

International Trade Committee

Oral evidence: Continuity of trading arrangements with Turkey, HC 2022

Wednesday 20 March 2019

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Members present: Angus Brendan MacNeil (Chair); Mr Nigel Evans; Mr Marcus Fysh; Sir Mark Hendrick; Mr Chris Leslie; Julia Lopez; Faisal Rashid; Catherine West; Matt Western.

Questions 1 - 77

Witnesses

I: Dr Pinar Artiran, WTO Chair, Istanbul Bilgi University; Richard Warren, Head of Policy and Representation, UK Steel; and Dr Hasan Turunç, Director, Turkish Industry and Business Association, London Representative Office.

Examination of witnesses

Dr Pinar Artiran, WTO Chair, Istanbul Bilgi University; Richard Warren, Head of Policy and Representation, UK Steel; and Dr Hasan Turunç, Director, Turkish Industry and Business Association, London Representative Office.

Q1 **Chair:** Good morning and welcome to our session on the continuity of trading arrangements with Turkey. Can I ask the panel to introduce themselves on their own terms, name, rank and serial number, starting on my left?

Richard Warren: Richard Warren, Head of Policy for UK Steel, which is the representative body for UK steel producers.

Dr Artiran: Good morning. I am Dr Pinar Artiran, Istanbul Bilgi University Faculty of Law. At the same time I am holding one of the WTO Chair holder positions attributed by the World Trade Organization.

Chair: Thank you very much. I think you have flown in from Turkey to be here this morning, so that is much appreciated. Thank you.

Dr Turunç: Hasan Turunç, representative of Turkish Industry and Business Association. It is the largest independent group in Turkey. I am based in London from Turkey.

Chair: It is very good to see you again. We have had you at the Committee at least once before and I am sure we have met privately in the past.

Dr Turunç: Yes, thank you so much. Thank you for the invitation again.

Q2 **Chair:** Dr Turunç, could I ask you how much trade currently takes place between Turkey and the UK, just to set the scene for what we are talking about here?

Dr Turunç: The current arrangements between the UK and Turkey. I understand the question. The UK-Turkey relations, as long as the UK is in the European Union, are governed by the Ankara Association Agreement of 1963 and the customs union.

Q3 **Chair:** How much trade is taking place at the moment?

Dr Turunç: How much trade?

Chair: Yes.

Dr Turunç: I have the latest number. The trade volume is about 18.5 billion. Exports from Turkey to the UK are 11.1 billion—this is 2018—which is an increase of 15.7%. Imports are 7.4 billion, which is an increase of 13% between the UK and Turkey.



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Q4 **Chair:** What are the main type of goods that are traded between Turkey and the UK?

Dr Turunç: Generally, automotive products, white goods, consumer goods, textiles and more steel from the UK to Turkey. I have a list from the Turkish Embassy. It shows non-electrical machines, iron and steel and scrap metal from Turkey. Automotive and sub-industrial product imports from the UK to Turkey.

Q5 **Chair:** There is a lot of haulage carried out between the two?

Dr Turunç: Yes.

Q6 **Chair:** How significant is the level of trade and services between the UK and Turkey?

Dr Turunç: When you look at the trade volume it is not as significant as it seems. Most of the products are textiles, clothing, consumer goods, electrical appliances, cable and wires from Turkey to the UK. Non-electrical machines, pharmaceutical products, plastic and plastic goods are the main trading but we work with The CityUK, which is another organisation from the UK. It is based in London and they are promoting relations between the UK and Turkey in services particularly. I know that they held some events on fintech and how to improve the capital markets in Turkey. Recently, I know that the UK Stock Exchange and the Turkish Borsa signed a joint agreement to sell products together. Services are in its infancy but I think it is moving.

Q7 **Faisal Rashid:** Thank you for coming. You touched on steel a little bit. I would like to explore how much steel trade happens between the UK and Turkey.

Dr Turunç: I had the numbers very recently, if you just bear with me a second.

Faisal Rashid: The question is to all of you.

Richard Warren: It does vary from year to year. The exports from the UK to Turkey in 2017—which is the latest year we have full data for—were around 300,000 tonnes, which is £130 million worth. To put that into context, that is our third biggest market. After the EU and the US, Turkey is our third biggest market. In total export terms, it is probably 10% of our exports.

Q8 **Faisal Rashid:** That is the exports to Turkey?

Richard Warren: Exports to Turkey, yes, and Turkey sends about twice as much back to the UK—more like 600,000 tonnes is sent back to the UK.

Q9 **Faisal Rashid:** How does it compare with other markets internationally?

Richard Warren: Our exports to Turkey, there is a slightly—

Faisal Rashid: Just on steel.



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Richard Warren: The total exports of steel to the European Union—so not just what we produce here but the entire trade—is about 3.5 million tonnes, 300,000 tonnes to Turkey; between 300,000 and 350,000 tonnes to the US. In the context, if we think back to this time last year, the difficulties that we were concerned about and facing with trade barriers to the US, with trade barriers to Turkey we are looking at a similar scale of problem. It is a very similar sized market for us.

Q10 **Faisal Rashid:** I am just trying to understand for the steel industry only how significant Turkey is for the UK?

Richard Warren: It is our third biggest export market. About 10% of our exports are going to Turkey.

Faisal Rashid: To Turkey only, yes.

Richard Warren: Yes. It is a similar sized market to the US, which is our second biggest market. In very simple terms, it is an important market for us.

