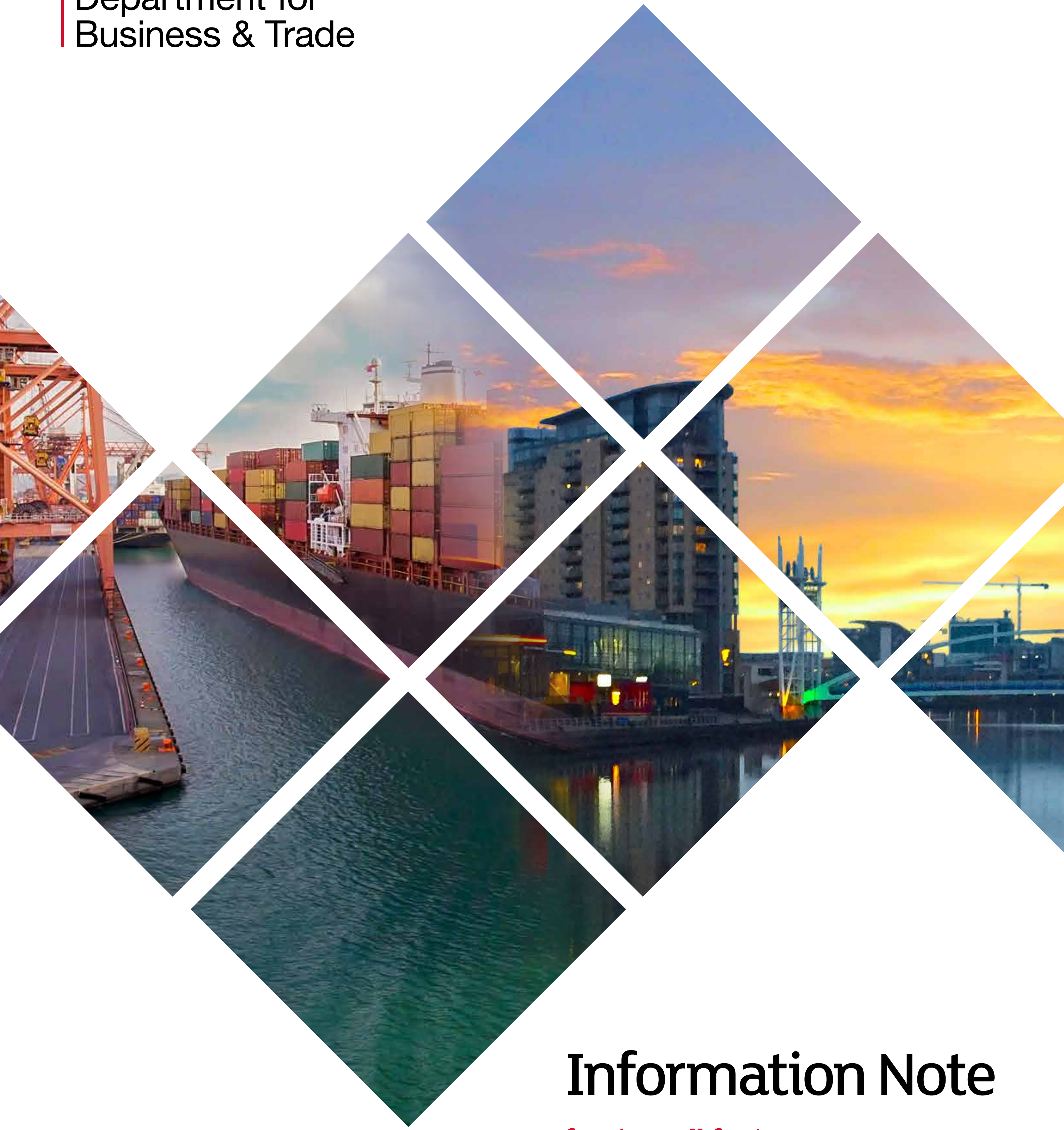
Department for
Business & Trade



Information Note

for the call for input on a new prospective Free Trade Agreement between the United Kingdom and Turkey

Information Note for the Call for Input on a new Free Trade Agreement between the United Kingdom and Turkey

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1 Introduction

The Department for Business and Trade (DBT) aims to secure an ambitious programme of Free Trade Agreements (FTAs) to benefit the whole of the United Kingdom (UK) and to support businesses of all sizes across different sectors of the economy.

FTAs facilitate UK businesses to export to foreign markets and enable suppliers and consumers to access a greater range of intermediate and final products and services at competitive prices. Greater trade liberalisation also has a positive economic impact by increasing innovation, productivity, and competition.

On December 29, 2020, the UK and Turkey signed the UK-Turkey Trade Agreement. This entered into force on January 1, 2021. The UK-Turkey Trade Agreement took an ‘umbrella’ approach of continuing the complex set of agreements which govern the existing trade relationship between the European Union and Turkey.

The UK-Turkey Trade Agreement has maintained continuity of the effects of the EU-Turkey Arrangement in a bilateral context following the end of the transition period. The UK-Turkey Trade Agreement is a platform from which we now look to further strengthen the economic relationship between our two countries.

Further to a joint review by the UK and Turkey of the current trading relationship, we have agreed with Turkey that we will open negotiations to upgrade our trade arrangement. In advance of agreeing a UK mandate for these negotiations, DBT is seeking input from members of the public, businesses, and any other interested stakeholders to inform which aspects of the current trading arrangements with Turkey we should consider improving or amending.

The aim of this document is to provide:

- Background information on current trade flows between the UK and Turkey to better understand the existing trading relationship and the rules which underpin it;
- Information to help stakeholders identify priority areas of the current trading relationship including where there may be potential for further ambition or amendments;
- Explanation on how DBT is conducting the Call for Input (CFI), to enable stakeholders to respond.

Please note that the official name of 'Turkey', is the Republic of Türkiye, however, for the purposes of this document 'Turkey' is used throughout.

Figure 1: Goods and services trade between the UK and Turkey, 2022

Sources: ONS (2023), UK total trade: all countries, seasonally adjusted, January-March 2023 edition; HMRC (2021), UK trade in goods by business characteristics (2021) data tables, published December 2022. Note: Number of VAT registered business exports/imports only relates to businesses trading in goods, and therefore excludes any businesses that only trade in services.

1.1 Executive Summary

The CFI forms a crucial part of the policy development of FTA negotiations. Consultation ensures the views of citizens, business and consumers have been systematically sought and analysed and can be used to inform policy.

It is a key, early public moment in the process of delivering an FTA and is part of building awareness publicly.

It helps to build an evidence base that is needed to inform the UK's positions and increase engagement and trade agreement utilisation for the benefit of UK businesses and consumers.

