



Department for  
International Trade

# **Continuing the United Kingdom's Trade Relationship with the Republic of Turkey**

**Free Trade Agreement between the United Kingdom of Great Britain and Northern  
Ireland and the Republic of Turkey**

January 2021



## **Continuing the United Kingdom's Trade Relationship with the Republic of Turkey**

Presented to Parliament

by the Secretary of State for International Trade

by Command of Her Majesty

January 2021



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## Introduction

1. This report explains HM Government's approach to delivering continuity in the trade relationship of the United Kingdom of Great Britain and Northern Ireland with the Republic of Turkey ("Turkey") after the end of the Transition Period, following our withdrawal from the European Union ("EU").
2. With our withdrawal from the EU, HM Government has sought to deliver the maximum possible certainty to businesses and consumers through ensuring continuity in our existing trade relationships with other countries. It is in no one's interests to disrupt existing trade flows.
3. To achieve this, HM Government has developed new bilateral agreements that replicate, as far as possible, the effects of our existing trade agreements with trading partners.
4. Wherever possible, HM Government has sought a technical replication of these agreements, but in some cases, it has applied bespoke solutions for individual agreements as necessary to ensure continuity of effect in a bilateral context. The EU and Turkey are in a customs union and, owing to the need to transition this into a Free Trade Agreement, some changes have been inevitable, and other changes have been made to ensure operability in a bilateral context.
5. This report gives details of, and explains the reasons for, any significant differences or enhancements between the trade-related provisions of:
  - a. The Free Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and the Republic of Turkey (the "Agreement") and
  - b. Legal instruments underpinning the trading relationship between the EU and Turkey (collectively the "EU-Turkey Arrangement"), which include the Agreement creating an Association between the European Economic Community Republic of Turkey, signed on 12 September 1963 (the "Ankara Agreement"), Additional Protocol signed on 23 November 1970, the Agreement between the European Coal and Steel Community and the Republic of Turkey on trade in products covered by the Treaty establishing the European Coal and Steel Community, and Decisions of the EU-Turkey Association Council, including Decision 1/95 establishes a customs union between the EU and Turkey, which entered into force on 31 December 1995.
6. This report first sets out the general drafting changes necessary across all of our long form continuity trade agreements and which have no significant impact on our current trade relationships with trading partners. It then considers articles of the Agreement, in turn explaining any significant differences between the trade-related provisions of the Agreement and the corresponding provisions of the EU-Turkey Arrangement. To assist the reader, we have included some discussion of the economic impacts as appropriate. This report focuses solely on the changes made to the trading arrangements between us and Turkey in preparation for us ceasing to be bound by the EU-Turkey Arrangement and entering into the Agreement. Any wider economic impacts resulting from our withdrawal from the EU or the nature of any future trade agreement between the EU and the United Kingdom of Great Britain and Northern Ireland have been excluded from this report.

## Legal Approach

7. We have agreed with Turkey that the most appropriate form of legal instrument to ensure continuity in this case is a long form agreement. To draft the Agreement, we have

reproduced all relevant sections of the existing EU-Turkey Arrangement with the necessary technical and administrative changes to make it operable in a bilateral context.

## Resources

8. This report is intended to aid businesses, consumers and parliamentarians in understanding any significant differences made to our trade relationship with Turkey by the Agreement and the reasons for any changes, and their impact.
9. Should you wish to view the EU-Turkey Association Agreement as originally published, it can be found online on the [European Commission's website](#).
10. A number of legal instruments underpin the trading relationship between the EU and Turkey, which are listed on the [European Commission's website](#). More detail, including decisions of the Association Committee established under the EU-Turkey Association Agreement, can be found on the [EUR-Lex website](#).
11. Should you wish to view the full text of the Agreement, it will be laid in Parliament alongside an Explanatory Memorandum as part of our treaty ratification process in accordance with the Constitutional Reform and Governance Act 2010 ("CRaG Act"). The text will also be available on GOV.UK.

# Economic Background

## Trade between the United Kingdom and Turkey

12. This section provides a country-specific background analysis of trade between the United Kingdom of Great Britain and Northern Ireland and Turkey.
13. Turkey is our 19th largest trading partner,<sup>1</sup> accounting for 1.3% of total trade in 2019. Total trade in goods and services between us and Turkey was £18.6 billion in 2019.<sup>2</sup>
14. In 2019, our exports to Turkey were £7.7 billion, making it our 21<sup>st</sup> largest export market (accounting for 1.1% of all our exports). Our imports from Turkey, over the same period, were £10.9 billion, making it our 17<sup>th</sup> largest import source (accounting for 1.5% of all our imports).

**Table 1: Trade between the United Kingdom of Great Britain and Northern Ireland and Turkey, 2019 (£ billion)**

	Trade in goods	Trade in services	Total trade
Our exports to Turkey	5.9	1.7	7.7
Our imports from Turkey	9.0	1.9	10.9
Total trade	14.9	3.6	18.6

Source: ONS, (2019). United Kingdom total trade: all countries, non-seasonally adjusted (accessed 13<sup>th</sup> November 2020). Totals may not be the sum of the shown parts due to rounding.

15. Using data from HMRC for trade in goods only, Table 2 shows that in 2019 the top goods exported to Turkey were machinery and mechanical appliances (HS84, £1.5 billion), and precious stones and metals (HS71, £937 million), together representing just under a half of the total value of goods exported to Turkey. Our top goods imported from Turkey were vehicles other than railway or tramway stock (HS87, £1.9 billion), and machinery and mechanical appliances (HS84, £1.1 billion), together representing just under a third of the total value of goods imported from Turkey.

<sup>1</sup> EU member states are treated as individual trading partners with the United Kingdom of Great Britain and Northern Ireland.