Dr Turunç: The number from the Turkish Embassy is that in 2018 we have scrap metal exported to Turkey from the UK of \$960 million.

Chair: Nearly \$1 billion of scrap metal.

Q11 **Mr Marcus Fysh:** What is the mode of transport that you use? Is it all hauled across overland or is it shipped?

Richard Warren: It is shipped and going through the European Union. I will have to come back to the Committee to provide an exact split, if that would be useful.

Q12 **Matt Western:** Could you all summarise how you see the current trading arrangements between the UK and Turkey, as provided for by the customs union?

Dr Artiran: Perhaps I may start. The customs union between Turkey and the European Union is foreseen in the Ankara Association Agreement, which started as an implementing agreement. Under Article XXIV of the GATT, as we all know, either you have a customs union or a free trade agreement and you can have an implementation period. We understand that the Turkey-EU customs union started back in 1963 with the Ankara Association Agreement, but the implementation time ended in 1995 when the customs union took place between the parties. This was decision 1/95 of the Commission and the European Union and Turkey.

The customs union, as the name suggests, provides for the free movement of goods only. It does not cover services. Moreover, the main difficulty that arises out of the customs union is that it is really related to industrial products and processed agricultural products. Therefore, it does not include primary agricultural products. If they can manage to modernise the customs union, which is now a talk between the respective Governments, that modernisation of the customs union will include raw



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agricultural products, primary agricultural products and, hopefully, services. There will be a contract for services as well, and all of the remaining matters, including commerce and whatever we could not achieve so far, including public procurement, that we don't have in the current agreement so far.

Dr Turunç: The customs union determines on the industrial goods and the processed agricultural goods. The Ankara Association Agreement and the customs union together set external trade for the third countries but also allow for Turkey and the UK to have preferential rules of origin: external trade to non-EU countries and rules of origin between UK and Turkey.

Richard Warren: The customs union does not cover steel products. There was a separate free trade agreement covering the European Coal and Steel Community products, which was established a year after the customs union in 1996. That is standalone and it was set up separately for historical reasons, largely due to state aid provisions.

Matt Western: Is there anything else that is not covered? No?

Q13 **Mr Marcus Fysh:** I have a technical question on the customs procedures that are required between Turkey and the EU. You spoke about rule of origin. What other customs formalities need to be completed by shippers of goods in either direction? There is the ATR movement certificate but what other customs formalities need to be done?

Dr Artiran: There is the ATR document. The bodies that are exporting and importing are supposed to provide those documents and also for chemical products, for instance. We have a system in Turkey whereby we are controlling the products at the border. If they are coming from the European Union countries they are already going through a certain mechanism where the trade will be facilitated.

In the case that the United Kingdom exits the European Union, products coming from the United Kingdom will have to go through certain checks at the Turkish border because they will no longer be eligible for the system called TARIC that we have currently in Turkey, which has been put in place after our customs union with the European Union. There will be additional border controls and checks.

Dr Turunç: I have checked that five checks are conducted at the border.

Q14 **Mr Marcus Fysh:** Yes, there are those sorts of checks but in the actual custom procedure, is there an export declaration for the purpose of VAT?

Dr Turunç: There are nine declarations: transport visas, export declarations, carnet from the Turkish custom officers, invoices for the products, insurance certificates, transport permits, original certificates of the cargo from the relevant ministry, MRN, as the doctor mentioned, and the transit declaration.



Q15 Mr Marcus Fysh: Is it a frictionless border between the EU and Turkey?

Dr Turunç: It depends how you define frictionless. It is very difficult. As you may remember from my previous presentation, sometimes it takes up to 48 hours on the weekends. I think the discussion about the customs union has to be in context of the UK, when you talk about the Turkey customs union—this is the biggest missing point. The Turkish customs union came to power in 1996. The UK was hosting Euro 96 and Alan Shearer was the leading striker. That is how old it is.

Then we had a military coup in the 1980s, three years to come back to democracy and it took 10 years to come back from that position. There were no services. The customs union improved Turkey's standards, product standards, increased trade between the UK and Turkey and improved employment in Turkey. If you take it in this context, yes, but with today's realities and the border checks and sometimes the Bulgarian officials are unnecessarily against the customs union practices, which are reported by the European Commission, and that creates unnecessary delays. Can it be improved? Yes. That is why we are in customs union modernisation talks and hopefully it will be.

Q16 Mr Marcus Fysh: But it isn't right to characterise a customs union necessarily as frictionless, is it?

Dr Turunç: If you talk about Turkish customs union, "a" is different from "the" Turkish customs union. The Turkish customs union was implemented because it was a temporary measure. We were hoping that we were going to be a full member by now, so we agreed on that process.

Q17 Chair: You would differentiate between the Turkish customs union and the European Union customs union? You would say that there is a difference between the two, would you?

Dr Turunç: No, what I meant is that, if you want a final customs union, we don't have a model of a final customs union. We have a Turkish model, which was implemented in 1996.

Q18 Chair: Thank you. Richard Warren, what arrangements currently cover the trade in steel between Turkey and the UK?

Richard Warren: As I touched on a second ago, for historical reasons, which were largely due to state aid provisions—which used to be an awful lot stricter in the EU specifically in relation to steel—when the customs union discussions were occurring it was decided that it would be better to have a separate trade agreement just for European Coal and Steel Community products. That would include stricter provisions on state aid.

Those provisions on state aid have been reduced somewhat, post the European Coal and Steel Community, but the FTA continues to exist. We are not part of the customs union but we do have tariff-free access to the Turkish market for steel. The WTO agreement predates all of that and the



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Turkish industry will continue to have tariff-free access to the UK market regardless of what happens with Brexit. We have zero tariffs on steel for everyone in the world.