2 UK-Turkey trading relationship

2.1 Overview of economies

In 2022, Turkey had a gross domestic product (GDP) per capita of around $37,300. This is less than the UK's GDP per capita of around $54,600 over the same period.[1] Total trade (imports plus exports) is 69% of GDP for the United Kingdom and 80% of GDP for Turkey.[2] While the UK is a services-based economy, Turkey can be considered a mixed economy as its services sector accounts for around half of its GDP and industry accounts for around a third. [3]

By 2035, Turkey will likely be considered a high-income country - with its import market expected to double in real terms. As part of the Emerging 7 (E7), which is expected to reach the G7's share of global import demand by 2050, a new trade deal with Turkey will allow the UK to maximise the future benefits of Turkey's growth.[4]

Table 1: Headline economic indicators for Turkey and the UK, 2022

Economic Indicator	Turkey	UK
GDP, PPP ($ billion)	$3,181	$3,657
GDP per capita, PPP	$37,274	$54,603
Trade (% GDP)	80.5%	68.9%
Population (million)	85.3	67.0
Agriculture, value added (% GDP)	6.5%	0.7%
Industry, value added (% GDP)	31.9%	17.9%
Manufacturing, value added (% GDP)	22.1%	8.4%
Services, value added (% GDP)	51.2%	71.0%

Source: World Bank: World Development Indicators (Accessed August 2023)

2.2 Trade flows between the UK and Turkey

Turkey is the UK's 18th largest trading partner, accounting for 1.4% of total UK trade in 2022.[5] Total trade in goods and services between the UK and Turkey was £23.5 billion over the same period.[6]

As seen in Table 2, UK exports to Turkey were £8.5 billion in 2022, accounting for 1.0% of all UK exports.[7] UK imports from Turkey were around £15 billion over the same period, accounting for nearly 1.7% of all UK imports.

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[1] In current international $ values, as of 25th July 2023.
[2] World Bank: World Development Indicators (accessed August 2023)
[3] Value added as a percentage of GDP can be used as a measure of the relative contribution of a sector towards overall economic output in an economy. Organisation for Economic Co-operation and Development (OECD), 2021.
[4] The Emerging 7 are the 7 largest emerging economies in terms of GDP and includes Turkey in addition to China, India, Brazil, Russia, Indonesia and Mexico.

[5] EU members are treated as individual trading partners with the UK.
[6] ONS (2023), UK Total Trade: all countries, seasonally adjusted, January- March 2023 edition
[7] Ibid.

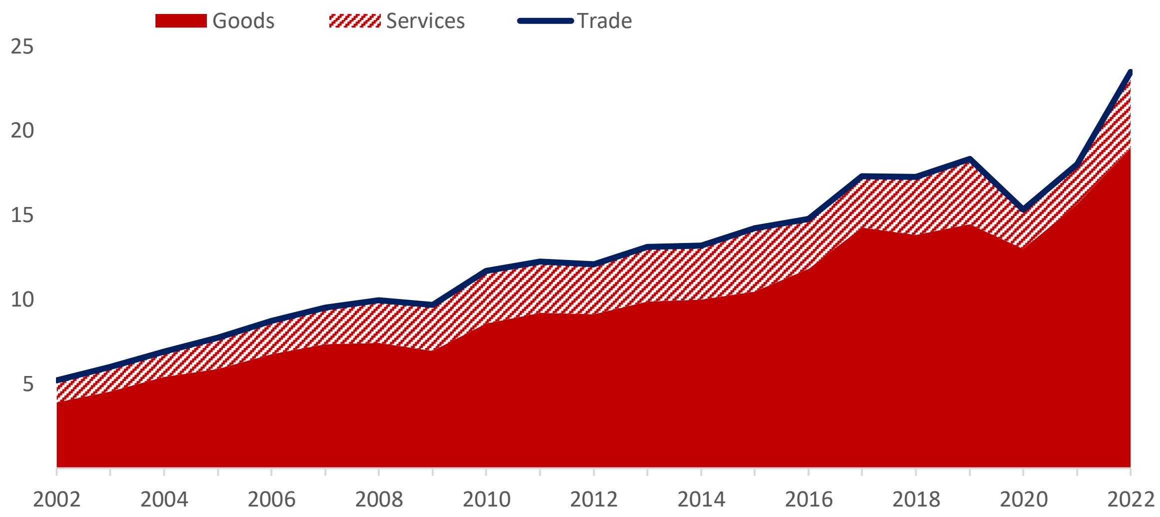
Table 2: Trade between the UK and Turkey, 2022 (£, billion)

Trade component	Trade in goods	Trade in services	Total trade
UK exports to Turkey	6.4	2.1	8.5
UK imports from Turkey	12.6	2.4	15.0
Total bilateral trade	19.0	4.5	23.5

Source: ONS, (2023). UK Total Trade: all countries, seasonally adjusted, January- March 2023 edition

Figure 2 shows how UK trade with Turkey has evolved since 2002, broken down by goods and services. UK trade with Turkey has increased by more than 4 times from 2002-2022 and is predominantly goods trade. Trade increased steadily between 2002 and 2022, with a dip in 2020 due to the COVID-19 pandemic's adverse effects on global trade.[8]

Figure 2: UK trade with Turkey over time (£ billion)



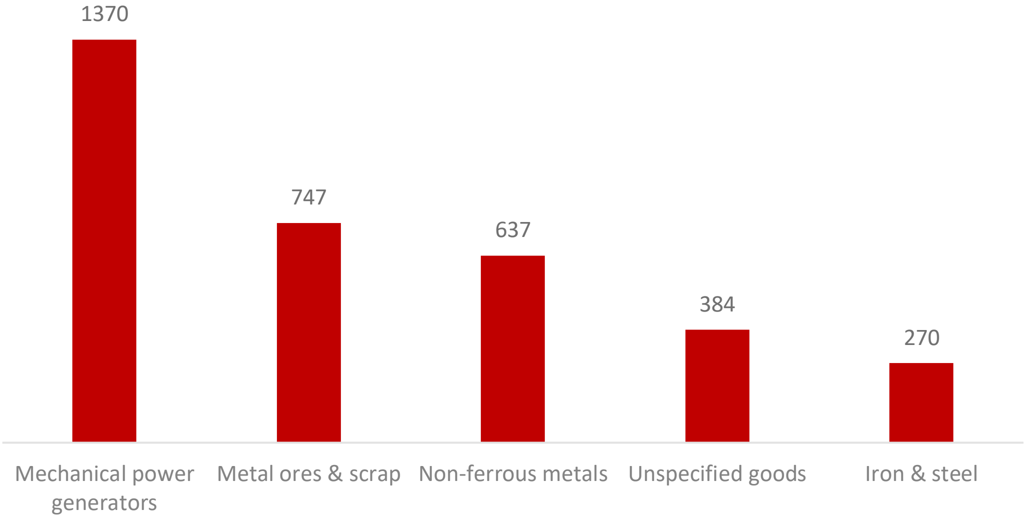
Source: ONS, (2023). UK total trade: all countries, seasonally adjusted, January-March 2023 edition. Note: Total trade data is in nominal or current prices. This means they have not been adjusted to remove the effects of inflation.

