

Report of the Joint Study Group  
for an Economic Partnership Agreement (EPA)  
between the Republic of Turkey and Japan

## Contents

Chapter 1 : Background.....	1
Chapter 2 : Overview.....	2
(1)General Aspects.....	2
(2)Current Situation and Future Perspectives of Bilateral Trade.....	6
(3)Current Situation regarding Bilateral Investment.....	8
(4)Current Situation on Agricultural Issues.....	9
Chapter 3 : Summary of Discussions.....	10
(1)Trade in Goods.....	11
(2)Rules of Origin.....	12
(3)Customs Procedures.....	13
(4)Trade in Services.....	13
(5)Investment.....	14
(6)Electronic Commerce.....	15
(7)Technical Barriers to Trade.....	15
(8)Sanitary and Phytosanitary Measures.....	15
(9)Government Procurement.....	16
(10)Intellectual Property.....	16
(11)Competition.....	17
(12)Improvement of Business Environment.....	17
(13)Labor.....	18
(14)Environment.....	18
(15)Cooperation.....	19
Chapter 4 : Conclusion.....	19
Annex : List of Participants	

## **Chapter 1 Background**

In 1987, the Japan-Turkey Joint Economic Committee was established by Japan (Japan Business Federation, Keidanren) and Turkey (the Foreign Economic Relations Board, DEIK) with the aim of developing and strengthening Japanese-Turkish economic relations. To date, a total of 20 meetings of the Committee have been held.

In 1992, with the objective of strengthening bilateral economic cooperation, providing mutually favourable treatment in investments and commercial activities related to investments as well as protecting investment assets, the two countries signed the Agreement between Japan and the Republic of Turkey Concerning the Reciprocal Promotion and Protection of Investment (the Japan-Turkey Agreement on Investments), which enforced into force in 1993. It was followed by the conclusion of the Agreement between Japan and the Republic of Turkey for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, which was signed in 1993 and entered into force in 1994.

In March 2012, Keidanren showed the growing interests of Japanese companies in further expanding and deepening Turkish-Japanese economic relations and presented a proposal calling for an early commencement of negotiations on Economic Partnership Agreement (EPA) between Japan and Turkey.

In July 2012, during the visit to Japan by Economy Minister Caglayan, a Memorandum on Establishing a Framework for Cooperation in Economic Relations between the Government of Japan and the Government of the Republic of Turkey was signed by Economy Minister Caglayan, Foreign Minister (of the time) Gemba and Economy, Trade and Industry Minister (of the time) Edano, and subsequently, at the 1st Japanese-Turkish Trade and Investment Summit (TRINS) established within the framework of the said Memorandum, the three ministers decided to form a Joint Study Group to study the possibility of the launch of negotiations regarding the EPA between the two countries.

Between October 2012 and February 2013, the Japan External Trade Organization (JETRO) had organized the Study Group in Japan, composed of

academia and industrial representatives, to discuss potential of the EPA and has called for an early commencement of negotiations on Economic Partnership Agreement (EPA) between Japan and Turkey.

In November 2012 and February 2013, the Japan-Turkey EPA Joint Study Group convened twice, respectively in Ankara and in Tokyo. The Joint Study Group declared to prepare this report without prejudice to the negotiating positions that Turkey/Japan may take in the possible EPA/FTA negotiations.

## **Chapter 2 Overview**

### (1) General Aspects

#### a) Bilateral Trade

Turkey is a country, with a domestic market of 75.6 million people, which enjoys one of the fastest growing economies among OECD countries. In addition, Turkey has a demographic structure composed of largely younger population with the average age of below 30 years, which creates relatively inexpensive labour market. Furthermore, because of its close proximity to Europe, Middle East and Africa regions, Turkey stands out not only with its domestic market but also as a production base for such surrounding countries and as an important country serving as an energy corridor between energy exporting and consuming countries.