<sup>2</sup> ONS (2019), United Kingdom total trade: all countries, non-seasonally adjusted (accessed 13<sup>th</sup> November 2020)

**Table 2: Our top 5 goods exports to and imports from Turkey, 2019 (at HS2<sup>3</sup> level, £ million)**

<b>Our top 5 goods exports to Turkey</b>	<b>Value</b>	<b>Our top 5 goods imports from Turkey</b>	<b>Value</b>
Machinery and mechanical appliances	1,513	Vehicles other than railway or tramway stock	1,907
Precious stones and metals	937	Machinery and mechanical appliances	1,063
Iron and steel	575	Electrical machinery and equipment	1,023
Vehicles other than railway or tramway stock	291	Articles of apparel and clothing, knitted	939
Electrical machinery and equipment	219	Precious stones and metals	915

Source: [HMRC trade statistics by commodity code](#) (accessed 10<sup>th</sup> December 2020). Sectors classified according to Harmonised Systems chapters. Data presented is recorded on a physical movement basis where a good is recorded as an export (import) if it physically leaves (enters) the economic territory of a country.

*Please note tables 1 and 2 are on different bases. ONS data is recorded on a 'Balance of Payments' or 'change of ownership' basis where a good or service leaving (entering) the economic territory of a country is recorded as an export (import) only if it has changed ownership between the resident of the reporting country and non-residents. Goods exports (imports) are recorded by HMRC if a good physically leaves (enters) the economic territory of a country.*

16. In 2019, we exported £1.6 billion in services to Turkey and imported £1.9 billion in services from Turkey. Table 3 shows that in 2019 travel was the largest service exported to Turkey, valued at £371 million, with transportation services following as the second largest export (£365 million). Travel was also the largest service imported from Turkey, valued at £1.1 billion, with other business services following as the second largest import (£147 million).

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<sup>3</sup> The Harmonised System (HS) is an international nomenclature for the classification of products. It allows participating countries to classify traded goods on a common basis for customs purposes.



**Table 3: Our top 5 services exports to and imports from Turkey, 2019 (£ million)**

<b>Our top 5 services exports to Turkey</b>	<b>Value</b>	<b>Our top 5 services imports from Turkey</b>	<b>Value</b>
Travel	371	Travel	1,132
Transportation	365	Other Business Services	147
Other Business Services	302	Financial	75
Financial	294	Government	44
Government	103	Insurance and Pension	42

Source: [ONS, United Kingdom trade in services by partner country: July to September 2019](#) (accessed 16<sup>th</sup> November 2020)

*Import data for 'construction' and 'intellectual property', and export data for 'manufacturing' sectors have been omitted by the ONS as the data might be disclosive, but the values are included in the overall totals. ONS data is recorded on a 'Balance of Payments' or 'change of ownership' basis where a good or service leaving (entering) the economic territory of a country is recorded as an export (import) only if it has changed ownership between the resident of the reporting country and non-residents. Goods exports (imports) are recorded by HMRC if a good physically leaves (enters) the economic territory of a country.*

### **British businesses exporting to and importing from Turkey**

- In 2019, HMRC estimated that around 7,600 VAT registered businesses in the United Kingdom of Great Britain and Northern Ireland exported goods to Turkey and around 10,600 imported goods from Turkey.<sup>4</sup> As these figures only include businesses trading in goods, they are likely to underestimate the total number of businesses trading with Turkey.
- For context, provisional survey data from the ONS shows that around 340,500 (non-financial) registered businesses in Great Britain traded in either goods or services or both in 2018 with another country.<sup>5</sup> This was just under 15% of all VAT/PAYE registered businesses. There were around 211,100 (non-financial) registered businesses in Great Britain engaged in goods trade with another country and 188,400 (non-financial) registered businesses trading in services in 2018. Some of these businesses traded in both goods and services. There will be other businesses trading internationally, which are not identified by these surveys as they are not registered for VAT. Neither of these sources include businesses trading below the VAT registration threshold.

## **Economic impact of the existing EU-Turkey Arrangement**

- The Ankara Agreement was signed in 1963 and led to the creation of a customs union between the EU and Turkey, which has been in force since 31 December 1995. The Customs Union involved Turkey adopting the EU common external tariff for most industrial products, and both the EU and Turkey agreeing to eliminate all customs duties and quantitative restrictions on bilateral

<sup>4</sup> HMRC, (2019). [Regional trade statistics interactive analysis: second quarter 2020](#), exports/imports using proportional business count method (accessed 4<sup>th</sup> November 2020)

<sup>5</sup> ONS, (2019). [Annual Business Survey exporters and importers](#) (accessed 13<sup>th</sup> November 2020)

trade. The customs union does not cover agriculture (except processed agricultural products), services or public procurement.<sup>6</sup>

20. A 2018 European Commission report looking at implementation of EU free trade agreements included information on the EU-Turkey Customs Union.<sup>7</sup> It highlighted that total trade in goods between the two parties increased by 54% between 2007 and 2017, though the report did not establish whether the Customs Union caused the increase.
21. In 2014, the World Bank produced an evaluation of the EU-Turkey Customs Union indicating a fourfold increase in the value of bilateral trade since 1996 as well as enhanced economic and industrial integration between both parties. It also indicated three quarters of Turkish FDI inflows originate from the EU and that Turkish companies have become integrated into European supply chains.<sup>8</sup>

## **Potential loss to the United Kingdom if the proposed Agreement is not brought into effect**

22. Not being able to bring into effect the Agreement would result in our businesses losing the preferences provided for in the EU-Turkey Arrangement. This would include the re-imposition of many tariffs, returning to World Trade Organisation (“WTO”) Most-Favoured-Nation (“MFN”) treatment with Turkey. The benefits derived from trading under the preferences provided by the EU-Turkey Arrangement, such as increases in trade flows, may then be reversed.
23. It is unlikely that the entire effect of the EU-Turkey Arrangement would disappear were the Agreement not brought into effect. Tariffs would revert to MFN rates, discussed in further detail below, but it could take longer for some of the other benefits to be lost. Some gains might endure, even in the long run. For example, our businesses might still benefit from any regulatory arrangements agreed because of the EU-Turkey Arrangement. Business connections formed because of the EU-Turkey Arrangement might endure.
24. In the long run, we would forgo the longer-term benefits that the EU-Turkey Arrangement has brought to us. This could result in our long-term Gross Domestic Product (“GDP”) decreasing if the Agreement is not brought into effect.
25. The size of the impact of not bringing into force or applying the Agreement would depend on the responsiveness of trade flows to increased costs brought about by the loss of tariff preferences provided for in the Agreement.<sup>9</sup>

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<sup>6</sup> [European Commission](#) accessed (5<sup>th</sup> November 2020)

<sup>7</sup> European Commission. (2018). [‘Individual reports and info sheets on Implementation of EU Free Trade Agreements’](#).