The top UK goods exported to Turkey in 2022 were mechanical power generators (£1.4 billion), metal ores and scrap (£747 million), and non-ferrous metals (£637 million). These categories represent around 43% of all UK goods exports to Turkey, with mechanical power generators making up 21% of total goods exports to Turkey.[9] The top five UK goods product lines exported to Turkey in 2022 are shown in Figure 3.

[8] ONS (2023), International trade in UK nations and regions: the impact of coronavirus (COVID-19): 2020

[9] ONS (2022), Trade in goods: country-by-commodity, non-seasonally adjusted, July 2023 release. The commodities are categorised based on SITC codes using level 2 and 3 codes.

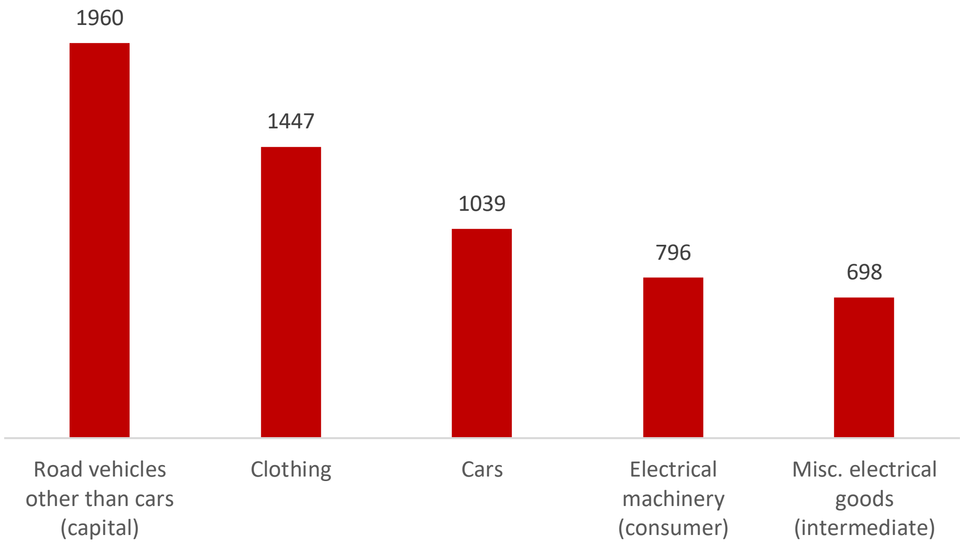
Figure 3: Top 5 UK goods exports to Turkey, 2022 (using SITC codes, £ million)



Source: ONS (2023), Trade in goods: country-by-commodity exports, non-seasonally adjusted, July 2023 release. The commodities are categorised based on SITC codes using level 2 and 3 codes. Note: Unspecified goods include uncategorised goods (such as parcel post and low value trade) and nonmonetary gold.

The UK's top goods imported from Turkey in 2022 were road vehicles other than cars (£2 billion), clothing (£1.4 billion), and cars (£1 billion). These categories account for 35% of all UK goods imports from Turkey.[10] The top five Turkey goods product lines imported to the UK in 2022 are shown in Figure 4.

Figure 4: Top 5 UK goods imports from Turkey, 2022 (using SITC codes, £ million)



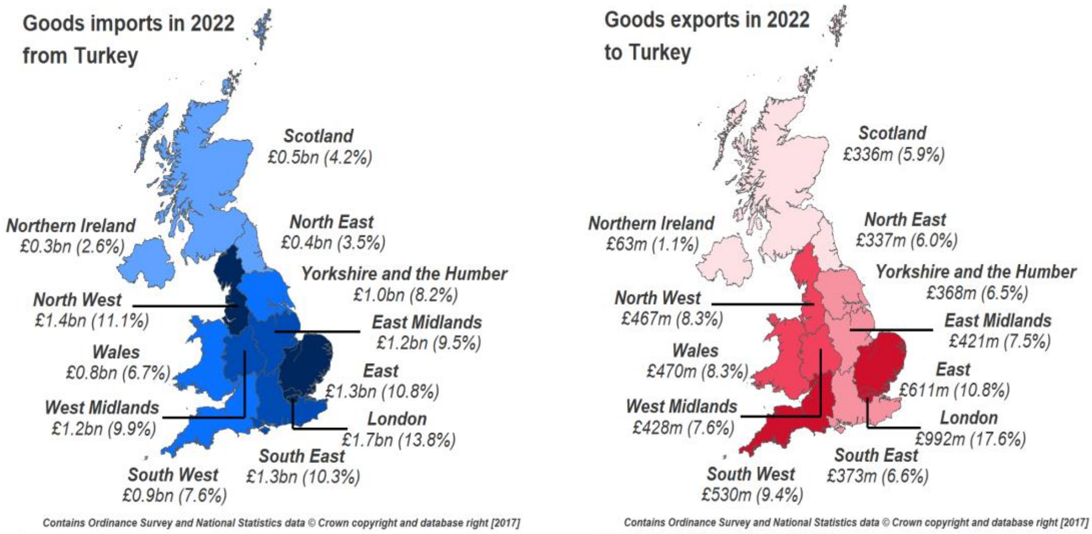
Source: ONS (2023), Trade in goods: country-by-commodity imports, non-seasonally adjusted, July 2023 release. The commodities are categorised based on SITC codes using level 2 and 3 codes.

[10] Ibid.

UK exports of goods to Turkey accounted for 1.5% (£5.6 billion) of total UK goods exports.[11] Figure 5 highlights businesses across every UK nation and English region exported goods to Turkey in 2022. Of the goods exports destined for Turkey, London (£992m or 17.6% of goods exports to Turkey), the East of England (£611m; 10.8%) and the South West (£530m; 9.4%) accounted for the most.[12]

UK imports of goods from Turkey accounted for 2.0% (£12.4 billion) of total UK goods imports in 2022. Of the goods imported from Turkey, London (£1.7 billion; 13.8%), the North West (£1.4 billion; 11.1%) and the South East (£1.3 billion; 10.3%) received the most.[13]

Figure 5: Regional Trade in Goods with Turkey, 2022



Source: HMRC, June 2023

Source: HMRC, June 2023

Transportation was the UK's largest services trade export to Turkey worth around £500 million in 2022.[14] Financial services were the UK's second largest export in services trade, worth £350 million. Travel was the UK's largest import in services trade, worth £1.6 billion and making up 66% of total imports from Turkey in 2022.

The top five UK services exported to and imported from Turkey in 2022 are shown in Figures 6 and 7 respectively.

