.4%	10.3%	1.2%	0.9%	2.3%	1.6%
1990	2.3%		18.4%	7.4%	3.5%	10.0%	1.3%	1.0%	2.0%	1.4%
1991	3.0%		18.4%	7.0%	3.5%	10.5%	1.3%	1.0%	1.9%	1.6%
1992	3.5%	1.8%	17.9%	7.2%	3.6%	10.6%	1.4%	1.0%	1.9%	1.5%
1993	4.0%	3.2%	17.3%	7.3%	3.7%	9.8%	1.3%	1.2%	1.7%	1.6%
1994	4.2%	3.4%	17.2%	7.2%	3.7%	9.0%	1.4%	1.3%	1.9%	1.6%
1995	4.8%	3.9%	19.0%	7.9%	4.7%	10.0%	1.7%	1.4%	2.0%	2.0%
1996	5.2%	4.0%	19.5%	7.4%	4.8%	9.0%	1.8%	1.5%	1.8%	1.9%
1997	5.6%	4.0%	20.5%	6.7%	5.0%	8.9%	1.8%	1.4%	1.9%	2.0%
1998	5.9%	3.3%	21.4%	7.0%	4.0%	9.3%	1.9%	1.4%	1.9%	2.3%
1999	6.4%	3.3%	20.6%	6.8%	3.8%	9.2%	1.9%	1.3%	1.7%	2.4%
2000	6.8%	4.4%	19.3%	5.8%	4.5%	8.4%	1.7%	1.2%	1.7%	2.4%
2001	7.4%	4.6%	19.0%	5.9%	4.4%	7.4%	2.0%	1.3%	1.8%	2.1%
2002	8.3%	4.8%	17.7%	5.9%	4.7%	6.9%	2.2%	1.3%	1.8%	2.3%
2003	9.7%	5.3%	15.3%	5.6%	4.9%	6.7%	2.4%	1.3%	1.8%	2.4%
2004	12.3%	7.8%	15.3%	6.0%	5.3%	7.2%	3.0%	1.6%	2.1%	2.9%
2005	13.4%	9.3%	13.7%	5.6%	5.7%	6.2%	2.8%	1.6%	2.0%	2.9%
2006	14.2%	10.1%	12.8%	5.2%	5.8%	5.7%	2.8%	1.7%	1.9%	3.0%
2007	16.1%	10.0%	12.3%	5.3%	5.3%	5.5%	3.3%	1.8%	2.3%	2.9%
2008	15.7%	11.3%	11.5%	5.2%	6.1%	4.8%	2.9%	1.9%	2.3%	2.5%
2009	17.4%	9.6%	12.5%	6.5%	5.6%	4.7%	2.9%	2.1%	2.1%	2.6%
2010	18.5%	10.5%	11.3%	5.6%	5.2%	4.4%	2.8%	2.2%	2.2%	2.6%
2011	17.1%	11.6%	11.1%	5.4%	5.4%	4.0%	2.8%	2.3%	2.3%	2.1%
2012	16.2%	11.9%	11.5%	5.8%	5.6%	3.6%	2.7%	2.1%	2.1%	2.1%

Source: as for Table 1.

what the Community imported from third countries. In subsequent years, despite official efforts to complete the establishment of the customs union, no further remarkable liberalization of the Community market was seen, but still Turkey's share in the import to the EU member states increased slowly: from 2.0% in 2000 through 3.0% in 2004 and 3.3% in 2007. Certainly, the accession of new member states from Central and Eastern Europe and their increased import of goods originating from Turkey contributed to this growth. Nonetheless, over several next years this index fell down a bit, to 2.7% in 2012. On its way to raise its importance in terms of share in the EU import, Turkey overtook such countries as Brazil and South Korea, but without seeming able to threaten firm positions of such suppliers to he Community market as China, Russian Federation, United States, Norway or Switzerland.

