

## Imports cannot be reduced with additional customs duties

Unfortunately, the year 2020 is going on in a quite unexpected way. Covid-19 has turned all expectations for 2020 upside down. Nobody even predicted that the world economy would be affected this much in 3 months. The trouble was initially considered a supply problem; however, it became a recession as a result of the drop in demand. The threat of a global recession has made all expectations unfavourable. For example, while the IMF expected a global economic growth of 3% in early 2020, it now expects the global economy to shrink 3-6%. Also, the WTO which was expecting a 3% year-on-year improvement in global trade updated its forecast towards a downsizing by 30%.

### There was increase in imports in March while exports were decreasing

When we look at the data released by the Trade Ministry for March, it is seen that there is a 17% decrease in exports compared to the previous year. The most important reason for this is that Covid-19 started to impact our export markets. Especially the developments in the European Union (EU), our most essential export market were also effective here. When we look in terms of sectors, the automotive and white goods sectors were the ones most affected by this decrease in export volume. The announcement regarding April will be made in May, but according to the news reported this week, the decline in exports is continuing and a 47% decrease is expected in the export volume compared to the previous year.

While there is such a dramatic decrease in exports, we see that the same rates persist in imports compared to the previous year, even a slight increase is observed. We anticipate that we will see a similar picture in April.

As a result of evaluating the import and export figures together, it seems that the foreign trade deficit will continue to increase.

| Foreign trade                                | March  |        |          | Jan-Mar |         |         |
|--|--------|--------|----------|---------|---------|---------|
|  | 2019   | 2020   | Chg. (%) | 2019    | 2020    | Chg (%) |
| Exports                                      | 16,336 | 13,426 | -17.81   | 44,534  | 42,783  | -3.93   |
| Imports                                      | 18,250 | 18,821 | 3.13     | 50,472  | 55,662  | 10.28   |
| Foreign trade vol.                           | 34,586 | 32,247 | -6.76    | 95,006  | 98,446  | 3.62    |
| Foreign trade bal.                           | -1,915 | -5,395 | 181.79   | -5,938  | -12,879 | 116.89  |
| Proportion of imports covered by exports (%) | 89.5   | 71.3   |          | 88.2    | 76.9    |         |

### Additional customs duties enacted at a high and wide scope

Temporary Additional Customs Duties (ACD) to be applied for 6 months as of April 18, 2020 came into force. ACD rates range from 5% to 50%. When we look at the products, it is understood that ACD's will be applied over a thousand products, especially plastic, electronic, iron-steel, sports products and machines. The implementation is expected to be abolished as of September 30 and previous rates on these products will be effective again.

In line with previous practices, these taxes are not applied to products originating in a country member to the EU and countries that we have a Free Trade Agreement (FTA).

The only exception is the cross-cumulation scope for products originating from countries (eg Egypt, Morocco) for products not imported from the EU and imported through the EU accompanied by the A.TR Movement Certificate.

#### **ACD rates with the Decision no.2424 (overall)**

| <b>Product line/ Sector</b>              | <b>18.04.2020-30.09.2020</b> | <b>01.10.2020 and after</b> |
|--|------------------------------|-----------------------------|
| Adhesives                                | 30%                          | 10%                         |
| Plastic products                         | 26-40%                       | 8-10%                       |
| Screw etc. iron and steel products       | 30%                          | 10%                         |
| Fans, cutting tools, hydraulic           | 14-20%                       | 7.7-20%                     |
| Electric machines                        | 7.1-20%                      | 5-7.5%                      |
| Some multimeters                         | 5.8%                         | 5.8%                        |
| Wrist, pocket watches, other watches     | 45%                          | 25%                         |
| Video game consoles, entertainment items | 35-50%                       | 10-20%                      |
| Buttons, studs                           | 46-50%                       | 10%                         |

#### **What to do?**

First of all, we see that the Covid-19 process did not decrease our import amount with the same rate it decreased our export amount. The main reason for this is that we have import based production, export and growth structure. Since 75-80% of our imports consist of raw materials and semi-finished goods, it cannot be possible to decrease our imports at expected levels by increasing taxes on imports. This will be seen the best in April import figures. If there is no decrease in imports, as you can guess, these taxes will increase the costs of imports. At this point, what we need to focus on is a structural transformation. In the medium and long term, we need to put more emphasis on areas where we are advantageous such as reducing import dependency or logistics and service exports.

The most important issue during the periods when high ACD applied is the customs practices that are exempted. Customs facilities such as inward processing regime and investment incentive certificate are of great importance. It is vital to plan business in this direction.

The issue we have discussed the most in the implementation of ACD is the proof of origin. At this point, the proof of origin must be made in accordance with the legislation in import transactions from the country that is exempt from ACD. Recently, very serious administrative fines and additional tax accruals were encountered in similar situations. It is important not to skip this issue in the Covid-19 process.

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