



Finance Department

EFFECTS OF EUROPEAN UNION AND CUSTOMS UNION PRACTICES ON TURKEY AND BULGARIA AND THEIR COMPARISONS

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ABBREVIATIONS

ACD: Association Council Decision

CCT: Common Customs Tariff

CEEC: Central and Eastern European Countries

CFSP: Common Foreign and Security Policy

CU: Customs Union

GDP: Gross Domestic Product

GNP: Gross National Product

EAEC: European Atomic Energy Community

EC: European Community

ECM: European Common Market

ECSC: European Coal and Steel Community

EU: European Union

FDI: Foreign Direct Investment

FTA: Free Trade Area

MU: Monetary Union

NCTS: New Computerised Transit System

RCA: Revealed Comparative Advantage

SMSE: Small and Medium Sized Enterprise

SWS: Single-Window System

USA: United States of America

USSR: Union of Soviet Socialist Republics

INTRODUCTION

In conjunction with the globalisation which gather momentum in the 1980's, countries have undergone a change and a transformation. A crisis happening in one country has also started affecting other countries due to globalization. Therefore, it has become extremely difficult for countries to survive in their own borders. Consequently, a movement of integration have started throughout the world.

European Union has an important spot in the aforementioned integration movements. Countries want to become members of European Union (EU) to improve living standards and development levels. Bulgaria has become a member of in 2007. Turkey, though, informed its wish to become a member in the 1950's. Today, membership negotiations are still in progress. However, in 1995, Turkey has signed Customs Union treaty with EU and it was put into force in 1996. Along with the execution of Customs Union, the effects of it was also put under question. In this context, dynamic and static effects of Customs Union has found widespread coverage in the researches. The static and dynamic effects are analyzed in this study.

The research object are the customs union practices on Turkey and Bulgaria

The research subject are the effects of European union and customs union practices on Turkey and Bulgaria and comparative analysis of data on both countries on the background of globalizations, EU enlargement and cyclical movements in the global economy.

The purpose of the dissertation thesis is to study the effects of EU and customs union practices on Turkey and Bulgaria. It is aimed to contribute to literature by comparing Bulgaria which was accepted into EU membership in 2007 with Turkey which started customs union practices in 1996. The comparison in question has been conducted in the context of static and dynamic effects. Thus, the gains and losses incurred from customs union practices for both Bulgaria and Turkey was tried to be explained.

The purpose predefines the research tasks which are as follows:

1. Defining European Union and Customs Union specificities from a theoretical perspective as well as their particular characteristics for Turkey and Bulgaria;
2. Presenting the findings of a comparative analysis of effects of European Union and Customs Union practices on Turkey and Bulgaria;

3. Analysis of practices of easing customs procedures around the world, in Turkey and Europe so as to provide the current research with a broader international perspective;
4. Critical review of Turkish and European examples of common transit regime and NCTS practices; and
5. Critical and comparative analysis of practices of application of the single-window system around the world, in Turkey and Europe

There are three hypotheses in the current research:

1. In light of the static and dynamic effects of international trade, Turkey could achieve advantages from participation in the EU customs union only if it has stable economy and implements structural reforms;
2. The situation Bulgaria is in differs significantly from that of Turkey and the participation in the EU is beneficial to the country;
3. Both authorized declarer and single window systems are essential so as to maximize the benefits from participation in a customs union.

The research is structured the following way:

In the first chapter of the dissertation, European Union and Customs Union was examined in theoretical framework. In this context, history of European Union, EU enlargement process, concept and scope of customs union was included.

In the second chapter where the European Union and Customs Union in Turkey and Bulgaria is explained, relations of Turkey - EU is included and customs union process is given in the framework of Ankara Treaty, additional protocol and transition period practices, full membership application and customs union protocol 1/95. EU accession process of Bulgaria is also analyzed in detail.

In the third chapter, the effects of European Union Customs Union practices on Turkey and Bulgaria is analyzed. Aforementioned effects are addressed in the context of short term static effect and long term dynamic effects. Then, the effects of EU and Customs Union practices on Turkey and Bulgaria are compared and a result is obtained.

In *Chapter Four*, development process of the practice of authorized economic operator on easing of customs procedures, which is one of the customs practices of European Union, in the world, the reasons for appearance, practicing process in USA, European States and Turkey, and the impacts of these in international commerce were addressed and country based practices of these practices were evaluated.

In *Chapter Five*, the definition and historical process of common transit system, which is one of the practices of European Union, and commencement of its practice in Turkey, and the reasons of appearance, process and practice of NCTS in European Union member states, development in Turkey and differences in practice were explained.

In *Chapter Six*, the definition and appearance of Single-Window System (SWS), which is of the practices oriented to easing of customs procedures, started to be used in most of the countries in the world, in Europe and in Turkey, and the differences in country based practices were explained.

The methodology that is used is in the area of historical data analysis, empirical analysis, comparative and critical analysis.

In the **conclusion**, results obtained from the study are presented with a general assessment in view of the facts and data presented in the chapters. Main inferences of the research are provided, and the tendencies related to the research topics are outlined.

CHAPTER ONE. EUROPEAN UNION AND CUSTOMS UNION: THEORETICAL FRAMEWORK

Concept of European Union, history of EU, enlargement process, EU criteria and EU operation will be discussed. Also, the concept of customs union will be mentioned and information concerning the operation of customs union will be provided.

1.1. European Union Concept and Scope

European Union is a political and economic partnership that represents a single type of relationship among 28 member states. The Union is the last stage of the integration process to promote economic welfare and peace in Europe which started after World War II (Archick, 2015: 1).

The foundation of European Union was formed by the European Coal and Steel Community that was found in 1951. With the Rome Treaty that was signed in 1957, its name was changed to European Economic Community. Although it seemed like an economic institution during first years, due to events and environment in the course of time, it was developed in social and political terms and renamed as European Community. With the Maastricht Treaty signed in 1992, its name was changed into European Union. The common currency, Euro, has started to be used in 2002 by member states, except England, Sweden and Denmark (Keleş, 2014: 18).

In the simplest description, EU is a regional integration project with economic and political objectives. It is possible to roughly group the economic integration types under five categories as Free Trade Area (FTA), Customs Union (CU), European Common Market (ECM), Monetary Union (MU) and Economic Union (EU). With the first of these, FTA, the obstacles before the product and service circulation between member states has been removed; with CU, common customs tariffs are applied against third countries in addition to FTA; in ECM, circulation of labor as well as product and services are freed; in MU, in addition to ECM, a common currency is used; in the very last, all economic policies are communized. Within this framework, EU is a project on the way to be the most successful one of the efforts of global integration, adding political objectives to economic ones and has left first three stages behind, started the fourth stage and aiming for the fifth stage (Acar, 2001).

European Union is making effort for member states to be in cooperation in all areas, protecting human rights and ensuring social, political, cultural cohesion and forward progress. The following are among the primary objectives and policies of European Union (www.ab.gov.tr);

- Becoming a strong and influential foreign policy actor,
- Guaranteeing and spreading the freedom, democracy, human rights and rule of law within and outside the EU,
- Fighting against any kind of discrimination; especially making an effort for equality of women and men in every area,
- Fighting against climate change,
- Maintaining economic growth while ultimately preserving the environment,
- Ensuring energy safety,
- Effectively fighting against crimes such as illegal immigration, international terrorism, human, weapon and drug smuggling and become a freedom, safety and justice area in the realm sense,
- Contributing to increase of employment and social security in EU member states,
- Promoting economic, social and regional harmony among EU member states,
- Ensuring the citizens of Europe to have highest living and quality standards.

History, enlargement process, European Union criteria and AB operation will be widely discussed below.

1.1.1. History of European Union

After the World War II which happened in 1945, Europe has come out of war in a weakened and impoverished state. During this period, the world had the chance to meet two new super powers. These were, undoubtedly, United States of America (USA) and Union of Soviet Socialist Republics (USSR) (Gökyıldız, 2014: 54).

The small and weak Western European countries who saw that the USA capital flowing into Europe under the name of Marshall Aid will eventually make them dependent to USA, wanted to form a new capital market originating in Europe. Since realizing this goal is not possible individually, it was planned to gather the economic potentials of these countries together and form a strong European Market. It was considered that the integration would cause to market enlargement and that will result in fast development of capital and technology (Kutlu).

Germany and France, who have warred three times between 1870 and 1945, have realized that they had to end the wars and live together in the continent. This awareness allowed these two warring countries to form a peace environment. A French with German origin, Robert Schuman, suggested a solution for the development of a peace environment. The suggestion was made by Robert Schuman, who was the French Minister of Foreign Affairs on 9th May 1950. According to this, the control of coal and steel, the primary war industries of the era, was to be transferred to a common higher council which would be formed within European organization open to membership of other countries (Gökyıldız, 2014: 54).

Fresh out of World War II, lost millions of citizens, living both economic and political destruction, it is not a coincidence that the integration has to start in these two industries in the Europe and the following motives are considered to lie behind this call (<http://www.mess.org.tr/>):

- Various cartels formed in the coal and steel industries which are the building blocks of the industry in Europe. Cooperating in these industries would cause the dispersion of cartels, make coal and steel production more effective and competitive and speed up industrial development.
- Leaders who defend the ideal of forming of supranational institutions in Europe believed that an integration in the coal and steel industry which are the raw materials of weapon manufacturing would help keeping a Germany who caused World Wars I and II under control.

German SüddeutscheZeitung newspaper has interpreted this as "The proposal of the French is a sensation" in their headline of 11th May 1950. Before even one year, Germany, Belgium, France, Holland, Italia and Luxembourg came together and formed European Coal and Steel Community (ECSC) in 18th April 1951 (Gökyıldız, 2014: 54).

ECSC Member States came together in Italy, 1955, at Messina Conference, under the presidency of Belgium Minister of Foreign Affairs, Henry Spaak and opened to discussion how Europe integration should be formed and whether it should be limited to coal and steel industries. In the light of the decisions made at this conference, treaties known as Rome Treaties were signed, which created European Economic Community (EEC) and European Atomic Energy Community (EAEC). European Atomic Energy Community is aiming for forming a common market in the atomic energy field. On the other hand, it lost its importance by some of the members of EEC developing their own civil use nuclear programs. (<http://www.mess.org.tr/>).

In essence, Rome Treaty stipulated removal of customs tariffs between member states, practice of common tariffs against third countries, forming of a common agricultural policy, adopting of common transport policy and removal of all obstacles before the circulation of products, services and people in time. These objectives have been realized gradually, for example, Customs Union has been established between 6 countries that formed the EEC in 1968. In the Maastricht Summit held in 1991, European Communities (EC) that was formed of ECSC, EAEC and EEC has gathered under one roof and European Union (EU) has been created (Acar, 2001: 113-114).

The founding Treaty of EEC (European Union of today), the Rome Treaty, which has gone into effect on 1st January 1958 is signed between France, Germany, Italy, Belgium, Luxembourg and Holland and aims to form an economic union in coal and steel as well as other industries. Important EU institutions of today such as European Council, European Parliament, European Union Council of Ministers, Court of Justice have been formed largely by Rome Treaty (<http://www.mess.org.tr/>).

Achieving an economic and monetary union by Maastricht Treaty has added economic objectives such as adopting of common currency between member states to social

objectives such as establishing European citizenship, common safety and foreign policies, common health and culture policies, thus the project has become a political integration project as well as an economic one (Acar, 2001: 113-114).

The world-embracing economic recession in the beginning of 1980's has started a "europessimism" (a pessimism pertaining to Europe) wave. However, in 1985, when the European Commission in the presidency of Jacques Delors has published the White Book which includes the schedule for completion of European Single Market in 1st January 1993, new hopes were flourished. This ambitious target was signed on February 1986 and had a prestigious place in Single European Act that came into effect on 1st July 1987 (Fontaine, 2010: 10). The "Single European Market" process that allows free circulation of products, services and labor between member states have been started in 1993 (Acar, 2001: 113-114).

According to the Amsterdam Treaty signed on 2nd October 1997 and put into effect in 1st May 1999, in conjunction with the Amsterdam Summit held in 16-17 June 1997, confirmation of Maastricht decisions, eliminating problems in practice as well as (Akçay, Argun, & Akman, 2011: 123-124):

- Establishing EU citizenship,
- Development of freedoms,
- Operation and popularizing of safety and justice,
- Organizing the institutions of the union,
- Tighter cooperation,
- Effective and common foreign policy,
- Single currency union,

- Bringing the EU identity to front via Common Foreign and Security Policy (CFSP) were decided.

With the Lisbon Treaty that was signed in 2007 and came into effect in 2009, primarily the elimination of blockages in decision making mechanism of EU and attaining a more democratic and effective operating structure was aimed. Towards this goal, extensive changes were made and the name of the Treaty that founded the European Community has been changed to "Treaty on the Functioning of the EU" (www.ab.gov.tr).

1.1.2. Enlargement Process of European Union

European integration has gone through various successive enlargements and deepening processes and turned into a 28 member Union that practices in many fields from common currency to agriculture and immigration policies (<http://ab.gov.tr/index.php?p=109&l=1>).

European Union has been formed as European Economical Community in 1957 by Rome Treaty between 6 countries (Belgium, France, Germany, Italy, Luxembourg and Holland) (Koç, 2001: 5).

England, Ireland and Denmark has applied for membership in 1961. While the countries other than France leaned towards the membership of England, then president of France, Charles De Gaulle, objected to this membership by reasons like the country was quite different from continental Europe, experiencing financial difficulties, dependant on United States of America in military and diplomatic terms and thus would hinder the development of the Union. England re-applied in 1967 and the application was rejected due to same reasons. The enlargement process could only be started in 1969, after the resigning of De Gaulle from presidency of France and England, Ireland and Denmark became members of EU in 1st January 1973 (www.ab.gov.tr). Greece joined in 1981 and Spain and Portugal joined in 1986 (Koç, 2001: 5).

The third enlargement period coincides with developments that can be considered as a milestone in terms of both European integration and international system in general. The most important development in this sense is the ending of Cold War which has started by the

ideological disputes between USA and USSR right after the World War II and balanced by deterrence of nuclear weapons. In conjunction with the ending of Cold War, all countries in the world and important international organizations, notably the socialist countries, have made new arrangements in their institutional structures to define their roles in the world. The result of this assessment and arrangement process was Maastricht Treaty in terms of European integration. Maastricht Treaty, in terms of enlargement process, has focused on policies to attract the countries that gained independence in Eastern Europe, thus, the obligation to alignment with the economic and political criteria that was set forth in Copenhagen in 1993 has been the roadmap firstly for Eastern European Countries and later for other probable enlargements. Under these conditions, while EU was preparing itself for the enlargement to East which was thought to be difficult, has incorporated three neutral, therefore trouble-free countries (Austria, Finland and Sweden) into its structure in the enlargement period of 1995. By incorporating aforementioned countries into its structure, the Union has both ensured important gains in financial terms and a passageway for Eastern European enlargement (Akşemsettinoglu, 2011: 7-8).

Ending of Cold War is a real milestone for continental Europe. Conclusion of half century dividedness was celebrated enthusiastically. Out of their own will, Central and Eastern European Countries outside the European integration and Malta and Greek Cypriot Administration of Southern Cyprus has started applying for EU membership. However, the excitement of first days about "Reunification of Europe" was replaced by the opinion of "Deepening should not be the cost of enlargement, achievements of the Union should not be weakened". Quite different from other enlargements in terms of both the quality and quantities of candidate countries and the depth obtained by European integration, fifth enlargement process was significantly painful for both EU and candidate countries. Institutional structure of EU is changed and decision making mechanisms were re-arranged for tolerating the enlargement. Candidate countries have re-arranged nearly all areas of community life within framework of Copenhagen membership terms as mentioned above. Thus, negotiations that started with the governments of Hungary, Poland, the Czech Republic, Slovenia, Estonia and Greek Cypriot Administration of Southern Cyprus in 1998 and Bulgaria, Letonia, Lithuania, Malta, Romania and Slovakia in 2000 resulted in countries other than Bulgaria and Romania joining the EU in 1st May 2004. Bulgaria and Romania has become a member in 1st January 2007 after completing the imperfections about fight against

corruption. Thus, the number of members of European Union has reached 27 (www.ab.gov.tr).

Croatia, whose membership negotiations started at the same date as Turkey in 3rd October 2005 has become a member in 1st July 2013 and EU has taken its final shape with this membership (Gökyıldız, 2014: 57).

Currently, eight countries are present in the scope of enlargement policy. Turkey, Iceland, Serbia, Montenegro, Macedonia and Albania are in candidate status. Bosnia-Herzegovina and Kosovo are in potential candidate country status. The government of Iceland has announced that it has withdrawn its candidacy in March 2015(www.ikv.org.tr/).

Enlargement undoubtedly gains many things to new members, however, new members also bring new opportunities to the Union. In fact, each enlargement changes the geography and direction of the Union. As a result of each new enlargement, Union is enlarging its own market a bit more, become politically more effective in the international arena and progress its contact with different parts of the world, thus making the world a much smaller place. Maybe more importantly is that enlargements provide self sufficiency in especially agricultural field and increases the trading possibilities with other countries in the world. In this regard, EU is the largest importer and exporter in the world. Similarly, EU is increasing its diplomatic relationships with non-state actors each passing day (Akşemsettinoglu, 2011: 6).

1.1.3. European Union Criteria

Criteria to be fulfilled by candidates and members of European Union are defined. Some of these criteria required are for full membership to EU, some others are required for joining the economic and monetary union area. A country wishing to become a member of EU has to fulfill three criteria (political, economic and adaptation). These criteria are known as Copenhagen criteria. Other criteria are also named as the ones that has to be fulfilled to be included in country's economic and monetary union area after becoming a member of EU, Maastricht criteria or convergence criteria (Akçay, 2007: 11). Starting firstly with the countries which have fulfilled the political criteria (Copenhagen Criteria), EU is conducting

negotiations on membership, meanwhile tracking whether the economic and acquires criteria are fulfilled by progress reports (Engin&Yeşiltepe, 2009: 16

Copenhagen economic criteria are the capacity to handle the market forces and competition pressure in the Union and good working market economy. As for Maastricht criteria, it consists of macroeconomic indicators such as inflation, interest rate, currency rate criterion, public debt and budget deficit (Akçay, 2007: 11).

Copenhagen Criteria as gathered as three groups which are adoption of political, economic and community acquires (Dinçkol, 2006: 32-33):

- Political Criteria: Candidate country has to have an consistent institutional structure where democracy, rule of law, respect to minorities and protection of minorities are secured.
- Economic Criteria: Candidate country has to have a working market economy and the capacity of handling the competitive pressure and market forces in EU.
- For an effective market economy; balance of supply-demand should be established by mutual interaction of independent market forces, prices as well as trading should be liberal and no obstacles should be present for entrance to market (new company establishment) and exit from market (bankruptcy).
- Adoption of Community Acquires: Candidate country has to have the capacity of undertaking and practicing EU legislation, including adaptation to political, economic and monetary union objectives.
- Adaptation to community acquires criteria: Expressed as accepting political union and economic and monetary union objectives of EU; adapting to decisions taken and law practiced by EU; adapting to terms specified in association agreements such as Customs Union, free circulation of products, free circulation of capital.

Maastricht Criteria means restriction of fiscal policy (restriction of public debt stock) and money policy (restriction of long term interest rates, inflation and devaluation) use to a degree by member states. The reason for these two restrictions, namely monetary and fiscal policies, which are two primary financial tools is budget and price stability (Engin&Yeşiltepe, 2009: 16).

Maastricht Criteria are five rules which are accepted on 9-10 December 1991. The text is signed by presidents of 12 countries and put into effect on 1st January 1993 and later on accepted as a macroeconomic rule system which is obligatory for candidate countries for EU. Maastricht Criteria are articles accepted for the purpose of approximation of member states economies in the process of Economic and Monetary Union and failure to comply to these articles have financial sanctions. The five rules comprising the Maastricht Criteria as follows (İnan, 2005: 74):

1. The difference between the average inflation of three countries which has the lowest inflation in the Community (best performing) and relevant member country inflation should not be more than 1,5.
2. Ratio of national debts of member states to Gross Domestic Product (GDP) should not be more than 60 percent.
3. Ratio of budget deficit of member state to GDP should not be more than 3 percent.
4. Long term interest rates practiced in any member state should not exceed the interest rate of 3 countries performing most in price stability area more than 2 points.
5. Currency of a member state should not be devaluated against another member state as of last 2 years.

1.2. Customs Union Concept and Scope

In this section, the scope of customs union will be discussed after it is addressed in general terms.

1.2.1. The Concept of Customs Union

Customs Union is an economic integration model where the trading between party countries can happen untaxed and where the parties have adopted a common customs tariff towards the countries outside the union. (<http://ab.gtb.gov.tr>).

In practice, there are 3 international legal texts defined by the customs unions. These are; the definition in the article 24, paragraph 8 of GATT (General Agreement on Tariffs and Trade), article 9 of Rome Treaty and a decree of La Haye International Court of Justice. Article 9 of Rome Treaty addresses the customs union field of application. According to the decree of International Court of Justice, customs union is a union where a single customs tax is present against non-member states, all customs tax applied to commerce between member states removed and taxes from products coming from third countries shared between member states. The common elements in the definition found in GATT and Court of Justice Decree are the removal of all customs tax on commerce between member states and putting a common customs tariff against third countries into effect (Karluk, 2009: 260).

1.2.2. The Scope of Customs Union

Customs Union generally covers industrial and processed agricultural products. The harmonization related to Common External Tariff practiced by The Community for some industrial products coming from third countries is completed on 1st January 2001. This group, which includes products like automobiles, shoes, leather products and furniture are called "sensitive materials". Processes agricultural products which are listed in the Council Directive 3448/93 of European Community are also included into Customs Union. In case of importing one of the aforementioned products within the framework of newly developed legislation in harmony of the operation of The Community, customs tax are divided into agricultural and industrial shares; while the industrial taxes are not applied, agricultural share is adapted to tax rates used in EU (<http://avrupa.info.tr>).

CHAPTER TWO. EUROPEAN UNION AND CUSTOMS UNION PROCESS IN TURKEY AND BULGARIA

The development of Turkey-EU relations, customs union process and EU membership process of Bulgaria will be discussed in this section.

2.1. Turkey and European Union Relations

From past to today, relations of Turkey-EU have gone through various stages and took the form it is today. In the Turkish community, Westernization efforts started with Reforms of Ottoman Government and became one of the primary stages accepted by The Republic in Ataturk's period. II. After World War II, it is accepted that EU has been instrumental in Turkey's integration with modern world and development race. Furthermore, Westernization has become a way of life for Turkish people of today (Oğuz, 2012: 70).

Relations with European Union have always expressed an important and that much difficult process. Starting with the signing of Ankara Treaty and gone through many stages until today, even though the developments shaping the relations sometimes cause changes in expectations of parties from each other, neither Turkey have given up on membership decision nor Europe could completely reject Turkey. The reaction of Turkey when its name was not among the full membership candidates in Luxembourg Summit of December 1997 was stopping political dialogues with EU. Confirmation of the candidacy of Turkey and preparation of a pre-membership strategy and accession partnership document for this country in Helsinki Summit of December 1999 which expresses the change of attitude in EU council shows the entrance to a period where mutual liabilities and expectations came into prominence (Uysal, 2001: 140).

In Helsinki Summit held in 10-11 December 1999, the confirmation of full membership candidacy of Turkey has moved the Turkey-EU relations into a process beyond Customs Union with economic and political aspects. In the said process, a market economy working within framework of Copenhagen Criteria that Turkey has to adapt and fulfillment of economic criteria which can be summarized as competitiveness and in terms of undertaking EU acquis, Turkey has made considerable progress and gained experience due to

harmonization works realized. Besides, the responsibilities undertaken by Turkey as a party to World Trade Organization which aims the liberalization of international commerce, have been largely fulfilled before the projected time due to works completed with Customs Union. (Erçakar, 2005: 161).

The relations between the parties have gained new momentum by granting of full-membership candidate status in 1999, giving of full membership negotiations date in 2004 and starting of full membership negotiations in 2005 (Güreşci, 2006: 73).

1963 Ankara Treaty, 1975 Additional Protocol, 1995 Association Council Decision are important milestones in this relationship. A step was taken towards full membership with the first, customs union schedule was made with the second and the customs union practice was launched from 1.1.1996 (Bilici, 2006: 44). In this context, it is useful to explain Turkey-EU Customs Union and Ankara Treaty, 1975 Additional Protocol and 1995 Association Council Decision.

2.2. Customs Union Process

Customs Union constitutes an important stage of the Turkey's partnership relation towards integration objective with European Union. The Customs Union application with Turkey is practiced first time in the history of EU with a country which is not a full member. At the same time, it is an example of deepest commercial integration realized between EU and a third country to date. Being one of the most common types of regional economic integration, the most important feature of the Customs Union is removal of all kinds of tariffs and quotas between members and adoption of common commercial policies by practicing a common tariff rate against outside (Temiz, 2009: 116).

Turkey-EU Customs Union, beyond being a sole economic integration model, forms an important stage of Turkey's partnership relation towards the objective of integration with EU. In the 28th article of 1963 Ankara Treaty which forms the partnership relationship between Turkey and EU and draws the framework of Customs Union, the ultimate objective of partnership is defined as membership of Turkey. The framework of Customs Union has

been drawn in 1963 by Ankara Treaty and details were defined in 1973 by Additional Protocol. (www.ikv.org.tr/).

Ankara Treaty and preparation period, transition period and last stage of Ankara Treaty will be discussed below.