<sup>8</sup> [World Bank](#). Evaluation of the EU-Turkey Customs Union (Accessed October 2020).

<sup>9</sup> Head K and Mayer T. (2014). [‘Gravity Equations - Workhorse, toolkit and cookbook’](#). *Handbook of International Economics*, 4, pp. 131-195.

Dhingra S, et al. (2018). [‘Beyond Tariff Reductions: What Extra Boost From Trade Agreement Provisions?’](#). *CEP Discussion Paper No 1532*, LSE, pp. 1-38.

## Immediate impact if not brought into effect

### Impact of tariffs under current MFN rates

26. Much international goods trade takes place in products for which MFN rates are already zero. However, customs unions and trade agreements provide opportunities by reducing tariffs on products where this is not the case. If the Agreement is not brought into effect, tariffs between the two countries would revert to MFN rates. This would lead to an increase in duties on some of our exports to, and imports from, Turkey.
27. To estimate the potential impact of losing tariff preferences, assumptions have to be made. It is assumed all current trade between us and Turkey occurs at the negotiated preferential tariff rate and current patterns of trade remain unchanged in the future. Reverting to Turkey's current MFN tariff rates and our MFN tariff rates would result in an annual increase in total duties of around £578 million. This would consist of duties on our exports to Turkey increasing by around £114 million, with duties on our imports from Turkey increasing by around £464 million.<sup>10</sup>
28. However, these estimates assume that all tariff preferences offered under the current EU-Turkey Arrangement are fully utilised. This is unlikely to be true. For example, evidence suggests that in 2019, 82% of our eligible goods exported to Turkey (defined as those which occurred under tariff lines where a preferential rate was offered under the EU-Turkey Arrangement) utilised the tariff preferences.<sup>11</sup> This means that the actual increase in duties could be lower than the estimates above.
29. The total duties which would be charged on imports from, and exports to, Turkey would also depend on how traders adjust quantities and prices of traded products in response to the imposition of tariffs. If our producers were not previously utilising the preferential rates, or producers and consumers changed their behaviour in response to higher tariffs, this cost would be lower than estimated above. Due to the strong assumptions, these figures should be treated as indicative estimates of the magnitude of tariff barriers under this scenario.
30. The indicative estimates show that the largest increase in duties applied to our exports would be for machinery and mechanical appliances (HS84) of around £41 million, articles of iron or steel (HS72) of around £18 million, and vehicles other than railway stock or parts thereof (HS87) of around £17 million.
31. The largest increases in import duties would be in vehicles other than railway stock or parts thereof (HS87) of around £141 million and apparel and clothing accessories, knitted or crocheted (HS61) of around £102 million. The former includes vehicles for the transport of less than ten passengers, on which duties could have been around £56 million under MFN tariffs, some of which may have been passed on to consumers. The latter includes cotton T-shirts on which duties could have been around £19 million under MFN tariffs, some of which may have been passed on to consumers.

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<sup>10</sup> DIT calculations using tariff data from ITC Market Access Map ([MacMap](#)) and trade data from [ITC TradeMaps](#) for exports calculations. DIT calculations using tariff data from the European Commission and Eurostat trade data (accessed October 2020) for imports. Implied additional duties are calculated using the difference in MFN and preferential tariff rates (simple average tariffs at CN8 level) and the value of trade for each product at CN8 level (2019). Different approaches and data sources for this analysis are likely to yield different results. Calculations on duties applied to our exports also assume trade is not eligible for duty relief under inward/outward processing rules, nor under specific plurilateral agreements such as those covering civil aviation and pharmaceuticals, nor WTO or preferential quotas. Calculations on import duties take into account inward/outward processing rules and trade which is eligible for relief under specific plurilateral agreements but not any WTO or preferential quotas.

<sup>11</sup> DG Trade at European Commission, updated 21 October 2020

32. Indicative estimates of additional tariff duties are provided above to give an indication of scale of possible additional costs of trade; the cost to business being equal to the extra tariff revenue collected by our Exchequer and the Government of Turkey. However, there could be wider effects of increased costs of trade, including negative impacts on consumer choice, prices, and ultimately economic growth and welfare. Estimates of indicative additional duties do not therefore constitute an estimate of the impact.

### **Businesses**

33. Additional duties could be absorbed by either Turkish businesses or our businesses (depending on whether it is the importer or exporter covering the additional cost), passed on to consumers, or existing trade patterns. These could impact on the competitiveness of our businesses, leading to disruptions in supply chains and job losses in the short term.
34. Businesses that rely on imports as part of their supply chains may be affected if import prices rise, including United Kingdom exporters that rely on Turkish inputs to export goods to the rest of the world. In 2016 (latest available data), around 15.4% of the value added in our gross exports reflected imports from abroad. In 2015 (latest available data on individual country level), this included 0.2% of value added from Turkey.<sup>12</sup>

### **Consumers**

35. Imported products could be more expensive for consumers if retailers pass on additional duties to consumers through increases in domestic prices. This could disproportionately affect certain groups of consumers, for example, those at the lower end of the income distribution, depending on the specific sectors affected. Consumers might also see a reduction in the choice of products and services available.

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<sup>12</sup> OECD, (2018). [Trade in Value Added database: Origin of Value Added in Gross Exports 2018](#). Experimental statistics.