Q19 **Chair:** That is at least some good news there?

Richard Warren: Certainly for the Turkish steel industry, yes.

Q20 **Chair:** To all of you, the UK Government have confirmed that they will not be able to replicate the current trading arrangements that we have with Turkey in time for a possible no-deal Brexit. That would be a week Friday, in about nine days' time. In your own opinions, what would that mean for trade between Turkey and the United Kingdom for both tariff and non-tariff barriers? Whoever wants to go with that one first, you are more than welcome.

Dr Artiran: We have been conducting some studies by the industry groups in Turkey, and this was all in the media. One of the main complaints that the business people are talking about is technical barriers to trade. Most of the tariffs have been lowered thanks to the customs union, but we all know that in current international trade relations non-tariff barriers often play an important role. I mentioned the TARIC system that we have in Turkey for goods that are coming from the European Union, this specified, unfacilitated customs control system. If there is no deal between the United Kingdom and the European Union and Turkey the customs checks will be much more difficult.

The customs operators in Turkey who normally clear products from the EU countries immediately by checking certain boxes on the computers will not be able to do that for the UK products, especially for the majority of the technical regulations that we have. We all know that most of the Turkish production regulations are based on the alignments with the European Union. Therefore, if the UK product is no longer qualified as an EU customs union product, you will have to wait longer to go through the technical regulation barriers.

Dr Turunç: TÜSİAD identified some problems with this rolling over or a no-deal scenario. We worked with our members, which is around 800 but in reality more than 4,000 companies. The Turkey Automotive Industry Association did a report, which I can share with the Committee. In a no-deal scenario or if they don't roll over the agreements between the UK and Turkey, it says that in a no-deal scenario it could wipe 3.8 billion a year, which is 0.45% of Turkish GDP and threaten 5,900 jobs. That was done by PwC, which is a credible company, I guess, and I am more than happy to share it with you.

Q21 **Chair:** That would be the end of the UK's participation in the customs union with Turkey. It would cost that?

Dr Turunç: No, if there is no deal or if Turkey does nothing more, not rolling over.



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Q22 **Chair:** Yes, exactly. That is removing the UK from the current customs union.

Dr Turunç: Yes. If we don't roll over between the UK and Turkey we will lose 3.8 billion a year. Also we will be trading on WTO terms, as the doctor was mentioning, so EU tariffs will apply to UK goods coming to Turkey and vice versa and then we will have EU non-preferential rules of origin on UK goods. On the customs duty, which was published last week, my colleagues here in the embassy and TÜSİAD are trying to study it but mainly I think it will impact on automotive, garments and textiles.

The gentleman mentioned about zero tariffs on steel. It is still not an advantage for Turkey because then everybody else will have similar. Chinese steel will have zero tariffs and Turkey will lose this competitive advantage.

On the Turkey automotive industry, we spoke to Ford Koç Holding who is the main exporter to the UK, TÜSİAD members, and they worked on this report. They say that Turkish exports to the UK will decrease by 30%, which is equal to 50,000 vehicles and a 7.5 million loss. Cars will be 10% more expensive. Due to unpredictability between UK and Turkey relations, there will be a slowdown and also car manufacturers will lose their competitive advantage, similar to the steel industry.

The most interesting part we studied—when we found out about a no rolling over scenario and a no-deal scenario—was the electric electronic industry, which is 1.4 billion, UK market leader. The top destination for electronic products for Turkey is the UK. Turkey exported 918 million electronic products to the UK last year.

Q23 **Chair:** 980 million?

Dr Turunç: 918 million, of which 408 million was LCD televisions.

Q24 **Chair:** Televisions might get more expensive. Is that what you are telling me?

Dr Turunç: Yes. Vestel is a major TV producer. In the case of a no deal or no rolling over, rules of origin will apply between the UK and Turkey and, as you know, most of the products are now produced as sub-products coming from the Far East for a better competitive price and are no longer produced in Europe. If rules of origin apply they think that they will not be able to match these criteria and we will lose 1.4 billion because, cumulatively, there will be not enough rules of origin to sell it to UK markets.

Q25 **Matt Western:** On the automotive side, the figures you are describing are pretty staggering, what I think you were saying about Ford.

Dr Turunç: Thirty per cent.

Q26 **Matt Western:** They would lose 30% of their volume. Could you illustrate that better for us as a Committee to understand? Am I right in



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thinking engines are exported from the UK to Turkey? How does that all work and what are the implications?

Dr Turunç: As you know, modern technology and industry is different than traditional. Nowadays the on-time production lines are in place and I have visited Ford here and Ford in Turkey, and I hope that you can visit Turkey and we can show you the borders as well as soon as possible.

Matt Western: We would like to. We have been very keen for a long time.

Dr Turunç: We would be delighted to have you. The logistical supply chain is very complex. The engines go from here to Germany and Italy and from Germany to Turkey, are assembled in Turkey and come back to here. This is how complex it is.

Q27 **Matt Western:** In commercial vehicles?

Dr Turunç: Yes. That is why it will impact more than on all other industries. At least that is what the report shows.

Q28 **Matt Western:** You are saying there would be a tariff on the engines coming into Turkey on a no-deal scenario and then there would be a tariff coming out of Turkey?

Dr Turunç: Yes.

Q29 **Matt Western:** How much would the tariff be on an engine going into Turkey?