2.2.1. Ankara Treaty

Turkey has applied for membership to Community in 31st July 1959, after the Rome Treaty signed by the six (Italy, Federal (West) Germany, France, Holland, Belgium, Luxembourg) and came into force in 1958. The negotiations between Turkey and European Economic Community (EEC) lasted for four years and Ankara Treaty which formed a "partnership" between parties as a result of the negotiations was signed on 12th September 1963 and put into effect as of 1st December 1964, after being approved in the parliaments of Community member states and Turkey (Koçak, 2009: 134).

Ankara Treaty which was signed on 12th September 1963 and made Turkey a partner member to European Union of today, is based on a customs union between parties and foresees Turkey joining formerly European Economic Community. Ankara Treaty is a partnership treaty that moves Turkey to membership (Karluk, 2006: 69).

The purpose of the Partnership Agreement known as Ankara Treaty has been set forth in its 2nd article as *“By wholly considering the need for accelerated development of Turkey's economy and increasing the employment level and living conditions of Turkish public, promoting the strengthening of commercial, economic relationships between the parties continuously and balanced.”* (Koçak, 2009: 134).

According to Ankara Treaty, for the purpose of forming a CU between Turkey and EU, three periods were defined as preparation, transition and completion. Preparation period, which was aimed to last five years, started in 1964 and ended in 1972. The transition period which the tariffs in industrial products are foreseen to be removed gradually in 12 years (22 years for some sensitive products) started in 1st January 1973 (Aktaş&Güven, 2003: 4). The Community, while immediately removing customs tax and restrictions on some Turkish

industrial products, except cotton yarn, cotton weaving and refined petroleum products, provided import amenities to some agricultural products. Turkey, meanwhile, foreseen removal of customs on EEC originated industrial products gradually in 12 years and extended this to 22 years for some sensitive industrial products which were needed to be protected (Uysal, 2001: 143).

Turkey has fulfilled these obligations in 1973 and 1976; however, stopped customs tax discounts in 1978. No discounts were made for 10 years. In 1988, customs tax discount practices were restarted (Koç, 2001: 9). Turkey's 5 year postponement request in 1978 was accepted, relationships weakened by 12th September Military Coup was frozen by closing of political parties in 1982 (Aktaş&Güven, 2003: 4). In the beginning, full membership after 25 years of transition process was aimed. However, factors such as military interventions in Turkey, economic crisis in Europe (especially the ones arising from petroleum shocks in 1970's) and dramatic changes in world conjuncture (disbanding of Soviet Block, etc.) required deviation from schedule and relationships were suspended from time to time (Acar, 2001: 115).

Turkey has applied for full membership on 14th April 1987, however EU has pointed out that Turkey was not ready for full membership, yet and relationships should develop in the direction of Ankara Treaty and CU on 18th December 1989 (Aktaş&Güven, 2003: 4).

The last period of partnership relationship between Turkey and EEC is highlighted in article 5 of Ankara Treaty as follows: "The coordination based on the last period of customs union and between economic policies of Contracting Parties." (Uysal, 2001: 143).

2.2.2. Additional Protocol and Transition Period Practices

The authentic treaty arranging the customs union between Turkey and EU is the Additional Protocol arranged as complementary to Ankara Treaty. (Erdut, 5). With the Additional Protocol signed on 13th November 1970 and put into effect in 1973, the preparation stage prescribed in Ankara Treaty has ended and conditions with regard to "Transition Period" has been established (www.ab.gov.tr).

The Additional Protocol based on Customs Union is more extensive than Ankara Treaty and consists of 64 articles. It adjudicates the issues on free circulation of properties, people, services, approximation of transport, competition, taxation and legislation and harmonization of economy and commercial policies. As such, the economic, social and political nature is almost the same as Ankara Treaty (Erçakar, 2005: 170).

As of 1971, within framework of Additional Protocol, The Community has unilaterally nullified custom taxes and amount restrictions on all industrial products imported from Turkey other than some petroleum and textile products. On the other hand, it was foreseen that Turkey to gradually zero the customs tax on EU originated industrial products and a period of 22 years was allowed for Customs Union to actually come into force. Turkey-EU relations have followed an unstable course from the beginning of 1970's to second half of 1980's due to political and economic reasons. After the 12th September 1980 military coup, the relations are officially suspended (www.ab.gov.tr).

2.2.3. Full Membership Application

Foreign expansion of Turkey has started in conjunction with re-establishment of civil government in 1983 and fast abandonment of import substitution policies from 1984. Thus, the revitalization process of Turkey-EEC relations which were frozen since 12th September 1980. Turkey has applied for membership on 14th April 1987, without waiting for the completion of periods stipulated in Ankara Treaty. Commission has announced its opinion about this application on 18th December 1989 and pointed out that the Community could not accept a new member who has not yet completed its internal integration. Also, expressed that Turkey, while being competent for joining the Community, should develop in economic, social and political area. For this reason, it was suggested that a date should not be specified for opening of membership negotiations and relations should be developed within framework of Partnership Agreement. This suggestion was evaluated as positive by Turkey and necessary preparations were started for Customs Union to be completed in 1995 as stipulated in Additional Protocol (www.ab.gov.tr).

Turkey has first informed EU in 1996 that it wants to be a part of the new enlargement process started by EU. In Cardiff Summit dated 1998, Turkey was included into the report system which the other candidates were part of and the first Progress Report that

examines the performance of Turkey in terms of Copenhagen criteria. Meanwhile, Turkey was accepted as member candidate in equal terms with other candidate countries in the EU Presidents and Prime Ministers Summit held in 10-11 December 1999 (Özer, 2009: 93-94).

In the Copenhagen Summit held in 12-13 December 2002, it was pointed out that Turkey's progress towards adaptation to Copenhagen criteria were received favorably; however the practice carried importance in terms of adaptation to political criteria were also emphasized. In the summit, it was expressed in the light of opinions and suggestions of the Commission that in case of a decision towards Turkey has fulfilled Copenhagen political criteria was made in the summit which will be held in December 2004, the negotiations will be started without delay. Also, in Copenhagen Summit, the approach towards reviewing the Accession Partnership Document for Turkey and increasing the financial support to be provided to Turkey was accepted and the Commission was invited to prepare a new Accession Partnership Document for Turkey. In this direction, the new Accession Partnership Document prepared by the Commission was accepted by the EU Council on 14th April 2003 (DPT, 2004: 6).

In the direction of decision made by European Presidents and Prime Ministers on 16-17 December 2004, "Accession Negotiations" between Turkey and EU has officially started by the Accession Conference held in 3rd October 2005. The Screening Process, which is the first stage of negotiation process and where the differences between EU *acquis* and national legislation are determined and a general schedule of adaptation process to remove these differences and confirming the potential problems that may be faced, has actually started on 20th October 2005 (Bulut, 2006: 47).

2.2.4. Customs Union Protocol 1/95 (Association Council Decision)

A Customs Union on industrial products was realized between Turkey and EU in conjunction with the decision of Association Council dated March 6 and no 1/95, Resolution Related to Development of Association Relations and Community Declaration on Financial Cooperation. For the Customs Union between Turkey and EU to start working, it was pointed out that Turkey's harmonization of legislation in the fields of customs and foreign commerce legislation matters as well as antitrust law, intellectual and industrial rights, industrial

legislation areas that are required to be considered for harmonization with EU rule of law, should be largely completed by 31st December 1999. Relations between Turkey and EU have gained speed by Association Council Documents dated 6th March 1995 going into effect on 1st January 1996 (Bulut, 2006: 44).

Primary fields covered by ACD 1/95 can be summarized as follows (www.ikv.org.tr/):

- Free circulation of products: Removal of customs tax and quantity restrictions and harmonization of Customs Code;
- Common Commercial Policy: Harmonization to Common Customs Tariff (CCT), preferential trade arrangements, autonomous regimes;
- Elimination of technical obstacles in commerce: Harmonization of technical legislation;
- Legislative regulations: Intellectual and industrial property rights, antitrust laws, public procurement;
- Corporate cooperation: Establishment of associated institutions.

Turkey-EU Customs Union "free circulation" status is limited to industrial products and processed agricultural products. While association council decisions are applied to agricultural products, preferential regime based on "origin" in the scope of a different agreement is applied on coal and steel products. According to free circulation principle, products obtained in Turkey and in the Community and the products originating from third countries, which the import procedures completed in either Turkey or the Community, necessary customs tax and levies collected, these tax and levies which have not benefited from full or partial returns are considered in free circulation within customs union customs zone (Community + Turkey) (www.ab.gov.tr, 14-15).

Harmonization to EU technical legislation is extensively discussed within National Program framework, legislation list required for harmonization is expanded. While the technical legislation harmonization works in the scope of responsibilities born from Customs Union but obtained in the candidacy process of Turkey are a requirement for full integration with European Union, they coincide with the responsibilities resulting from Technical Barriers to Trade which Turkey is a party in the framework of World Trade Organization membership. Technical legislation is a body of measures specified by regarding 51 issues of protecting human, animal and plant health and safety. Within this framework, beyond the aforementioned products being subject of commerce, it is a necessity of the time that they are produced in accordance to certain standards in terms of living safety and quality (Çak&Çak, 2007: 51-52).

By becoming a member of Customs Union in 1996, the economic relation of Turkey and EU has continuously progressed. Following the Customs Union, Turkey has started receiving credit and grant aids from the European Union Budget and the program of the Community applied to Mediterranean countries by Association Council Decision 1/95. The purpose of these aids is to support internal economic and social developments of countries included in common values such as human rights and market economy. Also, it is aimed to decrease the development level difference of the member states. For realizing these purposes and within framework of allowing Turkey to achieve these standards, 6 million Euros under the name of administrative cooperation fund, 376.4 million Euros grant within the scope of strengthening relations of European Community with Mediterranean countries, financial support in the form of 205 million Euros credit and 339.5 million Euros credit support under the name of renovated Mediterranean Policy is provided until the end of 2005. 2 While the aids that qualify as grants between the years 1964-1999 were 526.3 million Euros in total, this has become 930.5 million Euros between the years 2000-2004. 3 From 2006 to 2010, the amount of aids given showed a substantial increase and became 2.754 million Euros. 4 From 2010 to the end of 2013, the amount of support increasingly continued. Between these years, a total of 3.913 million Euros of support were made. 5 In conjunction with these aids, the amount of support made to Turkey between the years 1964-2013 has totaled to 19 billion 130 million Euros (Keleş, 2014: 19).

2.3. European Union Membership Process of Bulgaria

With the demolishing of Berlin Wall in 1989, Bulgaria has left the central planning economy and switched to free market economy and this process took Bulgaria all the way to the EU membership (Baklacioğlu, 2009: 9).

Bulgaria's integration process to European Union is addressed chronologically in the table below.

Table 1: Bulgaria's Integration Process to European Union

Date	Event
8 August 1988	Diplomatic relations between Bulgaria and European Economic Community (EEC) is established.
8 May 1990	Bulgaria and EEC has signed a treaty on Commerce and Economy. County is included into PHARE Program.
1 November 1990	Commerce and Economy Treaty has come into force between Bulgaria and EEC.
8 March 1993	Bulgaria and European Union (EU) has signed Europe Treaty and Temporary Agreement on Commerce and Related Matters. Europe Treaty has formed a framework for establishing a free trade zone and a deep political dialogue between Bulgaria and EU.
15 April 1993	Parliament of Bulgaria has approved the texts of Europe Treaty and Temporary Agreement on Commerce and Related Matters.
21-22 June 1993	Copenhagen European Council has informed that the enlargement of EU will cover Central Eastern Europe Countries (CEEC) and stated that when a member state can be able to fulfill required economic and political conditions and membership obligations, accession shall occur in a short period.
27 October 1993	Parliament of European Union has approved membership of Bulgaria.

14 April 1994	Government of Republic of Bulgaria has officially announced that the country wishes to be a member of EU.
1 February 1995	Europe Treaty has come into effect.
22 March 1995	Republic of Bulgaria Council of Ministers has established a special Europe Integration mechanism including Government Committee, Coordination Committee and Europe Integration Secretariat in the Council of Ministers.
29 May 1995	The first meeting of Bulgaria - EU Association Council is held in Brussels.
6-8 September 1995	A common Bulgaria - EU Parliament Commission is established in Sofia.
14 December 1995	Bulgaria has applied to become a member of EU.
15-16 December 1995	In the European Council meeting held in Madrid, Bulgaria has submitted the application for EU membership. European Council requested European Commission to prepare an opinion on membership application.
23 March 1998	Accession of Bulgaria to EU has been accepted as National Strategy in Republic of Bulgaria Council of Ministers.
4 November 1998	European Commission has published the first progress report on Bulgaria's accession EU process.
10-11 December 1999	European Council decided to open negotiations for Bulgaria's membership to EU in Helsinki Conference.
15 February 2000	Membership negotiations between EU and Bulgaria have commenced.
9 October 2002	In the regular report of European Commission, Bulgaria has been accepted as "operating market economy". European Commission stated in 2007 that it supported Bulgaria's full membership to EU.
15 June 2004	Accession negotiations between Bulgaria and EU have been completed.
17 December 2004	Brussels Council of Europe has announced that the accession negotiations between Bulgaria and EU has officially completed.

13 April 2005	European Parliament has given support towards acceptance of Bulgaria's membership application to EU.
25 April 2005	Bulgaria's EU membership agreement has been signed in Luxembourg.
11 May 2005	National Assembly of Bulgaria has approved Accession Agreement to EU of Bulgaria.
26 September 2006	European Commission has published the last monitoring report that suggests accession of Bulgaria to EU.
20 December 2006	Completion of necessary procedures for the approval of Accession Agreement of Bulgaria to EU.
1 January 2007	Full membership to EU.

Source: Tsachevsky, V. (2010). "Bulgaria's EU Membership: The Adaptation To The New Status is Not Over", p. 40-42,
http://www.utu.fi/fi/yksikot/tse/yksikot/PEI/raportit-ja-tietopakettit/Documents/Tsachevsky_netiti_final.pdf

Like the other neighbors in Middle and Eastern Europe, Bulgaria had desired EC membership following the revolution in 1989 and in the end, conveyed its application to European Council gathered in 15 December 1995 in Madrid. During this time, Bulgaria and EU has signed a Europe Treaty in 19th December 1994 which came into effect in 1st February 1995 (Akay, 2005: 269). With the Europe Treaty signed on 1st March 1993, a framework has been created for the harmonization of Bulgarian legislation to Community acquis. This treaty removed all restrictions towards exporting of Bulgarian industrial products to European Union. The restrictions on exporting of European Union industrial products are removed gradually until 2002 (Tezcan, 2004: 97-98).

In 1998, European Commission started preparing annual reports that evaluates progress of Bulgaria on political, economic, legislation and other reforms. In the beginning of 2007, until Bulgaria becoming a member of European Union, European Commission has published a total of 10 annual reports about progress made in the fulfillment of aforementioned membership criteria. On 10th December 1999 in Helsinki, European Council decided to start negotiations with six countries including Bulgaria (Romania, Slovakia,

Lithuania, Latvia and Malta). EU membership negotiations with Bulgaria have started on 15th February 2010 (Tsachevsky, 2010: 3).

The decision to start negotiations with Bulgaria who made the membership application in 1995 has been taken in 13th October 1999. In the European Council summit held in Brussels in 24-25 October 2002, the progress brought up by the commission concerning Bulgaria were welcomed and the planning of roadmap for the membership of this country and pre-accession aids was accepted (Akay, 2005: 269).

In 8th May 1990, Bulgaria was included in the Phare Program. Phare program is explained below.

Phare Program is established by European Union Council of Ministers in 1989 to support Poland's and Hungary's economic and political conversion. On 1993 Copenhagen Summit, Phare Program is included among the tools that speed up accession preparations of EU candidate countries (Čunderlíková, 2007: 13).

The main purpose of Phare aid which was regulated by Council Regulation 3906/89 is to help Central and Eastern Europe Union countries preparing for accession to European Union. Organized firstly for helping Poland and Hungary, Phare Program is expanded by a later regulation to cover other Central and Eastern Europe countries (Bulgaria, Romania, Hungary, Estonia, Lithuania, Slovakia, Slovenia, Latvia, Czech Republic and Poland) (Çeliktaş, 2006: 40).

Commission has prepared roadmaps that included certain actions for Bulgaria and Romania to perform to be ready for full membership in November 2002. These roadmaps were accepted by Presidents and Prime Ministers in Copenhagen Summit of December 2002 (Tezcan, 2004: 98).

At the end of Brussels Summit held in 16-17 December 2004, EU Council has announced that negotiations with Bulgaria are completed. At the end of this process, Accession Agreement is signed with Bulgaria and Romania in 25th April 2005. Thus,

Bulgaria's full membership to EU was realized in 1st January 2007 (Baklacioğlu, 2009: 11-12).

CHAPTER THREE. COMPARATIVE ANALYSIS OF EFFECTS OF EUROPEAN UNION AND CUSTOMS UNION PRACTICES ON TURKEY AND BULGARIA

Countries want to be a member of European Union, an important force in our day, to benefit from the advantages it brings. Bulgaria has become a member of EU in this sense in 2007. However, Turkey could not become a member since 1950's. Besides, Turkey has entered into customs union process with EU. Customs union has been put into effect in 1996. As a result, EU customs union has introduced some effects on Bulgaria and Turkey. These will be discussed below.

3.1. Effects of European Union and Customs Union practices on Turkey and Bulgaria

By removal of protectionism according to Customs Unions Theory, short term static and long term dynamic effects occur in the member states economies. Customs unions are expected to increase the commerce between states in the short term. While in the long term, increased competitiveness and restructuring effects are in question. The first of these effects occurs at the moment of realizing the union and is easy to calculate. However, long term effects mostly can't be calculated due to requiring dynamic analysis and external conditions can change. However, the benefits expected from customs union from more effective distribution of resources within the framework of long term restructuring effects rather than short term effects (Kızıltan, Ersungur&Polat, 2008: 84).

With the CU agreement Turkey made with EU, the restrictions before the commerce in the Union has been removed significantly and a common customs tariff was started to be used against third countries. As a result, static and dynamic effects of CU on Turkey's economy (Kayıhan & Yıldız, 2009: 729).

The static and dynamic effects of EU-Customs Union practices will be examined specific to Turkey and Bulgaria. Firstly, the static effects; production, consumption and terms of trade will be discussed. Then, dynamic effects expressing long term effects will be addressed. Dynamic effects will be explained as competitiveness, economies of scale, external economies, technological advancement and investment promotions.

3.1.1. Static Effects

When the countries go into an economic union within scope of customs union, relative prices in the economy will change and this will effect production, consumption and structure and direction of trade. Under the assumption of parameters such as factor equipment, technological level and demand structure stay constant, the effects of customs union arising due to re-distribution of resources within union are called static effects (Karluk, 2009: 263).

Viner talks about trade creation and trade diversion effects as static effect in his book "The Customs Union Issue", published in 1950. In addition to this, Viner disregarded demand while focusing on change in source distribution and production effectiveness in his analysis. Meade has removed this omission by adding consumption to analysis in his work "Theory of Customs Union" which was published in 1955 (Yıldırım& Dura, 2007: 143).

3.1.1.1. *Production Effect*

It is possible to examine production effects by dividing into two as positive production effect and negative production effect. In the positive production effect, production shifts from high cost union member country to low cost union member country, while in negative production effect, production shifts from low cost union non-member country to high cost union member country (Karluk, 2009: 268).

The production effect named as intercountry substitution effect by Lipsey expresses the change occurring in the place of production of intercountry tradable products after establishment of customs union. After the establishment of customs union, shifting of production to the member country with the best production cost is called positive production effect or trade creation effect. In the case of trade creation effect, production costs in the union are decreased and welfare of union in general is increased (Bakkalcı, 2002:).

Table 2: 1990-2014 Foreign Trade Indicators of Turkey (Million \$)

Foreign Trade by Years (Million \$)							
Years	Exportation		Importation		Foreign Trade Balance	Foreign Trade Volume	Rate of Exports Meeting Imports %
	Value	Change %	Value	Change %	Value	Value	
1990	12 959		22 302		-9 342	35 261	
1991	13 593	4,9	21 047	-5,6	-7 453	34 640	64,6
1992	14 714	8,2	22 871	8,7	-8 156	37 585	64,3
1993	15 345	4,3	29 428	28,7	-14 083	44 773	52,1
1994	18 105	18,0	23 270	-20,9	-5 164	41 375	77,8
1995	21 637	19,5	35 709	53,5	-14 071	57 346	60,6
1996	23 224	7,3	43 626	22,2	-20 402	66 851	53,2
1997	26 261	13,1	48 558	11,3	-22 297	74 819	54,1
1998	26 973	2,7	45 921	-5,4	-18 947	72 895	58,7
1999	26 587	-1,4	40 671	-11,4	-14 084	67 258	65,4
2000	27 774	4,5	54 502	34,0	-26 727	82 277	51,0
2001	31 334	12,8	41 399	-24,0	-10 064	72 733	75,7
2002	36 059	15,1	51 553	24,5	-15 494	87 612	69,9
2003	47 252	31,0	69 339	34,5	-22 086	116 592	68,1
2004	63 167	33,7	97 539	40,7	-34 372	160 706	64,8
2005	73 476	16,3	116 774	19,7	-43 297	190 250	62,9
2006	85 534	16,4	139 576	19,5	-54 041	225 110	61,3
2007	107 271	25,4	170 062	21,8	-62 790	277 334	63,1
2008	132 027	23,1	201 963	18,8	-69 936	333 990	65,4

2009	102 142	-22,6	140 928	-30,2	-38 785	243 071	72,5
2010	113 883	11,5	185 544	31,7	- 71 661	299 427	61,4
2011	134 906	18,5	240 841	29,8	- 105 934	375 748	56,0
2012	152 461	13,0	236 545	-1,8	- 84 083	389 006	64,5
2013	151 802	-0,4	251 661	6,4	- 99 858	403 463	60,3
2014	157 610	3,8	242 177	-3,8	- 84 566	399 787	65,1
2015	143 838	-8,7	207 234	-14,4	- 63 395	351 073	69,4
2016	142 529	-0,9	198 618	-4,2	- 56 088	341 147	71,8

Source:<http://www.tuik.gov.tr/UstMenu.do?metod=temelist>, Date accessed: 03.09.2015.

According to the table, while exportation was 12.959 million \$ in 1990, it has increased to 157.610 million \$ in 2014. Importation has increased from 22.302 million \$ to 242.177 million \$ in the same period. In 1995, foreign trade deficit of 14.071 million \$ has increased substantially and became 84.566 million \$. Foreign trade volume has increased to 399.787 \$ from 57.346 \$. In the light of data above, a slower increase can be seen in trade volume before the customs union and it increases as of 1996, which is the year customs union agreement was signed. Thus, it is possible to say that a trade creation effect is present.

Trade diversion effect appears by occurrence of negative production effect as a result of shrinkage of trade volume of efficient producer which is left out of the union by establishment of Customs Union. An efficient and low-cost production country being left out of the union, members of the union are forced to stop importing from this country and this causes the trade diversion effect to occur, which in turn causes the product of these countries to become high-cost and more expensive as a result of common tariff applied to non-member countries, thus increasing the cost causes trade shifting into union. (Hobikoğlu, 2007: 71).

3.1.1.2. Consumption Effect

Following customs union, a new trade is created between member states and if a decrease in prices happen in terms of consumers, a positive consumption effect occurs. In this case, consumption becomes more effective compared to pre-customs union and welfare of

consumers increase. In case of prices of consumer products increase post-customs union, a negative consumption effect occurs (Bakkalcı, 2002: 42).

Due to technology and capital equipment of EU member states are quite advanced and Turkey's industry still in development, it is clear that the free trade between Turkey and EU will work in favor of EU. Turkey, being quite insufficient in terms of technology and capital stock, is a foreign-dependent country. After the implementation of CU, significant increases in importation of industrial products and large deficits in foreign trade have arisen. Turkey has removed the customs tax and similar restrictions on intermediate and investment goods by adopting growth strategy dependent on importation in the post-1980 period. This has increased the dependency on importing as well as increasing the importation and prevented the intermediate and investment industry significantly (Gökdemir&Karaman, 2008: 285).

3.1.1.3. *Effects on Terms of Trade*

Terms of trade is the ratio of export prices with import prices. The increase (decrease) in the prices of products imported and exported shows the terms of trade are developing against (in favor of) the country. Terms of trade specifies the share each country will have from welfare increase caused by work sharing between member states (Temiz, 2009: 123).

In cases such as import prices decreasing while export prices are constant, export prices increasing while no changes are happening in import prices or both index prices increasing while export prices are more than import prices, the terms of trade become in favor of the country. In this case, due to the increase of purchasing power in international markets, real national income increases faster. This development where it is possible for the mentioned country to obtain more than a unit of imported goods in exchange for one unit of exported good according to a certain starting year will increase the economic welfare level of the country. The terms of trade becoming in favor of a country, on the contrary to above situation, means the said country suffering losses from the development in the foreign trade prices. Since, in this case, the purchasing power of the country in the international markets will decrease, import volume will shrink and economic progress will slow down (Yıldırım A., 2005: 157-158).

General Evaluation of Static Effects:

Customs Union (UC) of Turkey and EU had positive and negative effects on Turkey's economy. Some of these effects are caused by industry-specific situations, some from unrealized aids and some from the unrealized capital inflows (Hatipler, 2012).

To express the aforementioned positive and negative effects, it is better to know the pre-customs union status of Turkey. In this regard, economic indicators of Turkey and EU countries for the year 1994 are given in the table below.