## **Explanation of this Agreement, including the Significant Differences between this Agreement and the EU-Turkey Arrangement**

36. This section sets out key differences between the EU-Turkey Arrangement and the Agreement.

## **General Provisions, Institutions, and Frameworks**

### **Removal and replacement of references to the EU**

37. Where necessary, references to the “European Union”, “the European Community”, the “EU”, “EU Party”, and “Member States” are replaced by “the United Kingdom”. Similarly, references to EU institutions have been replaced with appropriate references to our equivalent institutions. All other references to “European Union”, “the European Commission”, the “EU”, “EU Party”, “Member States” and similar are explicitly changed.

### **Territorial Application**

38. The Territorial Application article sets out the territories which the Agreement applies to, and how it applies to them.
39. The Agreement will apply to the United Kingdom of Great Britain and Northern Ireland.
40. In addition, provisions of the Agreement which are listed in this Article will apply to the Crown Dependencies (the Bailiwicks of Guernsey and Jersey, and the Isle of Man).
41. The Agreement includes a mechanism which will allow for further extension to the Crown Dependencies and Overseas Territories. The Department for International Trade (“DIT”) is working with the Crown Dependencies and Overseas Territories, including Gibraltar, to identify when and in which areas such extension will be possible.

### **Institutional Provisions**

42. The body responsible for overseeing the operation and implementation of the Agreement is the Joint Committee. Changes have been made to the institutional provisions to reflect the bilateral context of the Agreement.
43. The Joint Committee is comprised of representatives from both Parties. This replicates the Joint Committee set out under the EU-Turkey Customs Union while modernising some aspects of the Committee’s operation to ensure it is fit for purpose in the context of a modern Free Trade Agreement. The approach to governance institutions in the Agreement is streamlined and centralised in the Joint Committee, however, the Joint Committee retains the power to establish sub-committees to assist it in its work at a future point in time should the Parties agree this is necessary.
44. The Agreement does not replicate the EU-Turkey Association Council as this is not relevant to the context of this new Agreement; the Agreement being a Free Trade Agreement and not an Association Agreement.
45. Article 10.1 establishes the Joint Committee, and provides that it is responsible for ensuring the proper implementation and operation of the Agreement.

### **Amendment Clauses**

46. Trade agreements sometimes require amendment to ensure that they continue to operate effectively. To implement technical amendments efficiently, it is common to provide for such amendments to be made by decisions of the Joint Committee. This approach is reflected in Article 10.3, which enables the Joint Committee to amend Annexes and Protocols. Such decisions of the Joint Committee are binding on the Parties and are not

subject to the Parliamentary scrutiny procedures in the CRaG Act because acts of the kind specified in section 25(3) and (4) of the CRaG Act are not required.

47. Amendment clauses set out the process that must be followed if the Parties agree to amend the provisions of the agreement after it enters into force. Though parties to an agreement are generally free to amend it as they deem necessary, amendment clauses serve to make the process clearer and more transparent.
48. Amendments to the Agreement (as opposed to an Annex or a Protocol) agreed by the Parties under Article 10.3 are subject to the Parliamentary scrutiny procedures set out in section 20 of the CRaG Act.

## **Entry into Force**

49. Entry into force provisions specify the date from which the terms of the agreement will bind the parties. Article 13.3 of the Agreement provides that the Parties shall notify each other in writing, through diplomatic channels, that they have completed their domestic process to ratify the treaty.
50. For us, domestic process means the Parliamentary scrutiny process set out in section 20 of the CRaG Act.
51. The same article in the Agreement makes provision for Parties to terminate the Agreement by providing written notice of their intent to terminate to the other Party. Such termination will take effect six months after the date on which such a Party has provided written notice to the other Party, unless the Parties agree otherwise.
52. We may agree with Turkey that the Agreement should be applied before domestic processes are completed. Given that HM Government is seeking to maintain the effects of the existing EU agreements at the end of the Transition Period, the Parties may, pending the completion of their respective domestic processes, apply the Agreement at the end of the Transition Period, provided that they have notified each other to this effect prior to the end of the Transition Period.

## **Review Clause**

53. The Agreement includes a provision, at Article 13.2, which commits the Parties to, within two years, commence a review of this Agreement with a view to replicating, modernising or expanding it.

## Other Chapters, Annexes, Protocols and Appendices

### Goods

54. Goods chapters in trade agreements set out the treatment and the level of access to the domestic market granted by a Party to goods of the other Party. Such provisions include setting tariff levels and quotas on various products and determine the rules of origin for goods to qualify for preferential treatment.
55. The EU-Turkey Arrangement, which governs the trading relationship between the EU and Turkey, consists of a few different agreements: the Agriculture Agreement (covering unprocessed or raw commodity agricultural products) set out in Decision No 1/98 of the Association Council, the Coal and Steel Agreement and the EU-Turkey Customs Union. Customs Union goods are those goods currently covered by the EU-Turkey Customs Union, which include all industrial goods except those covered by the Coal and Steel Agreement, and include processed agricultural products.
56. The Agreement has transitioned a Customs Union structure to a traditional Free Trade Agreement. Customs Union goods previously benefited from free circulation between the EU and Turkey. This is a different concept from “free trade” under a Free Trade Agreement. One difference is that under a Free Trade Agreement, products are only traded free of import duty if they are originating in one of the parties, according to the rules of origin of that Free Trade Agreement. In a Customs Union, all goods that are in free circulation in one of the markets can be exported free of duty to the other party, irrespective of where they have been produced. This means that under the Agreement goods will only continue to benefit from tariff preferences if they originate in either Party.
57. The Goods Market Access chapter has been streamlined and simplified into a single chapter, structured similarly to a conventional trade in goods chapter. It includes standard core provisions upholding WTO commitments and principles. It addresses non-tariff barriers, such as import and export restrictions and facilitates data-sharing in relation to trade in goods between us and Turkey.
58. Existing commitments on tariffs for trade between the Parties have been transitioned without changes with a few small exceptions. Firstly, we have converted tariff commitments from Euros to Sterling, using the same methodology as was used for the MFN rates under the United Kingdom Global Tariff (UKGT). We have also agreed to not apply complex agricultural tariffs such as the entry price system and other complex tariffs with an “agricultural component” to originating imports from Turkey unless these are also in our applied MFN schedule. Turkey currently applies unilateral preferences to the EU on a significant number of tariff lines. In the Agreement, Turkey has committed to maintain these unilateral preferences to our exports unless they also increase the duties applied to the same goods coming from the EU. A single tariff schedule has replaced the multiple tariff schedules covering the different EU-Turkey agreements.
59. Goods covered by the Agriculture Agreement and the Coal and Steel Agreement retain their existing tariff preferences in the Agreement. Goods covered previously by the EU-Turkey Customs Union will continue to be traded duty-free under this Agreement as long as they are considered originating under the Rules of Origin Protocol of the Agreement. This means the Agreement provides for zero-tariff trade for industrial goods (covering almost all products falling within Chapters 25 to 97 of the Harmonised Commodity Description and Coding System). The only exception are any processed agriculture products which were only partially liberalised under the EU-Turkey Customs