Dr Turunç: They think it is 10%.

Q30 **Matt Western:** On an engine?

Dr Turunç: Yes, but we have been studying this new announcement by the UK Government. It will be more detailed. Some of them can go up to 30%, but the report assumes 10%.

Dr Artiran: At the same time, we are not sure whether the new plan proposed by the Government is in compliance with the WTO rules because there is some suggestion that it might violate the MFN principle, Article I of the GATT. It needs to be studied and I think the European Commission also declared that it is studying carefully whether this new arrangement would be in compliance with the WTO rules. We are also studying it in Turkey.

Dr Turunç: The last one was that the clothing and textiles industry will also be in trouble. Turkey exports \$1.920 billion clothing products, which constitutes 70% of all total exports. It is projected to be 12% tax on that.

Q31 **Chair:** Dr Artiran, you talked earlier about the customs union and modernising the customs union. Is there any number put on the Turkish economy being part of this particular customs union you are in and what were the GDP gains? Are they known or what are they projected to be if



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you are in a modernised customs union? Do you have any numbers on that?

Dr Artiran: I have tried to rely on my colleague Dr Hasan Turunç because he comes from the sector, but three years ago I acted as a consultant for the European Commission for the impact assessment report that the European Commission prepared for the EU-Turkey customs union modernisation. That report was driven on the World Bank's 2014 report and it is showing that, for Turkey and the European Union, it is going to be a major boost for both parties' economies. I don't have the right figure but I am sure my colleague will be able to say.

Chair: I think your answer is helping him find the right page.

Dr Artiran: Thank you. The impact assessment report prepared by the European Commission, as well as by the Turkish Government, revealed that the modernisation will be helpful. It is a win-win scenario if there is a political will on the table.

Dr Turunç: On modernisation, in addition it helps Turkey in a sense. In all our discussions between UK and Turkey, the moment we modernise our customs union it solves the issue of having to have a parallel discussion with the UK. Once we modernise our customs union with the EU, it will automatically put us in the discussion with the UK.

Q32 **Chair:** Do we have any numbers?

Dr Turunç: In terms of numbers, I have two reports commissioned by the European Commission. One was conducted by BKP Development Research Consulting in October 2016 in co-ordination with the European Commission. Under the scenario of customs union modernisation and FTA in additional areas, the scenario generates a strong bilateral export gain for the EU of €27.1 billion for the EU. A bilateral export gain of €5.0 billion is projected for Turkey. For the EU, this scenario is estimated to generate a change in real GDP of about 0.1%. The EU's economic welfare increases by €5.4 billion. For Turkey, real GDP rises by 1.44% and economic welfare increases by €12.5 billion.

Dr Artiran: I was part of that impact assessment report that the Commission prepared two years ago. When I look at the numbers now, the European Commission at the time had studied two scenarios. One would be an enhanced customs union and the other one would be a deep and comprehensive free trade agreement. The customs union is 27% more helpful for the parties compared to the deep and comprehensive free trade agreement that would be only 7% helpful.

Q33 **Chair:** The numbers for GDP would be—

Dr Artiran: For the customs union it would be 0.007 and the DCFTA minus—

Q34 **Chair:** For Turkey?



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Dr Artiran: No, for the EU. That is for the EU.

Q35 **Chair:** What is the benefit for Turkey of being in the current customs union and an enhanced customs union?

Dr Artiran: For Turkey, in the customs union it is 1.44%. For the FTA it is 0.26%

Q36 **Chair:** That is additional?

Dr Artiran: Yes, just the GDP if they enhance by making a customs union versus the free trade agreement.

Q37 **Chair:** You have made the big gains now already but you still make a small incremental gain?

Dr Artiran: Exactly, if we remain in the customs union.

Q38 **Mr Marcus Fysh:** I have a couple of questions to clarify. On that last point, how many of those differences are due to the extra product lines that would come into the modernisation rather than the modernisation of the process involved itself? Do you have any feel for that?

Dr Turunç: Does it expand the scope of the trade?

Mr Marcus Fysh: Yes.

Dr Turunç: It will include services, public procurement and agriculture.

Q39 **Mr Marcus Fysh:** That is included in that modernisation?

Dr Turunç: Yes, exactly.

Q40 **Mr Marcus Fysh:** It is not apples with apples. You are not talking about the gains just to come from the procedure itself?

Dr Turunç: Both. It will be simplified procedures on the border so it also will facilitate further trade. It will expand the scope but it will also further facilitate quicker trade.

Q41 **Mr Marcus Fysh:** Coming back to the automotive supply chain that you were talking about, is there an inward processing system available for customs or a duty suspension regime of some kind that operates within Turkey for the automotive sector there to be able to offset import duties against the export tariffs that would then be available?

Dr Turunç: I didn't check this but I am more than happy to answer, if the clerks can send me this.

Q42 **Mr Marcus Fysh:** Dr Artiran, I think you mentioned the alignment of the regulations and the potential for regulatory checks to potentially delay things. Are you aware of the decision by the European Union to allow UK certifications of whole vehicles to be registered within the European Union, and will a similar technical measure be available for Turkish authorities and vehicle authorities to register the UK certifications in Turkey?



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Dr Artiran: If I understand you correctly, will the new certification that the European Union is providing for the UK goods have a meaning for the Turkish customs officers?

Mr Marcus Fysh: Yes.