Table 3: Primary Economic Indicators for European Union Countries and Turkey Pre-Customs Union (1994)

Countries	Population (million)	GNP (billion \$)	GNP per person (Thousand \$)	Avg. Inf. (%,1985- 94)	Exportati on (billion \$)	Importati on (billion \$)
Germany	81,2	2,076	25,6	2,9	419	373
France	57,7	1,355	23,5	2,9	238	229
Italy	57,2	1,101	19,3	2,9	190	168
Bel.-Lux.	10,5	247	23,5	3,3	134	136
Holland	15,4	338	22,0	1,6	157	144
England	58,1	1,070	18,4	3,4	205	227
Ireland	3,6	48	13,6	2,0	30	24
Denmark	5,9	145	28,1	2,9	41	35
Spain	39,6	525	13,3	6,6	73	95
Portugal	9,8	92	9,4	11,9	18	27
Greece	10,4	80	7,7	15,5	9	22
Sweden	8,7	206	23,6	5,8	61	52
Austria	7,9	198	25,0	3,2	45	55
Finland	5,1	96	18,9	4,2	30	23

Total	370,4	7,478	Avg.20.2	-	1,650	1,610
World Tot.	5,602,0	25,793	Avg.4.6	-	4,090	4,210
Turkey	60,8	149	2,5	65,8	18	23

Source:Erçakar,M.E.(2005).GümrükBirliğiveTürkiye'ninDışTicaretineEtkileri. “İş, Güç”
EndüstriİlişkileriveİnsanKaynaklarıDergisi, 7(2), s. 180.

According to the above table of comparison for Turkey and EU countries; GNP per person of Turkey is significantly lower than EU countries pre-customs union. Also, in terms of average inflation, Turkey is in the worst position.

Table 4: Foreign Trade of Turkey and Share of European Union (Million \$)

Year	General					European Union					Share of EU (%)	
	Exporta tion	Val (%)	Import ation	Val (%)	Exp/I mp	Exportat ion	Val (%)	Import ation	Val (%)	Exp/I mp	Export ation	Import ation
1993	15.348	-	29,429	-	52.2	7.599	-	13.875	-	54.8	49.5	47.1
1994	18.105	18.0	23.270	- 20.9	77.8	8.635	13.6	10.915	-21.3	79.1	47.7	46.9
1995	21.636	19.5	35.707	53.4	60.6	11.078	28.3	16.861	54.5	65.7	51.2	47.2
1996	23.224	7.3	43.627	22.2	53.2	12.569	13.4	24.321	44.2	51.7	54.1	55.7
1997	26.261	13.1	48.559	11.3	54,1	13.435	6.8	26.119	7.4	51.4	51.1	53.8
1998	26.974	2.7	45.921	-5.4	58,7	14.813	10.2	25.282	-3,2	58.6	54.9	55.1
1999	26.587	-1.4	40.671	- 11.4	65,4	15.424	4.1	22.530	-10.9	68.5	58.0	55.4
2000	27.775	4.5	54.503	34.0	51,0	15.664	1.5	28.527	26.6	54.9	56.4	52.3
2001	31.342	12.8	41.399	- 24.0	75,7	17.546	12.0	19.824	-30.5	88.5	56.0	47.9
2002	36.059	15.1	51.553	24.5	69,9	20.415	16.4	25.689	29.6	79.5	56.6	49.8
2003	47.252	31.0	69.339	34.5	68,1	27.394	34.2	35.140	36.8	77,9	58.0	50.7
2004	63.167	33.7	97.540	40.7	64,8	36.581	33.5	48.103	36.9	76.0	57.9	49.3

2005	73.476	16.3	116.774	19.7	62,9	41.365	13.1	52.696	9.5	78.5	56.3	45.1
2006	85.535	16.4	139.576	19.5	61.3	47.935	15.9	59.401	12.7	80.7	56.0	42.5
2007	107.272	25.4	170.063	21.8	63.1	60.399	26.0	68.612	15.5	88.0	56.3	40.3
2008	132.003	23.1	201.823	18.7	65.4	63.368	4.9	74.801	9.1	84.7	48.0	37.1
2009	102.143	-22,6	140.928	30,2	72,5	47.228	-26	56.616	-24	83,5	46,2	40,2
2010	113.883	11,5	185.544	31,7	61,4	52.934	12,1	72.391	27,9	73,1	46,5	39
2011	134.915	18,5	240.839	29,8	56	62.589	18,2	91.439	26,3	68,4	46,4	38
2012	152.461	13	236.545	-1,8	64,5	59.398	-5,1	87.657	-4,1	67,7	39	37,1
2013	151.802	-0,4	251.661	6,4	60,3	63.039	6,1	92.457	5,5	68,1	41,5	36,7
2014	157.610	3,8	242.177	-3,8	65,8	68.514	8,7	88.783	-4	77,1	43,5	36,7
2015	143.838	-8,7	207.234	-14	69,4	63.998	-6,6	78.681	-11,4	81,3	44,5	38
2016	142.529	-0,9	198.618	-4,2	71,8	68.343	6,8	77.501	-1,5	88,1	48	39

Source: Çolpan Nart, E. (2010). Gümrük Birliği'nin Türkiye'nin Dış Ticareti Üzerine Etkileri: Panel Veri Analizi. *Journal of Yaşar University*, 17(5), s. 2877.

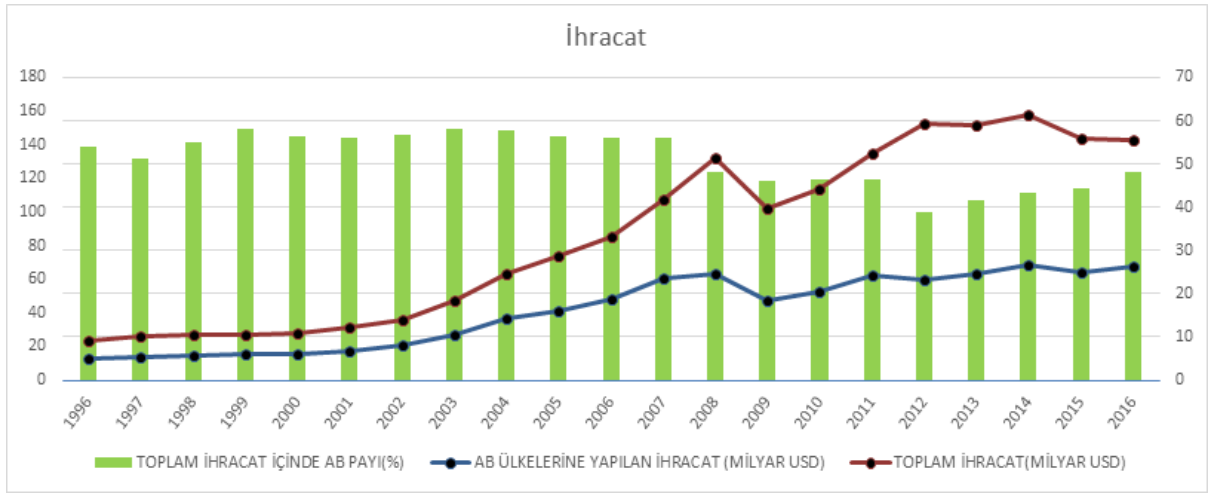
According to the table above, EU continues to be our largest foreign trade partner since 1996, when the CU agreement came into effect until 2008. There is an increase in Turkey's EU exportation and importation in the first years of CU. However, the exportation increase in the first years is lower than importation increase. While the importing coverage ratio of exportation was 65.7% in 1995, it has decreased to 51.7% in 1997. This ratio is realized as 84.7% in 2008. Primary reason for this is faster increase of exportation to EU than importation.

Turkey's importing coverage ratio of exportation against EU is rising. Even though the numbers are given in EUROS by considering the effect from parity, exportation of Turkey to EU has increased faster than importation. This situation shows that the competitive capacity of Turkey against EU countries has increased. Turkey is no longer a country working to adapt to customs union. The numbers and ratios show that the share of EU among Turkey's

increasing foreign deficits have not increased. Foreign deficits are caused largely from importation of petroleum and energy based raw materials (together with the increase in petroleum prices) from non-EU (third) countries. In other words, Turkey's importation has increased faster than exportation from non-EU countries. In the end, the importing coverage ratio of exportation with non-EU countries has decreased (<http://www.deu.edu.tr/>)

Turkey's exportation to EU countries and share in total exportation is given below. While the exportation share of EU in 1996 was 54.1%, this ratio has gone into decline in 2008. This situation can be clearly seen in the figure below.

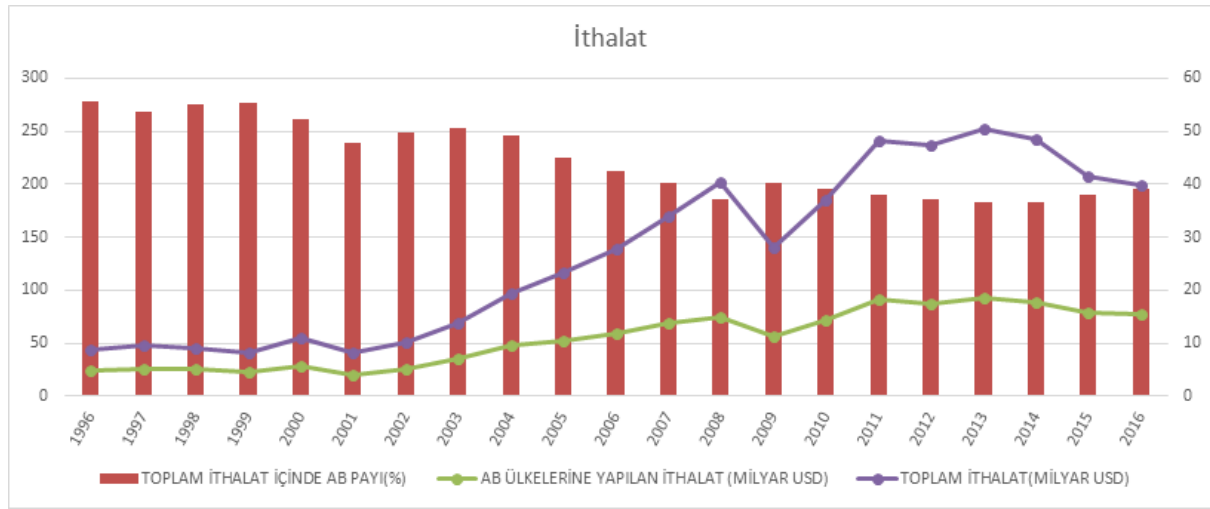
Figure1: Turkey's Exportation to EU Countries and Share in Total Exportation



Source: Şentürk, M. (2014). Gümrük Birliği Üyeliğinden Günümüze Türkiye'nin Dış Ticareti Üzerine Bir İnceleme. *Akademik Yaklaşımlar Dergisi*, 5(1), s. 139

According to the figure above; while the share of EU in the total exportation in 2008 was about 48%, this ratio decreased to 42% in 2013.

Figure2: Turkey's Importation to EU Countries and Share in Total Importation



Source: Şentürk, M. (2014). Gümrük Birliği Üyeliğinden Günümüze Türkiye'nin Dış Ticareti Üzerine Bir İnceleme. *Akademik Yaklaşımlar Dergisi*, 5(1), s. 139

Turkey's importation to EU countries and share in total importation is given in the figure above. According to this; 55.7% of the total importation of Turkey is provided from EU countries in 1996. However, this ratio has decreased to 37% in 2013.

The decrease in Turkey's importation and exportation with EU countries can especially be seen in the period after the 2008 global financial crisis. This is caused by the shrinkage in the EU economies which Turkey has close relations with. The shrinkage with the aforementioned countries resulted in slowing down of production and correspondingly weakening of demand in imported goods and exportation potential. Within this period, Turkey's relations with EU started to weaken and other countries became prominent in both importation and exportation. Such that; China, using cheap labor advantage impelling, while exporting 556.4 million dollars to Turkey in 1996, this number has reached to 24.6 billion dollars in 2013. In addition to this, important natural gas suppliers of Turkey, Russia and Iran are taking significant shares from Turkey's importation. Such that; Turkey has imported 25 billion dollars from Russia and 10 billion dollars from Iran in 2013. Meanwhile, the exportation needs that could not be realized with EU countries were fulfilled from Near and Middle East markets. Such that; Iraq being in the first place, United Arab Emirates, Egypt, Saudi Arabia, Iran, Azerbaijan and Libya were the countries which Turkey made significant exportation to in the aforementioned period (Şentürk, 2014: 141).

It can be said that Customs Union has negatively affected foreign trade of agricultural products, especially the exportation values. The reason of this can be the production outside the norms and standards required by the union and problems in the adaptation to common agricultural policy (Gündüz&Esengün, 2007: 49).

3.1.2. Dynamic Effects

The dynamic effects of customs unions are structural changes in the economy and sectors caused by market integration in middle and long term. It is stronger and more persistent with these qualities compared to static effects (Atmaca, 1995: 26).

Customs Union has a meaning of transition to big market from small market. For this reason, economies can obtain the advantages of the big market. The advantages brought by the big market are called dynamic effects of Customs Union. Dynamic effects of the Customs Union means the occurring of internal and external economies as a result of market growth, use of more advanced technology, increase in expertise and decreasing, even disappearing of uncertainty for investors (Hatipler, 2012: 5).

3.1.2.1. *Effects of Competition*

The first one to suggest effects of competition of customs union was the economist Scitovsky. Later, Balassa has contributed to this effect in 1961. Balassa has explained that customs unions would decrease the market power of national monopolies or cause price or non-price competition to increase by removing means of agreement under oligapolistic market structure. Both economists have claimed that because of the foreign companies' fear of entering into the market, local companies would lower their prices to competitive level. But, there are also those who defend that local monopolies would gain power and international cartels would emerge by establishment of customs unions. According to them, economic integrations (such as EU) contribute to the monopolistic capitalism to take root. Tinbergen (1954) does not accept that customs unions increase the level of monopolization directly. However, he defends that instead of customs union's indirect competition effects, direct measures to be taken for the purpose of increasing competition are more effective (Karluk, 2009: 187).

The competition effect brought into open on the member state economies can be examined by dividing into two. These are the effect on the competition environment in the domestic market of member state and the effect on the competitive capacity of member state in international markets. According to customs union theory, one of the most important benefits provided by customs union membership is brought into open on competition environment. As a result of removal of customs tariffs and practicing of common customs tariff with customs union, while the entrance conditions to the market of member state are getting better, member state's entrance conditions to union market also get better. Liberalized entrance conditions to market is sufficient to increase the competition and the increased competition in domestic markets forces the companies not working efficiently to leave their current sector and shifts them to the areas they are efficient. But, the theory does not have a certain projection on how the international market competitive capacity of the state that joins the union will be affected from this integration. For example, while the polarization theory, in the example of customs union between developed countries and a developing country, have the prediction that a developing country's competitive capacity will have negative impact, the competitive capacity of the developing country is predicted to increase in at least capital-intensive goods and advanced technology products via trade with increased catching paradigm (Vergil &Yıldırım, 2006: 1-2).

Considering the changes made to Turkish legislation in competition area post-Customs Union, it can be said that Customs Union, increasing the production quality of Turkish industry in national and international level by taking maximum benefit of end user as a prerequisite, forms a framework to necessary works towards increasing competitive capacity. Besides, to relevant institutions of public level and Turkish industrialist, it can be pointed out that it gains momentum for immediately starting works towards this direction and cause a change of mindset towards production quality and consumer satisfaction being the key determinants of profit (Çak&Çak, 2007: 40).

As a result of Customs Union Agreement, while Turkey was applying European Union's common customs union tariffs to third worlds, Far East Countries such as China and India, competitors of Turkey in many sectors, use the advantage of being exempt from this tariff and increased their competitive capacity against Turkey (Eşiyok, 2012).

In the study conducted by Vergil and Yıldırım, "Effects of EU-Turkey Customs Union over Turkey's Competitive Capacity", the findings are as follows: While reaching the results of Turkey-EU customs union's positive effect on competitive capacity for Turkey's both in advanced technology products and in hard to copy products accordingly with catching paradigm, also the results of the negative effects on the competitive capacity for capital-intensive products and intermediate technology products that support polarization theory predictions (Vergil & Yıl, 2006: 16).

In the study of Türker's "Turkey's Foreign Trade Competitive Capacity Post-Customs Union"; 15 countries which were full members of EU before 1996 were compared to Turkey. During customs union process, the change in Turkey's competitive capacity was compared to the changes in the competitive capacities of these countries in the same period. In this comparison, the competitive capacities of sectors included in the Standard Industrial Product Grouping were measured by using Revealed Comparative Advantages method. The effect of the customs union to Turkey's competitive capacity, while providing a lower competitive capacity to some product groups, is generally considered as not increasing the competitive capacity of Turkey. Because, a lower competitive capacity indexes emerged in many sectors after the customs union (Türker, 2009: 299-300).

Customs union not contributing significantly to Turkey's competitive capacity means Turkey is gradually becoming an open market. In all the sectors losing their competitive capacity, more production decrease will happen and correspondingly, income and employment will also decrease. For this reason, Turkey should hasten the efforts to increase its competitive capacity. In this context, R&D, product development, innovation processes should be prioritized (Türker, 2009: 300).

3.1.2.2. *Economies of Scale Effect*

CU will provide the manufacturers to produce for a bigger market. In other words, CU's making the locally produced goods entering union markets easier will cause local companies to use their unutilized capacities or go for capacity increase. Two advantages of economies of scale can be mentioned. The first is the decreases caused by growing company and industry scale. The second is expected on product range. Due to market being narrow, product range will also be small. While the CU is enlarging market volume, companies will

increase their scale and product ranges. Thus, production efficiency increases will occur (Yıldırım& Dura, 2007: 147).

3.1.2.3. *External Economies Effect*

External economy can be defined as the positive or negative effects made by a manufacturer or a consumer on the production or consumption function of another manufacturer or a consumer. Suggested for the first time by A. Marshall, the external economies concept is used to explain increased returns while examining the production costs of companies in the industry (Çak&Çak, 2007: 17).

Depending on changes in supply and demand conditions, external economies can be gathered under two groups. In external economies depending on supply conditions, a company lowers its costs due to progress in the production technique and provides the manufactured product to other companies in lower price. In external economies depending on demand conditions, production increase in the first industry causes the income-demand spiral. This effect implies that the sectors not included in the customs union may also be affected by this integration in the customs union where some sectors are included. Efficiency and product quality of some companies increase as a result of economies of scale, competition and technological advancement effects. Other companies receiving input from these companies obtain cheaper and more quality inputs. Thus, the general performance of the economy increases (Temiz, 2009: 126).

3.1.2.4. *Technological Advancement Effect*

By establishment of Customs Union, technological advancement in economy is promoted. According to Scitovsky (1958), because monopolistic and oligopolistic companies avoid uncertainty, they would want maintain their status in the customs union and take advantage of new inventions. Increase of competition will increase the efforts of monopolistic and oligopolistic companies on making new inventions and trigger technological advancement. Also, as a result of increase in competition, research and development expenses will be increased for development of new products and production techniques. Balassa(1961), points out that large scale companies make more research and development expenses, so the increase in scale of companies after the customs union will also cause an increase in research

and development expenses. Also, customs union provides spreading of technological knowledge and technological processes developed in other member states by allowing manufacturers to meet new products (Karluk, 2009: 287).

It was expected of Turkey to develop in technological way by entering an industrialized market Post-CU. However, in 2005, it is observed that Turkey still maintains its labor-intensive structure. Because, the presence of cheap and unrecorded employment in SMSE's which realizes a large portion of production and weakness of financial structures prevents use of high-cost technology. A large portion of exportation consists of textile and apparel products and food products where labor-intensive and relatively old technology is used (Gökdemir&Karaman, 2008: 289).

A significant reason for Turkey's foreign trade deficit is due to the fact that we haven't reached a technologically required level. The high technology parts of a television or an automobile manufactured in Turkey and exported to EU countries are imported from abroad, especially Far East and Asia countries. This, in turn, causes the decrease in additional value of exportation and pumps importation numbers. Most important reasons for falling behind in technology are not giving due consideration to R&D investment and activities in public, universities and private sector and seeing R&D investments as "unnecessary" and "superfluous" expenses. There may not be anything to do in terms of importing materials like petroleum and natural gas. But keeping up with the times in technology is possible by cooperation and investment of government, universities and private sector. It is very difficult to deal with countries like China and India where the cheap labor is present in labor-intensive sectors. The labor in these countries is quite cheap and working conditions are quite hard. The only way to completely close the foreign trade deficit of our country is giving due importance to R&D and technology and decreasing importing of technological intermediate products as much as possible (Antalya EU Information Center).

3.1.2.5. *Incentive Effect of Investments*

It is expected for the increase to happen in foreign capital investments to come from the countries outside the union due to CU. The reasons of countries outside the union investing to countries forming the union can be listed as giving assurance to investors on tariffs not be increased again in the CU, the trade deviation caused by customs unions

decreasing the importation made by union members from outside world, trade increase between union members attracting the investors who are outside the union, increase of economic stability and efficiency within union, demand to use the production factors within union encouraging foreign investors by increasing of employment, income and capital marginal effectiveness (Temiz, 2009: 127).

Turkey is an attractive investment spot for union member states as well as third countries due to its young, dynamic and unsaturated market and geographical location which provides connection with Middle East, Black sea and Asia (Seymen, 71).

It is expected for the investments to increase in conjunction with expansion of market volume and source effectiveness. Foreign capital, which is expected to enter into the country post-Customs Union, plays a huge role. However, not being able to establish a stabile market organization will cause the foreign capital which is always looking for a safe environment to remain limited post-Customs Union despite cheap labor (Yüceol, 1999: 142).

It is presumed by Turkey's entrance to CU will remove some political and economic uncertainties, increase the environment of trust and thus, a substantial increase in foreign capital investments. Following Turkey's entrance to CU, an increase in foreign capital inflow has happened. However, a large portion of this was in the form of short term capital, which is called hot money. Long term capital movements are towards privatization and purchasing of current businesses rather than new investments. The contribution of short term capital to the economy of the country is much-discussed. Because, there are serious findings towards short term capital movements causing instability over the economies of the countries and increasing economic crisis in the process of globalization. Thus, big economic crises have happened in Turkey in 1999, 2001 and 2008 post-CU. Consequently, capital inflow has happened on a limited scale (Kayıhan&Yıldız, 2009: 736).

The expectations concerning the increase of foreign capital investments post-CU was not realized. This situation is mainly resulting from Turkey's inability to provide safe market conditions to investors, which itself couldn't ensure an economic and political stability (Seymen, 71).

To compare Turkey and Bulgaria, it is useful to look into Bulgaria's investment environment. In this respect, elements positively and negatively affecting investments in Bulgaria will be examined.

Elements positively affecting the investments (www.ekonomi.gov.tr, 2015: 75);

- Bulgaria is a member of EU, NATO and WTO.
- Because Bulgaria is a member of EU, products, services, capital and people have the right to free circulation.
- Bulgaria has a role of "bridge" or "gateway" in products of Turkish companies into EU markets.
- Turkish companies can take advantage of EU funds in Bulgaria.
- The rate of exchange for Bulgarian Leva (BGL) Euro is 1,95583.
- Bulgaria is in an important logistic location as it is located in the middle of Balkans and five Pan-European corridors pass over it. The country has four airports, two main seaports and many ports over river Danube.
- The lowest corporate tax in the European Union is in Bulgaria: 10%. The regions with highest unemployment rate are exempt from corporate tax. Income tax is also at 10%.
- VAT exemption for two years for the equipment importation in investment projects over 5 million Euros and creating employment to 50 people.
- Period of redemption for computer and new manufacturing machines is 2 years.

- Labor cost in Bulgaria is one of the lowest in Middle and Eastern Europe countries.
- Electricity price is significantly lower than Europe average.
- 53 universities and 541 high schools are active in Bulgaria. Each year, 60 thousand students graduate from the universities in the country. University graduates constitute 25% of the population.
- 60% of the population at prime-age (25-64) knows at least one foreign language, 80% are at high school and above education level. 7% of the active workforce is engineers.
- 94% of the schools have access to internet.

The factors negatively affecting the investments and business making environment in Bulgaria are listed as high unemployment rate, low labor productivity, insufficiency in attracting competent workforce, young population migrating to European countries, corruption, bureaucratic inefficiency, financial difficulties, political instability in the recent years, limited R&D activities, problems in ruling, no transparency in government policies, decrease of trust to politicians (www.ekonomi.gov.tr, 2015: 76).

3.2. Comparison of the Effects of European Union and Customs Union Practices on Turkey and Bulgaria

Rapidly changing conditions in the international commerce is directing Turkey to increase its share in globalized world commerce. In this scope, Customs Union established with European Union constitutes an important stage of the Turkey's partnership relation towards its integration objective with European Union. At the same time, Customs Union is the most extensive commercial structuring that provides benefit and creates market opportunity to both sides on development of relations with European Union. Within this structuring, Customs Union is not only an economic integration model concerning free

circulation of industrial and processed agricultural products, but also has a task of adapting economic, social, financial, legal, technological and culturally in an extensive area including policies concerning the competition and intellectual, industrial property rights of customs and trade policies within the scope of European Union legislation. As a result of this adaptation practices, important structural and institutional changes directly affecting industry and commerce have happened (Tatlıdil&Savaşçı, 2003: 1).

The changes mentioned above are given below.

Table 5: Comparison of GDP per person with EU-27

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU-27	100	100	100	100	100	100	100	100	100	100	100	100
Bulgaria	24.4	26.9	26.9	27.8	29.3	31.0	32.05	33.07	34.5	36.5	37.2	39.7
Turkey	32.1	42.6	39.1	39.9	35.5	34.3	33.9	37.3	40.4	42.5	42.9	42.9

Source: Eren, M., Romanya ile Bulgaristan'ın AB'ye Ekonomik Entegrasyonu. 2. *Uluslararası Balkan Kongresi*, s. 219.

According to the table above, when the EU-27 average is taken as 100, this ratio has gone up from 24.4 in 1997 to 39.7 in 2008 for Bulgaria. This situation shows that welfare has increased in Bulgaria between years 1997-2008. However, this increase in welfare still remained below EU average.