Japan mainly exports industrial products such as automobiles, vessels and construction machinery, whereas Turkey exports tobacco, fishery products, vegetables, fruits, processed foods, textile products such as clothing, carpets and auto parts which reflects that the bilateral trade is complementary. Against the historical background of the strong and amicable relations, the two countries have steadily increased the amount of trade and investment in recent years. However, it is still difficult to say that the potential that the two countries hold is sufficiently fulfilled.

It can be stressed that the two countries can increase investment flows and trade through a possible EPA, which would be able to function as a strategic framework for the overall bilateral relations.

#### b) Japan's EPA Strategy

Japan started its first EPA negotiations in 2001 and since then, it has concluded a total of 13 EPAs, mainly with Asian countries and its trade volume with EPA partners covers 19% of its total trade. When countries/regions under negotiation and countries/region which are to start negotiation in the future are included, this amounts to approximately 84% of the total trade volume of Japan. The promotion of free trade and the expansion of overseas investments are the pillars of Japan's trade policies and Japan will proactively promote EPAs conducive to its national interest.

#### c) Turkey-EU Customs Union and Turkey's FTA Strategy

Turkey's relations with the European Union (EU) are based on the Ankara Agreement Establishing an Association between the European Economic Community and Turkey signed in 1963. The Ankara Agreement provides establishment of a customs union in three stages and envisages accession of Turkey to the Community thereafter.

Consequently, with the Decision No. 1/95 of the Turkey – EC Association Council on implementing the final phase of the Customs Union, Turkey and the EU established the Customs Union on 1 January 1996.

Furthermore, accession negotiations started by the end of 2005.

The Customs Union covers industrial and processed agricultural products, but not basic agricultural, coal and steel sectors. The preferential trade of coal and steel products is governed by the Free Trade Agreement between Turkey and the European Coal and Steel Community which entered into force on 1 August 1996. The preferential regime for basic agricultural products between Turkey and the EU is regulated by the Association Council Decision No. 1/98, dated 25 February 1998 of the Turkey-EC Association Council, as amended by the Association Council Decision No. 2/2006.

The Turkey-EU Customs Union constitutes an advanced form of integration with its far-reaching perspective and comprehensive context.

In this context, Turkey eliminated all customs duties and charges having equivalent effect applied to imports of industrial products from the EU and started to apply the Community's Common Customs Tariff for imports from third countries. It is worth noting that the Customs Union is based on the free movement of goods principle rather than origin of goods. As a result of the Customs Union, Turkish legislation has been harmonised with a wide range of the EU legislation related to customs procedures, technical legislation, trade defence instruments, competition, state aid and intellectual property rights.

Moreover, the Customs Union Decision 1/95 requires Turkey to align its commercial policy with the EU's Common Commercial Policy which includes, *inter alia*, preferential trade regimes (FTAs) of the EU.

In this context, Article 16/1<sup>1</sup> of the Customs Union Decision 1/95 sets the rules and modalities of the alignment. It is provided that Turkey will negotiate agreements on a mutually advantageous basis with the third countries with which the EU already has an FTA. Article 16/2<sup>2</sup> underlines the application of identical rules of origin with the EU, for the smooth functioning of the free circulation of goods in the Customs Union.

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(1) Article 16/1: With a view to harmonizing its commercial policy with that of the Community, Turkey shall align itself progressively with the preferential customs regime of the Community within five years as from the date of the entry into force of this Decision. This alignment will concern both the autonomous regimes and preferential agreements with third countries. To this end, Turkey will take the necessary measures and negotiate agreements on mutually advantageous basis with the countries concerned. The Association Council shall periodically review the progress made.

(2) Article 16/2: In each of the cases referred to in paragraph 1 the granting of these tariff preferences shall be conditional on compliance with provisions relating to the origin of products identical to those governing the granting of such preferences by the Community.

Article 54<sup>3</sup> of the Decision states the harmonization requirement of Turkish legislation with the Community legislation in areas directly relevant to the Customs Union including new preferential trade regimes.

All in all, both parties of the Customs Union i.e. Turkey and the EU should have parallel FTAs in force. To this end, Turkey initiates negotiation process and concludes FTA's with the third countries as nearly as at the same time with the EU.