Dr Artiran: I think they would. At the same time we need to face reality, and this will probably bring me to the idea of the asymmetrical relationship within the customs union of Turkey and the European Union whereby the EU would have a certain facilitated agreement with a third country, if the UK becomes a third country. Those countries' products would have easy access to the Turkish market, but if my products do not have easy access, facilitated access to the UK market, I think it will probably be very hard for Turkey to accept this.

This was already the scenario when TTIP was being negotiated between the United States and the European Union, and that is exactly where the Turkish Government had expressed their negative approach about the European Union and then the asymmetrical relationship. That is how the modernisation of the EU-Turkey customs union happened. Therefore, my shorthand answer to your question would be: yes, it can be done but I think the same facility for Turkish products should be available for when they have access to the UK market.

Q43 **Chair:** Dr Artiran, could preferential arrangements covering trade and agricultural products be agreed independently between the UK and Turkey as this is not covered by the customs union at the moment?

Dr Artiran: Yes, there are. As we said, the primary agricultural products are not covered by the customs union and I think this could be a subject for negotiations between United Kingdom and Turkey for a potential trade agreement, but if I am not wrong I think it is only 5% of the trade between Turkey and United Kingdom.

Therefore, if the United Kingdom does not see this as a priority, because it only covers 5% of the trade volume between the countries, that would be a problem. Currently, there is a possibility of making a deal between the United Kingdom and Turkey because it is not covered by the customs union. Therefore, Turkey does not have any obligation towards the European Union to wait for the European Union to sign a deal with the United Kingdom.

Q44 **Chair:** Just briefly, what sort of agricultural products would you want to buy and what would you want to sell if you have a Turkish view? Is it possible to give that answer?

Dr Artiran: Turkey is a Mediterranean country, so we have plenty of primary agricultural products to sell. That is currently the main problem with the customs union because I can only sell processed agricultural products to the European Union. Therefore, you name it, the wide variety of primary agricultural products that you would see in Turkey.



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You have to also keep in mind that those products are being produced in compliance with EU regulations, the Sanitary and Phytosanitary Measures Agreement, so they are good products and, therefore, anything could be exported to the United Kingdom if there is a deal.

Q45 Chair: I can always recommend Scottish lamb and beef but that is another story for another day.

Richard Warren, can I ask you: would it be possible for the UK and Turkey to rollover specific arrangements for steel without the Customs Union Agreement being replicated?

Richard Warren: I just very quickly want to touch on the impact of the non-rollover for steel. Essentially, Turkey is a highly competitive market for steel. There are a lot of imports coming in from Russia and the Ukraine, so to a certain extent it is used as a flex market. It is only able for us to export when prices are at a certain level.

The analysis we have done says the lack of a rollover would mean an average of 16% tariffs on steel products. It is ranging between zero and 40%. The discussions we have had with our members effectively mean we just will not export there anymore, because there is no way we would be able to be competitive in that market with a tariff of 16%.

Is it possible to rollover just that free trade agreement on our coal and steel products? Our understanding of WTO rules would say it is not. You can only have a free trade agreement under WTO rules if it substantially covers all trade. Our view is, even if you had primary agricultural products and steel and anything that was not included under the customs union, you would be on fairly dodgy ground under WTO rules for whether it counted as substantially all trade under the rules.

Our view—and certainly the direction we have been given by the UK Government—on the coal and steel element is it is not possible outside discussions on a customs union.

Chair: We might check that point with some experts with an expert from the WTO later this morning but that is an interesting point.

Q46 Matt Western: Can you just tell us what percentage of UK steel output goes to Turkey?

Richard Warren: It is 300,000 tonnes so it is about 10% of exports, 5% of total production of the UK.

Matt Western: Five per cent of total production. Thank you.

Q47 Faisal Rashid: You mentioned that in a no-deal scenario there are lots of implications, so are your members preparing for that? Are they doing anything in the changing environment?

Dr Turunç: They are waiting. They have only nine more days to wait. Everybody is following the negotiations and they are trying to understand the implications. There are two things. We have noticed two trends. One



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was that they are doing stockpiling, both in the UK and Turkey, just in case. That is what we get from everybody in the UK and in Turkey; they are doing a stockpiling buffer in case. The second thing is that they are working with their UK and European partners to lobby in Brussels and in London to be able to have as frictionless a trade deal as possible between the UK and Turkey. Those are the two things at the moment. These are the contingencies.

I know that there is some—but it is off record maybe—planning to move to have some European depots and so on, but at that stage what they are doing is just to stockpile here in the UK and in Turkey and also trying to make sure to talk to people who are in the decision-making process to have frictionless trade between the UK and Turkey.

Q48 **Faisal Rashid:** They are preparing for that.

Dr Turunç: Yes.

Q49 **Faisal Rashid:** Mr Warren.

Richard Warren: There is a range of preparation. Largely speaking our members have effectively said, "Do not ship steel to Turkey after March". There is too much of a risk that the tariff on top of that would mean that they would be landed with it. Where they have had direct discussions with their customers they have said, "If you do take delivery after March you will be liable for the tariff" but, at the minute, with the uncertainty, UK producers are drawing back from the Turkish market.

One area where they can mitigate slightly is, for companies that produce the same or similar products in Europe, they will shift production to Europe so that they can export to Turkey tariff free.

Q50 **Faisal Rashid:** How is that impacting their business? They are not exporting, they are holding back, so are their orders being delayed or will they be shipping afterwards? What is happening in the manufacturing side or the production side of it?

Richard Warren: As I said, Turkey is a flex market, so it will vary quite a lot from year to year how much we do export there. Some production has already gone there, obviously, in the first three months of the year, but essentially the assumption is we will not be exporting to Turkey for the remainder of the year or, if we do, in very small amounts.

