

# US-Turkey Business Council, Session III

## Topic 5.a.

### Logistics and Customs Collaboration

**Overview:** Turkey's favorable geographic position, young and talented workforce, and the dynamism of its entrepreneurs have made the country a growing market for U.S. exporters. Likewise Turkish businesses see tremendous opportunity in the U.S. market. U.S.-Turkey trade was roughly \$17.4 billion in 2015 and the potential for two-way trade growth is enormous. Customs modernization and other measures to take time, cost, and complexity out of trade can play an important role in driving the U.S.-Turkey trade relationship to new heights. Public and private infrastructure investments have made important contributions to Turkey's logistics efficiency, as evidenced by the country's move up the global logistics performance rankings to 30 out of 160. The scope of this paper, however, is less on hard infrastructure decisions and more on soft infrastructure, namely the customs and logistics policies that allow governments to best leverage their infrastructure spend and that can play a role in driving trade between the U.S. and Turkey.

**Current Market Situation:** Formal adoption of the WTO Trade Facilitation Agreement (TFA) took place on November 27, 2014. The TFA will streamline the passage of goods across borders by cutting red tape and bureaucracy and establishing common approaches to clearing goods through customs. The U.S. and Turkey are among the nearly 100 countries that have ratified the agreement on the path to the 110 needed for entry into force. In the TFA, all WTO members accepted obligations for their customs authorities to, among other things:

- Publish all customs forms, rules, and procedures on the Internet and provide opportunities to comment on new or amended customs laws and regulations;
- Establish pre-arrival processing of required information by electronic means to permit clearance through customs before goods arrive in the country;
- Allow the release of goods from customs prior to the final determination of customs duties and taxes;

- Adopt trusted trader programs to speed clearance for firms that have established a good record of compliance with customs regulations;
- Provide expedited customs clearance for express shipments; and
- Require each country to set a de minimis value – the threshold below which duties are not required in order to expedite the release of low-value shipments.

Burdensome customs procedures, which involve excessive paperwork and sometimes extremely lengthy hold-ups at borders, have a huge impact on businesses of all sizes, but particularly small business. They can lead to missed shipment deadlines and damaging financial losses, and over time can make or break a business' relationship with a client. For time- and temperature-sensitive shipments such as pharmaceuticals and healthcare products, the time window may be even more critical.

Modernizing customs procedures, including moving away from paper-based and toward electronic customs regimes, utilizing risk management systems that allow appropriate targeting of goods, ensuring expedited treatment for express goods, and adopting trusted trader programs for highly compliant shippers, will enhance the trading environment for U.S. and Turkish businesses and entrepreneurs looking to capture new overseas market opportunities.

### **Recommendations:**

**1. WTO Trade Facilitation Agreement:** The TFA contains 13 articles on a range of customs and border issues. We recommend a focus during the implementation period on the following five articles, which will have a particularly significant impact in terms of boosting customs efficiency.

- ✓ **Pre-arrival processing (Clause 7.1):** This includes the collection of manifest and other key information prior to the arrival of the goods at customs, in an electronic format.
- ✓ **Separation of release (7.3)** from final determination of customs duties, taxes, fees and charges. This ensures that goods are moved out of customs and to the next phase of delivery, without being subject to customs' receipt of duties, resulting in fewer bottlenecks at the border caused by late payments from shippers.

- ✓ **Risk management (7.4):** This includes implementing a procedure to allow low-risk shipments to pass swiftly through customs and reduce the number of goods held at the border for—often unnecessary—inspection.
  - ✓ **De Minimis (8.2.D)** permits goods to be exempt from taxes or duties if they fall below a certain value threshold. Governments should set their de minimis threshold at commercially meaningful levels.
  - ✓ **Single window (10.4):** Establishing a “single window” allows shippers and traders to submit documentation through a single entry point to the necessary government authorities or agencies, as opposed to submitting redundant information to each separately.
- Turkey has established a good foundation of a modern customs regime, and the extent to which the above five provisions are fully deployed will determine trade facilitation outcomes, including the proper balance of border efficiency and security.
  - Another key TFA provision calls on parties to promptly publish information about customs laws, procedures, taxes, and appeal procedures, which helps to advance transparency and predictability for traders. Turkey and the United States must provide opportunities for stakeholders to comment on proposed regulations related to the movement, release and clearance of goods prior to implementation of such rules.
  - Effective in March 2016, after a long period of industry advocacy, the United States raised its import de minimis level from USD200 to USD800, which we expect will bring particular benefits to small business shippers and help underpin the healthy growth of e-Commerce. We would urge Turkey to consider raising its de minimis level from 75EUR to USD200.
  - For both Turkey and the United States, we recommend a focus on completing their respective Single Windows, or “one government at the border.” In Turkey, there are over 300 different documents that may be attached to a customs declaration form. Roughly 20 of these are from the customs administration and the remaining 300+ are required by other authorities, adding time and cost. In order to simplify export and import procedures, Council of Minister’s decree no. 28239 was issued in the Official Gazette on March 20, 2012, declaring that Turkey would adopt and implement a single

window system. The Ministry of Customs and Trade is coordinating efforts for system implementation in Turkey as well as the establishment and management of the relevant technical infrastructure. Single window implementation is anticipated to reduce import costs from 7-10% to 3-5%.

- In the U.S., legislation passed in February 2016 codified and improved the President's Executive Order on International Trade Data System (ITDS) or the Single Window, which enables companies to electronically transmit, through a single window, the data required by each of the U.S. Government agencies to import or export cargo. We urge the U.S. to make steady progress toward the completion of the system.
  - We recommend adoption of a 24/7 in-service regime for the main customs offices in Turkey (Istanbul, Izmit, Bursa, Ankara, and Izmir) with a view to facilitating import-export operations, timely conclusion of which have significant consequences on businesses.
- 2. Turkish Postal Law:** Turkey's postal law (6475 – May 2013) requires logistics service providers to contribute fees and a separate amount equal to 2% of revenues into a fund for the provision of the universal postal service. As Turkey pursues the goal of accelerated export growth, and with most international express shipments by Turkish small business exporters focused on their own business development, penalizing the system with 2% of revenues is not aligned with the government's policy objectives and represents a significant burden for both service providers as well as exporters. For a state postal entity to have both a monopoly market position and have competitors in the non-monopoly segments pay into a compensation fund is highly unusual and inconsistent with global best practice approaches to postal regulation. As of October 2016, we anticipate that international air express deliveries may be excluded from the compensation fund, which would be a positive development, particularly as most international express shipments by Turkish small business exporters are focused on their own business development.