Factors influencing Turkey's position as supplier to the Community market at the beginning of the period under research include import of gold, beverages, tobacco, food and livestock. Shares of these commodity categories in global import to the EU amounted, in 1988, to 3.1%, 2.4% and 2.1%, respectively (see: Figure 6). As the implementation began of the last stage of the customs union and trade in agricultural products was liberalized by the EU, vegetable and animal oils and fats were added to these

Figure 6. Share of import from Turkey in general European Union's import from third countries in the years 1988–2012

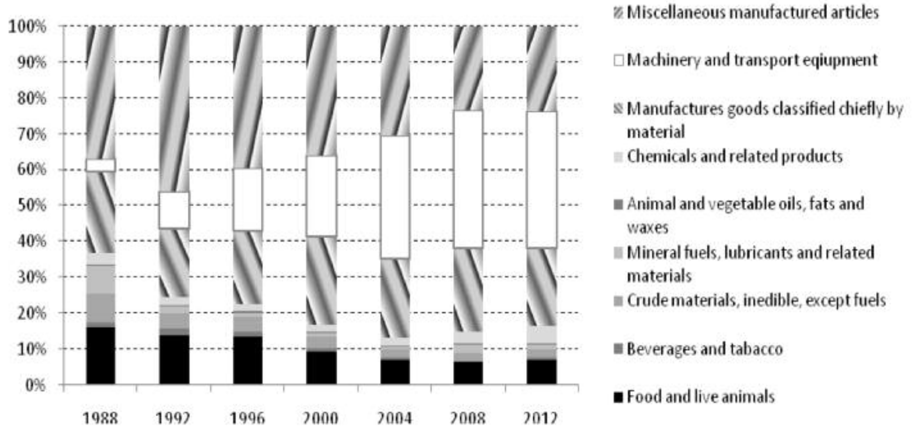


Source: as for Figure 1.

categories (achieving the share of 3.3% of the entire EU import in 1995). In the subsequent years the above-mentioned fats from Turkey ceased to play any significant role in the trade share, to the benefit of the global import of other types of goods, such as processed industrial commodities, including, in particular, yarn and cloths, steel as well as ferrous and non-ferrous metals.

At the beginning of the period in question, in 1988, export from Turkey mainly relied upon industrial products with low level of processing (58.5% of Turkey's export to the EU), which mainly consisted of yarn, cloths and textile products, but also food and live animals (15.9%) (see: Figure 7). Over the next twenty-four years, however, the structure of the EU's import from Turkey changed considerably. Rather than result from opening of the Community market (already liberalized in 1970s) to Turkish market, it may be concluded that this was caused by investments made in Turkey and by selling goods made in Turkey in the single European market. Since early 90s. and in relation with new opening of Turkish economy and its new Western-European direction, goods belonging to the category of machinery, equipment and vehicles, including passenger cars and electric appliances, began to play more and more important role in this context. In 1988 their share in export from Turkey to the EU accounted for mere 3.6%, in order to bloom in 1992 to the level of 10.1%

Figure 7. The structure of the European Union's import from Turkey in the years 1988–2012

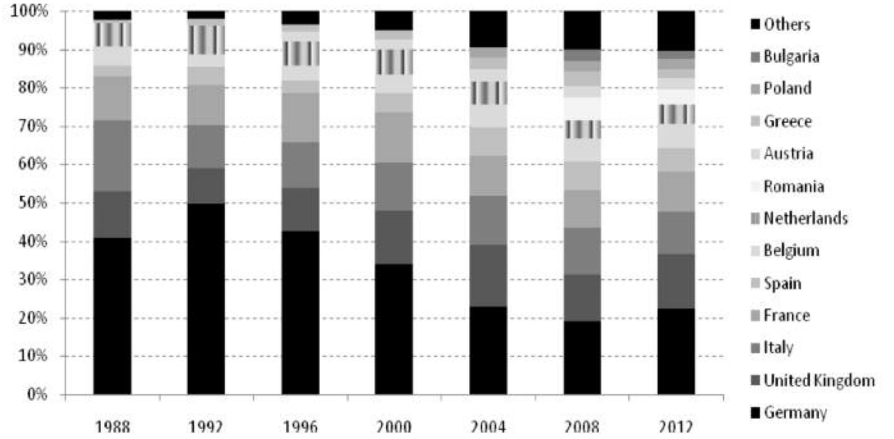


Source: as for Figure 1.

and then, even more impressively, to 38.1% in 2009. This trend was accompanied by gradually decreasing importance of agricultural and food products in the import to the EU (they shrank by half, to the level of 7.1% in 2012). It was only the abrupt decline of demand in the European market caused by the economic crisis that slowed down consumer import and resulted in a slight downfall of share of industrial products import from Turkey, to 37.5% in 2012.