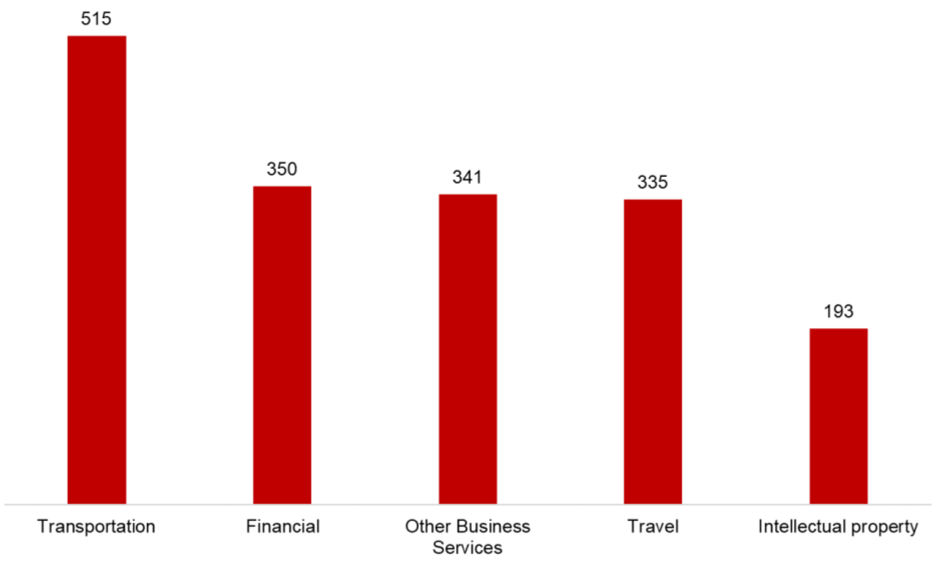
[11] HMRC (2023), Regional Trade in Goods Statistics (data extracted from interactive tables). Note: figures from HMRC were reported on a physical movement basis and are not directly comparable to trade data from ONS which are reported on a change of ownership basis. Totals presented here will differ from overall HMRC trade figures and percentages will not total 100% due to the exclusion of trade in non-monetary gold and non-response estimates and the exclusion of data not allocated to a UK country or region. Figures for 2021 are provisional and subject to change.

[12] HMRC (2023), Regional Trade in Goods Statistics disaggregated by smaller geographical areas: 2022.

[13] Ibid.

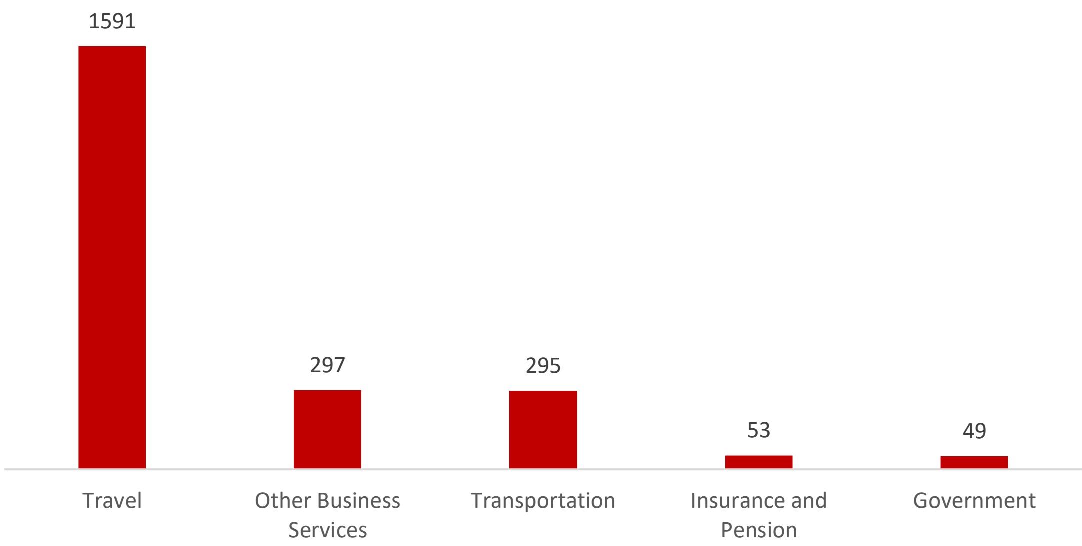
[14] Source: ONS (2023), UK trade in services: service type by partner country, non-seasonally adjusted, July 2023 release.

Figure 6: Top 5 UK services exports to Turkey, 2022 (£ million)



Source: ONS (2023), UK trade in services: service type by partner country, non-seasonally adjusted, July 2023 release. Note: Other business services include professional services such as management consulting, legal, accounting and architecture, as well as numerous miscellaneous services.

Figure 7: Top 5 UK services imports from Turkey, 2022 (£ million)



Source: ONS (2023), UK trade in services: service type by partner country, non-seasonally adjusted, July 2023 release.

In 2021 the stock of Foreign Direct Investment (FDI) from the UK in Turkey was £8.9 billion. This was around 0.5% of the UK's total outward FDI stock.[15] Between December 2012 and December 2022, the sectors with the highest number of UK outward FDI projects in Turkey were transport equipment, industrial, and agribusiness. Together, these clusters accounted for 47% of the 112 total UK outward FDI projects to Turkey.[16] Over the same period,

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[15] ONS (2023), Outward foreign direct investment (FDI) involving UK companies: 2021 (Directional principle), January 2023 release.
[16] FDI markets. Online database of cross-border greenfield investments (accessed 2 August 2023).

Turkey's FDI projects in the UK were concentrated in ICT and electronics, retail trade, and agribusiness. Together, these clusters accounted for 44% of the total Turkey inward FDI projects to the UK. Greater London accounted for 59% of inward FDI projects from Turkey.[17]

The OECD FDI Restrictiveness Index highlights that in 2020 Turkey was more restrictive than the OECD average in 10 sectors out of 42, including accounting and audit and real estate investment. It was also more restrictive than the UK to FDI in 8 sectors. Overall, Turkey was less restrictive than the OECD average and more restrictive than the UK.[18] On average in 2020, around 90% of Turkish restrictions on FDI reflected equity restrictions, which limit the extent of foreign ownership permitted in companies.[19]

2.3 Basis of the current trading relationship.

The UK and Turkey signed the UK-Turkey Trade Agreement on 29 December 2020. This is a continuity trade agreement, which replicated as far as possible the trade arrangements between Turkey and the EU. The agreement predominantly covers trade in goods.

Goods market access

Goods chapters in trade agreements set out the preferential treatments that are applied to the originating goods of each of the respective parties.

Under the current UK-Turkey trade deal, 79.8% of Turkey's tariff lines on imports from the UK are fully liberalised, covering 98.8% of Turkish imports from the UK on average between 2018 and 2020.[20]

Under Turkey's Most Favoured Nation (MFN) tariff schedule 23.2% of tariff lines are already subject to a zero MFN tariff. The existing UK-Turkey Trade Agreement fully liberalises a further 56.5% of tariff lines covering around £2.6 billion in Turkish imports from the UK.