Union. For these products, the tariff applied under the EU-Turkey Customs Union have been retained. Any “additional duties”, i.e. additional tariffs currently applied by Turkey on top of their normal MFN tariff, will not be applied to our exports as part of this agreement.

## **Impact**

60. The few small exceptions where there are minor changes to tariffs (converting tariff commitments from Euros to Sterling and not applying complex agricultural tariffs) will have minimal impact on trade flows.
61. However, the change from a Customs Union to a Free Trade Agreement could have more substantive impacts on trade in goods that were previously traded within the Customs Union. These goods will now need to meet preferential rules of origin agreed between us and Turkey that previously they did not need to. Documentary requirements for traders will also change due to new rules of origin requirements for trade previously covered by the Customs Union.<sup>13</sup>

## **Tariff Rate Quotas (TRQs)**

62. TRQs allow a certain volume of a product to enter the market at a zero or reduced tariff rate. Imports above the quota are subject to a higher tariff rate – usually the MFN rate. The EU has agreed TRQs, both for imports to the EU and to partner countries, in some of its trade agreements. In order for products to be able to continue to benefit from the use of TRQs in trade between the United Kingdom of Great Britain and Northern Ireland and its Free Trade Agreement partners, these quotas need to be set out in our new agreements with those partners.
63. TRQs administered by us and by Turkey have been re-sized to reflect the fact that we are a smaller importer and exporter than the EU-28. Solutions were agreed with partner countries to set quotas to a sufficient level that would allow for continuity of historical trade flows, in most circumstances, for importers and exporters from both sides.
64. Annex 2-B-2a sets out the new quotas applicable under the Agreement. TRQs have been resized based a range of evidence including historical usage data and trade flow data. Please see the full Treaty text for complete list of inward and outward TRQs.
65. Tariff Rate Quotas for Watermelon (TRQ 9 / tariff classification 080711) and Tomato Paste (TRQ 26 / tariff classification 200290) are suspended under EU Regulations 2015/756. This suspension has been maintained in the Agreement.

TRQ	Product Description	Tariff Classification	New United Kingdom Volume	Application Period	In-quota Tariff
TRQ 1	Meat of sheep or goats	0204.10.00	33t	1 Jan – 31 Dec	0%
		0204.21.00			
		0204.22.00			
		0204.23.00			
		0204.30.00			
		0204.41.00			
		0204.42.00			
		0204.43.10			
		0204.43.90			
		0204.50.11			
		0204.50.13			
		0204.50.15			
		0204.50.19			
		0204.50.31			
		0204.50.39			
		0204.50.51			
		0204.50.53			
		0204.50.55			
0204.50.59					
0204.50.71					
0204.50.79					
TRQ 2	Meat of turkeys (a)	0207.25.10	167t	1 Jan – 31 Dec	Varies by product line
		0207.25.90			
		0207.27.30			
		0207.27.40			
		0207.27.50			

		0207.27.60 0207.27.70			
TRQ 3	Cheese	0406.90.29 0406.90.50 0406.90.86.20 0406.90.89.10 0406.90.92.10	383t	1 Jan – 31 Dec	0%
TRQ 4	Potatoes	0701.90.10 0701.90.50 0701.90.90	417t	1 Jan – 31 Dec	0%
TRQ 5	Onions	0703.10.11 0703.10.19	333	16 May – 14 Feb	0%
TRQ 6	Aubergines	0709.30.00	167	1 May – 14 Jan	0%
TRQ 7	Courgettes	0709.93.10	83t	1 Mar – 30 Nov	0%
TRQ 8	Grapes, fresh or fried	0806.10.10.90	58t	1 May – 17 June; 1 Aug – 14 Nov	Specific duty: Entry price, where applicable
TRQ 9 (suspended)	Watermelons	0807.11.00	2,751t	16 Jun – 31 Mar	0%
TRQ 10	Edible fruit	0811.10.11 0811.20.11 0811.90.19	17t	1 Jan – 31 Dec	0%
TRQ 11	Olive oil	1509.10.20 1509.10.80	17t	1 Jan – 31 Dec	7.5%
TRQ 12	Chewing gum	1704.10.10 1704.10.90	834t	1 Jan – 31 Dec	0%
TRQ 13	Other sugar confectionary	1704.90.30 1704.90.51 1704.90.55	1,667t	1 Jan – 31 Dec	0%

		1704.90.61 1704.90.65 1704.90.71 1704.90.75 1704.90.81 1704.90.99.11 1704.90.99.19 1704.90.99.91			
TRQ 14	Chocolate and other food preparations containing cocoa	1806.10.20 1806.20.10 1806.20.30 1806.20.50 1806.20.70 1806.20.80.12 1806.20.80.19 1806.20.95.12 1806.20.95.19 1806.31.00 1806.32.00 1806.90.11 1806.90.19 1806.90.31 1806.90.39 1806.90.50 1806.90.60 1806.90.70 1806.90.90.11 1806.90.90.91	834t	1 Jan – 31 Dec	0%
TRQ 15	Malt extract	1901.20.00	150t	1 Jan – 31 Dec	0%
TRQ 16	Pasta	1902.11.00 1902.19.10 1902.19.90 1902.20.91 1902.20.99 1902.30.10 1902.30.90 1902.40.10 1902.40.90	3,334t	1 Jan – 31 Dec	0%