Turkey so far has concluded 29 FTAs, of which 10 were repealed due to the accession of these countries to the EU. Currently, Turkey has 18 FTAs (EFTA, Israel, Macedonia, Croatia, Bosnia-Herzegovina, Palestine, Morocco, Tunisia, Syria (suspended), Egypt, Albania, Georgia, Montenegro, Serbia, Chile, Jordan, S.Korea, Mauritius) in force and 1 FTA (Lebanon) is under ratification process. Meanwhile, negotiations are on-going with 14 countries/blocs. Turkey has attempts to launch negotiations with 12 countries/blocs.

As of 2012, concluded FTAs constitute 9.6% of exports and 4.5% of imports of Turkey.

Foreign trade is one of the driving forces of Turkish economy. Turkey follows open trade policy thanks to the Customs Union. In this context, FTAs are important instruments of Turkey's trade policy which targets increasing trade and investment with its partners through establishing more liberal and foreseeable trade order for the benefit of economic operators at both ends.

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(<sup>3</sup>) Article 54: In areas of direct relevance to the operations of the Customs Union, and without prejudice to the other obligations deriving from Chapters I to IV Turkish legislation shall be harmonized as far as possible with Community legislation.

Areas of direct relevance to the operation of the Customs Union shall be commercial policy and agreements with third countries comprising a commercial dimension for industrial products, legislation on the abolition of technical barriers to trade in industrial products, competition and industrial and intellectual property law and customs legislation.

## (2)Current Situation and Future Perspectives of Bilateral Trade

Bilateral trade values between Japan and Turkey dropped in 2009 under the influence of the global economic crisis, but have displayed an upward trend since 2010. In 2011 the total trade recorded an all-time high, surpassing the volume of 2008.

Trade Statistics Between Japan and Turkey (USD)

Year	Imports from Japan to Turkey※1	Imports from Turkey to Japan※2
2008	\$4,026,764,490	\$416,114,219
2009	\$2,781,971,052	\$399,442,248
2010	\$3,297,796,203	\$399,066,273
2011	\$4,263,730,434	\$514,194,936
2012	\$3,601,496,709	\$575,809,722

Source : ※1 Turkish Statistical Institute (TurkStat)

※2 Ministry of Finance of Japan “Trade Statistics”

(※ Exchange Rates were calculated as: 2008 \$1=¥104.23,

2009 \$1=¥93.52, 2010 \$1=¥88.09, 2011 \$1=¥79.97, 2012 \$1=¥79.61)

According to the Trade Statistics issued by the Ministry of Finance of Japan, Japan’s imports from Turkey totalled to \$416 million in 2008. After 2 years of decline, an upward trend has been seen since 2011 with around \$575 million imports in 2012.

According to the statistics of the Turkish Statistical Institute (TurkStat), Turkey’s imports from Japan fell in 2009 to \$2.78 billion. Since then, it has firmly recovered to \$4.26 billion in 2011, though the amount declined to \$3.6 billion in 2012.

One of the characteristics of the bilateral trade structure between Japan and Turkey is that imports from Japan to Turkey are mainly industrial products such as automobiles, vessels and construction machines, whereas imports from Turkey to Japan are mainly processed goods such as tobacco and foodstuff, specifically seafood, vegetables and fruits and textile products such as clothes, carpets and auto parts.



In addition, Japan's imports from Turkey in 2012 amounted to \$0.5 billion, whereas, Turkey's imports from Japan were around \$3.6 billion, which creates a considerable excess on Turkey's imports.

For Turkey, Japan was the 63<sup>rd</sup> largest exporting counterpart and the 15<sup>th</sup> importing counterpart (with a share of 1.8%) in 2011, which means that the amount of its trade with Japan is smaller than that of its trade with South Korea and China. As the result of the recent conclusion of an FTA between South Korea and Turkey, Japan is likely to face a further loss in market share with a decline in competitiveness of Japan's export items.