The commodity structure of the EU's import from Turkey depends, to a certain extent, on directions of Turkish export thereto (see: Figure 8). Early in the period in question Germany were the principal recipient of Turkish goods (40.8% of the Total EU's import from Turkey), followed by Italy (18.5%) and the United Kingdom (12.2%) and France (11.5%). The accession of new member states to the EU in 1995 brought no major changes to5 this structure. The position held by Italy began to decrease rapidly already in early 90s., mainly to the benefit of Germany and Austria. In the year the customs union began to work i.e. 1996, Germany's share in the EU's import from Turkey grew up to 42.6% while that of the three other states remained more or less the same, within the range of 10.2–12.7%. This probably had more to do with the entrepreneurs becoming aware of existence of the new customs union than with any actual legal transformations concerning the access to the Community market.

Figure 8. Share of the EU member states in import from Turkey in the years 1988–2012



Source: as for Figure 1.

Over years to follow, up until 2007, the share of Germany – the key importer from Turkey – was decreasing to around 19% and then began to rebound again, achieving a level of 22.3% in 2012. These fluctuations are mainly explained by larger involvement in import from Turkey of other countries (e.g. Spain with 6.4% of the Total EU's import from Turkey in

Table 4. Intensity of import from Turkey to the EU member states in the years 1988–2012

	1988	1992	1996	2000	2004	2008	2012
Romania						5.5	4.8
Bulgaria						4.4	4.2
Slovenia					2.6	4.0	3.4
Malta					1.6	1.3	2.7
Greece	1.0	1.3	1.3	1.8	1.9	2.1	1.6
Austria			1.1	1.2	1.8	1.7	1.6
Germany	1.6	1.7	1.7	1.4	1.2	1.0	1.2
Denmark	0.5	0.5	0.7	0.9	1.1	1.1	1.3
France	0.8	0.7	1.0	1.1	0.9	1.0	1.1
Italy	1.4	0.9	1.1	1.2	1.2	1.1	1.1
Belgium	0.9	0.6	0.6	0.8	0.9	1.0	1.0
Slovakia					0.7	0.6	1.0
Spain	0.5	0.8	0.6	0.9	1.2	1.0	0.9
United Kingdom	0.6	0.6	0.6	0.8	1.0	0.9	0.9
Poland					1.4	1.0	0.9
Sweden			0.4	0.5	0.8	0.8	0.9
Czech Republic					0.7	0.6	0.8
Latvia					0.8	0.6	0.8
Hungary					0.7	0.6	0.7
Estonia					0.6	0.7	0.6
Ireland	0.3	0.2	0.3	0.3	0.4	0.6	0.5
Finland			0.2	0.4	0.5	0.3	0.4
Lithuania					0.6	0.4	0.4
Netherlands	0.7	0.8	0.6	0.6	0.5	0.4	0.4
Portugal	0.5	0.5	0.5	1.1	1.2	0.8	0.3
Luxembourg				0.2	0.1	0.2	0.2
Cyprus					0.2	0.3	0.1

Source: as for Table 1.

2012, Belgium with 6.2%, Greece with 2.5% and Sweden with 2.1%) as well as by emergence of new member states. In the wake of the 2004 round of enlargement Poland became one, with its share at the level of 2.5%, while Bulgaria and Romania, countries that became the EU member states in 2007, recorded the share in the EU's import from Turkey in 2012 at levels of 2.2% and 3.8%, respectively.

The index of intensity of the EU import from Turkey described relative involvement and a degree of importance of import of Turkish goods to individual member states. It was calculated as relation of shares of individual EU member states in import from Turkey to the same countries' share in the global import to the EU (see: Table 4). At the outset of the period under consideration, i.e. since 1988, Turkey was a very significant supplier of goods to Germany and to Italy. Over the years the indexes of import intensity to these countries fell down, giving way to bigger interest in Turkish goods in Greece, Austria, Spain and Portugal as well as in new member states: Slovenia, Malta, Poland, Romania and Bulgaria.