TRQ 17	Prepared foods obtained by the swelling or roasting of cereals	1904.10.10 1904.10.30 1904.10.90	83t	1 Jan – 31 Dec	0%
TRQ 18	Muesli	1904.20.10 1904.20.91 1904.20.95 1904.20.99	17t	1 Jan – 31 Dec	0%
TRQ 19	Bulgar wheat	1904.30.00	1,667t	1 Jan – 31 Dec	0%
TRQ 20	Other prepared cereals, flour, stark or milk	1904.90.10 1904.90.80	417t	1 Jan – 31 Dec	0%
TRQ 21	Bread, pastry, cakes, biscuits and other bakers' wares	1905.31.11 1905.31.19 1905.31.30 1905.31.91 1905.31.99	1,667t	1 Jan – 31 Dec	0%
TRQ 22	Waffles and wafers	1905.32.05 1905.32.11 1905.32.19 1905.32.91 1905.32.99	500t	1 Jan – 31 Dec	0%
TRQ 23	Rusks, toasted bread and similar toasted products	1905.40.10 1905.40.90	20t	1 Jan – 31 Dec	0%
TRQ 24	Other bread, pastry, cakes, biscuits and other bakers' wares	1905.90.10 1905.90.20 1905.90.30 1905.90.45 1905.90.55 1905.90.70	1,667t	1 Jan – 31 Dec	0%
TRQ 25	Prepared or preserved tomatoes with a	2002.10.10	1,484t	1 Jan – 31 Dec	0%

	dry matter content of less than 12% by weight	2002.10.90 2002.90.11 2002.90.19			
TRQ 26 (suspended)	Prepared or preserved tomatoes with a dry matter content of less than 12% by weight (b)	2002.90.31 2002.90.39 2002.90.91 2002.90.99	5,002t  (2,501t administered in two separate periods)	1 Jan to 30 June; 1 July to 31 Dec	0% for dry matter content of 28%-30% by weight.  Varies by dry matter content by weight
TRQ 27	Jams, fruit jellies, fruit or nut pureés and fruit or nut pastes	2007.10.10 2007.91.10 2007.91.30 2007.99.20 2007.99.31 2007.99.33 2007.99.35 2007.99.39 2007.99.50	292t	1 Jan – 31 Dec	33%
TRQ 28	Jams, fruit jellies, fruit or nut pureés and fruit or nut pastes with a sugar content of 13%-30%	2007.91.30	17t	1 Jan – 31 Dec	0%
TRQ 29	Other preparations of fruit and nut with a sugar content exceeding 30%	2007.99.39	17t	1 Jan – 31 Dec	0%
TRQ 30	Citrus and other fruit	2008.30.19 2008.50.19 2008.50.51 2008.50.92 2008.50.98.112 008.50.98.1320 08.50.98.15200	350t	1 Jan – 31 Dec	0%

		8.50.98.192008 .60.19			
		2008.70.19			
		2008.70.51			
		2008.80.19			
TRQ 31	Fruit and vegetable juices	2009.11.11	567t	1 Jan – 31 Dec	33%
		2009.11.91			
		2009.19.11			
		2009.19.91			
		2009.29.11			
		2009.29.91			
		2009.31.11			
		2009.31.51			
		2009.39.91			
		2009.61.90			
		2009.69.11			
		2009.69.79			
		2009.69.90			
		2009.81.11			
		2009.81.51			
		2009.89.11			
		2009.89.34			
		2009.89.35			
		2009.89.61			
		2009.89.85			
		2009.89.86			
		2009.90.11			
		2009.90.21			
		2009.90.31			
		2009.90.71			

		2009.90.92			
		2009.90.94			
TRQ 32	Ice cream	2105.00.10	500t	1 Jan – 31 Dec	0%
		2105.00.91			
		2105.00.99			
TRQ 33	Other food preparations	2106.10.80	667t	1 Jan – 31 Dec	0%
		2106.90.98			

## Impact

66. Without transitioning the TRQs from the EU-Turkey Arrangement into the Agreement, and without any other mitigating actions, goods imported from Turkey under the TRQs in the EU-Turkey Arrangement could face higher MFN tariffs. This could make these imports more expensive. The nature and size of the impact of this change will depend on a number of factors, including existing trading patterns and the behaviour and responsiveness of domestic consumers and businesses to the change in tariff rates. Our imports from Turkey based on trade data (at tariff-line level) of products that are currently covered by TRQs were worth £41 million in total in 2019, equivalent to 0.4% of our total imports from Turkey.<sup>14</sup>
67. Based on historical usage of the quotas and trade flows in relevant products, it is expected that the overall, immediate impact on our producers and consumers resulting from this approach to re-sizing TRQs would be limited.

## Rules of Origin

68. In free trade agreements, Rules of Origin are used to determine the economic nationality of a good. In order to qualify for preferential tariff rates, a good has to “originate” in one of the parties to the agreement. Trade agreements may also allow materials originating and/or processed in a country other than the exporting Party to count towards meeting the specific origin requirements for preferential treatment, a process known as “cumulation”.
69. There are two main categories relevant to determining whether goods “originate” in the exporting country for the purposes of a free trade agreement:
- a. **Wholly obtained** – These are goods that are wholly obtained or produced entirely in a single country. Examples include (i) mineral products extracted from the soil and (ii) live animals born and raised there.
  - b. **Substantial transformation** – These are goods that are made from materials which come from more than one country, and the origin is therefore defined as that of the country where the goods were last substantially transformed. This can be determined in three ways:

<sup>14</sup> Trade data at tariff-line level from Eurostat (accessed October 2020). Products covered by quotas taken from the EU’s [TARIC database](#).