All non-agricultural products are fully liberalised under the current UK-Turkey Trade Agreement. Therefore, the remaining 20.2% of Turkish lines not fully liberalised under the current agreement relate to agricultural products, accounting for around £54 million in annual Turkish imports from the UK. These tariff lines are either subject to a Tariff Rate Quota (TRQ), a partial tariff reduction, or are excluded from any tariff reduction altogether.

[17] Ibid.
[18] OECD (2023), FDI Regulatory Restrictiveness Index, accessed August 2023.
[19] Ibid.
[20] Source: DBT calculations using WTO TAO, UK-Turkey text and ITC Trademap (2018-2020 averages)

Table 3: Breakdown of tariff lines in Turkey's MFN schedule and UK-Turkey Trade Agreement schedule

Tariff line type	Tariff lines		Turkish imports from the UK (£m)	
	Number	Share	Value	Share
MFN zero	2,672	23.2%	1,982	42.6%
MFN non-zero but preferential rate zero	6,502	56.5%	2,620	56.3%
Partial liberalisation under Agreement (including TRQs)	1,193	10.4%	39	0.8%
Excluded under Agreement	1,135	9.9%	15	0.3%

Source: DBT calculations using WTO TAO, UK-Turkey text and ITC Trademap (2018-2020 averages)

For UK imports from Turkey, under the current trade agreement, 90.4% of the UK's tariff lines are fully liberalised, covering 99.6% of the value of UK imports from Turkey on average between 2018 and 2020.

Under the current UK Global Tariff schedule, 44.8% of tariff lines are already subjected to zero MFN tariff. The existing UK-Turkey Trade Agreement fully liberalises a further 45.6% of tariff lines, covering £6.2 billion in UK imports from Turkey. The remaining 9.6% lines are only partially liberalised or not liberalised at all under the existing agreement. Based on average trade flows over the period, these lines account for around £33 million in annual UK imports from Turkey.

Table 4: Breakdown of tariff lines in the UK's MFN schedule and UK-Turkey Trade Agreement schedule

Tariff line type	Number of lines		UK imports from Turkey (£m)	
	Number	Share	Value	Share
MFN zero	4,613	44.8%	2,951	32.0 %
MFN non-zero but preferential rate zero	4,696	45.6%	6,237	67.6%
Partial liberalisation under Agreement (including TRQs)	259	2.5%	12	0.1%
Excluded under Agreement	725	7.0%	21	0.2%

Source: DBT calculations using UKGT, UK-Turkey text and HMRC (2018-2020 averages). Note that analysis is based off a combination of 8-digit and 10-digit tariff lines to match the disaggregation level in the UK-Turkey preferential trade agreement, and so figures will differ from previously published analysis on the UK Global Tariff at the 8-digit commodity code level where the percentage of tariff lines that are MFN 0 is around 47%.

The existing UK-Turkey Trade Agreement has ensured that the majority of Turkish imports from the UK and UK imports from Turkey have preferential access. Were the UK trading on MFN terms, Turkey imports from the UK would have incurred estimated annual duties of around £152 million.

Should preferential tariffs be fully utilised under the current agreement, the maximum annual reductions in tariff duties on goods exports to Turkey available to businesses would be greatest in the following commodities:

- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (HS84, £41 million)
- Vehicles other than railway or tramway rolling- stock, and parts and accessories thereof (HS87, £34 million)
- Iron and steel (HS72, £20 million)

The remaining duties on UK exports to Turkey in lines without preferences, or with partial preferences are estimated at around £4.2 million. Further preferential access would reduce these annual duties. These are predominantly charged on dairy, eggs and honey (HS04) and miscellaneous edible preparations (HS21), accounting for around £1.3 million and £0.8 million worth of duties, respectively.

Were Turkey trading on MFN terms, UK imports from Turkey would have incurred estimated annual duties of £504 million. The preferential tariffs under the existing agreement reduce these annual duties. [21]

Should preferential tariffs be fully utilised under the current agreement, the maximum annual reductions in tariff duties on goods imports from Turkey available to businesses would be greatest in the following commodities:

- Vehicles other than railway or tramway rolling- stock, and parts and accessories thereof (HS87, £166 million)
- Articles of apparel and clothing accessories, knitted or crocheted (HS61, £109 million)
- Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television (HS85, £57 million)

The remaining duties on UK imports from Turkey in lines without preferences, or with partial preferences are estimated at around £0.9 million. Further preferential access would reduce these annual duties. These are mainly attributed to sugars and sugar confectionery (HS17) and cereals (HS10), accounting for around £0.4 million and £0.2 million worth of duties, respectively.

[21] Estimated reductions in annual duties on Turkey imports from the UK are derived from DBT calculations using trade data from ITC Trade Map (accessed 2022) and WTO TAO. Estimated reductions in annual duties on UK imports from Turkey are derived from DBT calculations using tariff data from DBT's WRO CRTA notification table, DBT estimates of UKGT AVEs and MacMap preferential AVEs, and trade data from HMRC imports.

Utilisation of the UK-Turkey Trade Agreement

The values provided above assume that utilisation of preferential tariffs is 100%, which is not true in practice. The overall preference utilisation rate (PUR) for UK exports to Turkey in 2019 was 82%.[22] This means that 82% of UK exports that were eligible for preferential treatment were exported to Turkey under preferential terms, with the remainder exported under MFN terms. Products with the largest value of exports eligible for preference include machinery and mechanical appliances (90% PUR), transportation equipment (67% PUR) and chemical products (74% PUR).

The average preference utilisation rate for UK imports from Turkey in 2019 was 99% with most sectors above 95%. Products with the largest value of exports eligible for preference include machinery and mechanical appliances, textiles and textile articles and transportation equipment. All three sections have utilisation rates of over 99%.

Utilisation rates vary greatly across sectors and agreements. Utilisation rates are also likely affected by agreement-specific factors such as rules of origin requirements for goods and the profile of businesses which export those goods.

Tariff Rate Quotas

Tariff-rate quotas (TRQs) allow a certain quantity of a product to enter the importing market at a zero or reduced tariff rate. Imports above the quota are subject to a higher tariff – usually the MFN rate.

The current UK-Turkey Trade Agreement includes inward TRQs for UK imports from Turkey on the following indicative products (with mostly duty-free in-quota rates):

- Meat of sheep or goats
- Meat of turkeys
- Cheese
- Potatoes
- Onions
- Aubergines
- Courgettes
- Grapes
- Watermelons
- Edible fruit
- Olive oil
- Chewing gum
- Other sugar confectionery
- Chocolate and other food preparations containing cocoa
- Malt extract
- Pasta
- Prepared foods obtained by the swelling or roasting of cereals
- Muesli

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[22] Director General for Trade of the European Commission calculations based on data from national customs administrations of importing third countries and MADB, updated 21st October 2020. PUR data of UK goods exports is publicly available up to 2019. Note: The UK-Turkey FTA entered into force on 1st January 2021, providing continuity of trading arrangements as the UK left the European Union. The 2019 Eurostat data covers the agreement that was in place for the UK as part of the EU Customs Union and does not take into account any changes to the agreement since Brexit.