Turkey's Position in Trade with the European Union

Due to the process of liberalization, share of mutual trade exchange should increase in foreign volume turnover of trade partners – parties to a customs union. This rule applies in the case of Turkey's share in the EU export and import. In terms, however, of geographic structure of Turkish foreign trade, the importance of the EU revealed significant changes in the period 1988–2012, although it remained the most important partner to Turkey (see: Table 5 and Figure 9). In 1988 trade with the EU constituted 47.1% of Turkey's import and 49.5% of its export. At the time the last stage of the customs union was implemented, these shares increased by 2–3 percentage points. In subsequent years the EU's share in Turkish import was growing up until the 2004 enlargement when it reached the level of 58.1% of the total foreign import to Turkish market. Later on, in spite of the 2007 round of enlargement when Bulgaria and Romania – Turkey's traditional trade partners – became the EU member states, the share decreased to a benefit of third countries. This was certainly due to gradual adoption by Turkey of legal measures concerning the running of common commercial policy and in this context, implementation of, among other things, application of customs tariffs and conclusion of

Table 5. The EU's share in Turkey's trade in the years 1993–2011

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Import	47.1	46.9	51.2	49.7	46.6	50.0	54.0	52.2	51.4	54.5	54.8	58.1	56.5	56.3	56.3	47.9	45.9	46.2	46.2
Export	49.5	47.7	47.2	53.0	51.2	52.4	52.6	48.8	44.2	45.5	45.6	49.4	45.2	42.6	40.2	36.8	40.1	38.9	37.8

Source: Regular Report from the Commission on Turkey's progress towards accession – 1998, Brussels 1998, Regular Report from the Commission on Turkey's progress towards accession – 1999, Brussels, 13.10.1999; Regular Report from the Commission on Turkey's progress towards accession – 2000, Brussels, 08.11.2000; Regular Report from the Commission on Turkey's progress towards accession – 2001, SEC(2001)1756, Brussels, 13.11.2001; Regular Report from the Commission on Turkey's progress towards accession – 2002, SEC(2002)1412, Brussels, 09.10.2002; Regular Report from the Commission on Turkey's progress towards accession – 2004, SEC(2004)1201, Brussels, 06.10.2004; Regular Report from the Commission on Turkey's progress towards accession – 2005, SEC(2005)1426, COM(2005)561 final, Brussels, 09.11.2005; Regular Report from the Commission on Turkey's progress towards accession – 2006, SEC(2006)1390, COM(2006)649 final, Brussels, 08.11.2006; Turkey 2007 Progress Report accompanying the Communication form the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2007–2008, SEC (2007) 1436, COM (2007) 663 final, Brussels, 06.11.2007; Turkey 2008 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2008–2009, SEC(2008)2699, COM(2008)674 final, Brussels, 05.11.2008; Turkey 2009 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2009–2010, SEC(2009)1334, COM(2009)533 final, Brussels, 14.10.2009; Turkey 2010 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2010–2011, SEC(2010)1327, COM(2010)660 final, Brussels, 09.11.2010; Turkey 2011 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2011–2012, SEC(2011)1201, COM(2011)666 final, Brussels, 12.12.2011; Turkey 2012 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2012–2013, SWD(2012)336 final, COM(2012)600 final, Brussels, 10.10.2013.

preferential trade contracts with third countries. Actually, it was thanks to these changes that Turkish economy has gradually opened up to new suppliers, not necessarily from the European Union.

It may be seen as a paradox that this relative openness on the part of Turkey led to limitation of the EU's importance as supplier of goods to

Figure 9. Share of the EU in Turkey's trade balance in the years 1993–2011

Source: as for Figure 1.

that country's market. Instead, as far as export was concerned, the EU's open market indeed translated – in the initial period i.e. until the official date of the customs union's establishment – remarkable demand for Turkish goods. However, in the following years, despite the introduction of legal solutions facilitating the access to the Community market, its share as supplier of goods from Turkey began to decrease substantially.