It will feed through into production levels because it is a relatively small percentage of overall production. There were fluctuations happening in what we were exporting to the US and what we were exporting to the EU, a lot of it related to Brexit. It is difficult to pinpoint specifically how that is impacting on production levels.

Dr Turunç: Just on that issue of costs; you have to rent bigger places and export more. At this stage the most important part has been the additional cost on the exporters so far.



Q51 Faisal Rashid: How is the Department for International Trade engaging with you? Is there any engagement or any help from DIT?

Dr Turunç: We have been working very closely with the DIT and DExEU base and even with the Foreign Office. DIT has been fantastic. We have been working very closely here. DIT from top down and in Turkey from the Consul General to the whole DIT team. We have organised reciprocal visits, ministerial level visits, delegations went to Turkey and came back to Turkey. In fact the BEIS Committee came to Turkey and studied the rules of origin with our experience.

There are two points that we would like to make here, if possible. DIT set up two mechanisms that we have been excluded from so far. We have been getting information all the time, but it is always on an ad hoc basis or when we ask. Brexit is actually beyond the UK, there are so many actors involved and they need to be informed about the process. They set up the business stakeholder advisory group and continuity group. It would be ideal for us at least if we were involved in the trade continuity group because of the trade level between the UK and Turkey.

There is a trade study group taking place between the UK and Turkey at government level and the private sector. It would be great if we could have an input into these discussions. There are two major points that we would like to make: one is to be able to join the trade continuity group at the DIT to allow us to have information and have some input, and also the trade study group between the UK and Turkey. It would be ideal if they had input from the private sector because this agreement will impact all of our businesses. So far we have been doing—

Q52 Faisal Rashid: Also proactively DIT to provide you information rather than you asking for the information.

Dr Turunç: My colleagues in the Istanbul Consulate have visited TÜSİAD and they said that they set up a Brexit team.

Q53 Faisal Rashid: Mr Warren, I understand that there was a cancellation of discussions with the businesses on the rollover last month.

Richard Warren: Indeed. You mentioned the trade continuity group. As far as we are aware it does not exist anymore. It was a group that ran for a number of months that updated business organisations on the progress with the free trade agreements or the continuity of them. We were only invited in the last month that they were happening.

I do not have a vast amount of experience of them, apart from there was an element that they said, "Whatever we tell you you cannot pass on to anyone". As a trade association, if we cannot pass that information on to our members it is a slightly redundant exercise. Certainly, after a month of going the group was cancelled for the reason that there were too many leaks from the group. I am not sure there was a vast amount of information that we were told in the group that was not essentially public information anyway, but that element of it has been frustrating.



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Certainly, from a slightly parochial point of view on the steel FTA between Turkey and the EU, when we did raise it in meetings, from a DIT point of view, there was a rather blank response. I am not sure DIT was particularly aware of it. It was a better response certainly from BEIS but with DIT it did not seem to be particularly on its radar.

Q54 Faisal Rashid: Are you happy with the engagement from DIT with the businesses and on rollover?

Richard Warren: On the free trade agreement continuity I would say the engagement has been lacking, and certainly this element of, "We can tell you but you cannot tell anyone else" was very frustrating. Other elements of DIT have been fantastic, certainly our engagement on trade remedies over the last 18 months. We might not have everything that we wanted but certainly the engagement has been very good.

Q55 Faisal Rashid: What about the preparation of rollovers?

Richard Warren: As I said, on the preparation of rollovers, we were only invited in the last month of engagement. Now that group has been cancelled, so I cannot be particularly positive about the engagement.

Q56 Chair: What you just said about tariffs on steel and trading at WTO is not that ringing endorsement that I think I heard from one MP last week, "Just forget it. Leave with no deal. Trade with the World Trade Organization." If you were speaking to that MP what would you say to him?

Richard Warren: Steel is in a slightly different situation in terms of tariffs, in that we have been trading tariff free, or certainly there have been no tariffs on imports of steel from anywhere in the world including Turkey, China and India. There have been no tariffs on steel into the UK since 1994.

We are in a slightly different situation to most other manufacturing sectors, but that does highlight the importance of things like trade remedies for us because we are dealing with no tariffs but many of our markets still do have tariffs, for example, Turkey, China and India. We do need those trade remedies. They are very important.

Q57 Chair: Just to clarify, at the moment you are selling tariff free into Turkey?

Richard Warren: At the moment we export tariff free into Turkey.

Q58 Chair: If there is no deal—

Richard Warren: No deal, an average of 16% tariffs but up to 40% on certain steel products. However, Turkey will continue, as it does—

Q59 Chair: If you end up trading on World Trade Organization terms you would face an increase of cost of 16% on your product going into the Turkish market?



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Richard Warren: Sixteen per cent, exactly. Our members have essentially said they will not be able to compete in that market anymore.

Q60 **Chair:** If the UK is exporting with no agreements but on WTO terms what effect would that have on your industry?

Richard Warren: To Turkey 16% tariff; we will just not export there anymore.

Q61 **Chair:** It is not something you would particularly welcome then?

Richard Warren: It is certainly not something we would welcome.

Q62 **Chair:** I would imagine that it would not be but I do not want to put words in your mouth.