#### Japan's Top 10 Imports from Turkey (2012)

HS	Product Description	US Dollars	Percentage of Imports
03	Fish and crustaceans, molluscs and other aquatic invertebrates	63,931,328	11.10%
62	Articles of apparel and clothing accessories, not knitted or crocheted	51,147,218	8.88%
61	Articles of apparel and clothing accessories, knitted or crocheted	49,738,362	8.64%
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	49,333,388	8.57%
20	Preparations of vegetables, fruit, nuts or other parts of plants	33,518,415	5.82%
24	Tobacco and manufactured tobacco substitute products	32,260,043	5.60%
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	28,195,026	4.90%
19	Preparations of Cereals, Flour, Starch or Milk; Pastry Cooks	23,493,958	4.08%
08	Edible Fruit and Nuts; Peel of Citrus Fruit or Melons	19,751,815	3.43%
57	Carpets and other textile floor coverings	19,710,376	3.42%

Source : Ministry of Finance of Japan “Trade Statistics”

Turkey’s Top 10 Imports from Japan (2012)

HS	Product Description	US Dollars	Percentage of Imports
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,258,573,946	34.95%
87	Vehicles other than the railway or tramway rolling-stock, and parts and accessories thereof	489,516,550	13.59%
72	Iron and steel	349,917,919	9.72%
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	340,226,745	9.45%
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	224,637,627	6.24%
89	Ships, boats and floating structures	172,505,808	4.79%
40	Rubber and articles thereof	151,242,385	4.20%
39	Plastics and articles thereof	134,279,114	3.73%
73	Articles of iron and steel	58,190,070	1.62%
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	43,079,070	1.20%

Source : Turkish Statistical Institute (TurkStat)

Trade in services is also an important issue. Today, more than half of the annual world foreign direct investment flows are in services, which have been among the fastest growing components of the world trade over the last decade and a half. Leading the way are telecommunications, finance, health and a variety of business-related services. Turkey’s total exports of services have grown by 3 fold in the last 10 years. It is expected that a bilateral trade in services will increase with the possible Japan-Turkey EPA.

(3)Current Situation regarding Bilateral Investment

Foreign direct investment flow to Turkey has risen in this decade, reaching \$10.1 billion in 2012. The cumulative inflows for the last ten years amount to \$107.6 billion, representing a ten-fold increase compared to the previous decade. Main reasons for the recent increase in investments are Turkey's economic stability, prudential fiscal policies and a comprehensive investment climate reform program, one of the outputs being new and generous incentive scheme.

In the past, Japanese companies advanced into sectors of trading, construction, automobile, machinery and electrical goods. However their business field is now expanding to banking, insurance, media and food sectors, and consequently, the direct investments from Japan to Turkey reached \$33 million in 2012 and the direct investments from Japan to Turkey reached 303 million \$ in 2013 as of 31st of March 2013. The cumulative investment flows from Japan to Turkey in the last decade amounts to \$1,090 million, less than 1.1% of the total inflows to Turkey. There are around 162 Japanese companies doing business in Turkey with Japanese capital, including those without Japanese resident representatives.

A recent example of Japanese investment in Turkey is the decision by Sumitomo Rubber Industries to invest around \$500 million to build a tire manufacturing factory by 2015 in Çankırı province, near Ankara. It is also the case that the Bank of Tokyo-Mitsubishi UFJ invested \$303 million to establish a local subsidiary and to launch operations in 2013.

Since Turkey's long-term credit was upgraded to "investment grade" in May 2013 by Japan Credit Agency along with the previous increases by Fitch in November 2012 and Moody's in May 2013, Japanese companies, which have been showing interest in Turkey, are expected to increase their investments.

These examples were crowned by the recent signing of the Agreement between the Government of Japan and the Government of the Republic of Turkey on Co-operation for Development of Nuclear Power Plants and the Nuclear Power Industry in the Republic of Turkey and the granting of the exclusive right of negotiations to Japan regarding the construction of the Sinop Nuclear Power Plant, which are expected to bring about new avenues of co-operation in a wide range of areas.