As one analyses trends observable during the period in question, the growing role of the EU in supplying goods to Turkish market may undeniably be stressed, as well as clearly decreasing role of the EU as a recipient of goods from Turkey (see: Figure 9). This may be regarded as indication of Turkish economy's less-than-perfect adaptation to both new opportunities of selling in the European market and challenges of price and quality competition for interest of demanding European consumers.

It seems that more precise and reliable evaluation of Turkey's position vs. the EU may be derived from an analysis of a ratio of coverage of Turkish import from the EU with this country's export to the EU in the years 1988–2012 (see: Table 6). In initial year of the period in question, i.e. in 1988, relative surplus of Turkey's export over import from the EU was recorded for food and live animals (10.7), mineral fuels and greases (12.5) as well as various industrial products (including, in particular, gold). In next years the coverage of import of agricultural and food products and mineral fuels with export decreased notably. Finally, after implementation of most of key trade-related provisions of the decision of 1995 on establishing the customs union, the ratio in question oscillated around the level of 2 in 2012, both as regards food and live animals, and various industrial products. This suggests still higher, though constantly falling volume of export compared to import, in trade relations between Turkey and the Community, in terms of basic and low-processed commodities. At the same time, the coverage of import's coverage with export increases in the-segment of machinery, equipment and means of transport, which may be an evidence of qualitative improvement of the structure of Turkish export to the Community market, a change toward higher-processed and modern goods than it was the case before the customs union was established.

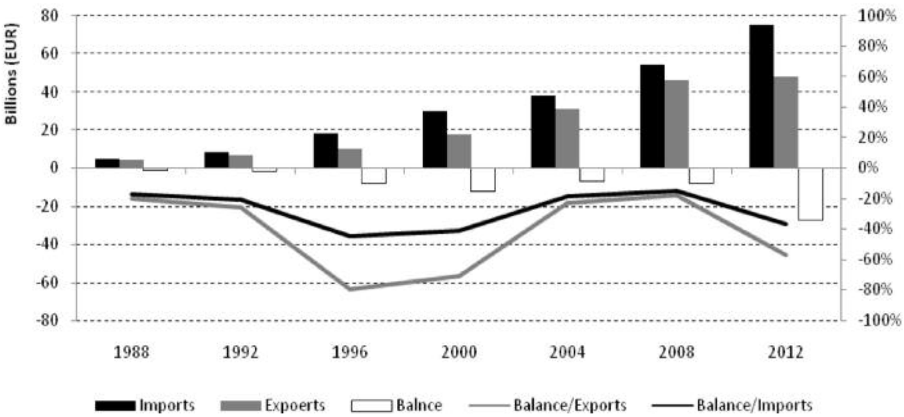
Table 6. The ratio of Turkish import's from the EU coverage with its export to the EU in the years 1988–2012

Ratio of Turkish import's coverage with export	1988	1992	1996	2000	2004	2008	2012
Food and live animals	10.7	6.4	2.9	5.1	6.2	3.4	2.0
Beverages and tobacco	2.4	2.5	1.2	1.0	0.9	0.7	0.4
Inedible raw materials	1.5	0.7	0.4	0.7	0.5	0.3	0.2
Mineral fuels, greases	12.5	1.0	0.5	0.3	0.4	0.4	0.1
Animal and vegetable oils, fats and waxes	0.1	0.1	1.1	0.2	0.9	0.5	1.2
Chemicals and derivative products	0.2	0.1	0.1	0.1	0.1	0.2	0.2
Industrial commodities classified acc. to raw materials	1.0	0.8	0.7	1.0	1.2	1.2	1.2
Machinery, equipment and vehicles	0.1	0.2	0.2	0.2	0.5	0.7	0.6
Sundry industrial products	5.1	5.8	3.3	3.1	3.7	2.6	2.1
Total	0.8	0.8	0.6	0.6	0.8	0.8	0.6

Source: as for Table 1.