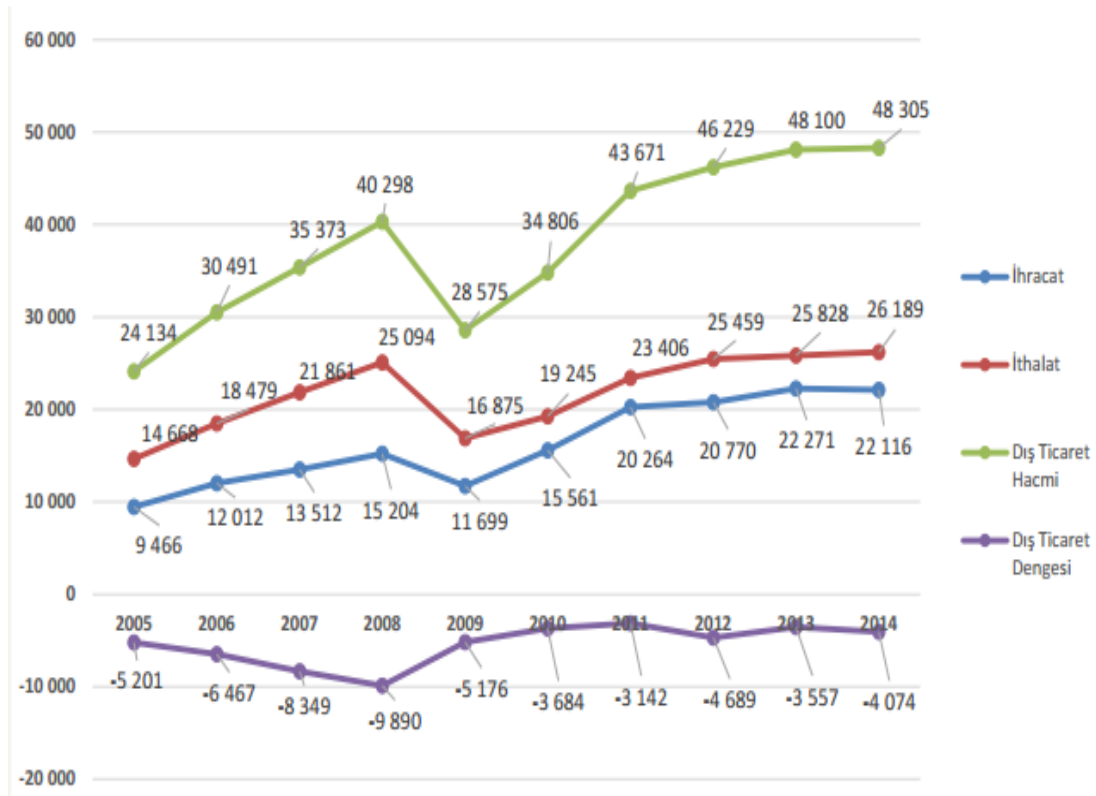
According to Table 5, the aforementioned ratio for Turkey was 32.1 in 1997 and reached to 42.9 in 2008.

It is seen that Bulgaria is in a struggle for obtaining stability in terms of finance in the pre and post EU membership period. Bulgaria has tried to get the inflation under control in the name of adapting to the criteria brought by EU. According to EU statistics institution, while the average inflation rate was 7.4% annually between years 1998-2006, it has decreased to 5.1% in the post-EU membership period. Although the crisis faced in Europe in 2008 has

created a pressure on inflation, Bulgaria is pursuing a policy parallel to EU in the name of keeping inflation in control (Şimdi, 2013: 29-30).

Bulgaria is a small economy with foreign trade deficit, outward-oriented and keeping a slow pace to changes. Low purchasing power, low labor efficiency, disinvestment in priority sectors and insufficient R&D in production are affecting foreign trade of Bulgaria negatively. Bulgaria's share in world trade is about 1.6%. (www.ekonomi.gov.tr, 2015: 34).

Figure3: Foreign Trade of Bulgaria in 2005-2014 (Million EUROS)



Source: www.ekonomi.gov.tr, 2015, s. 35.

According to Bulgaria Central Bank data, exportation of Bulgaria has become about 22,1 billion Euros in 2014. A decrease of 0.7% has happened in the exportation of the country in 2014 compared to 2013. 2014 importation has increased 1.4% annually and happened at around 26.2 billion Euros. Foreign trade volume of the country has reached 48.3 billion Euros, increasing 0.4% in 2014 compared to 2013 and foreign trade deficit has happened as 4 billion Euros. In 2005-2014, an increase of 134% in exportation, 79% in importation, 100% in trade volume and a decrease of 22% in trade deficit has happened in Bulgaria. By the effect of

financial and economic crisis of 2009 happened in the world, a significant decrease was seen in Bulgaria's foreign trade. Exportation 23%, importation 33% and volume have decreased 29%. After 2009, due to exportation increase rate exceeding importation increase rate in the foreign trade switching to growth, post-crisis foreign trade deficit shrinkage was larger than ten year period shrinkage. Foreign trade volume could surpass pre-crisis levels in 2011. (www.ekonomi.gov.tr, 2015: 35)

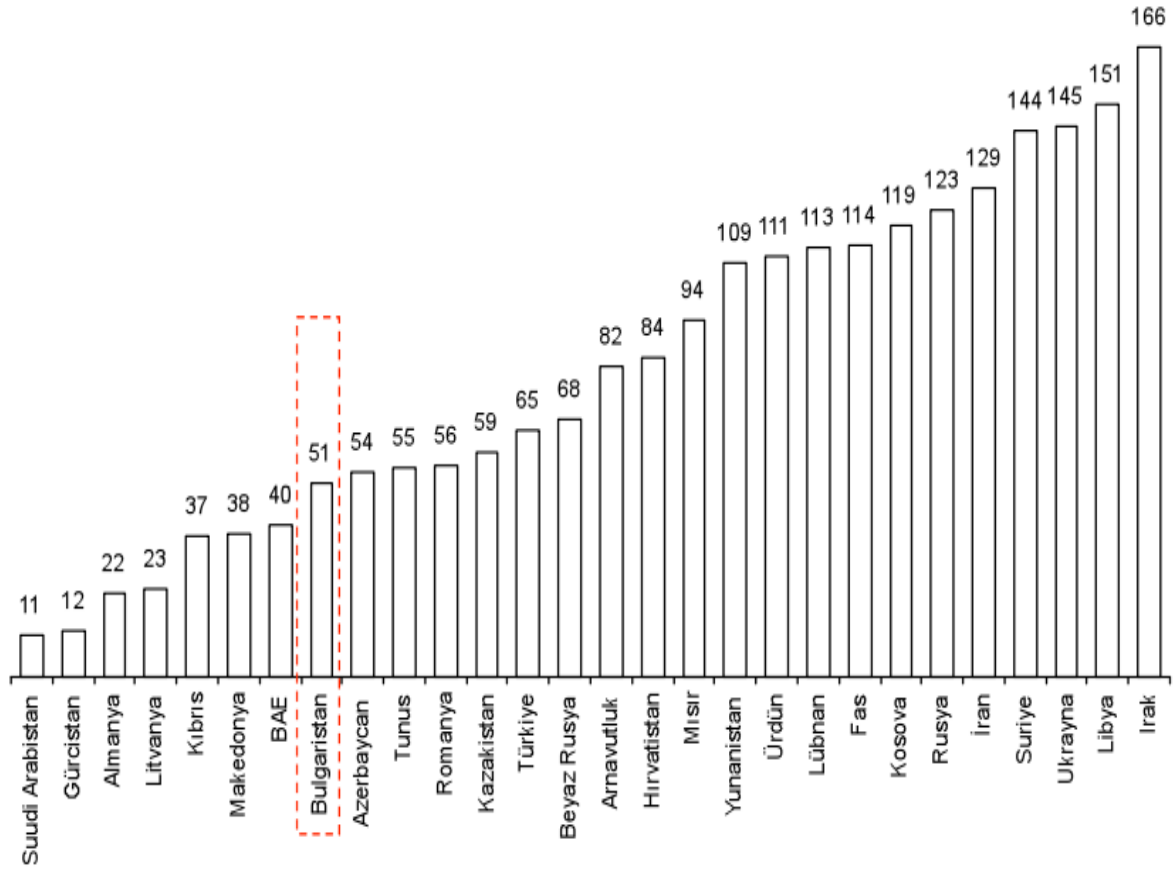
Table 6: Development of Exportation and Importation, Billion Dollars

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
İTHALAT																		
Bulgaristan	May.14	07.Ağu	Ağu.13	Ağu.41	Eyl.61	Kas.62	Ara.50	15.42	21.86	35,20	22,10	24,00	37,00	31,00	31,00	33,00	35,00	40,00
Türkiye	-	42.0	31.Ağu	39.6	53.3	75.0	89.8	107.3	130.7	201,9	140,9	185,8	240,8	236,5	251,6	242,2	207,2	198,6
İHRACAT																		
Bulgaristan	Mar.73	May.25	May.71	06.Haz	Haz.67	Tem.98	Eyl.22	Kas.75	13.51	22,80	16,40	20,90	28,00	27,00	30,00	31,00	33,00	36,00
Türkiye	-	21.36	24.Eki	27.73	36.34	48.60	56.52	65.79	82.51	132,10	102,10	113,80	134,90	152,40	151,80	157,60	143,80	142,50

Source: Eren, M., Romanya ile Bulgaristan'ın AB'ye Ekonomik Entegrasyonu. 2. *Uluslararası Balkan Kongresi*, s. 222.

Exportation and importation development of Bulgaria and Turkey is given in the table above. In both of the countries, export and import has shown an increase between the mentioned years.

Figure4: Evaluation of Foreign Trade Processes



Source: <http://birlesmismarkalar.org.tr/>, Bulgaristan Ülke Raporu, 2012.

In a research conducted by World Bank for 183 countries, Bulgaria is the 8th country with the best performance within target markets in foreign trade processes. Turkey has fallen behind Bulgaria.

When Turkey and Bulgaria is compared in terms of EU-Customs Union's competition effect, it is seen that Bulgaria is in a better position.

In the document World Competitiveness Yearbook, published by IMD, according to a competitive capacity ranking made between 55 countries in 2007, Turkey is ranked 48th, behind countries like Bulgaria, China, India, Malaysia and Greece (TEPAV, 2008). From this viewpoint, when Turkey and Bulgaria are compared in terms of competitive capacity, it is seen that Bulgaria has the competitive capacity advantage.

Bulgaria has made a progress compared to previous period (57th) by ranking 54th with 4.37 score in the World Economy Forum 2014-2015 Global Competitiveness Index. It has moved ahead of almost all Middle and Eastern Europe countries such as Romania, Slovenia, Croatia and Greece. Best indicators are health and primary education, macroeconomic stability and technological network readiness indexes. Principal roles in the improvement are played by the efficiency of product market, improvement in financial markets and technological network readiness indexes. According to the private sector surveys conducted during the ranking in question, corruption is still the biggest obstacle to competitiveness. The other problematic areas are considered as government bureaucracy, access to finance and political instability. In other words, four out of five main obstacles to competitiveness are concerning government administration and this means a serious government intervention in economy and low quality of services provided (www.ekonomi.gov.tr, 2015: 24).

One of the benefits expected of CU is related to effects brought by economy of scale. According to this, businesses will face a larger market, resort to using a more advanced technology, therefore production will happen with optimum cost and businesses will keep lesser stocks. In Turkey, market was naturally expanded post-CU, businesses started using their idle capacities more and partially started experiencing benefits of economies of scale. However, the increase in efficiency of companies was not as much as expected, political and economic crises lowered the possibility of emergence of economy of scale (Kayıhan&Yıldız, 2009: 736-737).

Even after becoming an EU member, Bulgaria could not realize the expected enrichment. Despite 7 years passing after becoming a member, Bulgaria is still the poorest country of the Union with per capita income lower than 50% of the EU average. In terms of corruption, it is the second country with most corruption after Greece. With 12% unemployment and 29% young unemployed ratios and decreasing population within years, economic hopes cannot be held high. Population being 7.36 million and decreasing still because of migrations to rich countries of EU and low birth rates forms a serious problem in the context of economies of scale. Also, this situation is one of the important factors keeping foreign investments attracted to the country limited (Demirtaş, 2014).

As a result of customs union, a business has more possibility of taking advantage of production factors outside the business and other elements. Because it is possible to provide a factor (input) in better conditions from a larger environment. Provided factors are capital, technology, labor and entrepreneurs. Also, all kinds of production input that is provided more and longer can provide serious benefits to manufacturers. All these are called external economies. Because gratuitous benefits provided by non-operating factors to a business are called external economies. External factors bringing negative effects to business are called external diseconomies (Oktay, 2005: 177).

With the ECSC Agreement signed with EU, it is expected for the foreign investments to projects concerning conversion from long rolled products to flat products to increase and the external economies to emerge in long term, despite not happening yet (Gökdemir&Karaman, 2008: 289).

While Turkey has progressed in exportation of products such as automobiles, textile, iron and steel manufactured with intermediate level technology, a parallel increase in R&D intensive products like computers and medication cannot be established. It is seen that especially countries like Hungary which has recently joined the EU are more successful in this area (İştarAteş, 2014).

Turkey and Bulgaria's comparison in terms of technology is given below. In the comparison, revealed comparative advantage (RCA) coefficients are used.

Table 7: Product Groups which Bulgaria has Strong RCA Coefficients

Product Groups	RCA Avg.	CRCA	Factor Endowment
Fertilizers	5,69	0,70	Raw Material Intensive
Non-Ferrous metals	5,31	0,68	Capital Intensive
Tobacco and Tobacco Prod.	5,27	0,68	Capital Intensive
Clothing and accessories	4,66	0,65	Labor Intensive

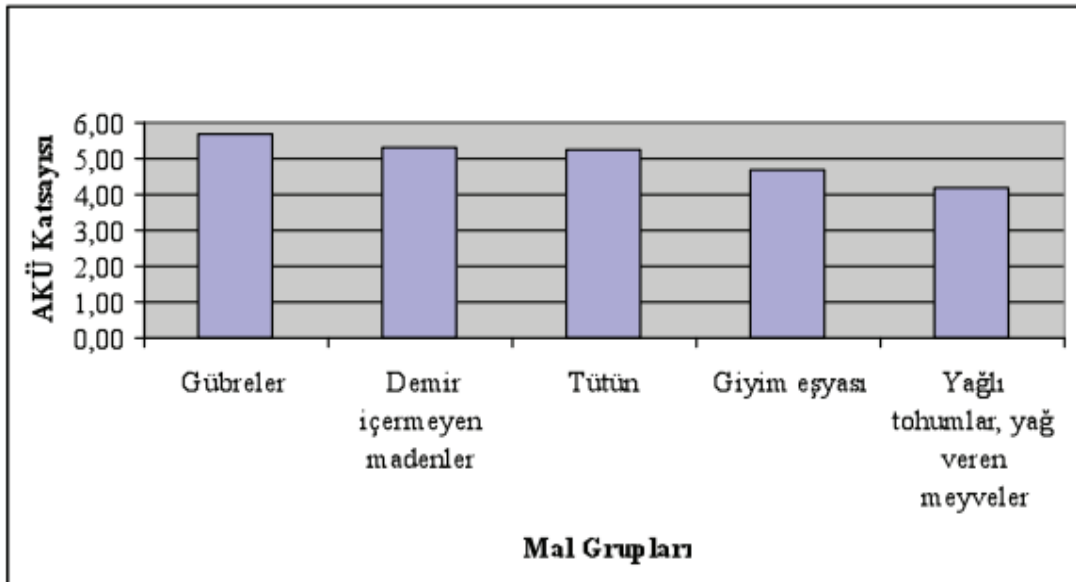
Oil seeds, oleaginous fruits	4,19	0,61	Raw Material Intensive
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Source: Erkan, B. (2012). Türkiye İle Sınır Komşuları Arasındaki Dış Ticaretin Karşılaştırmalı Üstünlükler Perspektifinde Analizi. *Pamukkale Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*(11), s.17.

When the above table is examined, it is seen that Bulgaria is raw material intensive in fertilizers and oily seeds, oleaginous fruits group, capital intensive in non-ferrous metals and tobacco and tobacco products group and labor intensive in clothing and accessories group.

The product groups which Bulgaria has strong comparative advantage can easily be seen in the figure below.

Figure5: Product Groups which Bulgaria Has Strong Comparative Advantage



Source: Erkan, B. (2012). Türkiye İle Sınır Komşuları Arasındaki Dış Ticaretin Karşılaştırmalı Üstünlükler Perspektifinde Analizi. *Pamukkale Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*(11), s.17.

As a comparison, it is better to look into product groups where Turkey has strong RCA coefficients. In this regard, Turkey is examined in 1993-2000 and 2001-2009 periods.

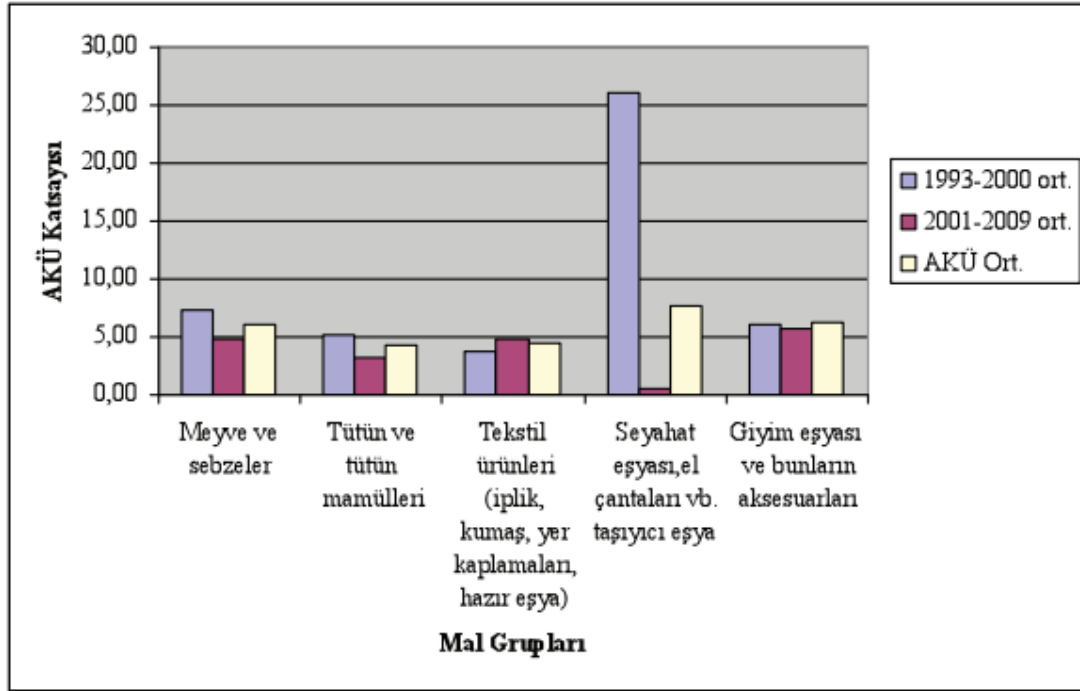
Table 8: Product Groups which Turkey Has Strong RCA Coefficients

Product Groups	1993- 2000 avg.	2001- 2009 Avg.	RCA Avg.	CRCA	Factor Endowment
Carrying goods such as traveling goods, hand bags, etc.	26,06	0,46	7,75	0,76	Labor Intensive
Clothing and accessories	6,04	5,78	6,23	0,72	Labor Intensive
Fruits and vegetables	7,29	4,76	6,07	0,71	Raw Material Intensive
Textile goods (yarn, fabric, floor covering, ready goods)	3,82	4,86	4,53	0,64	Labor Intensive
Tobacco and Tobacco Prod.	5,18	3,16	4,21	0,61	Capital Intensive

Source: Erkan, B. (2012). Türkiye İle Sınır Komşuları Arasındaki Dış Ticaretin Karşılaştırmalı Üstünlükler Perspektifinde Analizi. *Pamukkale Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*(11), s.10.

According to the table, the advantage levels of product goods which Turkey has strong comparative advantage are relatively decreased when 1993-2000 and 2001-2009 periods are compared, except in textile goods. On the other hand, while high level advantages can be seen in the exportation of carrying goods such as traveling goods, hand bags, etc. in 1993-2000, this has become reversed in 2001-2009 period. This situation can clearly be seen in the figure below.

Figure6: Product Goods which Turkey Has Strong Comparative Advantage



Source: Erkan, B. (2012). Türkiye İle Sınır Komşuları Arasındaki Dış Ticaretin Karşılaştırmalı Üstünlükler Perspektifinde Analizi. *Pamukkale Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*(11), s.11.

After Customs Union, Turkey has become a more predictable and more stable country in terms of economic and political for foreign investors (www.ab.gov.tr)

Turkey's and Bulgaria's foreign direct investments are given annually in the table below.

Table 9: Foreign Direct Investments Annually Overview (Million Dollars)

DFI Flow	1990-2000	2004	2005	2006	2007	2013	2014	2015	2016
Bulgaristan	301	3.452	3.923	7.507	8.429	1.598	1.340	2.937	810
Türkiye	791	2.785	10.031	19.989	22	12,90	12,80	17,60	12,30

Source: Eren, M., Romanya ile Bulgaristan'ın AB'ye Ekonomik Entegrasyonu. 2. *Uluslararası Balkan Kongresi*, s. 220.

According to Table 9, 301 million dollars entered Bulgaria between years 1990-2000 on an average. However, in 2007, the year Bulgaria joined EU, 8.4 billion dollars entered the

country. From this viewpoint, it can be said that EU membership has increased the direct foreign investments to Bulgaria. When examined in terms of direct foreign investment stock, it is seen that a serious increase happened in Bulgaria from 1990 to 2007.

In the above table, it can clearly be seen that direct foreign investment to Turkey has increased in the years in question. Just like in Bulgaria, the direct foreign investment stock in Turkey has also shown a significant increase from 1990 to 2007.

Table 10: Share of Foreign Direct Investments in GDP DFI (Flow)/GPD % Values

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2010	2011	2012	2013	2014	2015
Bulgaristan	-	-	-	3	4	2,6	2	5,3	6,5	7,8	12,2	11,6	15,1	15,5	16	16,2	16,6	17,1
Türkiye	-	0,4	0,3	0,3	0,3	1	0,3	0,4	0,5	1,2	2	1,9	0,2	1,7	1,53	1,84	2,1	1,7

Source: Eren, M., Romanya ile Bulgaristan'ın AB'ye Ekonomik Entegrasyonu. 2. *Uluslararası Balkan Kongresi*, s. 220

When the above table is examined, it can be seen that foreign capital as much as 0.4% of Turkey's GDP has entered to Turkey in 1997. This ratio has increased to 1.2% in 2005 and 2% in 2006. Though, in 2007, it has decreased back to 1.9%.

Bulgaria, while attracting direct foreign investment as much as 3% of its GDP in 1999, this ratio has become 4%, 2%, 5.3%, 6.5% and 12.2% in 2000, 2001, 2002, 2003, 2004, 2005 and 2006 respectively. In 2007, the year Bulgaria become a member of EU, as much as 11.6% of its GDP has entered as direct foreign capital.

While not being able to attract foreign investments in any significant amounts until 1997, Bulgaria has gradually increased its attracting foreign investment performance. The total of direct foreign investment inputs in 2003, 2004 and 2005 has exceeded the total of 8 year years in the past. In terms of direct foreign investment entries according to per person and GDP, Bulgaria is one of the most successful countries of last 10 years. Direct foreign investment entries ratio to GDP in 1996-2005 is 7.2%. While the privatization practices become effective in foreign investment entries, in the recent years it can be seen that green field investments towards exportation and local market become prominent. EU membership process and membership with strong economic structure, stable political environment, low labor costs, qualified workforce, legal regulations made to attract direct foreign investments can be listed as main reasons of Bulgaria's success in attracting foreign investments.

Investment Incentives Law put into effect on 1997 has played an important role in the increase of foreign investments. The law has been brought equal applications for both foreign and local investors. Also, Bulgaria, together with South Cyprus has the lowest corporate law ratio (10%) in EU. Bulgaria has decreased the obstacles on investment by the legislation changes made and allowed foreign investors to deal with a single government institution. Therefore, the time and legal procedures required to establish a business has been decreased and bureaucratic obstacles for investors were minimized (Bilgin, Daniş&Demir, 2008: 12-13).

UNCTAD is preparing a Direct Foreign Capital Performance Index and Direct Foreign Capital Potential Index to measure direct foreign investment attraction performance of countries. Direct Foreign Capital Investment Performance Index is ranking the countries by direct foreign investment amounts they obtained according to their economic size. This is calculated as the ratio of the share of a country in the world direct foreign investment to share of a country in the world GDP. Direct Foreign Capital Potential Index covers various factors affecting the attractiveness of an economy for foreign investors. This ratio, calculated with 12 variables such as GDP per person, GDP growth ratio of last ten years, share of exportation in GDP, share of research-development expenses in GDP, country risk, commercial energy consumption per person, can be 0 in the lowest and 1 in the highest (Bilgin, Daniş&Demir, 2008: 12-13).

Direct Foreign Investment (DFI) performance index and DFI potential index for Turkey and Bulgaria between years 1990-2010 is given comparatively in the table below.