#### (4)Current Situation on Agricultural Issues

##### a) Agricultural Situation in Japan

As the world's largest net-importer of agricultural and fishery products, Japan substantially contributes to the expansion of the international trade of agricultural and fishery goods. In the domestic market, along with changes in dietary habits, Japan's food self-sufficiency ratio has been drastically declining. According to an opinion poll conducted by the Cabinet Office in 2010, about 86% of Japanese people are concerned about food supply in the future. Under critical circumstances where agricultural lands and the number of farmers and fishers are continuously decreasing with increase of aging workforce caused by the lack of successors, the Japanese government strives to address these issues by increasing food self-sufficiency ratio to 50% on a calorie basis by 2020, with the aim of maintaining the stable food supply and multiple functions of agriculture.

For this reason, the consideration of sensitivities in the field of agricultural and fishery goods is important in the possible Japan-Turkey EPA.

##### b) Agricultural Situation in Turkey

Historically, the agricultural sector has been Turkey's largest employer and one of the major contributors to the country's exports and GDP. As the country has been developing, the share of agriculture in the economy is declining as opposed to the rapidly growing industrial and services sectors. Agriculture represents 24.56% of the employment and 9.4% of the GDP as of 2012.

Turkey is the world's 7th largest agricultural producer and has wide range of produce as such cereals, fresh fruits and vegetables, oil seeds, tea, husbandry, fishery. Turkey mainly exports poultry, fishery, fresh fruits and vegetables, dried fruits, nuts, olive, olive oil, wheat flour confectionery, pasta, canned food and tobacco. Turkish agricultural (HS 1-24) exports and imports amounted to 15.3 billion and 10.7 billion dollars respectively in 2012. The share of agro-exports in total exports was recorded as 10% whereas the share of agro-imports in total imports was recorded as 4.5%.

Favourable geographical conditions and climate are among the advantages of the Turkish agriculture. Owing to this favourable situation Turkey is self-sufficient in terms of agricultural production. However the sector also has certain shortcomings such as the small farm size (average is 6.5ha and nearly two-thirds of Turkish farms are less than 5 hectares in size.), the resulting lack of economies of scale, low productivity, high input costs, dependency on rain-fed agriculture and limited support granted to the agricultural production in line with its WTO commitments and budgetary constraints.

### Chapter 3 Summary of Discussions

The Joint Study Group has convened twice thus far, and both Japan and Turkey conducted discussions on a broad range of subjects. Both sides shared the view that the possible EPA between Japan and Turkey would not only expand trade and promote investments, but would also serve as a strategic framework in bilateral relations.

#### (1) Trade in Goods

Both sides shared the general view that Turkey needs to carry out negotiations with Japan in parallel with the EPA/FTA negotiations between Japan and the EU, taking the Turkey-EU Customs Union Agreement into account. The Turkish side explained that it is possible to conclude the Japan-Turkey EPA prior to the Japan-EU EPA, though in such a case a need for a consultation may arise within the Turkey-EU Customs Union Joint Committee.

Furthermore, both sides promoted a better understanding on their own sensitivities with respect to the agricultural and fisheries industry and agricultural and fishery products. Affirming that a possible Japan-Turkey EPA must not be a hindrance to the conservation and management of the fishery resources of both countries, both sides shared the importance of the sustainable use of fishery resources, including tuna species. Both sides also shared the view that decisions for improvement of market access must be taken on a case by case basis and that, with various choices such as tariff quota in mind, the issues must be discussed depending on the circumstances.

Both sides shared the view that it is not acceptable to abuse safeguard measures as a means of protectionism according to the needs of each country and confirmed that they discuss the issues such as the extent of the safeguard measures within the scope of the negotiations.

The Japanese side explained that its basic policy of liberalization of trade in goods is to eliminate tariffs as much as possible, noting that a further discussion is needed on sensitive areas including agricultural and fishery sector. As for the individual sectors, the Japanese side expressed its particular interest in the tariff elimination of industrial products, such as automobiles and auto parts, electrical and industrial machinery, chemicals, electrical and electronic goods, iron and steel, as well as on alcoholic beverages. The Japanese side also expressed the view that tariff elimination by the Turkish side of such products would not only benefit Japanese industry but also bring merit for Turkish consumers and would create a WIN-WIN effect for both countries.