Over the entire period researched, Turkey was recording deficit in its trade with the European Union. In 1988 the value of both its export and import was insignificant compared to the level achieved by 2012, so, effectively, in absolute terms the trade deficit wasn't very large, but in relation to the value of Turkey's export to the Community marketit still exceeded 20%, while in relation to import it achieved 16.8% (see: Figure 10). In the next years 1996–1997, just after the decision on proceeding to the last stage of creation of the customs union, the import's surplus over export, in relation to trade exchange peaked – at 79.9% and 88.5%, respectively, with respect to export and 44.4% and 46.9%, respectively, in relation to import. Over the subsequent years this extremely high deficit, mainly resulting from the fact of Turkish market opening to the Community goods, was gradually balanced by Turkish export to the single European market. What seems noteworthy is that over the crisis periods in the EU, i.e. in 2001 and in the years 2007–2009, the value of deficit in Turkey's trade with the EU in relation to mutual trade decreased radically, to as little as several or just over a dozen percent. This, in turn, was mainly caused by the export growing up remarkably, accompanied by a minor decrease in Turkey's import. This might suggest that Turkish products, during crisis periods and at times of Turkish economy's slowdowns, were more in demand in

Figure 10. Trade exchange balance between Turkey and the European Union in the years 1988–2012

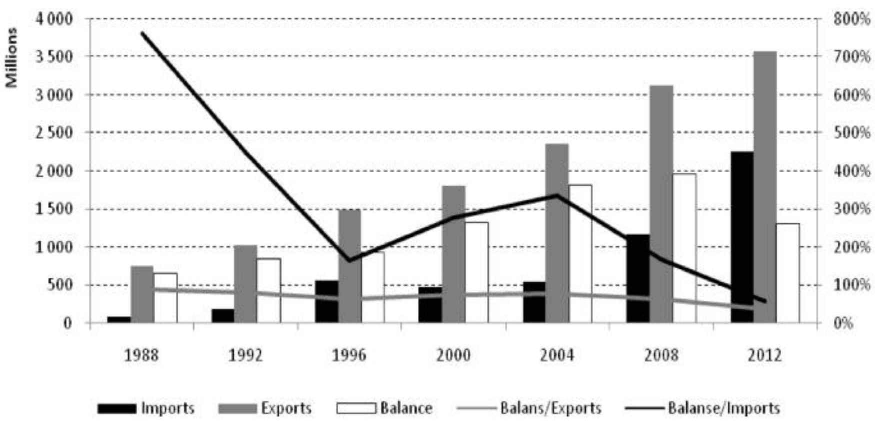


Source: as for Figure 1.

the Community market. To explain such a situation one should look at European production being transferred to Turkey regarded as a low-cost country as well as to export of ready-made goods from that country to the common market. However, during last years the deficit started to increase again, to achieve a level of 51.6% of Turkey's export to the single European market and 34.1% of import from the EU to Turkish market.

While analysing the structure of this deficit, one should observe that trade in agricultural and food products, which has not undergone full liberalization, influences the balance in a different way than duty-free trade exchange in industrial products under the customs union. In the former case, over the time-frame considered here, a significant surplus of export over import was recorded (see: Figure 11). In 1988 the surplus was seven times as large as import, accounting for over 80% of export. In subsequent years, mainly in effect of constant increase of agricultural export to the Community, the surplus remained at its high level. More than with anything else, it had much to do with the introduction by the EU of one preferential import quota after another to selected goods originating from Turkey. It should be observed, however, that gradual opening of the Community market was accompanied by adaptations made on the Turkish part to the common agricultural policy, and in consequence also by

Figure 11. Trade exchange balance in agricultural and food products between Turkey and the European Union in the years 1988–2012

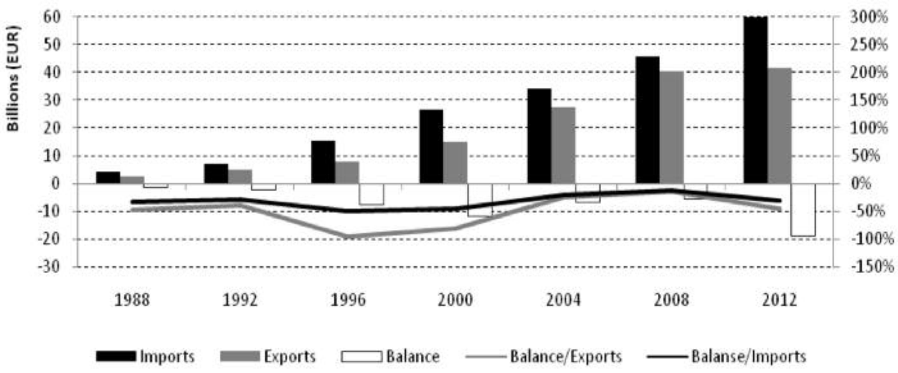


Source: as for Figure 1.

application of preferential instruments to selected Community goods. This resulted in an increase of agricultural import which contributed to lowering of the relation of the surplus of trade in agricultural and food products to export of Turkish products to the EU, down to a level of 36.8%, and in relation to import from the EU down to the level of 58.2%.

