

## **A NEW ERA IN TURKEY-UK TRADE RELATIONS: THE BILATERAL FREE TRADE AGREEMENT**

Two European outliers, Turkey and the UK have entered into on 29 December 2020 a free trade agreement (the "FTA") for the establishment of tariff-free trading arrangements. This development could be considered a significant step towards unwinding the ambiguities caused by the Brexit transition and will help to secure the continued tariff-free flow of goods on the supply chains of strategically important industries, including automotive, manufacturing and steel industries.

### **Key issues**

- The Political and Diplomatic Significance
- Trading Relationship of Turkey and the UK
- The Scope of the Agreement
- What's Next?

### **BACKGROUND**

The UK's departure from the EU, infamously known as the Brexit, have finally taken place on 31 January 2020 with subject to a transition period until 31 December 2020, during which the UK remained a *de facto* member of the EU Single Market and the Customs Union. In the meantime, the UK and the EU finally agreed, after what have been dubbed roller-coaster negotiations, on a post-Brexit trade and cooperation agreement on 24 December 2020, merely a week before the end of the transition period on 31 December 2020.

With the EU-UK Trade and Cooperation Agreement is now finally in place, the UK is expected to enter into further trade and cooperation agreements with its non-EU trade partners. Despite not being a member of the EU, Turkey has a customs union with the EU and therefore Turkey-UK relations were subject to the EU Customs Union regime. On this basis, it has not been much of a surprise that the UK's first major post-Brexit trade deal signed after the EU-UK Trade and Cooperation Agreement is the FTA.

The FTA provides certain assurances for securing post-Brexit trade continuity between Turkey and the UK under terms substantially similar to the EU Customs Union regime and expected to ensure post-Brexit trade continuity between Turkey and the UK.

### **THE POLITICAL AND DIPLOMATIC SIGNIFICANCE**

The FTA is expected to secure the mutual achievements developed between two nations over the course of 25 years of partnership within the Customs Union. The UK is Turkey's second biggest export market, second only to Germany, and therefore the entry into a trade agreement was vital for the continuation of the trade relationship, especially the manufacturing, automotive and steel industries.

According to the Turkish Trade Minister's recent press release, the FTA is expected to eliminate an estimated 75% of duties that otherwise would cause a loss of an approximately USD 2.4 billion for Turkey and impose significant impediments against Turkish exports.

### **TRADING RELATIONSHIP OF TURKEY AND THE UK**

Historically, the UK has been a major trading partner and the second largest export market for Turkey, and together the two countries have established a trade relationship with a proven track record, accounting for £18.6 billion (approximately USD 25 billion) worth of trade in 2019. The trade between Turkey and the UK comprises 4.4% of Turkey's total trade.

Turkey has a trade surplus in trade of goods with the UK, exporting USD 10.131 billion of goods to and importing USD 5.006 billion of goods from the UK from January to November 2020. Between 2002 and 2019, the total foreign direct investment capital inflows of the UK in Turkey reached approximately USD 11 billion. During the same period, Turkish investments in the UK accounted for approximately USD 3 billion.

Further, the differences in the two countries' economic specialisations create opportunities for complementarity. In this respect, both countries could benefit from a specialised trade relationship based on their comparative advantages. Turkey's main exports to the UK comprise (i) gold and precious metals; (ii) vehicles and parts; and (iii) textile products and garments, while Turkey's main imports from the UK comprise (i) vehicles and parts; (ii) turbojets, machinery and engines; and (iii) iron/steel.

## **THE SCOPE OF THE FTA**

As a general rule, each of Turkey and the UK accepts under the FTA to apply national treatment rule to the goods of other party in accordance with the General Agreement on Tariffs and Trade 1944 and apply preferential rules of origin (as set out in the protocol attached to the FTA) to trades with each other.

The main agreement under the FTA is that Turkey and UK both agree to eliminate all customs duties with respect to industrial goods originating from the other party. On the other hand, although each party agrees to reduce or eliminate customs duties with respect to certain agricultural goods (set out in Annex 2-B of the FTA) under the FTA as well, not all agricultural goods will be exempt from custom duties provided that the parties agree under the FTA to further replace, modernise or expand the terms of the FTA with respect to trade in agricultural goods as well as services, investments, subsidies, intellectual properties etc.

The FTA also includes certain other provisions on trade in goods, customs and trade facilitation, intellectual property, government procurement, competition, trade remedies and dispute settlement. Ultimately, the FTA seeks to eliminate any technical barriers against trade and ensure harmonisation in respect of both countries' customs and trade regulations.

Further, the FTA provides for binding enforcement and dispute settlement mechanisms, including the establishment of a Joint Committee and independent arbitration. The mechanisms are reciprocal and do not directly involve Turkish or UK judicial functions. The FTA provides for remedies ranging from the rectification of a breach to the payment of suitable compensation.

## **WHAT'S NEXT?**

Although the entry into force of the FTA is subject to ratification by each of Turkey and the UK, the FTA stipulates that its provisions should apply pending entry into force provided that each party notifies each other in that respect through diplomatic channels. In addition, since Turkey is a member of the EU Customs Union, the ratification of the FTA may not be finalised until the ratification of the EU-UK Trade and Cooperation Agreement by the EU and the UK.

In this respect, the FTA is tailored to cater for the needs of both countries and considered to be a significant achievement as it paves the way for competitive, dynamic and progressive growth in the two countries' trading relationships. Building on this dynamism, the Turkish exporters, especially in the textile, automotive and manufacturing industries, could benefit from the continuation of favourable terms to increase the breadth and depth of their existing trading arrangements.

In addition, the FTA and the recent events leading up to this agreement may perhaps initiate a further agreement between Turkey and the UK that will create further synergies and tailored solutions in respect of the two countries' existing trading arrangements, based on each country's specialisations and comparative advantages.

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