The Japanese side also stressed that the exporting conditions related to the industrial sector in the possible Japan-Turkey EPA should be equal or better than those of the already signed Turkey-South Korea FTA.

Furthermore, the Japanese side expressed its interest in introducing the provisions regarding prohibition on the introduction or maintenance of export duties and other export restrictions on goods such as natural resources and food.

In addition, the Japanese side reminded that special consideration must be taken for the farmers and fishers that have been gravely affected by the Great East Japan Earthquake, suffering from the natural disaster, accident at Fukushima Dai-ichi Nuclear Power Stations of Tokyo Electric Power Company (TEPCO), and reputational damages.

The Turkish side is strongly interested in decreasing the existing trade deficit with Japan. Moreover, the Turkish side has the expectation for an asymmetric liberalization under EPA in both industrial and agricultural sectors considering the substantial imbalance in bilateral trade and differences in terms of size and development of the economies.

The Japanese side emphasized that both sides should aim to realize the mutually beneficial relationship rather than emphasizing the imbalance or differences.

Regarding the elimination of tariffs, both sides stressed the sensitivity of certain agricultural and fishery products.

## (2) Rules of Origin

Both sides confirmed that the Rules of Origin of the possible Japan-Turkey EPA should aim at:

- a) preventing goods from third countries from circumventing the rules;
- b) not creating unnecessary hindrance to trade;
- c) applying rules impartially, neutrally and consistently;
- d) ensuring transparency, clarity and predictability; and
- e) creating rules that are easy to understand for users and simple to implement for governments.

Both sides expressed their intention that the Rules of Origin, including Product Specific Rules (PSR), should be consistent with their existing EPAs/FTAs. For example, wholly-obtained or entirely-produced rules should be applied in general to agricultural and fishery goods, whereas selective standards of change in tariff classification or value added criteria should be applied to the industrial goods, which corresponds with the industrial realities.

The Japanese side expressed that while Japan's Certificate of Origin System is based on the Third Party Certification System, it is deemed desirable that the Approved Exporter System is also introduced and that an exporter is able to choose either the Third Party Certification System or the Approved Exporter System to certify an origin of a good.

## (3) Customs Procedures

Both sides shared the view that while details need to be discussed in the future, the application of customs procedures with predictability, consistency and

transparency is crucial and that it is important to deepen the cooperation between customs authorities while including the following elements in a Chapter on Customs Procedures in the possible Japan-Turkey EPA:

- a) improvement of transparency;
- b) simplification and harmonization of customs procedures (including the utilization of IT and risk management); and
- c) mutual cooperation and exchange of information (cooperation and exchange of information on the control of illicit drugs and prohibited goods) between customs authorities.

#### (4) Trade in services

The Japanese side expressed its intention to seek the adoption of “negative list” including the “Ratchet Clause” in general so as to assure higher levels of liberalization and transparency beyond GATS commitment.

The Turkish side expressed the view that the adoption of the “positive list” can further enhance the rate of liberalization rather than the adoption of the “negative list” because it is likely to be met with resistance by the relevant authorities.

Both sides decided to continue to discuss the most appropriate approach for the possible Japan-Turkey EPA.

The Turkish side also explained its interest in services in the areas of, inter alia, construction, education, nursery, entertainment, hotel, restaurant, residential care for the elderly and aviation.

The Japanese side expressed the intention to seek the liberalization of certain sectors in Turkey, such as audiovisual services, distribution services and computer and related services, in which Japan has an interest and that Turkey has not made any or full commitments at WTO negotiations.

The Japanese side expressed its intention to establish exclusive rules as an independent Chapter or as an Annex for the crucial areas of trade in services such as financial services and telecommunications. Turkish side expressed its intention to negotiate independent chapters on temporary movement of natural



persons and mutual recognition.

#### (5)Investment

From the points of, inter alia, creating employment, advancing technology transfer and improving the current account deficit, Turkey expects a further increase of Japanese investments through the possible Japan-Turkey EPA. Meanwhile, Japanese companies already active or planning to do business there, expect improvement of the investment and business environment in Turkey, considering that the country is promising not only because of its domestic market but also because of its role as a production base for the broader market including neighbouring countries.