- i. **Value added** – This type of rule requires that a particular proportion of the final value of the product be added in the exporting country.
  - ii. **Change in Tariff Classification (“CTC”)** – This type of rule requires that the final product be sufficiently different from the imported materials such that it moves to a different tariff classification altogether.
  - iii. **Specific processing or manufacturing** – These rules typically apply where value added or CTC rules may not adequately determine originating status, and where specific processes are required to meet originating criteria.
70. During the Transition Period, all our content is currently considered as “originating” in the EU and our exports are designated as “EU origin”. This means that originating materials from, and processed in, the United Kingdom of Great Britain and Northern Ireland and the rest of the EU can be used interchangeably in bilateral trade with existing EU trade agreement partners. This will no longer be the case when existing EU trade agreements cease to apply to our exports at the end of the Transition Period. At this point, the designation of our exports will shift from “EU” originating to “United Kingdom” originating and EU content will (unless specific provision is made in new agreements) no longer count towards meeting the origin requirements for preferential treatment for either party. Furthermore, goods that were previously moved around the Customs Union without rules of origin requirements will now be subject to preferential rules of origin. This would have implications for goods traded between us, the EU and Turkey.
71. To address these implications and to provide maximum continuity for business, it has been agreed in the Agreement that EU materials can be recognised (i.e. cumulated) in Turkey’s and the United Kingdom’s exports to one another. EU processing, except when in relation to textiles, can also be cumulated in Turkey’s and the United Kingdom’s exports to one another.
72. Turkey’s obligations to the EU through the EU-Turkey Customs Union mean that the Rules of Origin text in this Agreement will eventually need to align with Rules of Origin provisions set out in any future trade agreement between the United Kingdom of Great Britain and Northern Ireland and the EU (specifically the same General Provisions and Product Specific Rules).
73. However, to meet implementation requirements necessary to avoid a gap in preferences with Turkey from 1 January 2021, the Agreement has a temporary Rules of Origin Protocol, which reflects the provisions of the Revised PEM rules of origin. The United Kingdom has taken this approach because the EU and Turkey are currently contracting parties to the Regional Convention on pan-Euro-Mediterranean (“PEM”) preferential rules of origin, which is in the process of being updated (“Revised PEM”). This Agreement is supplemented by a joint declaration which sets out that the relevant elements of the temporary Protocol will be replaced by the equivalent elements of the Rules of Origin protocol agreed between the United Kingdom of Great Britain and Northern Ireland and the EU as soon as reasonably practicable after the latter is signed.
74. The Protocol in this Agreement applies equally to non-Customs Union and Customs Union goods under the EU-Turkey Arrangement. This approach preserves as far as possible the major supply chains that utilise the EU-Turkey Customs Union. The Joint Committee has powers to make decisions to amend the Protocol to reflect what we agree with the EU.
75. The Rules of Origin Protocol is annexed to the Agreement.

## **Impact**

76. If cumulation of EU content and processing were not permitted under this Agreement, some of our exporters and exporters in Turkey might find themselves unable to access preferences as they are currently able to. Our exporters to Turkey who rely on EU content and processing might have to revert to paying MFN tariff rates, if they continued using EU inputs, or they might have to review and reassess their existing supply and value chains as a result of this change to existing terms. The impact would vary across sectors.
77. The Agreement provides only for trade between us and Turkey and does not provide for either Party's direct trade with the EU, including, for example, where our exporters or exporters in Turkey use content from each other in exports to the EU.

## **Customs and Trade Facilitation**

78. Customs and Trade Facilitation provisions allow for the efficient transport of goods across national borders whilst seeking to minimise the administrative and operational burden on traders, as well as associated costs, through measures setting out practice on areas such as cooperation between customs authorities and transparency in customs procedures.
79. The agreed Customs and Trade Facilitation chapter and the Mutual Administrative Assistance Protocol in Customs Matters (the "MAA Protocol") are based on our wider objectives in the area for key trading partners. It reflects our existing customs practice and procedures, whilst setting out what customs arrangements traders operating between the United Kingdom of Great Britain and Northern Ireland and Turkey can expect. This accounts for the specific nature of our bilateral trading relationship and recognises the fact that we will no longer be part of the EU-Turkey Customs Union.
80. The provisions in the Agreement, including the MAA Protocol, encourage transparency and efficiency, which help traders to avoid delays and minimise burdens on businesses while ensuring that customs authorities remain able to protect their country's regulatory, security and financial interests. HM Government has worked closely with Turkey to ensure that customs processes are as simple, clear, and predictable as possible, and that any changes do not affect current trade flows.
81. The Agreement, including the MAA Protocol, carries over provisions on Mutual Administrative Assistance set out in Decision 1/95 of the Association Council (Annex 7) and a 1997 bilateral Memorandum of Understanding which will be superseded by the Protocol.
82. Mutual administrative assistance provisions allow customs authorities and other relevant law enforcement agencies to share information and work together to combat customs offences. This framework is based on reciprocity, and sets out the scope of cooperation and assistance as well as the circumstances, process and details required for submitting a request, and the guidelines and conditions for providing information.
83. The MAA Protocol establishes a legal basis for information exchange in line with the standard set by the World Customs Organisation. This will allow us to deepen our bilateral cooperation in enforcement and surveillance while ensuring that we have the necessary legal protections and safeguards in place for sharing information.

## Technical Barriers to Trade

84. Technical Barriers to Trade (“TBT”) provisions in trade and association agreements cover aspects relating to technical regulations, standards and conformity assessment for goods. They play an important role in reducing non-tariff barriers for businesses, for example, through increasing the transparency of a trading partner’s regulatory requirements.
85. There are significant limits to what TBT provisions can be agreed bilaterally with Turkey because of Turkey’s existing commitments to harmonise with EU law for most products to allow for frictionless trade.
86. A TBT specific review clause has been included within the Agreement so the TBT provisions can be updated in line with provisions agreed in any future trade agreement between the United Kingdom of Great Britain and Northern Ireland and the EU.
87. Until provisions can be updated in line with those agreed in any future trade agreement between the United Kingdom of Great Britain and Northern Ireland and the EU, the TBT provisions in the Agreement will be based on the WTO Agreement on Technical Barriers to Trade (“TBT Agreement”), which covers trade in all goods (both agricultural and industrial), as set out in Article 1.3 of the TBT Agreement. It is not possible to assess the potential impacts on trade flows until the provisions are updated.