Table 11: DFI Performance Index and DFI Potential Index 1990-2010

Years	DFI Performance Index		DFI Potential Index	
	Turkey	Bulgaria	Turkey	Bulgaria
1990	78	103	63	-
1995	110	92	76	41
2000	126	22	72	64
2005	89	11	68	58
2006	71	7	72	56

2007	91	4	73	55
2008	94	5	75	62
2009	102	27	80	67
2010	108	42	-	-

Source: http://unctad.org/Sections/dite_dir/docs/WIR11_web%20tab%2028.pdf

According to the table above, Turkey has been ranked in 78th place in 1990 and 110th place in 1995 as per Direct Foreign Investment Performance Index of 141 countries. As per DFI potential index, 63rd place in 1990 and 76th place in 1995. By entering Customs Union in 1996, it was expected that the direct foreign investments to the country would increase but these expectations never came to fruition. Turkey has come to a better position in DFI performance index by rising to 89th place in 2005 and 71st place in 2006. However, in 2007 and the following years, DFI performance index and DFI potential index has started to fall continuously. Turkey has obtained a performance above its potential in 2006. In other years, though, has shown performances lower than its potential.

According to the table, DFI performance index in Bulgaria has climbed to upper ranks from 1990 to 2007 and reached 4th place in 2007. In DFI potential index, it is in 55th place in 2007. However, affected by global crisis, both indexes have started to fall after 2007.

Bulgaria's rising to 22nd place in 2000 from 103rd place in 1990 in DFI performance index and to 11th, 7th and 4th places in 2005, 2006 and 2007 respectively shows that the country is successful in attracting investments. As seen in both indexes, Bulgaria has shown a performance above its direct foreign investment attraction potential. Therefore, it can be said that Bulgaria is in better position than Turkey in terms of direct foreign investment attraction.

CHAPTER FOUR. PRACTICES OF EASING CUSTOMS PROCEDURES AROUND THE WORLD, IN TURKEY AND EUROPE

4.1 Authorized Economic Operator Status Conceptual Framework

In this part of the study, the concept of status, appearance of the concept of status and benefits of authorized economic operator status within scope of conceptual framework of authorized economic operator status will be explained.

4.1.1. The Concept of Authorized Economic Operator Status

Especially following the attacks on September 11th, 2001 in USA, one of the most important economic measures put into practice by the government of America against international terrorism is the one developed in the field of security of supply chain. With this system, referred as C-TPAT (CUSTOMS-TRADE PARTNERSHIP AGAINST TERRORISM), United States of America has started to provide security for international loads by means of accreditation of Customs and Border Protection Administration (CBP), exporters, manufacturers, shipping companies, Customs Consultancies and other companies in the supply chain.

The attack of 2001 in United States of America and the following tragedy resulted in forcing the countries to take new measures against international terrorism and changing of trade order in the world.

The concept of Authorized Economic Operator originated from these results created by international terror. These economic measures and changes made in the United States of America have impacted the world in time. European Union has put the Authorized Economic Operator (AOE) practice in effect from January 1st, 2008. With this practice, security standards have started to be practiced worldwide. In general of this practice, security dimension appears in Foreign Trade and customs area. Authorized Economic Operator can be defined as a company which has ensured trust to customs administration in whole of the customs area. When considered from this point of view, authorized economic operator includes all of the companies performing in various fields of the customs area.

Referred as C-TPAT in USA, AEO in European Union and authorized economic operator in Turkey, the practice is known to be cooperation of both government and private sector, transparency with integration, prevention of unrecorded economy and facilitation of

safe trade. The system defines the carrying out of procedures within a framework of specified standards through fulfilling of certain criteria as authorized economic operator certificate.

The practice of authorized economic operator in Turkey will increase its rank in the standards based order of countries in the world and EU by smaller scale companies, decrease the unrecorded and pave the way for different companies within standard. With the increase in authorized provisions, corporate companies with serious management systems will work with the companies of different scales, which they approach warily due to current risks, in a more secure setting. In cases where this is not ensured, especially companies working with large corporations will experience more loss of work in taking risks of fighting against corruption. The benefit utilized by prudent and honest companies, equidistant to all persons and organizations, built the institutionalism in solid ground, practicing the harmony developed together with current culture and understanding in work life, will not only be in customs procedures, but also country policies will be promoted and new regulations will be made.

The concept of authorized economic operator is defined as an international status, which provides some convenience and privileges to reliable companies that fulfill customs liabilities, have an ordered and traceable record system, financial competence, safety and security standards and able to perform their own auto-control. The practice of authorized economic operator is based on the basis of providing various conveniences that may be utilized in trade with factors accepted as secure by cooperating with all the factors in supply chain for the purpose of making physical borders and transnational trade safe.

The authorized economic operator practice represents companies within the system utilize some customs conveniences and those outside the system being subjected to a more strict control. In the legislations of many countries, authorized economic operator is given various conveniences and simplified practices. Authorized economic operator has entered in the legislation of European Union in 2008 and in Turkish customs legislation in 2013, and does not have a function preventing the legislation in the current system as a new practice.

"ao", which is new and open to improvement in Turkey, is based on General Agreement on Tariffs and Trade (GATT) and Kyoto Protocol, and international conventions within framework of SAFE standards. Although the practices vary according to countries, the main objectives are to pave the way for safe trade, provide security to supply chain, improve the relations between public institutions and companies, and decrease the costs.

In the Turkish Customs Legislation, authorized economic operator is defined as 'real and legal entities, which have been operating for at least three years and settled in Turkish Customs Area, including free zones, and fulfilling relevant requirements according to customs legislation; these are given authorized economic operator status to utilize conveniences on safety and security controls of goods to and from Turkish Customs Area and simplified practices set forth by customs legislation' The ministry is authorized for the regulation of relevant legislation.

4.1.2. Appearance of Authorized Economic Operator Status

The appearance of "aeo" status is due to realization of the need to take some measures against international terrorism in the world due to the attack on United States of America in September 11th, 2001.

The foremost of the economic measures was the safe transportation of carried goods from one country to another. USA has taken a decision of implementing a program called Customs-Trade Partnership Against Terrorism (C-TPAT) in November 2001, two months after this terrorist attack, and the completion of implementation took two years. C-TPAT was established for the purpose of providing security on the way where USA can track the goods arriving to their country against terrorism events, including from the manufacturer and up to the point of arrival. Within this program, for all the partners to be included in this system on the way from the manufacturer to consumer, an obligation to guarantee that they will establish the system specified by C-TPAT up to issues of physical security, electronic security, reliable personnel employment, training, access control procedures, distribution chain.

Customs administrators examine the applications of companies regarding the "aeo" requests of companies and identify whether they have fulfilled their commitments, then provide "aeo" status certificates to companies they are sure of fulfilling their obligations to facilitate customs procedures as a result of this inspection.

After the attacks of September 1st 2001, airport security has gained a special importance in the world and controls have been increased. However, since ninety percent of transportation is being made by sea transport and serious measures against terrorist attacks that may be encountered in this area are also needed, International Maritime Organization has taken a series of decisions, which were put in effect on July 2014. With these decisions, identity information, finger prints, etc. of about 1 million people were recorded. All Maritime

companies have established their security plans, control and research project works and procured personnel training, ships, etc. accordingly. The objective here is to provide security of chain to companies, just like in C-TPAT.

In the process which began with industrialization in the world, countries have gone into the process of globalization, and stunning technological advancements, rapid change in transportation and communication, conveniences have caused for the borders to lose their importance. Today, global economy and in parallel, world trade have stopped being regional and started to be discussed in global level. As a result of globalization, world trade has also increasingly gained importance in development of countries and caused the countries to face a more intense competition.

Customs administrations are in a very important spot in this practice and contribute greatly due to facilitating customs procedures in terms of both the acceleration of the procedures of companies and increase their competitive power in international arena.

In the developing world, in a setting where competition is increasing nonstop, companies should keep the pace with developing world to decrease their costs and increase their competitive power. Companies add value to the companies they work with by decreasing their costs as they increase their capacity. Therefore, companies have to show determination to obtain "aeo" certificate to decrease their costs and grow rapidly, to possess high competitive power.

4.1.3. Benefits of Authorized Economic Operator Status

Benefits of "aeo" status; simplification of customs procedures is aimed for the purpose of simplifying customs inspections and ensuring safety and security of goods entering into customs area. Companies in this status are defined as those operating in international level and honestly.

Companies with "aeo" status are preferred more by foreign companies. Since the customs procedures of such companies are conducted faster and without issues, problems that may arise with receiver due to delivery date will be minimum. Due to decrease of costs and increase of profits with this method, they have an opportunity to allocate more resources to R&D works.

They will have better relations with customs administrations and this will provide an opportunity to customs administrations to allocate more time to inspect goods of companies that are not in this status. Since the work load of customs administrations will be reduced, they will have more opportunity to focus the risk on the goods.

The conveniences utilized by "aEO" status on simplified procedures are as follows:

- 1- With the on-site customs clearance in exportation, the right to dispatch the goods by processing them in their own facilities without taking to the location required by customs administration.
- 2- Ability to send the transit goods from their own facilities to authorized receivers by without taking the goods to transfer customs administration.
- 3- The right to use pre-given full-straight security within scope of lump sum security instead of separate security for each transaction in procedures with security.
- 4- The right to give partial rate security in procedures with security.
- 5- The right to issue ATR circulation of goods certificate without the need for approval and permit procedures of customs administration.
- 6- Ability to declare invoice and issue EUR-MED (invoice declaration) without regard to invoice amount of goods.
- 7- Ability to declare with missing documents other than those mandatory.
- 8- Ability to utilize common simplified procedure with full declaration, without regard to type of goods.

The conveniences utilized by the company possessing "aEO" certificate on safety and security:

- 1- The right to provide summary declaration consisting of only mandatory information.
- 2- The right to be processed on the blue line without being subjected to physical control and document control before the delivery of goods.
- 3- The right to utilize blue line in on-vehicle procedures.

4- Being subjected to less physical and document control.

5- In case of physical and document control, the right to be given priority.

4.2 Authorized Economic Operator Certificate in Turkish Customs Legislation

In this part of the study, legal framework and obtaining criteria for "aeo" status in Turkish Customs Legislation.

4.2.1. Legal Framework of Authorized Economic Operator Status

The practice of "aeo", known as C-TPAT in United States of America and AEO in Europe, has entered into Turkish customs legislation in 2009 and put into actual practice as of January 10th, 2013 in Turkey.

Being a new and developing practice for Turkey, "aeo" certificate is regulated by international covenants within framework of General Agreement on Tariffs and Trade (GATT), Kyoto Protocol and SAFE standards. Each country regulates their practices in accordance with their own legislation. With the Regulation No 648/2005 of the European Parliament and of the Council amending Council Regulation No 2913/92 establishing the Community Customs Code, provisions on safety measures have been added to legislation.

The process of "aeo" certificate has been started with the legislation of Ministry of Customs and Commerce, published on the official gazette dated 10.01.2013 and numbered 28524, to increase the competitive power of companies trading in Turkey according to exportation objectives and put in an appearance in international area, and to have them preferred, contribute to support of exportation, to identify process and procedures on issuing, renewal, change, suspension of certificate by documents required in application for "aeo" status and revoking, suspension and termination of utilizing facilitation authorization via this practice and other simplified practices originating from customs legislation.

Simplification and harmonization to European Union Legislation of customs procedures which seem too complicated is also very important for the increasing foreign trade volume of Turkey.

When we look at the legal regulations in Turkey regarding the subject, with the goal of bringing regulations similar to those brought by either European Union or Customs Union,

within framework of Ministry of Customs and Commerce and world customs organization obligations, provisions of council legislation numbered 648/2005, for the purpose of reflecting customs law no 4458, law no 5911 on amendments to be made on customs law and some laws and legislative decrees was put into effect by publishing on official gazette dated July 7th, 2009 and numbered 27281.

4.2.2. Authorized Economic Operator Certificate Obtaining Criteria

To obtain an "aeo" certificate, specified criteria should be fulfilled. The regulation on facilitating customs procedures was put into effect on 21.05.2014 in Turkey. According to this regulation, companies will earn the "aeo" status to utilize the conveniences on reliability, reliability of commercial records, financial competence, real and legal entities fulfilling safety and security requirements from the conveniences set forth in customs legislation and conveniences on safety and security controls conducted during transport to and from the Turkish Customs Area. Tracking of criteria to obtain "aeo" certificate is important in both the issuing of certificate and following control processes to prevent causing tax loss and abuse.

Companies entitled to obtain an "aeo" certificate by fulfilling all required criteria will have their customs procedures carried out faster and safer, as well as creating time and cost advantages. Thought to be used in more and more countries in the world in long term, "aeo" certificate system will contribute to increasing of world trade.

Authorized Economic Operator certificate obtaining criteria are as follows:

4.2.2.1 – Authorized Economic Operator certificate reliability requirement: to fulfill the reliability requirement, the following requirements should be fulfilled and be accepted by customs administration.

- a-** Members of Board of Directors, Real and Legal entities owning more than ten percent of capital and their representatives should have been sentenced from crimes against constitutional order and operation of this order, crimes against secrets of state, international crimes, bribery, breach of trust, smuggling and some other crimes specified by various laws.
- b-** Members of Board of Directors who are foreign nationals that permanently in residence abroad, if any, those owning more than ten percent of capital and those with the authorization of Customs and Foreign Trade processing should not have

committed crimes specified in relevant laws and not have sentences and verdicts of convictions by these crimes.

- c- From the first day of application, within 3 years retroactively, 3 terms of 12 months separately, not being sentenced in specified amount for the penalties specified in customs legislation causing tax loss in each term.
- d- There should be no conclusive tax or penalty debt according to Customs Legislation.
- e- There should be no conclusive tax deb according to Tax Legislation.
- f- There should be no conclusive Social Security premium debt according to relevant legislation.

4.2.2.2. Reliability and Traceability Requirement of Authorized Economic Operator Certificate Commercial Records

For the commercial and transport records, if any, of the applicant company to be accepted as reliable, an inspection should be made by customs administration, the results of such should be evaluated and the following requirements should be identified as at a sufficient level.

- a- Keeping commercial and transport records, if any, in accordance with generally accepted accounting principles and as to preserve the realness of information and records to be controlled by customs administrations.
- b- Having a book and record order enabling presentation of all qualities of goods to be understood and recording of all transactions.
- c- Enabling customs administration to access records on customs and transport in physical or electronic setting.
- d- Providing necessary setting for controls of customs administration.
- e- Having a record system discriminating goods in free circulation and not.
- f- Having an organization structure enabling carrying out of the procedures in a certain system allowing identification of illegal and unlawful procedures and enabling internal control system according to type and size of business.

- g-** Having a system for the organizations to confirm and promote correct declaration of goods to customs administration and employ informed and experience personnel and obtain relevant consulting service for internal control processes.
- h-** Informing customs administration when a problem occurs regarding conformity to customs legislation.
- i-** Keeping all documents for 5 years from the end of the year declaration is made.
- j-** Having a sufficient and suitable business planning for archiving of information and records and preventing loss of information.
- k-** Having information technology security measures for protecting computer system from unauthorized people and safeguarding data.

4.2.2.3 - Authorized Economic Operator certificate financial capability requirement;

- a-** Financial structure of the applicant companies should be inspected by a Certified Public Accountant, last 3 years before the date of application being basis, and a positive report should be provided. Financial structure of real and legal entities operating less than 3 years are determined as report according to current data by Certified Public Accountant.
- b-** Financial competent requirement should be sufficient to meet the hours when the properties of field of operation of applicant are considered and no bankruptcy proceedings should be started.
- c-** Whether the financial structure of entities operating less than three years is sufficient or not should be deemed sufficient by either over the data or additional inspections made in the customs administration.

4.2.2.4 - Safety and security requirement terms necessary for obtaining Authorized Economic Operator certificate

- a-** For the applicant company to be considered to have suitable safety and security standards, in the evaluation to be made as a result of inspection to be made by customs administration, the following requirements should be fulfilled.

- b-** The buildings to be used in activities within scope of "aeo" certificate should be of a quality to prevent unauthorized entry and infiltrations, and General Security Measures should be taken.
- c-** Suitable access control measures should be taken to prevent unauthorized entry to loading areas, shipping areas, Cargo areas and transport vehicles.
- d-** Through measures preventing change and loss of any goods, or addition of foreign goods, a suitable setting should be created and measures ensuring distinguishing free circulating goods from non-free circulating goods should be taken.
- e-** A suitable setting necessary for storage, examination and sampling of goods should be provided with required equipment and hardware, and locations deemed suitable for placement of goods should be arranged in accordance with the inspection to be made by customs administration.
- f-** Work flows should be organized as to track procedures on import and export licenses of goods subject to embargo and as to distinguish the goods in this context from other goods.
- g-** Identities of entities and companies making business with should be clearly identified for ensuring security of international chain and measures for control of whether these entities and companies have taken suitable safety and security measures should be taken.
- h-** Security checks of personnel to work in sensitive spots within framework of legislation should be performed periodically and measures should be taken against the problems in the company that may occur originating from employees.
- i-** Employed personnel should be made to participate in training programs about security of supply chain.

4.3 Authorized Economic Operator Practices Around the World.

In this part of the study, international regulations on "aeo" status, the importance of this status in the international arena and the concept of mutual recognition agreement in "aeo" status will be explained.

4.3.1. International Regulations on Authorized Economic Operator Status

Easing trade and speeding up the procedures in development of countries have increased the importance of the efficiency of customs procedures.

In 2013, the only binding agreement in the meeting held in Bali by World Trade Organization is the one about easing of trade. The objectives of this agreement is as follows.

- a** - increasing trade volume together with procedures by decreasing operational costs.
- b** - ensuring continuity in foreign trade by removing restrictions.
- c** - Increasing security measures.
- d** - decreasing corruption in customs administrations.

After the attacks of 2001 in America, it was decided to use C-TPAT (CUSTOMS TRADE PARTNERSHIP AGAINST TERRORISM) for ensuring safety of companies in supply chain, such as manufacturers, importers, logistics and consultancies. The use of AEO (AUTHORIZED ECONOMIC OPERATOR), which is similar to penalty system used in United States of America, has been started with European Union since 2008. With this practice, risks about safety and security was minimized and companies were started to be given AEO status.

Regulation on post clearance control and control of risk procedures according to relevant articles of customs law no 4458 was published on official gazette dated 27.10.2008 and numbered 27037 and commenced as to cover 3 years retroactively, within framework of EU harmonization of post clearance control, which is the practice of Turkey for inspecting the goods after customs clearance. Post clearance control practices are based on the basis of trust to operator. Customs administrations do not control the goods when they are submitted to customs but have them controlled by inspection personnel in periods determined later

The essence of "aeo" status, which is one of the foundations of future customs model, formed by world customs organization for the purpose of supporting safe trade, is the foundation of cooperation between customs administration and private sector. Countries adopting authorized economic operator and similar status and putting it into effect are as follows.

ABD – (C-TPAT); Customs-Trade Partnership Against Terrorism,

European Union member states; AEO "aao",

APEC; members of Asia-Pacific Economic Cooperation,

New Zealand; SES; Secure Exports Scheme,

Singapore; STP; Safe Trade Partnership.

Although common grounds are the same for all programs towards easing of safe trade, some differences may be encountered in the implementation phase. For example, while USA does not include exporters in this system, EU program is open to all chains. Also, in the AEO program of EU, different from other programs, has been made harmonized to customs legislation, including customs taxes.

The practice of "aao" is available in 46 countries in the world. These are European Union member states, United States of America, Argentina, Algeria, China and Hong Kong, Dominican Republic, Guatemala, Israel, Canada, Kenya, Colombia, Korea, Costa Rica, Malaysia, Mexico, Norway, Singapore, Jordan, New Zealand and Zambia.

International organizations that are basis of trade facilitation are;

a- United Nations: United Nations has started with the international trade declaration, signed in San Francisco in 1945. The purpose of this study is to ensuring that globalized world is practiced fair in all the countries of world. Within body of United Nations, organizations working for facilitation of trade such as European Economic Commission (EMA), Trade and Development Conference (UNCTAD), Asia-Pacific and Social Commission (ESCAP).

b- United Nations European Economic Commission: (UN/EEC) The most important part of the duties and responsibilities of the commission is facilitation of trade and paving the way for e-business. With the UNEDOES project started by European Economic Commission, EDI system is still being used by customs administrations. In this system, electronic documents are being used in the trades between trading

companies. To create standards for global trade and effective process for the purpose of facilitating trade, UN/EEC has declared more than 30 trade facilitating decisions.

c- World Customs Organization: Established in 1953 and an independent worldwide transnational organization, customs cooperation council has taken the name of World Customs Organization in 1994. Main purpose is to increase the effectiveness and efficiency of customs administration, and ensure integration of customs regime and practices worldwide.

Primary duties are as follows.

- Ensuring current harmonization of Harmonized System.
 - Regulation of origin rules.
 - Implementing Kyoto Protocol.
 - Ensuring safety of international supply chain.
- Utilizing technologies of information and communication in customs procedures.

4.3.1.1. General Agreement on Tariffs and Trade (GATT)

After World War II, a great economic rout has happened in Europe. The decision to form economic relations open to cooperation to establish economic international peace was taken. Therefore, United States of America has implemented the Marshall Plan to contribute to European economy. With the acceptance of article 17 of Havana Agreement, which is one these, containing the provision of mutual discount in customs tariffs, general agreement on tariffs and trade has taken effect in January 1st, 1948, with the signing of 23 countries in October 30th 1947. The general objectives of GATT are improving the relations in trade and economy and the standards of countries, creating employment, making income and demand always at increasing level and maximum utilizing of production resources in the world.

For this to be realized;

- 1- tariffs and obstacles in the practices of other foreign trades should be decreased significantly,
- 2- discrimination in international trade should be ended.

BASIC PRINCIPLES OF GATT

- 1- nondiscrimination principle (most favored country rule);** based on practicing of which customs tariff in all member states. If a country is provided convenience in tariff rate by a country, all countries party to agreement utilize the tariff rate automatically.
- 2- transparency principle;** this is the principle of protecting by tariffs only, without resorting to non-tariff protection within framework of GATT Agreement. Regulations of the countries party to agreement should be known by other parties as well.
- 3- consulting principle;** the principle of resolving the problems arising for not to damage the countries party to agreement through negotiations of consultants.
- 4- negotiating principle;** GATT not only undertook to free the current regulation in the Europe but also World Trade system. For the agreement to achieve its objective, it is proposed that tariff discounts should be made from time to time and negotiations to be made to deter from other practices restricting trade.

4.3.1.2. World Trade Organization;

following the negotiations carried out in Uruguay within scope of GATT, as a result of trade facilitation oriented works, World Trade Organization was established for the purpose of achieving an organizational structure.

In 1996, first World Trade Organization conference of ministers were held in Singapore, trade facilitation was included in the scope of negotiations with the published declaration and an analytical study was commenced for the purpose of identifying the needs.

According to World Trade Organization, importation, exportation, administrative procedures, payments, insurance, Commercial Maritime financing and financial requirements are found in the scope of trade facilitation.

4.3.1.3. Kyoto Protocol-1973;

the international covenant Kyoto Protocol on simplification and harmonization of customs regime, which constitutes the basis of Tokyo negotiations, was signed in Toyota,

Japan on May 18th, 1973. Turkey has become a party to agreement in 1994. With this agreement, parties have agreed on facilitation and harmonization of customs procedures in processes before declaration of customs administrations, in customs procedures of vehicles transporting the goods for temporary storage and in emergency shipping circumstances. Most essential guideline of customs administrations on simplification of customs regime and procedures of today is the Kyoto Protocol. This agreement is the totality of permanent open to improvement rules and best application on customs regime and procedures.

4.3.1.4. Revised Kyoto Protocol 1999;

In the face of the innovations experienced in the field of information technology since 1973 and risk management where new manufacturing techniques are implemented, revising of Kyoto Protocol was taken on the agenda and it was revised in 1999 by World Trade Organization taking new conditions into consideration. This was referred as Revised Kyoto Protocol. Turkey became a party to Revised Kyoto Protocol with decree of council of ministers numbered 2006 / 10160. In this sense, Revised Kyoto Protocol is the up-to-date version of the protocol implemented with universal criteria. This protocol is not a limitation for the goods arriving to country but ensures immediate delivery. If there are any inspections to be made, these will be made after delivery of the goods.

4.3.1.5. Istanbul convention on Temporary Admission

The Istanbul Convention, signed on November 27, 1993, is the agreement gathering all current international agreements under one text for importing of goods from one country to another in customs union. The purpose of this agreement is to resolve the issues considered as obstacles for trade and enable them to pass from one country to another problem-free without dealing with issues of national customs procedures of each country.

Convention on harmonized goods definition and coding system;

It is the name of the practice put in effect in January 10th, 1998, on customs purpose such as tariff classification and tax identification of goods and calculation of value, collection of commercial taxes and ensuring movements of goods in international trade. As for its purpose, it is to create a common foundation for classification of goods to facilitate international trade.

4.3.2. Importance of Authorized Economic Operator Status in International Arena

In parallel to the terrorism attack that happened in 2001 in United States of America, USA has aimed to ensure security of international transportation with a system referred as C-TPAT (CUSTOMS-TRADE PARTNERSHIP AGAINST TERRORISM) with Customs and Border Protection Administration CBP. In addition to this, works for European Union AEO and easing international trade with other countries of the world and form integration with each other have started. The purpose of this formation, starting with C-TPAT and continuing with "aeo" (AEO) is to ensure companies fulfilling the relevant criteria to face us as benefit in simplified customs procedures to companies supply chain.

The countries on the integration with mutual recognition agreement have to confirm the criteria for "aeo" status certificate to the companies of their nation are fulfilled properly, how properly the inspection of this is made before signing the mutual recognition agreement. Even in C-TPAT, which has begun to be practiced in USA in 2001 and in (AEO) in European Union in 2008, the agreement not being signed between USA and EU is an indication of an integration not being established in this matter. Today, in 25 countries of the world, it is not possible to mention an effective security due to integration problems in practicing of AEO and similar systems.