The factor that had by far the strongest influence upon a negative figure of the trade balance over the last quarter Century, was Turkey's import of industrial products from the EU (see: Figure 12). Among ingredients to have contributed to this phenomenon one can mention low competitiveness of Turkish products in the European market as well as gradual liberalization in Turkey's access to products from that group. At the beginning of the period considered, i.e. in 1988, the deficit in trade in industrial products accounted for 47.8% of the value of Turkish export to the EU and for 32.3% of import from the EU. In next years the surplus of import over export was increasing markedly in order to achieve, in the period between 1996–1997, that is just after the final opening of Turkish market, the level of 94.9% and 107.6%, respectively, in relation to export as well as 51.8% and 42.4% in relation to import to Turkey from the EU. This obviously resulted from poor preparation of Turkey's industry to competition from the Community businesses. One has to admit that over the following years the condition of Turkey's industrial export was

Figure 12. Trade exchange balance in industrial products between Turkey and the European Union in the years 1988–2012



Source: as for Figure 1.

improving, thus managing to control an excessive deficit. Reduction of an excessive value of trade balance in the segment of industrial products happened principally in periods of worsened business prospects in the EU, being therefore mainly related to weaker condition of European businesses than to improved competitive edge of Turkish goods.

Conclusion

Turkey has been associated with the European Union for fifty years now. Factors, both political and economic, that influenced trade relations between the partners have always been plenty. Tentative, incomplete and terribly delayed implementation of provisions of the Association Agreement and its Additional Protocol, as well as of the decision on the establishment of the customs union seriously slowed down the process of liberalization of trade exchange between the EU and Turkey. Accordingly, a period of waiting for expected positive effects of the customs union creation to occur was much longer than assumed in the first place and what it finally brought was in fact rather vague and diluted. One could perhaps attempt to explain such a serious delay in the implementation of provisions opening the Turkish market with an urge to better adapt Turkish economy to strong competition from the Community businesses. This, however, would be untrue, considering the trade structure and a level of trade deficit which reveal that Turkish economy actually has not been adapted to face these challenges and largely remains unprepared.

Despite all that, from perspective of the period of twenty-five years we considered above, positive trade effects resulting from the process of Turkish economy integration with the internal market of the European Union can clearly be seen. The distance covered in mutual relations from initial arrangements to actual free trade exchange between Turkey and the European Union is nothing short of impressive. Turkey has become one of the European Union's key trade partners, overtaking several remarkable economic powers. The size and dynamics of trade exchange between the EU and Turkey, both in terms of export and import, may be treated as heralds of further improvement and growth of position Turkey is going to enjoy in the future.

Also the analysis of the structure of trade exchange, commodity-wise, enables one to point out a couple of positive conclusions. Turkey is no really just raw materials, agricultural products and food supplier any longer. We are witnessing a constantly increasing share of industrial products made in Turkey in that country's export and in global import to the European Union. This is not limited to textiles – instead, this also comprises machinery and means of transport, including passengers cars and electric appliances included. This is undeniably the effect of investments (also made by businesses from the EU) in Turkey in modern branches of industry.

Economic impulses given by the establishment of the customs union seem to influence the development of Turkish economy in a decisive manner. Accordingly, the longer Turkey is going to postpone full implementation of the Community legislation, the less will it experience positive effects for its economy. The delay in opening Turkish economy directly translates into delay in emergence of new, innovative solutions in agricultural and industrial production in Turkey and indirectly, as a consequence, will result in insufficient foreign competition, lack of impulses for radical changes to be made in the real sphere and even greater difficulties with competing in global markets.

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