Richard Warren: The difficulties of finding a solution to it are for someone far cleverer than I. Essentially, the discussions we have had with DIT and BEIS is, "You cannot replicate that free trade agreement on steel. It has to be part of discussions over a wider customs union or free trade agreement with Turkey". That cannot happen because of the customs union between Turkey and the EU. It cannot happen until the EU and the UK has sorted out their trading relationships. It is a very frustrating position to be in, but it is one of the inevitable consequences of Brexit as we see it at this point.

Chair: I would love to probe further but time is short.

Q63 **Catherine West:** Has your organisation done any analysis as to the loss of profit for companies in terms of you said some were pulling back?

Richard Warren: Indeed. As I highlighted previously, we sent about 300,000 tonnes of steel—£130 million worth of steel—to Turkey in 2017. It does vary from year to year but overall, on average, it is our third biggest market after the EU and the US.

Steel companies have essentially said, because it is such a competitive market—it is not quite the same in the US that has much higher prices—even that 16% tariff would essentially prevent us from exporting there.

Q64 **Catherine West:** What about projected job losses?

Richard Warren: I would not want to touch specifically on job losses. As I said, it is very difficult to pinpoint how that would impact on it for certain. You can look at certain products that we produce that we send an awful lot of there. Certain construction products would take a hit. That is where a lot of the steel exports from the UK would be concentrated on. We certainly could not pinpoint a job loss. What we can say is the £130 million worth of steel that we send there each year would reduce significantly or perhaps even be wiped out completely.

Q65 **Catherine West:** You mentioned in an earlier answer about the Trade Remedies Authority. How have you found them to date?



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Richard Warren: Legally they do not exist yet. The secondary legislation has been laid to create a directorate within DIT. We are hoping to have our first meeting with them within the next two or three weeks. They have been present in meetings but unable to comment, but we are hoping very much in the next two weeks, particularly if there is a no-deal Brexit, because of the volume of work on their plates is significant and we need to have those discussions as early as possible.

Q66 **Catherine West:** The Committee was a bit surprised that they were not able to name some of the key trade unions who represent workers in the steel industry, which gave an indication of some of the work that is needed to do to catch up. You do not need to comment on that.

Richard Warren: I cannot comment on that but there is a significant amount of work that they will need to undertake. I can only hope that they do not need to be undertaking it all from 30 March.

Q67 **Catherine West:** This is a question for the panel. Leaving aside formal trade agreements, what steps could Turkey and the UK take to facilitate trade in the short term after Brexit?

Dr Artiran: Thank you very much for the question. What I was trying to say from the very beginning, the technical regulations are very important. The WTO trade agreements also allow the signature of mutual recognition agreements. In order to facilitate trade happening smoothly between the United Kingdom and Turkey, the parties could sign for many products for some technical regulations and the mutual recognition agreements without going through some checks.

We know that for many years under the EU you were applying the same regulations. Even if there is no agreement by 29 March we could at least sign mutual recognition agreements. That would be my humble suggestion.

The other thing that could be done, as the Chairman suggested at the beginning, if the EU provides some facilitated trade arrangements for the United Kingdom, through the customs union, Turkey could be doing the same thing, but Turkey would need to have reassurances from the EU side that the United Kingdom would be delivering the same amount of flexibility.

Q68 **Matt Western:** Picking up on that. Can I ask Dr Turunç and Mr Warren, what would the ideal future trading relationship be between the UK and Turkey? What would it look like in the longer term?

Richard Warren: My answer will be fairly simple. It is as it is now. We have tariff free access to the Turkish market for all steel products. The sooner we can get back to that after Brexit the better.

Dr Turunç: For us, it is always improved, as is and improved and of course to include services, agriculture and other. There is a will between the UK and Turkey. In the UK Government definitely there is a will to



make a deal with Turkey and the Turkish Government, so I think the frictionless trade that has been set from the beginning would be ideal for us, no tariff and so on. An enhanced free trade agreement would be ideal for business. Current settings and input.

Q69 **Matt Western:** How dependent is our UK relationship with Turkey dependent on our relationship with the EU?

Dr Turunç: It is very dependent.

Q70 **Matt Western:** Critical?

Dr Turunç: Yes. It is critical for several reasons. As you have noticed, even from the UK perspective, the EU is paramount for a trade deal. Any trade deal between the UK and Turkey will have to take into account the EU—that is for sure—for various reasons. One reason is that if Turkey wants to modernise the customs union with the EU, the EU will probably have a condition to have it on its own standards.

Even if we have today a UK-Turkey services agreement, we will have to take into account in the future that, if Turkey modernises the customs union, we will have to modernise with EU standards for goods and services. That may limit our services agreement between the UK or even define it.

Q71 **Matt Western:** Dr Artiran, essentially, any arrangement between the UK and Turkey will have to wait until we have some agreement in place with the EU.

Dr Artiran: Thank you very much for the question. Normally it does have to because when you look at Article 24 of the GATT, which requires common commercial policy to be applied between the customs union partners, which Turkey and the European Union have, but at the same time decision 1/95—the customs union decision between Turkey and European Union—brings some obligations to the parties.

Turkey has so far signed two free trade agreements without the EU signing trade agreements, so we have done it twice. I am not trying to say that just because we did it earlier on we are going to do the same. At the same time, you have to say that there are some institutional framework problems emanating from the EU-Turkey customs union: notification or not being notified all the time by the European Union and, therefore, the obligation weighs on both parties for Turkey and the European Union to be in compliance with the customs union.

I believe that, if the EU somehow does not honour the terms of the agreement, Turkey would have to sign again, yet another time, and third agreements with a third country, if the UK becomes a third country, like we did with the previous two countries where the EU did not have a trade agreement but Turkey signed a trade agreement with them.