In the statistics of European Union, although it is known that there are about million companies in supply chain, only about 8900 companies with "aeo" status by March 2012 is a disappointment in not fulfilling the expectations on paper with the actual practices. Factors such as the inadequacy of data processing infrastructures of customs systems and not being compatible are lengthening this process. In Turkey, along with trying to comply with EU criteria in practice, when the infrastructures of companies that are complying with required criteria for the culture to be obtained are late in gains in safety, it is considered a long and challenging process that no certificate will be given without fulfilling the criteria.

Therefore, to create a legislation on the use of authorization in scope of AEO in Turkey, legislation regulations were made for the purpose of creating local risk units and performing security oriented risk analyses before arrival since 2012.

After the attacks of September 11th, 2001, talks were started to be made on how to ensure the balance between securing the borders for security of trade and how to make safe trading. As a result of the works on the resolution of this problem, the concept of "aeo" was

created. Security of the supply chain was taken as basis as the main objective. This will be considered as safe even if it is included in different "aero" programs from the starting point to arrival point of the goods. This will hasten and facilitate international trade and it will carry on safely.

4.3.3. The Concept of Mutual recognition Agreement

Companies with "aero" status can utilize the benefits bestowed by this status not only in their own countries but also in countries where the "aero" is being practiced. For this utilization, a mutual recognition agreement must be signed between every country or European Union (EU). Countries negotiate with each other to sign a mutual agreement and sign an agreement. They recognize each other's companies with "aero" status and easily utilize the "aero" in other countries by putting on par with their own "aero".

The bureaucracy of goods traffic between two countries which signed a mutual agreement will decrease, financial loads due to delays in shipping of goods will decrease and supply chain will be secured. One of the most important steps taken to establish the required foreign trade setting is mutual agreement. Since there will be more focusing on the customs administration inspection of high-risk goods with the practice, the privileges given for the companies of this status, which are considered reliable, will be considered a bonus. Private sector companies will create a more competitive setting among each other. According to OECD reports, 15 percent of the costs in world trade is caused by customs procedures. Even if the cost will decrease 1 percent with "aero" practice, it will be an important contribution to world trade.

For maximum benefit from "aero" practice, this status should be known in other countries not practicing it, going into practice and therefore it will reflect as an effective cooperation from the customs to customs with mutual recognition agreement of countries. The trade between the countries will improve, number of goods will increase and it will reflect positively to the welfare of countries.

The importance of mutual recognition agreement, since the companies with "aero" status will utilize the same benefits of countries party to agreement and will be considered more reliable, being subjected to less control in the procedures with these countries, is important primarily in terms of utilizing benefits such as making procedures. Main countries with mutual recognition agreement are;

USA -- South Korea, Canada, Japan, Jordan, New Zealand, European Union

Japan -- European Union channel, Singapore, New Zealand, USA

Canada -- Singapore, South Korea, USA, Japan

South Korea -- Singapore, New Zealand, USA, Japan, Canada

European Union -- Switzerland, Norway, USA, Japan

Japan - Malaysia, Japan- South Korea, Japan- China, South Korea- China, Singapore- China, Singapore- New Zealand, Singapore- USA, EU- Andorra, EU- San Marino, EU-China, Switzerland- Norway continue negotiations for mutual recognition agreement.

Authorized economic operator practice is generally received positive in Turkey, however the number of companies obtaining this certificate in 3 years did not pass more than thirty (30). It is clear that to see the results of the practice and increase in the number of companies, a little more time is required.

We can list the reasons of making a mutual recognition agreement as follows;

- 1- Establishing international level supply chain
- 2- Effective supervision and facilitation of foreign trade flow by risk management
- 3- Focusing on risky goods control
- 4- Facilitating in speeding up the procedures of security companies
- 5- Establishing fastest transition of companies to countries party to mutual recognition agreement
- 6- Timely release of export goods of companies with AEO certificate to market
- 7- Adjustment of conditions in competition of companies with AEO certificate in developed countries
- 8- Increase in reputation and security of companied with "aao" status
- 9- Easier penetration to markets in other countries

10- Inclusion of companies with AEO certificate to international system

4.4 Authorized Economic Operator Practice in European Union States

In this part of the study, information regarding the practice of "aao" in European Union member states will be given.

4.4.1. Authorized Economic Operator Practice in European Union States

Safety and security practices starting in United States of America has affected the European Union states that they trade with. So, European Union states felt the need to switch to "aao" practice. According to EU safety legislation on safety and security measures started in European Union, recording with identity number known as EOR1 (ECONOMIC OPERATORS REGISTRATION AND IDENTIFICATION NUMBER) for exporters and importers, which will operate directly, have been started from July 1st, 2009. EOR1 number is obtained from European Union administrations and customs institutions authorized by these. With this practice, safety and security of all commercial goods will be enhanced, and performing of controls and risk assessments by authorized customs administrations before the goods arrive at the border is aimed.

Of the countries outside the borders of European Union that are authorized economic operators, customs declaration, summary declaration, temporary storage, summarizing viewing before in and out and performing similar procedures and those applied for "aao" will be registered by authorities of two party countries. Operators operating with EU states may process EOR1 certificate before starting the procedure, they can also process at the first destination customs to EU. EOR1 number will be obtained once and used continuously. EOR1 number to be given by relevant EU state will be recorded to a central system and will be able to process in other EU states. EOR1 certificate will be used with the same number in EU states. Countries other than EU states will process with EOR1 number when tracking a process in the customs. EOR1 number will not be given for the goods but to the operating companies. Thus, each exporter, shipper, legal and real entities will obtain a single EOR1 number for customs procedures.

Information about the products to be exported to European Union from Turkey should be available in the Summary Declaration of TIR/Transit statement or in electronic setting. In the information sent before the exported goods arrive at the EU state border, registry and identity number (EOR1) of export declaring country and EOR1 number of receiver in EU

state will be informed. If the declarer is not Transporter/Shipper, EOR1 number should be written in the transporter/shipper.

How is EOR1 number obtained (Bulgaria customs example);

Turkish exporters will apply to obtain an EOR1 number from Bulgaria which is the first border they will come across when entering EU. Turkish exportation companies will fill the registration form found in the Bulgaria customs website before the application to obtain a EOR1 number from Bulgaria customs administrations.

Application method and required documents;

Companies filling the registration form in the web address of Bulgaria customs administration apply to the Bulgarian customs with a passport or a valid identification document. In the EOR1 number application, documents obtained from the own country authorities and real entities should submit a passport. As for the power of attorney obtained for registration, there should be an approved Bulgarian translation. Exporters to perform their own procedures in EU states as "aeo" are required to obtain an EOR1 certificate. Exporters that are not an "aeo" are not required to obtain an EOR1 certificate. EOR1 practice implemented by European Union in July 1st, 2009 started to be used in Turkey as of January 11th, 2011. As of this date, entry and exit summary declarations with obliged are made in the electronic setting.

AEO certificate is given to any economic operator in European Union that sufficiently fulfills the relevant criteria and complying with customs procedures and settling in European Union region. Businesses requesting AEO safety and security permit should prove they are complying with physical safety criteria. From 2008, European Union supply chain security is addressed within framework of standards related to facilitating and security of trade in World Trade Organization recommendations. Within framework of these standards, the definition of authorized economic operator was formed and the ability of declaration before entry and exit in electronic setting was enabled. This concept added customs code by EU. Thus, the concept of "aeo" was born in terms of USA and EU, together with the obligation of both safe and fast cargo transport. Countries trading in and with Europe also started to feel the necessity of forming a similar structure.

With the Regulation No 648/2005 of the European Parliament and of the Council amending Council Regulation No 2913/92 establishing the Community Customs Code, provisions on safety measures have been added.

With this legislation;

1- "aEO" (AEO)

2- Declaration before entry-exit

3- Border security inspections, controls of import/export documents in inner customs regulations are brought.

Regulation on practicing provisions of Legislation No 648/2005 was made with commission legislation numbered 1875/2006 which first changed the commission legislation numbered **2454/93** on community customs regulation. In European Union, economic operator is defined as one who performs the activities specified in customs legislation according to AEO guidelines, together with company manufacturing exportation oriented goods, being able to apply for "aEO" status even the manufactured goods are called foreign by another exporter.

Companies may apply to customs administrations for three types of AEO certificate.

1- simplified customs procedures; given to any company fulfilling certain requirements in European Union customs area. These companies are entitled to easier entry, minimization in number of physical and document controls and priority, also the right to request physical control to be made in different location than customs administration.

2- safety and security; this status certificate is given to any company that is settled in customs area, fulfilling criteria required by customs administrations as well as safety and security requirements. Those who obtained this certificate benefit from conveniences such as giving summary declaration in advance, time of declaration, declaration with less information, minimization in number of physical examinations and priority. Companies requesting AEO safety and security permit should prove their businesses are in compliance security criteria.

3- AEO both status; companies requesting to take advantage of simplified customs procedures can apply for a common certificate containing both status certifications after fulfilling required criteria and physical conditions and safety and security measures.

CHAPTER FIVE. TURKISH AND EUROPEAN EXAMPLES OF COMMON TRANSIT REGIME AND NCTS PRACTICES

5.1 Common Transit System Conceptual Framework

In this section, information about the appearance of common transit regime, benefits of common transit regime, to foreign trade flow, who has the responsibility of common transit, common transit security practice and comparison of common transit with national transit will be given.

5.1.1 Definition of Common Transit

Common transit regime is defined as not subjected to import taxes and trade policy measures in the customs law, practiced in transportation of goods, which have the customs procedures about exportation completed and not in free circulation, from one point within the Turkish Customs Area to another under supervision of customs. It has completed the exportation goods and customs procedures and again become the subject of transit regime.

Common transit regime is the regime about the transport method performed by suspending the taxes for goods transported between the countries party to common transit agreement signed in 1987. Turkey has become a party to common transit agreement in December 1st, 2012.

In international trade, goods transported from one country to another and from one customs administration to another in the national borders fall under the subject of transit regime in terms of customs regimes. Transit regime can be defined as transportation of goods, which are under the supervision of customs, by guaranteeing the relevant taxes when transporting from one customs point to another.

The term of Community Transit Movement is the agreement between EU member states and EFTA member states for customs goods transportation if the transportation of goods between the European states are not common transit. The foundation of common transit is; from the entry of goods in transit from the borders of a country until leaving the customs borders or arrival to import customs administration where the goods will be unloaded, in case of a possibility of leaving the goods within the borders of the goods on the vehicle, customs taxes to be paid for the importation of the goods and customs rules binding the public claims to guarantee.

In common transit, transit administrator (OTS) is known as customs administration on entry if it is a country party to common transit system or customs administration on exit if the goods to be transit from a country not party to common transit.

Each one of the European Union countries should be regarded as a single party. From Turkey, on the condition of unloading within borders of European Union, for the goods going to any EU country, Bulgaria entry is the customs administration in transfer procedure. If the goods will pass through a country not party to common transit agreement, transit administration is the customs administration on exit. For example, the transit administration of the goods from Turkey to Macedonia over Bulgaria and Serbia is Bulgaria entry, Bulgaria exit and Hungary entry administrations.

During common transit regime, it was aimed that guarantee given and conveniences provided for the transit declaration opened in any EU member state being valid in a non-member but party to common transit regime, enabling completion of common transit process without needing issuing of a new transit declaration upon entering of goods to this country. Same is valid for a common transit process starting in one of the EFTA countries.

Common transit regime is a system enabling hastening and simplifying of customs procedures of goods, preventing companies losing time and decreasing their costs.

5.1.2 Appearance of Common Transit System

Especially Turkey joining the common transit system is considered as one of the most important gains of the nation in the latest period in the process of European Union. Within the period of goods in transit, starting with the entry into the borders of a country and until leaving the said borders, or until arriving at relevant customs administration for the importing to be made within borders of the country, against the leaving of goods within the country, customs taxes to paid on import and other public claims bound to guarantee is the reason for existence of common transit.

The concept of Common Transit is based on the common transit agreement signed in 1987. Parties to the agreement are European Union and EFTA states. According to the agreement, any country is considered as EFTA member despite not being a member of European Union community member. EFTA states in this status are Switzerland, Iceland and Turkey. Turkey has become a member to common transit agreement in December 1st, 2012. Since becoming a party to common transit system, Turkey has experienced the period until

April 2013 as an adaptation period. Main problems the applications of obtaining valid guarantee in EU and EFTA states, preparation of Turkish NCTS system, training process of customs personnel have kept the number of procedures in this period in minimum.

The basis of Common Transit System is constituted by:

- Common Transit Agreement of 1987,
- Single Administrative Certificate agreement signed in 1987, which is an agreement about simplification of formalities in trading goods,
- Transit handbook.

Participation to common transit agreement is open to non-member EU or EFTA states via invitation. For the agreement to be signed, after positive decision of council represented by all member states, an invitation must be sent by European Communities Council.

For the countries to be invited, the following conditions should be met:

Legislation alignment,

At least one year national level practicing experience,

NCTS system being ready including infrastructure.

According to evaluation of EU commission evaluation visit, the candidate is invited to signing of agreement.

In the transnational trading procedures, customs administrations require customs taxes and other public claims regarding the goods arriving to their areas. On the other hand, trade policies regarding the goods are being practiced. Before the mentioned goods travel to country of export, different practices originating from border crossing of the goods and customs administration requiring customs taxes of the goods are making trading difficult. Countries felt the need of modernizing the transit trade system as uniform out of necessity in a sense.

European Union is making regulations regarding the uniformization among EU state by producing policies regulating the own national policies of countries related to transport activities. In a constantly growing European Union, increased trade has made transport an important issue. Growing of the borders of European Union borders ensured improvement of transport services. As a result of globalization, EU member states becoming a single market has improved the transportation sector within EU. Thus, European Union states national markets competition is opening and they could contribute to free circulation. Increasing of competition and distribution of manufactured goods by gathering in distribution centers, transporting of goods to their points of arrival has gained importance.

Transit, in a sense, is born out of a system implemented in crossing, transportation of goods from one country to another in transnational transporting of goods. Transporting of goods that is not subject to importation taxes and trade policy measures from one customs administration to another within national borders is subject to the provisions of transit regime.

In EU member states, single market going in operation in recent years, steps taken toward liberalization of community economy have directed European Union to take the decision of providing common transport policy. Together with this policy, as a rule in the community, companies providing service, common transit regime is put into effect for binding of transportation to common rules and principles within the community to prevent different procedures applied to goods or vehicles used by the countries they belong to. One of the objectives of this regime for the long term is to ensure transportation is integrated into sustainable development of community.

In Europe, especially solving the problems mentioned above regarding the transportation of goods, countries have conducted works for facilitation of transit procedures. First TIR agreement was signed in Europe in 1949 and TIR contract was signed in 1959. In parallel to the increasing trade volume of European states, a need for transit system was born and community Transit system was established in 1968. For extending the transit area, a common transit agreement and single administrative document agreement was signed between EU and EFTA states in 1987. Turkey has started works to join the Common Transit System in 1995, however could only join in 2012.

Countries currently signed on the Common Transit Agreement:

- 28 European Union states
- 4 EFTA member states
- Macedonia, Turkey, Serbia

(Georgia and Ukraine is considered for membership in 2010)

Transportations made according to Common Transit Agreement, all goods, without regard to the type and quality, is practiced between community and EFTA member states or between the countries as transit. Common Transit Procedures is important in regard to integration of European states to each other. Common Transit provides conveniences for free circulation of goods.

Customs Union is the foundation of this integration in European Union. EFTA, which is another economic community formed at the same time with EU, failed due to starting up with the idea of free trade. Free circulation of goods, which is a foundation stone of Customs Union, forced the member states to move together in trading with other countries. Thus, member states felt the need for a common policy to fulfill this need.

5.1.3 Benefits of Common Transit System

Being a part of Common Transit Agreement is important in terms of EU gains of countries. Especially transportation sector uses the same customs regime from the loading country to destination country. It is possible to deliver an export good loaded from one country directly to customs administration in destination EU or EFTA country by issuing T1 Transit Declaration. This, in terms of costs, provides an advantage to transporters in the sector. Transporters in Common Transit Regime control due to electronic system application in low declaration cost transport, fast transit from border, declaration termination and so in every stage.

Advantages of Common Transit System may be listed as follows,

- Accelerating simplification of procedures,
- Ability to make procedures in unrecorded setting,

- Taking advantage of simplified procedures on the condition that companies fulfill certain requirements,
- Demandability of securities
- Transit convenience and priority from party states,
- Ensuring fast defaulting of securities in extensive security.

One of the biggest advantages by switching to Common Transit System is the decrease in bureaucratic procedures, therefore bureaucratic obstacles. Because with this way of transporting, procedures can be completed with only one document from one country to another.

For the countries that are EU members or waiting to become an EU member, common transit system and regime is of great importance and is a system compatible with customs union. It provides conveniences in terms of financial and time, and for Customs Administration. When considered in terms of the speed of procedures, it will be observed that factors making exportation difficult will also decrease.

5.1.4 Responsibility in Common Transit System

Responsibility in Common Transit is the responsibility of the person who is required the taxes on the goods against the problems that may occur before reaching the unloading destination, due to suspension of taxes of the goods while in transport from one country to another.

The person referred to as primary responsible in Common Transit is the person common transit and person available or authorizing to be available in common transit regime on behalf according to the agreement. That is to say, the person taking responsibilities that may arise from the goods being subjected to common transit regime. Primary responsible are obliged to submit the goods with the documents at hand, within allocated time, whole and complete, together with other documents that may be required by the customs administration of the location where goods will be unloaded. It is found in the related box (no. 50) of transit declaration. There is no obligation for the transporter of the goods to be the primary responsible. Any real or legal entity may be the primary responsible. As transit regime is generally realized as security, the primary responsible may be the person who owns the

security. Primary responsible is also responsible of proper implementation of all the legislation in the transit regime. This in turn is to put the primary responsibility under obligation.

5.1.4.1 Liabilities of Primary Responsible

1- Submitting the transported goods to relevant customs administration in accordance with the property periods required by authorized customs administrations within time period allocated, whole and complete.

2- Submitting the goods in the time period to be required and required by customs administrations liable to control the goods, together with all information and documents, provide necessary assistance.

3- Act in accordance with other provisions set forth in the transit legislation.

In determined periods and complying with the measures taken by relevant customs administrations for the purpose of ensuring goods property, they are obliged to submit the goods and transit declaration to destination customs administration.

They are responsible of the legislation issued about the common transit regime,

They are responsible of any customs tax or other payments that are required to be paid during common transit procedure or in any violation or contradiction regarding that.

In Common Transit Regime, while primary responsible can provide himself the security that will be submitted to the customs administrations, the guarantor, who will be the person guaranteeing to pay jointly and severally with primary responsible, can also make the payment. In Transit Regime, the guarantor is the bank and financial institution which is approved by relevant security administration and also resident in Turkey. There are no special requirements to become a primary responsible. Anyone with the right to issue a transit declaration in the document system can become a primary responsible.

In Turkish Customs Law, primary responsible represents the regime beneficiary in transit regime. Both in customs regulations and common transit agreement, primary responsible is specified as the person who made the transit regime declaration or made on behalf of. According to the provisions of mentioned legislation, the person making the regime declaration becomes the primary responsible, however in case of making the declaration as a

transport company, both the company, as the primary responsible and as transporter should be specified in the declaration.

In addition, in the transit regime, on the condition of reserving the obligations specified in the law, primary responsible knowingly accepted the goods transported, transporter or receiver is obliged to deliver and submit the goods within time period allocated in accordance with the measures taken by customs administration, whole and complete.

Primary responsible may have relationship with the goods other than transporting. (they may be the owner of the goods, transporter, storehouse owner, company owner.) Primary responsible specifies the security, amount, type that they declared in declaration in the relevant box of the transit document. Transport customs administration is obliged to investigate the existence of this security.

Besides the primary responsible, transporter or receiver is also obliged to submit the goods to destination administration within time period and way specified by customs administration. When the transit document is presented to customs administration, customs administration checks whether the goods are transported in accordance with the property and rules of transit system, if any violation is identified, demands all customs taxes and other payments from primary responsible.

5.1.4.2 Circumstances Where Primary Responsible Will Not Be Considered Liable

In case of identification of a notice about common transit regime, the obligation of primary responsible is removed if not notified about the violation within 11 months from the date transit document is submitted to transport customs administration.

Goods are damaged as a result of force majeure or completely proven unavoidable accident or when there are acceptable flaws originating from the goods itself, authorized administrations of the relevant country may hold the primary responsible responsible of taxes or other payments.

If there are no provisions in the contract about force majeure or unavoidable accident, parties should process according to their own legislations.

5.1.5 Turkey in Common Transit System

Transit regulations are regulated in the relevant articles of customs law and regulation in the Turkish legislation. Customs procedures in Turkey are made by customs administration, railroad carriages sent to relevant import customs. Ships passing transit through straits cannot be controlled due to Montreux Agreement and Commerce and Navigation Agreement, only observed from the outside. Transit of planes not landing cannot be controlled mutually according to agreements. In the transit transportation made by pipelines, international transit provisions are exercised. Goods transferred in Turkish ports can only be transported by Turkish ships; in exceptional circumstances, common transit regime is not applied. Since January 1st, 1996, single administrative document is being practiced in Turkey.

Status of Common Transit in Turkey; Turkey has used the 5 months from December 1st, 2012, when it became a member of Common Transit Regulation as adaptation period. Primary responsibilities applying to get an extensive security that will be valid in EU and EFTA states, works to minimize the faults in Turkish NCTS system practice, training of customs officers in public institutions in adaptation period has caused few procedures to be completed together with the other problems arising in the adaptation period.

Goods that are not subject to trade policy measures with import taxes, not entered into free circulation and good with export procedures completed, are subject to provisions of transit regime when going from one point to another within Turkish customs area. Goods in transit within the country and not in free circulation are not subject to any customs tax in transit. However, goods subject to this regime and costs related to relevant service, loading-unloading, stamping, etc. are subject to charges

With the transfer of authority protocol made between Ministry of Transport and Undersecretariat of Customs in 2006, road transport services were bound to an agreement to be made by customs administration personnel at the border gates. Along with Turkey switching to Common Transit in 2012, the need for security regulations in transit transport compared with common transit agreement security regulations were revealed and priority and transit systems should be known.

5.1.6. Application Procedures in Common Transit System

To utilize the simplified conveniences in common transit system, requirements in the country legislation should be fulfilled and information and documents required by customs administration should be submitted. In Turkey, Common Transit System is possible by fulfilling the requirements set forth in the relevant articles of the customs regulation.

For the application to this simplification;

Approved copy of the publication of articles of company in trade registry gazette,

Criminal records of real entities of board of directors owning more than ten percent of company capital and those authorized to represent the company at the customs and Foreign Trade procedures, including their resumes,

Letters of companies on being taxpayers and not having any tax debts, taken from tax offices,

Signatory circulars of those representing the company and information and documents about at least 500 transit declaration in the last one year from the first day of the month retroactively and transit of goods amounting at least five million TL annual taxes according to Tax Procedures Law No 213 should be submitted to customs administration.

Used integrated to Turkey Customs Area,

Not having any irregularities and tax penalties specified in the Customs Law,

Not having any unpaid tax penalty or delay penalty,

The application for simplified procedures may be via electronic data processing technique as well as in writing. Written application should contain date and signature. Application should contain all the information enabling identification of whether the applicant fulfills all the necessary requirements of simplification. Applicants are responsible of the correctness of information provided and authenticity of the documents attached.

Since the authorized administrations will give the documents after inspecting them, they give the signed original and one of more copies to permit owner. Permit specifies the subjects which the simplified procedures will be used and also includes the methods of this

procedure and controls. Permit document is valid from the date of control, permit owners are obliged to fulfill any requirements specified in the permit.

5.1.7. Security practice in common transit system

Security is to receive guarantee of the total amount of custom taxes of the goods and other loads against the possibility of leaving the goods between two points while carrying the goods from a point to another point in the goods subject to transit procedure. As the securities may cover a single transit transaction, they may also be in a way to cover multiple transactions. In the transit transaction which covers only one transit transaction, personal security, which covers more than one transaction, is called as extensive security. Other than these two types of security, no other security is used in the common Transit system.

In the national Transit transactions, all of the extensive security, personal security, collective or lump sum securities can be used. In national transit procedure, no security is sought in air line, railway, and sea route and pipeline transportations. Also, in cases set by the ministry, civil servant accompaniment which substitute for security can be applied. In transit transactions, for personal and collective security practices, tax administrations of customs are the recourse authority, and for extensive securities, General Directorate of Customs are the recourse authority.

In common transit contract, as it is possible to conduct transaction with personal security letter which is in compliance with the format in contract for each contract transit, it can also be used as a security in cash or as a currency. Indeed, the innovation that comes along with the contract is the extensive security practice. When people or companies which fulfill the certain financial and credibility criteria present a Security letter which is in accordance with the format in the contracts, they can use this in every transportation. When an extensive security letter with a suitable content for the contract is submitted to the administration of security in Turkey, the administration of security gives declarer a security reference number (GRN) and an access code. This security is presented to the system, and the extensive security which is presented to system is used common Transit transactions to be conducted in all EU and EFTA countries. Extensive security practice is a simplified procedure application. It is the background of simplification in a further advanced level as an authorized sender. As a authorized sender, the goods sets off to the destination country by benefiting from the most extensive security extent of the facility of the company without the vehicle stopping by the administration of transaction customs.

5.1.7.1-Extensive Security

It is the necessary amount for the taxes of the goods and other payments of transit transactions and the security which is given against the possible risks of the goods. Since it is a simplification transaction, it is subject to permit. It is used as elliptic. The system of Administration of Customs starts to use the security as of its presentation and its projection from the system starts to be conducted. It became reusable with the feedback given after the arrival of the goods to the destination point by the Administration of Customs.