Japan is promoting investment through improvement of investment environments. Japanese side stated that high-level commitments under the possible Japan-Turkey EPA covering elements of investment liberalization can assure an improved investment environment for investors of the both sides.

The Japanese side explained the importance of including “National Treatment” and “Most Favored Nation Treatment” at the pre-establishment stage, Prohibition of Performance Requirements and adopting the Negative List approach as well as fair and equitable treatment and Umbrella clause in the Investment Chapter in order to enhance the commitment level of the Investment Chapter.

The Japanese side proposed that the issues on goods, services and investments should be discussed together and that they should create chapters on investments in the possible Japan-Turkey EPA surpassing the existing Japan-Turkey Agreement on Investments. Both sides decided to continue to discuss what would be the most appropriate approach for the possible Japan-Turkey EPA.

#### (6)Electronic Commerce

The Japanese side explained that, regarding the field of electronic commerce, the inclusion of a chapter on Electronic Commerce in the possible Japan-Turkey

EPA would be beneficial to the progress of an international rule-making.

The Japanese side stressed its interest in having a Chapter on Electronic Commerce which includes the provisions regarding not imposing customs duties on electronic transmissions, non-discriminatory treatment of digital products.

Both sides decided to continue to discuss the most appropriate approach for the possible Japan-Turkey EPA.

#### (7) Technical Barriers to Trade

Both sides expressed the view that Japan and Turkey place efforts to ensure high-level transparency in accordance with provisions of the WTO Agreement on Technical Barriers to Trade (TBT Agreement).

The Turkish side expressed the view that it also attaches great importance to the TBT Agreement.

The Turkish side expressed its intention to follow up on this matter in parallel with Japan-EU negotiations.

Both sides confirmed that the issue should be farther discussed, in order to decide whether a chapter on TBT should be included in the possible Japan-Turkey EPA.

#### (8) Sanitary and Phytosanitary Measures (SPS)

Sharing the views that the issues related to SPS measures should be solved based on science, the Turkish side expressed its interest in the inclusion of chapters related to SPS measures in the possible Japan-Turkey EPA.

The Japanese side expressed that the WTO SPS Agreement has already established an appropriate balance of rights and obligations to protect human, animal or plant life or health based on science, and stressed that it is not always indispensable to include chapters related to SPS measures in the possible Japan-Turkey EPA. Furthermore, the Japanese side emphasized that the

existing bilateral channels between the two countries function sufficiently.

Both sides confirmed that the issue should be further discussed, in order to decide whether a Chapter on SPS should be included in the possible Japan-Turkey EPA.

#### (9)Government Procurement

The Japanese side expressed its view that it is necessary to include fundamental rules of government procurement (Non-Discrimination principle, ensuring transparency etc.) in the possible Japan-Turkey EPA for enhancement of fairness and transparency in procurement procedures, given that government procurement is an important structural element of the economic activities of the people of Japan and Turkey since government entities are important purchasers of goods and services in their respective markets.

The Turkish side emphasized that it is not a party to the Agreement on Government Procurement (GPA) and that there are no precedents for including government procurement chapters in their previous FTAs. It also notes that its procedure of government procurement is transparent and conforms substantially to EU regulations.

Both sides confirmed that the issue should be further discussed in order to decide whether a Chapter on Government Procurement should be included in the possible Japan-Turkey EPA.

#### (10)Intellectual Property

Both sides shared the view that it is possible to include a Chapter on Intellectual Property in the possible Japan-Turkey EPA.

The Japanese side expressed that Japan is highly interested in the protection of intellectual property and aims at including a Chapter on Intellectual Property which contains elements of the TRIPS-plus, in the possible Japan-Turkey EPA.

The Turkish side expressed that, regarding the protection of intellectual property,

the issue can be discussed depending on the interest of Japan since it has carried out previous FTA negotiations according to EU standards and considers it possible to use the FTA with South Korea as a reference.