- Bulgur wheat
- Other prepared cereals
- Bread, pastry, cakes, biscuits and other bakers' wares
- Waffles and wafers
- Rusks, toasted bread and similar toasted products
- Other bread, pastry, cakes, biscuits and other bakers' wares
- Prepared or preserved tomatoes with a dry matter content of less than 12 % by weight
- Prepared or preserved tomatoes with a dry matter content of not less than 12 % by weight
- Jams, fruit jellies, fruit or nut purées and fruit or nut pastes
- Jams, fruit jellies, fruit or nut purées and fruit or nut pastes with a sugar content of 13%-30%
- Other preparations of fruit and nut with a sugar content exceeding 30%
- Citrus and other fruit
- Fruit and vegetable juices
- Ice cream
- Other food preparation

The current agreement also includes outward TRQs on UK exports to Turkey of the following products (with mostly duty-free in-quota rates):

- Live bovine animals
- Meat of bovine animals
- Prepared pork products e.g. hams, shoulders, bacon
- Milk and cream, concentrated or containing added sugar or sweetening matter
- Whey
- Butter
- Cheese
- Egg yolks
- Bulbs, tubers, tuberos roots and corms of flowers
- Live plants
- Cut flowers and foliage
- Potato seed
- Mushrooms
- Beans
- Fresh fruit
- Tea
- Cereals
- Sunflower seeds, sugar beet seed and seeds for sowing
- Tallow
- Soya bean, sunflower, safflower, rapeseed, colza and mustard oil
- Sugar
- Chewing gum, Turkish delight, cough drops, boiled sweets and toffees
- Chocolate and other food preparations containing cocoa
- Food preparations
- Pasta
- Biscuits and wafers
- Pickled vegetables including mushrooms, salad, cabbage

- Prepared tomatoes and mushrooms
- Jams, fruit jellies, marmalades, fruit or nut puree and paste
- Fruit juices
- Ice cream
- Sparkling wine
- Vinegar
- Animal feed preparations

Full details and breakdowns of the TRQs can be found in the Parliamentary report which accompanies the UK–Turkey Trade Agreement.

Rules of Origin

In trade agreements, rules of origin (RoO) are used to determine the economic nationality of a good. To benefit from the preferential tariff rates under the UK–Turkey Trade Agreement, goods must “originate” in either the UK or Turkey. Goods must, for example, be “wholly obtained” or “sufficiently worked and processed”.

To provide maximum continuity for business, the UK-Turkey Trade Agreement provides that EU materials can be recognised (i.e., cumulated) in UK and Turkey exports to one another, as long as the processing in the UK or Turkey goes beyond insufficient working or processing.

Sanitary and Phytosanitary Measures (SPS)

The current UK-Turkey Trade Agreement has a very minimalist SPS chapter which only restates the Parties’ international obligations under the WTO SPS Agreement. It has no substantive commitments. It does not include provisions on cooperation on animal welfare.

Customs and Trade Facilitation

The existing UK-Turkey Trade Agreement includes a comprehensive customs and trade facilitation chapter and is in line with UK Government’s ambitions in this area.

The current chapter includes stronger commitments than the World Trade Organization Trade Facilitation Agreement (WTO TFA) in some instances and is in line with recent UK agreements (e.g., Australia and New Zealand) in the majority of articles.

Competition

The current agreement contains a very minimalist chapter which includes a definition of anti-competitive agreements, an article for competition law, application of competition law to publicly owned or controlled enterprises and non-application of dispute settlement.

The UK-Turkey Trade Agreement also requires Parties to proscribe anti-competitive business conduct, and references the principles of transparency, non-discrimination, and procedural fairness.

Technical Barriers to Trade

The existing chapter incorporates the WTO TBT Agreement rules and facilitates consultations between the UK and Turkey. A review of the existing chapter is due to close in 2023. The entry into force date is to be confirmed but will likely be in 2024. The review process transitions the majority of the EU-UK Trade and Cooperation Agreement TBT provisions into a UK-Turkey TBT Chapter, including chemicals and automotive sector annexes.

Government Procurement

Government procurement commitments in trade agreements provide enforceable rules and standards for a transparent and non-discriminatory framework on government procurement. They also liberalise specific procurement markets between the parties and provide enforceable market access commitments.

The UK-Turkey Trade Agreement does not contain any substantive procurement commitments. It stipulates that both parties shall consult on the opening of their respective government procurement markets, using in particular the GPA as a framework for future dialogue.

Intellectual Property

The current Intellectual Property provision in the existing UK-Turkey agreement requires that the parties *'shall'* provide protection in line with TRIPS and commits parties to several WIPO treaties.

Trade remedies

The UK–Turkey Trade Agreement has a limited trade remedies chapter that reaffirms the Parties' rights and obligations under the relevant WTO agreements.

Dispute settlement

The economic benefits of trade agreements can only be realised if they are implemented and complied with. The UK-Turkey Trade Agreement provides that a Joint Committee may make recommendations relevant for the implementation and operation of this agreement.

Areas not covered in the current UK-Turkey Trade Agreement

Services

The UK-Turkey Trade Agreement contains no substantive Services provisions. As a baseline, the UK and Turkey currently rely on each other's offers under the GATS (General Agreement on Trade in Services) which represents the level of access and the treatment granted to all WTO members.

Investment

There are currently no investment provisions in the existing UK-Turkey Trade Agreement but there is a Bilateral Investment Treaty (BIT) in force between our countries. The BIT includes investment protection provisions that seek to protect investors from arbitrary, discriminatory, or unfair treatment, as well as expropriation without adequate compensation. These provisions are backed by an Investor State Dispute Settlement mechanism.

However, the BIT does not contain investment liberalisation provisions which seek to limit barriers to investment and ultimately make it easier for investors to establish and operate in Turkey. These provisions are typically only found in free trade agreements.

Digital Trade and Telecoms

Given that the current UK-Turkey Trade Agreement is predominantly Goods focused, there are no Digital Trade and Telecoms provisions.

Labour, Anti-Corruption and the Environment (LACE)

There are no provisions relating to labour, anti-corruption and environment within the current UK-Turkey Trade Agreement.

Innovation

The UK's current agreement with Turkey has no innovation chapter.

Trade and Gender Equality (TGE) and Women's Economic Empowerment in Trade (WEET)

There are currently no provisions in the existing UK-Turkey Trade Agreement relating to Trade and Gender Equality and Women's Economic Empowerment in Trade.

Good Regulatory Practice (GRP) and SMEs

The existing UK-Turkey Trade Agreement does not contain any provisions regarding either GRP or SMEs and there is little precedent in these areas across Turkey's other FTAs to-date.