The extensive security use terms are as follows. The companies which want to use the extensive security should first fulfill the conditions specified in the regulation of customs, which are;

- Stationary use in the territory of Turkish Customs,
- No repeating of irregularity and tax fines,
- No unpaid tax, fine and overdue interest,
- No conclusive penalty and sentence decision because of the previous offenses real persons who have more than ten percentages of the capitals of board members and representative of customs and foreign trade,
- No act on behalf and the name of someone else,
- Within the last year, conduct of goods transit which corresponds to at least 500 Transit declaration and minimum 5 million Turkish Lira, are required.

Companies are to determine a reference amount while applying for extensive security. As a definition, this reference amount is the total of taxes and others loads which are to be transported at least for a week. The calculation is conducted considering the week in which the most intense transaction was conducted.

In case of companies having the certain conditions, they gain a discount on certain percentages from reference amounts. Thus, with less security amount, they can transport goods which require more security. For example, it is possible to conduct a transaction of 700 thousand TL or 1 million TL with a security letter of 350 thousand according to the discount rate.

5.1.7.2 Personal Security

In transit procedure, this is the security type where the amount of customs taxes of the transported goods and other payments used as a security. It becomes reusable with the heir notice of administration of customs.

5.1.7.3 Waiving of security

Waiving of securities is one of the simple equal procedures. For companies to benefit from this, they are expected to prove that there is sufficient and solid structure in the administration of security, sufficient experience in transit transactions, which they work in compliance with the authorized bodies, and the vehicle transactions are under their authority.

Extensive securities used in international transportations are also used in national transit transactions. In goods which have the smuggling risk, if there is an extensive security which is taken as limited valid, it cannot be used. In case of using extensive security, the securities released free with the notice of administration of customs of destination point.

5.1.8. Simplified procedures in common transit system

To give permits relating simplifications, following conditions are requested from the applicants except for those who are in the status of authorized sender and authorized receiver who fulfilled the certain conditions specified in the relevant articles of the common transit contract.

- 1-** Being stationary in Turkey except for free zones for national transit transactions,
- 2-** Regular use of transit procedure,
- 3-** No involvement in customs or tax offence such as to serious and repeating ones,
- 4-** Keeping the records in a way to allow to be checked by administration of customs,
- 5-** No act on behalf and the name of someone else,
- 6-** And trade registry and copies whose originals are approved are required to be presented.

Upon the application of main accountable or sender, following permits are given to those who carry general and special conditions relating simplifications.

1-Waiving from extensive security or security,

2- Usage of special stamp,

3- Authorized sender

4- Authorized receiver base,

Simplified conveniences according to simple transportation types,

- transportation via railway and with large containers,

- transportation via airline,

- transportation via pipeline,

5.1.8.1. Content of application

The application conducted to benefit from simplified procedures is made with electronic data process technique or as written. Application should cover all information which authorize body can check if the betaken meet the conditions relating simplification. For simplification, applicants are liable for the accuracy of all information and documents by keeping penalty provisions and their application in the legislation in force secret.

5.1.8.2. Content of permit

Multiple copies and original dated and signed copy of the permit is given to the person whose simplified permit application is resulted in success. Conditions relating permit use are specified. Transaction and control methods are specified, and become valid as of the date they are regulated.

5.1.8.3 Extensive Security and waiving of security

Primary liable people who regulate the transit declaration by benefiting from simplified procedures may benefit from the extensive amount as much as the specified reference amount in case of getting permit from authorized bodies.

Reference amount is the total customs taxes and other loads of the goods which will correspond to the goods to which the declarer will subject within a week. The declarer follows if the reference amount has opened or not by considering incomplete transit transactions.

Authorized bodies may perform adjustment on the amount by reviewing upon the request of the declarer or if considered necessary by them. When the companies which use extensive security prove that their financial status are in good condition and that they meet a certain credibility criteria, they may request utilization permit from extensive security as much as the discounted amount or waiving of security.

To receive right for waiving of security, the declarer should prove that he has the sufficient experience and that he can work compatible with authorized bodies, and he has power to keep the transportation transactions under control and meet their

5.1.8.4.2. Usage of special stamp,

On the condition that stamps of authorized body who gives the permit are approved to be compatible with the features specified in the annex-2 of the contract, usage of declarer's own product in special tubes at transportation vehicles or doors can be viable. In case of permitting this, declarer determines the type and the number of stamps attached to the transit declaration.

If the authorized bodies can reach the necessary information and documents relating the delivery of declarer whenever they want, declarer can be exempted from compulsory route.

5.1.8.5. Authorized sender

The declarer who want to send the goods which are subject to common transit procedure and transit declaration without presenting to administration of transaction customs can be permitted by authorized bodies on the condition that they meet authorized sender condition. People who want to collect this permit should have extensive security or permit of waiving of security.

In the permit to be given to declarer, administration of transaction customs which will conduct the delivery need to take precautions like how long the check of goods by administration of transaction customs will last after authorized sender send the transit declaration to administration of transaction customs, and goods determination of the goods by declarer to be sent without presenting to administration of customs.

After authorized sender sends the transit declaration to administration of transaction customs, the goods cannot be left free without the end of the time for the control decision at the administration of transaction customs.

5.1.8.6. Authorized Receiver

Authorized receiver permit is given to the people who want to collect the goods and transit accompaniment paper within the common transit procedure in their own facilities or another place of their desire without presenting to administration of customs. In case of delivering the delivery along with transit accompaniment paper to authorized receiver in specified facilities safe and sound by fulfilling safety measures, the liabilities are fulfilled. Thus the common transit procedure comes to an end.

The authorized receiver is obliged to urgently notify the destination administration of customs about other irregularities like deficiencies, surpluses or broken seal occurred in the goods that is received in his own facility or another place specified in the permit.

5.2. NCTS in common transit

In this section, information about common transit, transit procedure in Turkey, ncts concept, emergence of ncts systems, administration of customs in ncts systems, benefits of ncts system, Turkish and European Practices of ncts system.

5.2.1 Transit procedure in Turkey

Turkey common transit procedure, after becoming a party in 2012, had numerous gains on the way of European Union membership. Transit procedure did not enter to the free circulation whose import taxes and trade policy measure are not subject in the articles relating customs law in Turkey, and under the inspection of goods whose customs transactions relating import are completed, described as a customs procedure which is applied in transportation from a point to another within the Turkey Customs Union. The vehicles and goods which pass as transit are exempted from customs duty.

In Turkey customs legislation, the transaction which is from the entry of the goods to a customs territory until leaving the customs territory of that country or until the unload point of the goods within the customs territory is called as transit.

In the customs territory of goods which are subject to transit procedure of administration of customs,

- from a country to another country,
- from a foreign country to Turkey,
- from Turkey to another country,
- from administration of interior customs to another administration of interior customs, the transportation is permitted.

For the goods to be transported in transit, security which equals to customs duty must be given; however, in air line, railway, sea route and pipeline transportations, no security is sought except for the specified conditions.

In Turkey customs legislation, the transaction which is from the entry of the goods to a customs territory until leaving the customs territory of that country or until the unload point of the goods within the customs territory is called as transit.

The contract transit concept primarily dates back to contract signed in 1987. The parties of the contract are EU and EFTA. Today, EFTA countries along with EU countries are Switzerland, Norway, Iceland and Turkey. Turkey became a party to the common transit contract in December 1st, 2012. Common transit is to transport the goods which are in the free circulation and the goods which are not in the free circulation from a European Union member country to another European Union member country, or from an EFTA member country to a European Union member country by suspending the customs duty.

In common transit contract, transit accompaniment papers divide into two as T1 and T2. In the imports conducted from a European Union member country to EFTA member countries, the transaction is performed with T2 Transit paper. The goods in EFTA member countries are sent to European Union member countries with T2 Transit paper except for the goods being a returning good. In determining factor at difference of T1 and T2, the subject is whether the goods are the goods of a community or not. T2F procedure is used in transit of community goods to special soils located in this community and from these soils to the community.

In common transit, Turkey had an adaptation period for a while as of December 2012 when she was a party. To collect valid extensive security of original problems, applications, infrastructure creation of ncts system, adaptation period of customs officers provided this transaction to pass ineffective. While the number of T1 declaration opened to Europe and EFTA countries in around May in 2013 was roughly 1500, number of T1 paper reach to around two thousand per week at the end of 2013 September.

As a result of the studies Turkey conducted to be a party to common transit contract, regulation of common transit contract entered into power in 2011. In this period, NCTS system started to be applied in pilot areas. As a result of evaluation and positive conclusion of these studies by EU commission, Turkey became a party to common transit contract in December 1st, 2012. During the period until common transit contract became effective and Turkey becomes a party, old common transit was practiced in national level.

5.1.2. The concept of NCTS

Common transit system is carried out via a system on a new computer whose English full name is `New computer computerized Transit system` in countries who had sign under the whole agreement. This system removed the common transit system with hard copy in European countries as of 2005. That`s to say, it is a program in which all stages are performed in electronic platform from presentation of ncts transit declaration to administration of customs to absolve, communication among administrations of customs and communication among administration of customs and companies via text messages, and thus proving a simplified transaction for the companies. All the transactions are conducted on electronic platform. Paper declarations in common transit are only used in cases where there is no access to ncts system and the passenger has goods than exemption limit.

NCTS system is not a system that EU and EFTA country use, and each country has their own ncts system that they create as per their structure. All work flows required in the contract of contract transit system are applied with data transfer between the systems of coded standard messages. Structure of each country is different from others; however, they all function with the same message system. The message sent from Turkey is transmitted via Common domain mail in Brussel of EU commission.

In NCTS system, declaration can be presented from real and legal persons. The important thing is that the one who makes the declaration should have a username and

password for access to common transit system. Since the system of each country will be as per their own practice, their username and password obtaining system are different. In Turkey, each declarer who has information password can declare national transit and common transit.

Paper declarations in common transit are only used in cases where there is no access to ncts system and the passenger has goods than exemption limit. If the common transit transaction was started with ncts, it should be ended over ncts, and if it was started in paper environment, it should be ended over paper environment.

Ncts system cannot be used if simplified procedure is benefited in transportation of the goods via railway, airline and sea route or transportation of large containers or pipeline goods transportation, or if FORM 302 how declaration is used. With the NCTS practice, transportation companies started to benefit from simplifications relating transit procedure. NCTS system functions with the all systems of customs as integrated.

5.1.3 Appearance of NCTS systems

(NCTS) New Computerized Transit System is a European-wide system conducted based on declaration. As a purpose, it was designed to take good administration under control in community member countries, and to take common transit under control in community, community member countries and countries that are not member of community. As an objective, increasing the productivity in transit procedure in ncts constitutes base of ncts transit reform whose objective is to prevent fraud and smuggling, to increase speed and number of transactions conducted within the transit procedure and to provide safety.

A number of reform were needed due to frauds done in the paper system in transit, to make the goods check safer, collaborative and administrative communication deficiencies among administrations of customs and due to delays and financial results of these deficiencies in terms of companies.

As a result of efforts for becoming electro chronic which starts in 1990s, it became compulsory for all party countries to use ncts system instead of 1.4.5 numbered copy of Transit declaration. Appearance of NCTS came into existence as a result of an investigation report of European parliament relating the frauds occurring in the transit passages. After the problems occurred in transportation system, ncts became one of the fundamental factors considered to make the system much safer.

The most important reason that necessitate NCTS system is that not productively using the community and common transit system which was used since 1960s due to causing malfunctioning at the start of 1990.

5.1.4 Status of Customs Administrations in NCTS system

For NCTS system to be successful and be effective, there are some liabilities that administrations of customs need to fulfill.

These are,

- 1- Administrations of customs should protect all the infrastructure in a way to cover the entrance to general computer area to meet ncts needs.
- 2- To run NCTS system and to step in against malfunctioning in time, an anchor desk should be established.
- 3- Integration of practices of NCTS and established organizations should be provided.
- 4- Customs officers and companies are required to provide consistency of training about the system and to make plans.

5.1.5 Benefits of NCTS systems

In NCTS system common transit systems, its practice provide many benefits both for the companies and for the administrations of customs in European Union member countries.

5.1.5.1 Benefits of NCTS systems for companies

Benefits of NCTS systems for companies,

- 1- Increase in the quality of provided transportation service will gain time for exporter since the time for waiting in the customs will decrease.
- 2- While regulating transit declaration, carrying out the transactions in electronic platform instead of paper will decrease the paper expenses.
- 3- Using the electronic system will provide much more transparency compared to paper usage in transit transactions.

- 4- As the system is based on not only to companies but also to paper, when the system which do not carry excessive amount of document along with itself gives reference number, the transaction will be conducted in customs when applied with this number.

5.1.5.2 Benefits of NCTS systems for Customs Administration

In addition to companies, Ncts system also provides significant benefits to administrations of customs.

These benefits are,

- 1- Appearance of a compatible system between administrations of customs and companies will increase the speed of the transaction and will make the system more flexible.
- 2- Since operation of ncts system by administration of customs will increase the safety of transit transactions, more reliable data will be obtained.
- 3- Along with the operability of transit transaction, monitoring of vehicles on electronic platform will be possible.
- 4- Conducting transit transactions on electronic platform will increase the coordination and communication even more in terms of administrations of customs.
- 5- Since administrations of customs will save time thanks to this system, they will spend most of their time on risk analysis.

In general, ncts system has many superiorities compared to paper system. In terms of time, since transactions are conducted in short amount of time, efficiency of administration of customs will increase. And this will leave time to take precautions in terms of decrease in smuggling and new smuggling methods.

Transactions conducted in administrations of customs have become more reliable thanks to ncts. With ncts, the transactions have become much easily manageable among administrations of customs. Without going to system safety office, ncts transit declaration can be filled on system`s webpage and sent to relevant department.

5.1.5.3 Benefits of NCTS with Common Transit System

Benefits of NCTS with common transit system are as follows;

- 1- Since the transactions are carried to electronic platform, expenses relating document use will come to an end.
- 2- Since there will be no control except for strong suspicion and denunciation, a faster passage will be provided. And this will decrease the time and the bureaucracy.
- 3- Vehicle crowd which occurs in the border gates will be less.
- 4- Since transportation is performed with electronic declaration, every moment of the transportation will be monitored, delivery of the goods will be seen, and release of the security will immediately be watched.
- 5- For the transporters who have the certain conditions, there will be opportunities to benefits from conveniences like extensive security, waiving of security, authorized receiver and authorized sender.
- 6- Since administrations of customs may reach the declaration information since the moment the vehicle with the goods leave the administrations of transaction customs, faster risk analysis will be performed.
- 7- The transactions will be carried on paperless platform.
- 8- Passing easiness from party countries will be provided.
- 9- When extensive security is used, the securities will serially be decreased.

5.1.6 Turkish Practice of NCTS system

The countries have to adapt to changing world order, renew all institutions and organizations to protect sustainable development, produce new policies as needed by the international trade principles. One of the steps which ease the foreign trade of Turkey is the commencing of practice in common transit of ncts system. NCTS practice was regulated as per the international necessities where Turkey is a common transit party.

Turkey is trying to find a place in world economy by joining European Union while becoming a member to institutions like World Trade Organization (WTO). Works of Turkey in joining to common transit system dates back to year 1995. Community in European Union was formed with Transit procedure community customs tariff in 1968. For the purpose of expending the transit of community with EFTA countries, decision of council relating the

simplification of formalities in common transit contract signed between EU and EFTA and goods trade was published and entered into force in 1988.

Within the partnership agreement of Turkey-AT and additional protocol, referring to partnership council decision numbered 1/95, all legislations including transit procedure was foreseen to be compatible with community customs rules. For this purpose, monotype administrative (TIB) document practice was started in 1996.

As a result of the studies Turkey conducted to be a party to common transit contract, regulation of common transit contract entered into power in 2011. In this stage, ncts program was developed and its practice in pilot regions was performed. Turkey became a party to the common transit contract in December 1st, 2012. After this period, a short amount of time passed as an adaptation term. During this term, declarers applied to collect extensive security which is valid in EU and EFTA countries. Customs personnel started a training transaction, and the system was tried in pilot regions to minimize the errors.

5.1.7 European Practice of NCTS system

To solve the problems occurred during the transportation of goods to Europe, the countries tried to ease the transit transactions. For this, they first came together on a semi-trailer truck agreement in Europe in 1949. A semi-trailer truck contract was signed in 1959 relating this issue. EU determined that a transit system was necessary according to developing trading volume of community member countries and in 1968, they established EU community transit system. In time this field developed, and in 1987, the common transit and single administrative document (sad) which covers EU and EFTA countries was regulated.

How the transaction permits of incoming goods to be sent to other destination points in Europe would be was stated in the semi-trailer truck contract of 1959. In this system, collecting security was accepted as a base for the taxes of goods lost during transit. Since common transit tariff was appeared in European Union in 1968 later on, individual determination of goods in free circulation and goods which are not in free circulation was needed. For the purpose of determining the country of registry of the goods, information note given in border passage created the foundation of the community transit procedure.

European Union systematically regulates the transportation activities and relevant policies with the legislations of member countries by creating common policies. It is known that a systematic and regular transportation service affects the quality, economic development

and global competition. Increasing trading volume of expanding Europe revealed the transportation topic. Removal of the European borders features the transportation sector. The transportation network was expanded, the procedures were removed, the cost decreased and trading gained momentum. Since the European Union was the only market for the EU countries, transportation market expanded. Since the borders of EU was removed, the goods started to be delivered earlier and this gained the companies' time. Thus, integration within the community was provided. Transaction of people and goods serially and with lower cost is the purpose of dynamic and powerful economy of the European Union.

European Union, in common transit transportation, made the differentiation of goods by regulating T1 transit document for the goods which are not in free circulation, and T1 transit document for the goods in free circulation. This system remained unchanged until 1990. In 1972, need for a new method to send goods over Austria and Switzerland which are the member of EFTA during that time was emerged. Thus, community transit system developed in a way to cover both of these countries. This time, it was expanded with the common transit contract which also cover Sweden, Iceland and Finland which are the other members of EFTA in 1987. Austria, Finland, Sweden became a party of European community. As of this date, the community start to practice transit system and stop being the separate member of the contract. With the participation of Poland, Check Republic, Slovakia and Hungary, this extent become even larger. Transit information note in common Transit system is to continue expect for European Community.

CHAPTER SIX. PRACTICE OF SINGLE-WINDOW SYSTEM AROUND THE WORLD, IN TURKEY AND EUROPE

6.1 Single-Window System Conceptual Framework

In this section, within the framework of single-window system concepts, definition of single-window, appearance of single-window system, benefits of single-window system, purpose of single-window system and its institutional structure and hardships are explained.

6.1.1 Single-window system concept

Single-window system concept is of important especially to minimize various expenses of goods subject to international trading including clearance and thus to provide a more competitive world order in international arena in goals of having a place among the world's largest economies. To decrease the costs resulting from International Trade Import Export Transit and similar transactions, the transactions are required to be handled much more effectively and efficiently during the time until the entry or exits of the goods to or from a country.

For this reason, to decrease the time and cost resulting in the administrations of customs depending on the aforementioned goals, single-window system which is the name of the integration among the public institutions and private organization needs to be established. Along with the establishment of this system, information and documents relating the goods subject to international trade and transportation will be used for a single application in an International format by the authorized people and transporters of the goods. Phenome needed within this content will still be transmitted to the same place in the electronic platform. Goods check will be performed in the same place and time with this coordination and collaboration.

United Nations Economic Commission for Europe (UNECE) defined the single-window system as delivery of the necessary information and documents of the goods to their destination with a single application point by their transporters depending on a single standard for the goods subject to international trade and transportation within the legislations relating import, export and transportation transactions. World Customs Organization, in addition to this definition, defined it as carrying out of information and documents which became

standards of companies who performed Trade and transportation by entering from a single data input point.

Single-window system is formed from e-document stage which provides all documents required in customs procedures to be taken for a single point and e-application which is the performance of requests relating relevant institutions to a single point. Thus, since the manual checks of document will be performed in electronic platform, human-originated errors will disappear, transaction time will decrease and a much efficient control will be provided. Since the information in this system will be transmitted in electronic platform, traceability of document will increase by precluding forgery of documentation. This system will also end the paper waste.

Export and import transaction, which is called as international trade, has dimensions like not only tax payment, but also public safety, protection of human, animal and plant health and protection of right of property. In this stage, the goods whose import and export will be conducted have inspections to be performed by different public institutions. Since the documents to be given as a result of this inspection are the documents to be permitted for the import and export of the goods, and since supply of these documents can be away from time and inspection, their cost also increase. These types of situations can be seen at all of the centers of international trade. Based on this situation, United Nations Center for Trade Facilitation and Electronic Trade (UN/CEFACT) suggested presentation of information and documents from a single point called as single-window and establishment of a system which will provide opportunity for results to be taken from a single center, and this played a role in the appearance of single-window system.

Single-window system, in short for import, export and Transit transportations, is an electronic system that enables all of the information and documents which are standardized with the comparison of all requirements relating legislation to be gathered under one roof and enable processing.

The companies which perform international trade want to delivery their production as full time; however, many goods subject to international area are subject to some standards, and different legal regulations are required for these standards. Since many different public administration are located in the check during the passage of the goods from customs due to this reason and since each administration asks for a different document and information,

necessity of this good document in international trade and no fully compliance of documentation systems between public and private sectors cause expenses and time loss. With these reasons, in terms of easing the transactions of goods during entry and exits to and from the country, necessity of conducting various studies on both national and international level came to existence. And this is the single-window practice that enable all transactions to be performed in a single point.

6.1.2 Appearance of single-window system systems

Appearance of single-window system and stunningly fast development in technology especially for the last 30 years, information started to travel faster than the goods among countries. In this change, by abandoning the traditional structure and administration understanding in public governing field in developed countries, an administration understanding whose change is open, suitable and market-oriented was felt necessary. Along with this new public administration type, and free market understanding, private sector administration set forth the necessity of use of practices also in public. In many international meetings, studies started under the name of decrease of procedures and easement of trade. The countries commenced a set of policies to develop in international arena. With the easement of the trade, increase in efficiency of import and export checks made administrations of customs to follow the technology. One of the aims of easement of the trade works is to develop both the administrations of border customs and collaboration among countries, and to provide compatibility of documents used in international documents and provide integrity by decreasing.

While import-export transactions are prepared and presented to administration of customs in Turkey, around 330 different documents can be added to customs declaration as per the quality of the goods. Only 21 of these documents are collected from administration of customs, and other 309 of them are collected from different public institutions. Since this forces companies to apply for a number of institutions or organizations to supply the documents, it causes both financial and time loss. One of the results obtained as a result of studies conducted toward the easement of trade is the use of single-window system as integrated with countries and country communities where the trade is performed.

Use of single-window system determined on the basis of practice and speeding the foreign trade transactions by simplifying by European Union was suggested by the decision no 33 of United Nations Centre for Trade Facilitation and Electronic Trade.

By World Customs Organization (WCO) (and World Trade Organization (WTO)), support of this recommendation was also announced. Single-window system is located in almost 30 countries so far. Most of the administrations in leader position in these countries are customs administrations which are public administration. The fundamental in all countries is the harmonizing data of public and private sectors and their union. In the customs services published in 2012 official gazette in Turkey, including the single-window system subject 2013/6 numbered circular and other public institutions, all of the authority was given to Ministry of Customs and Trade to provide coordination relating Single-window system.

In the studies conducted by International Trade Procedures Working Group (ITPWG/TBG15), United Nations (UN/CEFACT) had three main approaches.

Single-window system does not require advanced technologic infrastructure and communication technology. The information will be transmitted to electronic platform once and be presented. Approaches of this working group relating single-window are as follows:

6.1.2.1 Single Administration Practice: Paper or electronic platform is used. Information is collected and distributed to all relevant administrations. Controls necessary for the flow of supply chain is coordinated. Practice is used by Switzerland administrations of customs. Administrations of customs performs the duty of other institution on behalf of their name.

6.1.2.2 SingleAutomaticSystemPractice; is a system being used in United States of America. After the companies present the standard data to collection and distribution of information, they are distributed to relevant administration by the given system. In this system, data are collected electronically, used and distributed. This transaction can also be handled by private sector as well as public administrations.

Single automatic system has options like:

- * an integrated system where the data are processed through the system
- * an interface system where the data are transmitted via a mediator

* practice as a combination of two systems

6.1.2.3 Single Data Process Service Practice; this system is mostly preferred in Singapore and Mauritius. Companies present their declarations to approve and transaction in electronic platform and in phenomena performed by administrations of customs, they are transmitted to computers of companies. In this system, taxes, fees and prices are collected from the account of the companies electronically. And this forces the necessity for companies to keep money on their account all the times.

6.1.3 Purpose and Organizational Structure of Single-Window System

Purpose and Organizational Structure of Single-Window System: Along with the fast changing technology, access speed to information has shown itself especially in communication. Foreign Trade Transaction were also affected from this change and both public and private sector was affected from these changes. In addition to technologic change, countries had to come up with new policies to ease international trade. Also, one of the works conducted by administrations of customs of countries to increase import and export activities and to ease foreign trade is single-window system. While decreasing the paper expenses with single-window system, increase in export and import of government administration are also targeted.

Institution of each country on formation of single-window system practice which will play an effective role changes depending on organization structure of administrations of countries, legal regulations and political views. Single-window system is accepted as leader administration due to performing necessary control of other relevant departments with the reason why the administrations of customs are the first gate of countries that opens to the outer world and due to the continuity of their relationship with the companies. Currently, there are almost 35 countries that perform single-window practice. In some of the countries with single-window practice, private sector companies in leader role position and in some of them, public sector, and in some others, public and private sector undertake the leader role jointly. Only the companies and public institution that have a political with a strong organization structure, sufficient financing and that in a collaboration with both public and private sector and that have a vision can undertake this duty.