## Competition

88. Provisions in trade agreements relating to competition help to ensure open and fair competition exists for businesses operating within the respective parties.
89. The existing EU-Turkey Arrangement required competition rules to be interpreted with specific reference to EU law. We have not replicated these provisions as these would not be appropriate in a bilateral context. We have instead agreed a bespoke competition chapter based on Free Trade Agreement precedent.
90. This chapter includes commitments on maintaining measures which prohibit anti-competitive business conduct and ensuring competition laws respect the principles of transparency, non-discrimination and procedural fairness. This chapter will apply equally to both public and private enterprises, to the extent provided by each party’s domestic laws. It is not possible to assess the potential impacts on trade flows.

## Subsidies

91. The EU Turkey agreement requires Turkey to adopt the EU state aid rules, which would not be appropriate for this Agreement.
92. The Agreement does not contain a chapter on subsidies outside of reaffirming existing international commitments at the WTO. Subsidies are specifically referenced within the review clause of the agreement, which would provide an opportunity for both parties to discuss and negotiate more comprehensive subsidy commitments moving forward. This is not expected to have a significant impact on trade flows.

## **Government Procurement**

93. In line with the EU-Turkey Arrangement, the Agreement does not include substantive public procurement obligations. However, the Parties retain as their aim a reciprocal and gradual liberalisation of their respective public procurement markets by incorporating the relevant government procurement provisions in the EU-Turkey Arrangement into the Agreement. This is not expected to have an impact on trade flows between the Parties.

## **Intellectual Property**

94. We are committed to fulfilling our existing obligations on Intellectual Property (“IP”) found in international treaties and trade agreements. As a member of the World Intellectual Property Organisation (“WIPO”), we will remain fully compliant with those WIPO treaties to which we are already a party. We will also remain fully compliant with the World Trade Organisation’s Agreement on Trade-Related Aspects of Intellectual Property Rights.
95. The Agreement affirms both Parties’ obligations to provide suitable and effective IP protection in line with international standards and to cooperate on aspects of IP. It achieves this by incorporating the relevant provisions of the EU-Turkey Arrangement. This is not expected to have an impact on trade flows between the Parties.

## **Sanitary and Phytosanitary Measures**

96. Sanitary and Phytosanitary (“SPS”) provisions in trade agreements concern the application of food safety and animal and plant health regulations. These provisions allow countries to set standards and regulations that allow for the protection of human, animal or plant life and health. Free Trade Agreements may contain SPS provisions which, for example, increase transparency in the application of SPS measures, or allow the recognition of equivalent measures in relation to animal health, and import requirements, including health certifications.
97. Commitments on SPS from the EU-Turkey Arrangement have been replicated, transitioning commitments from the EU-Turkey Joint Declaration into the text of the Agreement. The agreement also includes an additional reference to the WTO Agreement on Sanitary and Phytosanitary Measures to reaffirm the rights and obligations of the parties under that agreement. This addition is not expected to have an impact on trade flows between the Parties.

## **Trade Remedies**

98. Trade remedies provide a safety net for domestic industry against injury caused by dumped, subsidised or unexpected surges of imports of goods. It is common WTO members that are major economies to have a trade remedies system. We have begun operating our own system since withdrawing from the EU.
99. The Agreement has transitioned the effects of the trade remedies provisions in the EU-Turkey Arrangement. This includes reaffirming each Party’s rights and obligations under the relevant WTO agreements: the Anti-Dumping Agreement, the Agreement on Subsidies and Countervailing Measures and the Agreement on Safeguards. We also agreed with Turkey to exclude the trade remedies chapter from the FTA’s dispute settlement mechanism. The safeguard clause in respect of coal and steel products under the Coal

and Steel Agreement was not included in the Agreement. Most of our tariffs' and Turkey's on steel products are already at zero percent under this Agreement, and these safeguard provisions are not necessary for the functioning on this Agreement. This is not expected to have an impact on trade flows between the Parties.

## **Dispute Settlement**

100. The economic benefits of the Agreement can only be realised if the Agreement is faithfully implemented and complied with. A dispute settlement mechanism in an agreement signals the parties' intention to abide by the agreement, thereby increasing businesses' and stakeholders' confidence that commitments set out in the agreement can, and will, be upheld. The dispute settlement mechanism serves an important deterrent function. It also provides an effective mechanism for enforcing those commitments, and for resolving any disputes that may arise in the future.
101. The Agreement has carried over the dispute settlement mechanism from the EU-Turkey Arrangement, but several changes have been made to enhance the operability of dispute settlement. The key changes are as follows:
- a. In the EU-Turkey Arrangement, the Parties have a six-month period within which they can request the establishment of an arbitration panel. Under Article 12.4 of the Agreement the relevant period has been shortened to 60 days to allow for the prompt resolution of disputes.
  - b. Under the EU-Turkey Arrangement, arbitration awards are binding, however, there are no detailed provisions on what compliance with the award requires. Articles 12.8 and 12.9 of the Agreement introduce compliance requirements to the dispute settlement mechanism. The Party ruled against must adhere to the panel's ruling and there is now a review mechanism to determine progress towards compliance. These additions ensure operability of dispute settlement by making it a legal requirement to achieve compliance with the arbitration award.
  - c. The EU-Turkey Arrangement makes no allowance expressly for temporary remedies to be applied in the event of non-compliance and as a result have few teeth to enforce the obligations of the losing Party. Article 12.10 of Agreement introduces a mechanism for the parties to agree compensation or, where there is no agreement, for the complaining Party to suspend concessions should the responding Party remain non-compliant. This provides the complaining Party with tools to enforce the obligations of the agreement and to encourage the non-compliant party to come into compliance.
102. One of the impacts of transitioning the dispute settlement chapters in the existing EU-Turkey Arrangement is that, in the event that a dispute arises, we will be directly responsible for any appropriate costs associated with the dispute settlement process.

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