2.4 Turkey's trade relationship with the EU

The EU-Turkey Customs Union (CU) entered into force on December 31, 1995, and sets out preferential arrangements between the EU and Turkey.

The CU is narrowly focused and only covers:

- Rules of Origin
- TBT elimination
- Customs provisions
- Competition Rules
- Protection of Intellectual, Industrial and Commercial Property
- Trade Defence instruments

The CU specifically does not cover:

- Services
- Public Procurement
- Agricultural products, as defined in Annex I of the Amsterdam Treaty; and
- Coal and steel products
- Investment
- Sustainable development issues
- Agriculture
- SPS

- Regulatory coherence
- SME
- Dispute Settlement

As a result of the CU, Turkey must closely align its domestic law (to varying extents) with the EU's rules on the following:

- IP
- Competition
- State aid

The Customs Union

Goods – Customs

Turkey must apply the **EU's Common Customs Tariff** on the goods covered by the CU to countries which are not Members of the EU. Under no circumstances can Turkey apply a customs tariff which is lower than the Common Customs Tariff for any product covered. If Turkey applies a lower tariff to the UK, as a third country, to that which the EU applies to another third country, it breaches its CU Agreement with the EU.

Therefore, when entering FTAs with third countries, Turkey must take the necessary measures to align its commercial policy for industrial goods with the EU's external FTA regimes. To that end, Turkey could not, *in respect of industrial goods*, accord more favourable terms to the UK than the EU does in the EU-UK Trade and Cooperation Agreement.

Goods – Rules of Origin

In the CU, the criteria needed to determine the national source of a product is that of "free circulation" rather than origin. In respect of goods that are not covered by the CU, these are covered by the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention).

In the CU, the rules determining whether a product from a third country is in free circulation in EU / Turkey are:

- If the import formalities have been complied with (for origin, this also includes a declaration by the importer to indicate the origin); and
- If any customs duties or charges having equivalent effect have been levied in the EU or Turkey; and
- If the importer has not benefitted from a total or partial reimbursement of such duties or charges.

Goods - Intellectual Property

It is understood that Turkey has aligned with a significant amount of the EU's rules on intellectual property and is a signatory to several international conventions. The CU sets out a non-exhaustive list of laws and conventions which Turkey was expected to comply with at the time of (or within a specified time thereafter) the entry into force date. A December 2017 UK Intellectual Property Office publication gives a summary of Turkish IP laws.

Goods – Subsidies

The CU also requires Turkey to align with certain EU laws on State Aid. The CU does state that in absence of state aid rules, the WTO ASCM rules are applicable for state aid under the Customs Union. The area of state aid for Turkey-EU is being governed by the WTO rules.

The UK (except partly in relation to NI, where different rules apply pursuant to the Windsor Framework) is no longer bound by the EU's state aid rules. The UK-EU TCA sets out "subsidy controls" and the framework for those will be implemented by the Subsidy Control Act which received Royal Assent on 28 April 2022.

In short, the UK would be bound by the UK-EU TCA provisions on subsidies and Turkey *ought* to be bound by its state aid obligations under the CU. These frameworks will need to be considered when negotiating the FTA upgrade.

3. Potential impacts of a new FTA for workers and the environment

Potential impacts of an FTA for workers

Just as FTAs present opportunities and challenges for businesses, they also generate opportunities and challenges for the workers of those businesses. They can also affect the dynamism of the labour market more widely.

Workers can benefit from FTAs through a variety of channels:

- Where FTAs boost productivity within firms and sectors, and across the economy more widely, this is likely to generate increases in the employment opportunities and real wages of workers;
- Where FTAs lower consumer prices, this is likely to benefit workers in the form of higher real wages, meaning that they can purchase more even at the same wage.

Trade liberalisation can also affect the structure of the economy over time. Workers may move between jobs and sectors, as changes in the pattern of trade leads to some sectors expanding and some sectors declining. The UK has one of the most dynamic and flexible labour markets in the world, which helps to facilitate adjustment and reduce transitional costs for workers.

Modern, dynamic economies are continually reshaping in line with global developments which drive a continual process of worker and job transition in the labour market. It is possible that lower barriers and greater import competition resulting from an FTA could accelerate this ongoing process.

Potential wider social impacts of an FTA

As described above, FTAs can affect employment prospects, wages and wider working conditions in specific sectors or for specific professions or skill levels. The characteristics of workers can sometimes differ across sectors, professions and skill levels. It is therefore possible that that these changes could affect various social groups differently and influence the distribution of income. The regional location of workers in different sectors and professions may also vary. This means that different areas or regions within a country may be affected differently by an FTA.

Potential impacts of an FTA on the environment

The economic changes resulting from FTAs have the potential to affect some aspects of the environment including, for example, greenhouse gas emissions, air pollution, water quality and land use.

The indirect impacts on the environment may occur as enhanced trade induces the economy to grow (a ‘scale’ effect affecting pollution for example) and as economic activity shifts between sectors with different levels of emissions (a ‘composition’ effect). FTAs can also positively impact the environment as increased trade leads to the transfer of new, potentially more environmentally friendly, technologies and production methods (a ‘technique’ effect).

The impact of FTAs on the environment will depend upon the design of an agreement and the economies of the countries involved. The UK Government is committed to maintaining high standards of environmental protection in trade agreements. The Government will assess the potential environmental impacts in more detailed studies before and after negotiations take place with new partner countries.

4. Areas of interest in our Call for Input

Our CFI provides stakeholders with the opportunity to express their views about a prospective Free Trade Agreement with Turkey. We are particularly interested in views about:

- which areas do you want the UK government to prioritise in trade talks with Turkey when negotiating a new FTA?
- are you facing challenges or constraints when trading or investing in Turkey, and if so, what are these challenges and constraints, and how significant is this on your business activity?
- how would you expect your business to respond if restrictions were removed on trade or investment with Turkey? For example, might you look to increase trade and investment in Turkey or attract increased trade and investment from Turkey?
- Are there any areas where you would have concerns about increased liberalisation of trade between the UK and Turkey?

5. Drafting a consultation response

As with all other FTAs, DBT is committed to negotiating an agreement which delivers benefits to stakeholders across the whole of the UK. The responses to this consultation will inform our policy making, strategy and negotiating positions for engaging with Turkey, and so it is important to us that you respond and set out your priorities for the shape of a future FTA.

Prior to submitting your response, we encourage you to talk to a range of experts in your business/organisation to understand the fullest picture of current trading priorities.

When responding, we would advise you to think about what you would want to see in an FTA that is designed for the future. While we want to hear about any current trade between the UK and Turkey, tell us which areas you think provide the most opportunities, and where we can secure provisions to help you overcome any barriers you are currently experiencing whilst trading and investing with Turkey.