As an example, single-window practice that accept private sector as financing can include German, Guatemala, countries that are financed as public sector are Finland,

Switzerland, USA, and single-window practice which is jointly financed by private and public sector can include China, Ghana, Malaysia, Japan, Senegal and Singapore. It is possible for single-window system to show differentiation on practice level. In terms of financing, they do not show difference from country to country. While single-window usage is compulsory in Finland, Ghana, Guatemala, Mauritius and Senegal, it is up to the will in China, Japan, Switzerland, Germany and USA. While their service are free of charge in USA, Finland and Switzerland, China, Ghana, Guatemala, Germany, Japan, Malaysia, Mali, Tunisia, Senegal and Singapore have to make various payments.

Integrated border administration which is accepted as the first stage of single-window system is important in terms of organizational structure of single-window system. This concept covers easement in border passage for goods and people, administration of organization relating border authorized institution for practice of necessities of legislation and providing safety of border.

Integrated border administration concept is handled firstly within the EU as the integration to necessary controls to be performed by various administrations like border safety administration, customs, animals and plants health and secondly as adopting the integration of member countries within the administration of country borders.

Single-window system may show change in foreign trade transactions according to being integrated with each other as need by the system in general. They are divided into four according to connections from the system

1- Government to Government (G2G): It is a single-window system based on switch to paperless platform in customs transactions. This system is the system where, in all of the entry and exit transactions of the goods, application to permits/conformity certificates needed to be taken from other institution as needed by the legislation are practiced to administration of customs and after the regulation of prepared documents by relevant institutions, sending of these directly to administration of customs in electronic platform.

2- Business to Government-(B2G: Ship agencies, port presidencies, airport administration, customs bonded area keepers and transportation sector are included within this system. All transactions relating the entry and exit of the goods are carried out within this system on

electronic platform. While G2G bonded transaction are under the control of import and export, private sector, government and B2G connection are also included within this system.

3- Business to Business-(B2B): In this system, logistic transaction of information flow relating payments are mostly included within the single-window system. Creation of paperless trade platform, which also cover some of the trade documents are desired. In this system, trade documents like bank security letter, manifest and invoice are included within the system. With its most developed state, Digital Trade and Transportation Network (DTTN) used in Hong Kong, U-TRADE in Korea and TRADEXCHANGE system in Singapore are examples.

4- Nation to Nation-(N2N): The country where the international connection of this system is possible is a (N2N) country type regional system. Single-window system is divided into two whether it covers the beyond border transactions and as national and regional single-window system in itself.

Aim of the single-window system is determined as regulation and check of Foreign Trade Transactions, and changing of complicated and repeating system. While the aim is to present the data at one time, with single-window, it is to reuse available data as much as possible and make them efficient,

6.1.4 Benefits of Single-Window

With single-window system, in case of providing information necessary for the regulations relating both for companies and the public institutions, it can be said that it is a system that is transaction simplifier and an easy one. And this means that single-window system will be beneficial both for the public and the private sector. By using this system, inspection and efficiency of public institutions will increase and both side will use their resources more efficiently, and decrease their expenses. It will be a better integration between institutions and with transactions for companies to give all of the information and document from a single place and distribution of these information to other institutions and establishment of a dynamic system to be confirmed fast, creating communication between public institutions and public sector.

Since the tariff rates and information relating other legislation changes will be updated as a result of communication and integration between public institutions and private sector, it will be prevented for companies to make unwanted and undesired mistakes. With the

collection and coordination of documents with single-window system, both work power and financial resources will be used efficiently. Since the data will be collected healthy, it will be more active in risk management area. In the system, taxes and fees will be collected fast and complete.

Benefits of single-window system can be listed as follows;

- Since the information and documents presented to electronic platform in single-window system will be checked in electronic platform, the resources will be used much efficiently.
- Since the documents will directly be transferred to electronic platform by the relevant institution, forgery of documents will be prevented.
- With the single-window system, documents regulated by relevant institutions will have a certain standard.
- Since the document are located in its system, they will be traceable.
- Time and expenses of companies will decrease and their competition power in international area will increase.
- Delays of import and export check that administration of customs and other institutions perform with single-window system will decrease and trade will be eased.
- Direct and increased income supply will be possible.
- Advanced trade concord will be provided among countries.
- Increase of safety in trade will be provided among countries.
- Since the trust among companies will increase, this will also provide increase in transparency and good faith.
- Since the delays will decrease for companies, expenses will also decrease.
- Since transaction of goods will be fast, customs procedures term will also decrease.

- Information transaction and explanation of rules will decrease the will of performing wrong acts of both public and private sector in foreign trade.
- Paper waste will be prevented.
- International competition power of companies will increase.

6.1.5 Challenges of Single-Window System

For single-window system to be practiced, following factors need to be provided.

- Full political will of government and relevant public institutions,
- Full support and participation of companies in business world are required.
- Legal framework needs to be regulated by government.
- Will administrative system of other institution that will be included within single-window system are required to be powerful,
- Performing feasibility of single-window system without establishment,
- Determination of demand level and structure to single-window system
- Providing data and information in single-window system
- Determination of practice options
- Performance of pilot practice in single-window system
- Calculation with applying trials with different costs
- Supply and activation of human and technical resources for the practice of the system
- Calculation of benefits and risks which will utilize from single-window system
- Determination of practice and management strategy for single-window system

Without a strong political support, practice is single-window system cannot be considered. Along with this,

- Data and document which become standard from a single point relating the completion of liabilities relating import, export and transit need to be uploaded to the system.
- In data transactions, all of the data are to be shared except for the protection international personal data and for safety reasons.
- Conveniences to pay taxes and other liabilities should be added to the system.
- From the single date input point, information relating the authorized companies with official authorities should be reached.
- Control coordination and official companies` inspection should be carried out.

6.2. Single-Window System Practices of Countries

In this section, Turkish practice of single-window system with countries and country communities in different geographies in the world, appearance of its fundamental structure and practice and benefits of it according to these countries will be explained.

Appearance of single-window system; in general there are two types of single-window system, and in one of them, information among customs with other relevant customs administration with electronic message method where the administrations of customs play a leader role are shares, and in the other one, it is a system where Trade competent and business surroundings play a leader role. In both of the approaches, suitable transmission of common data and collaboration are given.

6.2.1. Single-Window System Practices in Europe

6.2.1.1 Appearance of Single-Window System

As in many countries in the world, along with the fast technological change, to increase competition also in European Union member countries and to increase foreign trade numbers, policies and studies towards the expediting customs procedures, increase in transparency and predictability in trade and decrease in cost started. Since there are different departments for problems relating single-window in countries and application of different tax and fee in each of these countries, European Union that was aware of the possible decrease in competition power in countries started to produce union policies.

The number will increase even more in European Union that has 27 members in 2007 and whose expanding process is still going on. Thanks to the effective policies within European Union, these studies are very important for the increase in foreign trade volume. Along with e-customs having a significant place in simplification efforts performed in European Union, it hasn't applied in full union, yet. Also for single-window works to be integrated in the system, they will also be a fundamental factor in government and customs studies.

6.2.1.2 Fundamental Structure of Single-Window System

In foreign trade transactions, a more effective inspection of electronic information flow will be provided both among the Union member countries and among non-member administrations of customs. E-customs studies started as of 1997 in European Union. Along with this, NCTS (NEW COMPUTERIZED TRANSIT SYSTEM) is known as the first step new computerized transit system. Council regulation numbered 2913/92 and dated 12th October 1992 which forms the community customs code and commission regulations numbered 2454/93 and dated 02 July 93 which formed the practice relating this cover the community e-customs customs rules and performed electronic customs is the legal basis of the system. The practices have come to today after many revisions. European Parliament and council regulation numbered 648/2005 were prepared by European Union to meet safety and security necessities as a result of 1st September 2001 attacks. Also container security initiative (CSI) and border passage control, adaptation to risk management criteria in European Union, before the arrival of documents to customs authorized economic operator (AEO) regulations which brings information presentation liability to forth were put into practice as a legislation regulation in European Union.

Main purpose of these studies is to increase safety in European Union borders and easement of foreign trade transactions. In these studies, goal is to transfer the system to electronic platform in general. Electronic customs decision study which explain vehicles and decisions to switch to electronic system also in European Union member countries was met at 30th October 2005. As a result of commission interviews, suitability of transactions in electronic platform within the CUSTOMS 2007 program between the dates January 2013 and December 2007 was planned.

Since automation studies in European Union Europe, e-government and e-customs are carried out within the framework, in practice some adaptation problems to Single-window system have occurred. In terms of expediting customs procedures in European Union and increase of transparency in trade, transit trade of the goods and transactions until the destination point are bond to regulation dated 210-3 1985 and numbered 678/85. The most important practice to be performed to decrease the formalities is the single administrative document (sad). The practice started in 1st January 1988 and used by European Union and EFTA counties. With a single administrative document, it is aimed to prepare goods, decrease the number of documents until it reach the last receiver and expediting of goods transaction between borders. And with this purpose, documents are prepared according to these international standards and coding, and started to be used for this purpose. As of 1988, these transactions enable preparation with computerized data process and use of data electronically. 115/2001 numbered EU directives can be shown to electronic customs practice called EDI practice. For this and European Union to be competitive and have an economy based on information foundation, e-Europe 2002 plan was approved at 19-20th June 2002. By EU council commission in 2005, to make EU more appealing for investment, to increase growth, to reach targets and similar precautions to be taken are published in Lisbon Notice.

6.2.1.3 Benefits of Single-Window system

All the countries and country communities' aims to be in collaboration with all administration they collaborate with in foreign trade with the policies they applied, to access the information from companies much easily, and decrease both the expense and the time. The aim in the European Union is in the same line with this one. In the aim of the single-window system, it is aimed that presentation of the information of public and private sector institutions that have a role in foreign trade in community member countries at one time, reuse of this information, expediting the transactions at customs and providing concordance among the members.

Since single-window system will lessen the load on administrations, prevent paper waste, and decrease time loss with transfer or archive to electronic platform of the system, administrations of customs will perform studies on better risk-oriented control opportunity and safety weaknesses. Not in all of the European Union countries, practice of single-window system has started. So, the desired result of complete practice and benefit from the system cannot be reached.

And this prevents to obtain certain information about how much productivity can be gained from the system. Single-window system may show difference whether it can be prevented according to the situation of each country. Practice differentiates according to the cost of institution in the country. In cases performed by public institutions, countrywide trade development policies usually become effective.

6.2.2. Single-window practice in USA

6.2.2.1 Appearance of Single-Window System

Appearance of single-window system is the fundamental of ITDS international trade data system single-window system established in 1996 in United States of America. ITDS was suggested by Future Automated Commercial Environment Team, FACET) to conduct studies to be successful in international arena, to switch to automation in customs, to state a remark. With these suggestions, it was aimed that all Foreign Trade Transaction will use the same data in their fundamentals and to take all trade in USA under inspection along with this. As the whole results of FACE, working project office was established in USA with the participation of various government institution. Purpose of project office is to study the relevant procedures of government institutions which will participate in this study and to study their information needs and to fulfill it. And institutions minimized the necessary papers list by scanning all of the used papers. And it was detected that ninety percentage of information and documents were used unnecessarily, and the database was created from the remaining ten percentage.

Interviews were made with the companies with whom the trade was conducted, their remarks were taken, and content of these remarks were published as an ITDS project office report. In addition to this, a new automation system called Automated Commercial Environment (ACE) was developed, and the idea of these two system being complementary was adopted. Single-window system appeared as part of ACE practice.

6.2.2.2 Fundamental Structure of Single-Window System

Public institutions, Customs Brokerage, transporters, brokers, and almost 30 foreign trade party among which transporter, importer and exporter companies are located benefit from single-window practice in United States of America. Automated Commercial Environment (ACE) is considered as a stage of single-window practice for companies who perform customs and foreign trade. First, they were started to be practice with transportation

declaration where the immigration and transportation sections` needs are located. Later on, other public institutions also included in the practice.

All data collected by International Trade Data System - ITDS was sent from system to relevant institutions to be evaluated, and the obtained results were taken into evaluation as a whole by ITDS. And the institutions which are not in the system integrated with IDTS, and get started according to the needs of their institutions.

6.2.2.3 Benefits of Single-Window system

The quickest effect of single-window system was seen as the decrease in costs in USA. With the participation of institutions to the system and integration of companies, decrease in costs was detected. Standardizing in data in single-window system and sharing these data among institution was welcomed by public institutions and organizations, and the trust in the system increased. Also, due to the efficiency in tax collecting in USA, it has been observed that the system does not affect the customs income too much. In USA, information necessary for public institution for the whole process from leaving the goods free to payment of taxes and fee was aimed to be provided in a single electronic platform in the long term.

6.2.3. Single-Window System Practice in Singapore

6.2.3.1 Appearance of Single-Window System

Authorized bodies in Singapore, to enlarge the foreign trade volume of the country and to renew all procedures including legal framework, started regulation as of 1985. They started to use a system called TRADENET which transfers all of the documents of institutions relating trade companies to electronic platform and which is located among the public institutions in 1989. Establishment of TRADENET was aimed to decrease the cost of commercial documents and the delays in changes, to increase the efficiency of public institutions, to draw foreign capital as a result of transparency. TRADENET is known as the first Electronic commercial document system in the world.

To develop the system in Singapore, as a result of studies of board formed from public institutions and private sector companies in 1986, single electronic window (SEW) practice was confirmed. During the establishment of the system, a staged process was adopted. During the first stage, it is the transfer of transactions of goods which do not require control and from which no taxes will be taken. In the second stage, the goods which are subject to control are

processed in the system. In the third stage, origin transactions and bank transactions are included.

TRADENET system covers import, export and transit declarations. In the practice, all commercial declarations are processed in electronic platform as single electronic window (SEW). Within the 10 minutes of submission of the information and documents to the system, a positive or negative response is given back the companies. The companies which benefit from this system make payment in exchange for the service, and these payments are used for the development of the system.

6.2.3.2 Fundamental Structure of Single-Window System

The crimson logic project established for the practice of single-window system in Singapore has a call center which operates 7/24. Trade companies, transporters and public institution receive service from this call center. In the TRADENET system, around 3000 companies and 8500 users conduct transactions. In Singapore, there is an obligatory of making permit applications on electronic platform.

Administration of Customs and system providers has agreed in the different topics among themselves. Electronic application over internet became compulsory, and the information and documents presented here are regulated only to be used by the authorized administrations of customs.

The data from the system provider are presented in various UN/EDIFACT format by importer, exporter, transporter, persons and companies registered in administrations of customs in electronic platform. The data which are presented in various format by the companies are sent suitably to TRADENET and benefited from her

6.2.3.3 Benefits of Single-Window System

It is known as a result of studies conducted to Singapore government that TRADENET system saves around 1 billion USA per year. The documentation verification process which used to last from four hours up to two days before the establishment of TRADENET system are now completed within 6-10 minutes with the start of the practice. In the single-window system, it is known that documentation submission can be performed all days, not just during business hours and that number of document which used to be around 35-40 before the system is now just a single document with the participation of all of the

administration to the system. While the taxes used to be collected by check or hand before the single-window system in Singapore, with the system banks stepped in to the process. With the system, practice of regulatory policies gained momentum. TRADENET practice tries to use a single entry administration in a way to cover in sea administrations and air shipping declarations. It has entered into collaboration with institutions like CRIMSONLOGIC, Asian Development Bank and World Bank, and as a result, TRADENET established system in countries like Ghana, Mauritius, Panama, and Saudi Arabia. Thanks to its connection outside the Singapore border, it aims to carry its collaboration further which started with Asian and American countries.

6.2.4. Single-Window System Practice in Turkey

6.2.4.2 Appearance of Single-Window System

Prime Ministry Circular numbered 2012/6, in which factors like decrease in costs of export goods, expediting the transactions, reaching the upper level in international competition was determined to reach export number which is one of the centenary foundation of the Republic of Turkey and to realize the goal of becoming one of the 10 largest economy in the world was published.

Within this circular, deeds to be performed in order to minimize cost and time loss occurred during the customs procedures and relating establishment and operation of single-window system as the relevant public institutions and organizations are integrated are stated. It was determined that Turkish coordination of single-window system will be performed by Ministry of Customs and Trade.

Single-window system was prepared as 2-staged as an e-application practice to be performed to Ministry of Customs and Trade for companies which conduct request of permit/document and e-document practice which provides conformity and permit certificates regulated by other public institutions in Turkish customs system to be submitted to Ministry of Customs and Trade in electronic platform.

With the commence of single-window system, first of all e-document practice which will provide the documents presented with the declarations to be submitted to Ministry of Customs and Trade in electronic platform was actualized. Until the completion of e-application stage of single-window system, applications will be conducted to other public's

institutions with the old method. When the e-application was completed in single-window system, the companies which request permit/ document will apply to Ministry of Customs and Trade in electronic platform. The system will make the necessary checks on the submitted papers, and give an application line number. Relevant public institutions and companies will query and trace their application over the system with this number. Ministry of Customs and Trade will forward the application made to it to the relevant institution and the relevant public institution will make their own evaluation and give positive or negative result. It is possible for relevant public administration to accept or reject the application or demand additional information and document.

6.2.4.3 Status of Customs Administrations in Single-Window System

To minimize the cost caused to both companies and the economy of the country because of the unnecessary extension of the transaction experienced in the country borders, Turkish Administration of Customs, with the participation to customs union with EU as of 1996, became a member of World Customs Organization and World Trade Organization and speeded up the renewing studies in customs procedures within the framework of recommendations in effort relating the modernization of countries.

Within these studies GIMOP project was prepared. BILGE which is the Turkish version of SOFIX customs automated system bought from French was prepared in 1995 and started its practice in 1998. The created system works with real-time. In whatever the moment the transaction is being processed, the customs also monitors the same transaction. Since the data entered declarer to the system is used during the whole process of the customs procedures, declarer cannot make new data entry. With the arrival of goods to customs bonded area, data are transferred to administration of customs system with EDI entry and the taxes are calculated by the system. In addition to obtain more realistic statistics, the transaction are simplified, speeded up and also decrease in the extent of administrations of customs was also provided.

Companies which perform export within the system can enroll their customs declaration with the given password from their business and home when their goods arrive to the customs, and observe if the goods will be subject to document or physical check within the framework of risk criteria of the goods, can pay their customs duties to the bank without going to administration of customs and can perform all these transaction without going to

administration of customs. Declaration submission transaction at office without going to customs for customs brokers started in 1999. As of 2007, in all of the administrations of customs EDI system was put into practice.

The first regulation relating the transactions to be performed by administrations of customs is the one relating how the electronic transactions will be conducted in customs procedures. And later, practice in this regulation entered into customs code. With the completion of central information transit process, declaration with electronic signature and formation of infrastructure along with electronic signature entered into force in 2011. After this process, single-window system project was put into practice.

Ministry of Customs and Trade was authorized in integration of studies to be conducted with Prime Ministry circular numbered 2012/6 and with single-window system subject in customs services and actualizing of all studies relating single-window. In various platforms single-window system was discussed, and with the transfer of information and documents located in the attachment of declaration, it was decided to put the recommendation of World Customs Organization into practice. Within the e-document practice, single-window system started with Sugar Authority in 14th January 2014 with the 2014/1 numbered circular number of Ministry of Customs and Trade. With the participation of many public institution to the system, conformity texts and permits are added quickly to the single-window and the single-window system started to be used in Turkey.

6.2.4.4 Benefits of Single-Window System

Single-window system benefits greatly to both import and export companies and administrations of customs. Most important ones of these are the time loss originated due to customs procedures and easement of the trade.

In foreign trade transaction, administrations of customs which are not strong and effective become ineffective on Turkish Economy due to the weak effects on both companies and the consumers. And this increase the possibility of companies conducting business in the economy to be left outside the international demand chain, trade volume will decrease and provide the loss of business opportunities. And this also reflects the increase in the cost which is occurred during obtaining documents and permits necessary to be taken from other institutions in import of the goods and called as hidden cost to the consumers in the total price.

With the practice of single-window system, efficient customs controls will be performed, with the time saved thanks to it, more opportunity will be provided to foreign trade volume and the administrations of customs will have more times to efficiently step in against the goods with risk and take them under inspection. With a faster consignment, companies will have an increased power in competition. Speeding up in the transactions will provide decrease in the costs seen as hidden cost occurred in the administrations of customs, and this decrease will be reflected to the consumers by the companies.

- Benefits of single-window system can be listed as follows;
- decrease in time if transaction in administrations of customs,
- prevented of forgery of documentation,
- conducting papers check over the system in administrations of customs,
- supply of all documents from a single point,
- End of manual transaction thanks to document check,
- reaching a certain standard determined in the documents,
- decreasing the costs,
- Companies having a more competitive power in international arena
- end of paper costs because of electronic system,
- effects of easement in trade on foreign investors, can be counted as the positive effects.

CONCLUSION

In a global perspective, with the changes happened in information and communication technology, especially during 1980's, country economies have become more integrated. Countries desiring to make trading with each other easier are trying to integrate with the countries they have geographical closeness. This shows the importance of regionalization as well as globalization.

Developing countries are in tendency of regionalization to achieve a better living standard, remove obstacles on commerce, develop in social and cultural sense. For this reason, Bulgaria wanted to become a member of the union to make use of European Union's advantages. This desire of Bulgaria was realized by becoming a member in 2007.

Within the scope of regionalization movements, Turkey is looking for a place in European Union. From this viewpoint, the desire to become a member of European Union which started in 1950's still continues. Turkey has gone through a rough period for the EU membership and is still going through. Although not a member, yet, has signed Customs Union in 1995 and put into effect in 1996. Since the customs union practices were put into effect in 1996, many customs union effects with static and dynamic qualities have come up to light for Turkey. These effects have found a place in the literature as static and dynamic effects.

Static effects appear in short term and for once only, dynamic effects appear in long term and on growth. Static effects appear on production, consumption and terms of trade, while dynamic effects appear on competition, economy of scale, external economies, technology and investments.

When the static and dynamic effects are examined specific to Turkey, it can be seen that Turkey could not achieve the advantages expected from customs union put into practice with EU. Turkey will achieve the advantages expected from EU-Customs Union structure when it achieves stability in the economy, becomes a country that produces, not copies the technology, place importance on R&D expenses, creates incentives to attract foreign capital for long term instead of short term and completes the structural reforms.

Due to Bulgaria's membership of the EU, the situation is different than in Turkey. Therefore, it is an attractive country for foreign investors. Although the poorest country of the EU, Bulgaria continues to progress its development and takes advantage of EU funds.

Relating the authorized declarer in the section four, countries are to adapt to the global changes in the constantly changing world in the same amount, to make suitable regulations according to the changing competition conditions, and to modernize all institutions and organization to develop foreign trade. In this competition environment, when consumers' desire to obtain quality and high added value products with low cost, every attempt in the way of decreasing the cost of high quality products will make the competitive power of the economy even powerful in the international market.

Main purpose of these practices should be to create international safe trade area formed from trustable companies all over the world by increasing the number of safety companies of the countries.

Increase in the number of authorized declarers in the world and especially in European countries will provide increase in a more successful, productive and good inner auto control in the international trade. Authorized declarer certificate is very important in terms of simplification and harmonizing of customs procedures which are among the reason of chaos caused by the increase experienced in the world trade and foreign trade volume of Turkey which constantly increases.

Companies with authorized declarers certificate will benefit from all conveniences specified in safety and security, customs check or customs rules. These are mainly; less inspection and document check compared to other declarers, priority in physical inspection check, upon the request of declarer conducting the check of the goods in somewhere else other than the customs transaction office, no document giving other than the obligatory documents at import-export transactions, and that customs brokers and transporters who act on behalf of them giving summary declaration which consist of only compulsory information at air, sea and land transactions, and many countless priorities. In this case, collaboration between companies with authorized statue certificate and administrations of customs is provided.

That companies with authorized declarer statue benefiting from the mutual recognition agreement means that these companies will benefit from the same simplified procedures in the

countries of the companies that these companies make collaboration with. And this means work flow, reaching the customer much easily, a much comfortable business conduct and more increase in trade.

Companies with this statue adapting to the fast change in the world will both help them to be integrated into world trade and the companies integrated with this type of practice will be known as a safety company by the companies in the countries they conduct business in. Thanks to the collaboration with the companies in other countries, legal trade will be eased since the goods and vehicle traffic will be faster. Fight with illegal trade will increase, majority of the companies with statue in the countries will increase the international competition power and encourage to safe trade.

When the authorized declarer was first explained in Turkey, it creates a misunderstanding as if the control by the customs authorities was ended. However, more liabilities are expected from the control by the customs authorities with this statue. Although it looks like there is no control by the customs authorities with this practice, in reality administrations of customs always have inspection right within the framework if risk analysis. For this reason, companies have to be always ready to this control mechanism not to fall themselves into offense.

This system whose practice does not date back to too old times in the World and Turkey needs to be more common in time. Companies which benefit from this practice get a reputation as companies without risk in trade by having a certificate known in the international trade as well as decrease in cost and time loss.

Since a switch to electronic platform will occur with the practice of transit procedure in the section five, paper costs will end, and with the decrease in bureaucracy and speeding up in transactions at administrations of customs, traffic jam will be faster. Since the transaction will be traced from their starting point and carried out with a single document with NCTS system, transit to party countries will be faster and since the extensive securities will decrease faster, more goods will be transported with less security.

In section six, Single-window system benefits greatly to both import and export companies and administrations of customs. Most important ones of these are the time loss originated due to customs procedures and easement of the trade. With the practice of Single-

window system, efficient customs controls will be performed, with the time saved thanks to it, more opportunity will be provided to foreign trade volume and the administrations of customs will have more times to efficiently step in against the goods with risk and take them under inspection.

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