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Dr Turunç: We can have an agreement or understanding to reach between the UK and Turkey to co-operate on customs and regulatory inspection of each other's imports even at that level. That will prepare the ground for the future agreement. It does not mean we should sit and wait for the UK and EU to conclude, but we can have understandings at least on the inspections and customs and regulatory arrangements already now for a future deal.

Q72 **Mr Marcus Fysh:** I want to ask about the modernisation of the customs union. Are there any other ways that you think that it will impact on what we can do between the UK and Turkey? In particular, I am interested with your customs union with the EU, to what extent there is tariff leakage in terms of tariff revenue to the Turkish Government from goods being shipped into the EU first and then coming into Turkey? Is that an effect that you find because, when we are looking at potential for a customs union with the EU, for example, we would have a Rotterdam effect where, if goods came through Rotterdam first before moving into the UK, the EU would collect all of those tariffs on UK goods?

Dr Artiran: That happened with the Mexico case. It was a leading problem for Turkey, because those cars that were being imported from Mexico would enter from the European Union custom borders then it would come to Turkey without us collecting any customs duties. It would have free entry. That is why Turkey started applying some trade defence instruments to protect itself and that is precisely why you have trade remedies in international trade agreements.

This is not a desired outcome but all that is being said is that, if a country signs a trade agreement with the European Union but does not replicate the same trade agreement with Turkey, which has a customs union with the European Union, obviously a country like Turkey has to protect itself. The only way to do it is either you are going to apply trade defence instruments or you will try to sign a parallel trade agreement, even if the EU did not have it earlier on, or you will try to invite the European Union to do something about it.

Dr Turunç: Because they face no consequences for not signing any deal with Turkey, like Algeria.

Q73 **Mr Marcus Fysh:** Therefore, trade defence is what you would do to remedy that?

Dr Turunç: Yes, you have to.

Q74 **Chair:** Just briefly, was the existence of trade defence measures between the EU and Turkey affected in trade and steel products?

Richard Warren: I can touch on that.

Dr Turunç: Do please while I am checking my papers.



Richard Warren: There are very few. I believe there is one on steel products between Turkey and the EU but it is not a product we produce in the UK. There is currently a case against hollow sections imported into the EU from Turkey that is very close to being concluded. We expect definitive measures to be introduced in October. However, this does create a slightly difficult situation. If we have left the EU with no deal by that point the EU will have a measure in place but the UK will not and we will need to launch, essentially, a fresh investigation. That would mean we would be 12 to 18 months at least behind the EU.

We would have an open market for those products while, effectively, the EU had closed its market. We can only estimate that that would result in increased dumping into the UK, so that is a major concern for us. We are obviously hoping a transition period will prevent that happening.

Dr Turunç: Because Turkey is not in the single market that is why it is subject to defence measures by the EU. If we were in the single market it would have been different. To see if there had been any impact on that I spoke to the Turkish Steel Exporters' Association. In 2008 steel exports in Turkey increased 36.1, year on year. They reached 15 billion. They rose to 20.8% in terms of quantity and reached 21.4 million tonnes, so it is increasing.

What happened was the European Union made a list and North American countries have been the main market. These are the main markets but significantly it has decreased to US, Iraq and Algeria. Turkey will now move into Southeast Asia, West Africa and Latin America, so this is how it will happen.

In terms of exports to the EU, it has not been significantly impacted because it still continues. In fact it has improved. Instead of America, Turkey is now looking at Southeast Asia, West Africa and Latin America as an alternative.

Q75 **Chair:** A final question before we wrap up this session. The UK could exit the European Union in nine days' time, possibly with no deal. What is your view on that scenario occurring? A blank canvass. What are your thoughts?

Dr Artiran: First of all, I think I do not believe in the possibility of that. Even if there is a small extension—

Chair: It if happens.

Dr Artiran: If it happens.

Q76 **Chair:** You have to believe for the moment. I am sorry only politicians dodge hypothetical questions, not academics.

Dr Artiran: I think life will be difficult for all of us. Especially as a trade lawyer who started first as a WTO lawyer I would feel sorry because WTO is not the best answer. It is a great organisation. It lays down wonderful



tools but if it was the best scenario no countries would sign free trade agreements or customs unions. Therefore, I would fervently hope if there is no deal by 29 March that we need to bring our act together and try to sign a deal. The WTO would not be enough for anybody. That is my answer.

Dr Turunç: The same. It is not a catastrophe but it is bad for trade relations, so we would prefer a deal as soon as possible for the certainty. Any deal.

Q77 **Chair:** Any deal?

Richard Warren: It would be fairly disastrous for the steel sector. I will just leave you with a stat. The timing could not be worse for a no deal. With trade restrictions into our second biggest market in the US, safeguards in at EU level, which would count against us, and a loss of access to free trade agreements, we would go from a position last year where maybe 5% or 6% of our steel exports had trade barriers in the form of tariffs. In a no-deal situation 97% of our exports would face tariffs or some form of trade restriction. A no-deal scenario is bad at any time. At the current time, with free trade under challenge across the world, it is just awful timing.

Chair: I have good news and bad news. I am personally trying to maintain the current deal. The bad news is this is not shared across the Committee and, even worse news is, they may well hang me later for trying to just get that in. There is a warning that it might not be later.

On that happy note—you might be interested that we are about to hear from the WTO, from the Deputy Director-General of the World Trade Organization, Alan Wolff—we will end this session here and now.