#### (11) Competition

Both sides shared the view that it is possible to include a Chapter on Competition in the possible Japan-Turkey EPA.

Both sides expressed the view that the establishment of a sound competitive environment is necessary for ensuring benefits achieved by the liberalization of trade and investment. The Japanese side also stressed that it is important to include, in a Chapter on Competition of the possible Japan-Turkey EPA, implementation of appropriate measures against anticompetitive activities in accordance with fundamental principles of competition policy including non-discrimination, procedural fairness and transparency as well as promotion of cooperation between the competition authorities of both countries.

Stressing that Turkey is working towards improving the environment so as to ensure sound competition through the implementation of laws and regulations based on EU standards, the Turkish side also expressed that, depending on the interest of Japan, further discussions can be carried out.

#### (12) Improvement of Business Environment

Both sides confirmed that, regarding the improvement of the business environment, they continue to discuss the most appropriate approach for the possible Japan-Turkey EPA.

The Japanese side explained that, as part of efforts to contribute to development of mutual trade and promotion of direct investments, it has included, in its previous EPAs, provisions to further improve the business environment and has established sub-committees which enable the participation of representatives from the private sector. In its relations with Turkey, the Japanese side also indicated its intention to discuss, as part of the negotiations, the nature of TRINS and Economic and Trade Relations Committee (ETREC) which were established

under the Memorandum referred to in Chapter 1.

The Turkish side expressed the view that it responds flexibly to discussions on the issue, noting that it generally conducts business and technical cooperation through cooperation agreements other than FTAs, and in its relations with Japan, the Memorandum works in the same way.

#### (13)Labor

Both sides decided to continue to discuss, where appropriate, whether provisions or a chapter on Labor should be included in the possible Japan-Turkey EPA.

The Japanese side expressed its intention to discuss whether any kinds of elements related to the labor can be included in the possible Japan-Turkey EPA, noting that it has never included a Chapter on Labor in its previous EPAs. In response, the Turkish side expressed that it discusses the issue depending on the interest of Japan, while it does not have much interest in including a Chapter on Labor.

#### (14)Environment

Both sides decided to continue to discuss, where appropriate, whether provisions or a chapter on Environment should be included in the possible Japan-Turkey EPA.

The Japanese side expressed its intention to discuss whether any kinds of elements related to the environment can be included in the possible Japan-Turkey EPA, noting that while it has never included a Chapter on Environment in its previous EPAs, the inclusion of provisions regarding the environment in the EPA may have merits such as promotion of mutually-supportive trade and environmental policies, establishment and enforcement of environmental cooperation between each other and mutually complementary relations with multilateral environmental agreements.

The Turkish side expressed that it discusses the issue depending on the interest

of Japan, while it is not too keen on including a Chapter on Environment.

#### (15) Cooperation

Both sides confirmed that, where appropriate, a Chapter on Cooperation would be discussed as a subject of negotiation in the possible Japan-Turkey EPA.

Both sides expressed that the matters concerning the promotion of cooperation in mutual relations, the facilitation of trade and investment and the settlement of disputes should also be considered.

Noting that there is no problem in discussing the issues since it has included Cooperation in its previous FTAs, the Turkish side indicated that the areas to be considered should be clarified in order to carry out discussion in a smooth manner.

#### Chapter 4 Conclusion

The Joint Study Group recognized through a broad and detailed discussion, that a comprehensive, high-level, and WTO-consistent EPA between Japan and Turkey, noting the sensitivity of certain products in both Japan and Turkey and the need to follow-up on the possible effects accrued from the Customs Union, would contribute to bringing about significant benefits, which would further strengthen the economic relations between the two countries.

Such an EPA between Japan and Turkey would not only promote the expansion of trade and investment by eliminating tariffs and improving the investment environment, but also contribute to the invigoration of business by companies from both countries, as well as the strengthening of the political and diplomatic relations between the two countries, which play an important role in the economy of the respective regions. Therefore, the Joint Study Group recommends that the Government of Japan and the Government of Turkey launch a negotiation for an EPA between the two countries.

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