This may include suggestions on what you would like to see included in certain chapters, or examples of where other agreements have strong provisions that we could look to replicate. Where it is relevant, we welcome the inclusion of figures or data to illustrate the examples you give in your response. Remember that more detailed answers will help us to best understand your needs.

The CFI provides the opportunity to provide information in two ways, once you have answered a number of questions to tell us who you represent, you will **either** be able to answer our CFI questionnaire, **or** you may submit your own evidence directly. You also have the option to complete both the questionnaire and submit your own evidence. Pease follow the link to the CFI to see these options.

6. Conclusion

FTAs have the potential to deliver substantial economic benefits to signatories, including increased trade and investment. This is driven by reducing trade costs, reducing uncertainty in the rules of trade, creating a level playing field for businesses across partner countries and increasing productivity.

Turkey is an important trade and investment partner for the UK and the deepening of our bilateral trade and investment relationship through an FTA could generate benefits to the UK and Turkey economies.

This consultation will inform an evidence-based approach to decision-making, as well as future assessments of the impacts of an FTA with Turkey. We are interested in better understanding your views on areas such as key opportunities in an FTA as well as current challenges in trading and investing in Turkey.

The UK Government has committed to publishing scoping assessments before entering negotiations with partner countries for new FTAs, and to publishing an impact assessment.

Glossary of trade terminology

Anti-dumping duty	Under WTO rules, countries can counteract the practice of 'dumping' by imposing additional duties on imported goods found to be 'dumped' and causing injury to domestic producers.
Bilateral agreement	An agreement negotiated between two sides.
Countervailing Measure (CVM)	Additional duties that WTO rules authorise countries to impose on imported goods to offset state subsidies received in the country of export after having conducted a domestic investigation and establishing that the subsidised imports are causing injury to the domestic industry.
Customs authority	A government body that administers laws and regulations relating to goods crossing a border, particularly import, export, movement and storage of goods. This can be by: 1) Collecting duties and taxes. 2) Controlling import & export of restricted goods, e.g. animals, and weapons. In the UK, Customs functions are undertaken by HM Revenue & Customs and Border Force.
Customs duty	A charge imposed by a country on the import or export of goods.
Customs procedures	Processes and procedures applied by customs authorities to control the export, import and transit of goods. Their improvement and simplification may lower costs and facilitate trade.
Dumping	Dumping occurs when goods are exported at a price less than their 'normal value', generally meaning they are exported for less than they are sold in the domestic market or are sold in export markets below the cost of production. WTO rules authorise action to counteract the practice of dumping when dumped imports are shown to cause injury to domestic producers.
Foreign Direct Investment (FDI)	Investment by an entity in a foreign operation, or establishment of a new operation in another country.

Glossary of trade terminology

Free Trade Agreement (FTA)	A treaty among two or more countries to form a free trade area. This means having zero tariffs (or reduced tariffs) and reducing other regulatory restrictions on trade in substantially all goods and/or services.
Gross Domestic Product (GDP)	Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period.
The General Agreement on Trade in Services of the World Trade Organization (GATS)	The General Agreement on Trade in Services (GATS) is a treaty of the World Trade Organization (WTO) which entered into force in January 1995 as a result of the Uruguay Round negotiations. The treaty was created to extend the multilateral trading system to service sector, in the same way the General Agreement on Tariffs and Trade (GATT) provides such a system for merchandise trade. All members of the WTO are parties to the GATS. The basic WTO principle of most favoured nation (MFN) applies to GATS as well.
Intellectual Property (IP)	Creations of the mind, such as inventions, literary and artistic works, designs, and symbols, names and images used in commerce. These creations are protected by law by a variety of intellectual property rights such as patents, copyright, trade marks, design rights and geographical indications.
Market access	Conditions set by governments to control which goods or services can or cannot enter their domestic market.
Most Favoured Nation (MFN)	A non-discrimination principle enshrined in many WTO rules that prohibits a WTO member from treating some WTO members more favourably than others. The MFN obligation requires each WTO member, in its trade with all other WTO members, to give the best ("most-favoured") treatment that it accords in trade with any other WTO member. If, for example, a country lowers tariffs on goods from the GCC, it must also do so on

	similar goods from Argentina. Exceptions to the MFN principle exist under WTO law, such as in the form of Customs Unions, Free Trade Agreements, Generalized System of Preferences and certain trade remedies. FTAs often contain their own MFN commitments between the treaty partners.
National Treatment	A non-discrimination principle enshrined in many WTO rules that prohibits a WTO member from treating imported goods or foreign services and services suppliers less favourably than domestic goods or services and services suppliers in its domestic market. The national treatment obligation helps ensure imported goods and services are not unfairly disadvantaged compared with their domestic counterparts. Such obligations may also be included in FTAs between the country parties.
Non-Tariff Barriers (NTBs) or Non-Tariff Measures (NTMs)	Any policy that restricts exports or imports other than a simple tariff.
Quantitative Restrictions (QRs)	Specific limits on the quantity or value of goods that can be imported (or exported) during a specific time period.
Regional Trade Agreement (RTA)	In the WTO, these refer to reciprocal trade agreements between two or more partners to liberalise tariffs and services. They include free trade areas and customs unions and economic integration agreements on services.
Rules of Origin (RoO)	Rules used to determine where goods are "from", for example, where they have been produced or had substantial work done to them. This is used in determining appropriate tariff rates, access to preferential trade arrangements or application of trade sanctions.
Safeguard Measures	Actions taken to protect a specific industry from an unexpected build-up of imports. They are generally governed by Article 19 of GATT and the Agreement on Safeguards.
Sanitary and Phytosanitary Measures (SPS)	Measures to ensure that food is safe for consumers, and to prevent the spread of pests or diseases among animals and plants.

Glossary of trade terminology

Services Trade Restrictiveness Index (STRI)	STRIs are composite indices taking values between zero and one, zero representing an open market and one a market completely closed to foreign services providers.
Small- and Medium-sized Enterprises	In the United Kingdom this covers businesses with fewer than 250 employees.
Supply chain	The sequence of processes involved in the production and distribution of a good.
Tariff Rate Quota (TRQ)	The application of a higher tariff or tax on certain goods once an agreed quota (amount) of imports is reached.
Tariffs	Refers to customs duties on imports of goods, levied either as a percentage of value or on the basis of a formula (e.g., 10 per cent or £7 per 100 kg).
Technical Barriers to Trade (TBT)	These are regulations, standards, testing and certification procedures applied to imports and exports which could obstruct trade. The WTO's TBT Agreement aims to ensure that these do not create unnecessary obstacles to trade.
Trade liberalisation	The removal or reduction of restrictions or barriers to trade.
Trade remedies	Measures which allow WTO members to operate a safety net and protect domestic industry from injury caused by unfair trading practices or from injury caused by unforeseen surges in imports. They are taken in response to subsidies, dumping and import surges. These usually take the form of additional duties on those imports.
WTO	The World Trade Organization.

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Published November 2023
by Department for Business & Trade