December 11, 2024

H.E. Prof. Dr. Ömer BOLAT
Minister of Trade
Government of Türkiye
Söğütözü Mahallesi Nizami Gencevi Caddesi 63/1 06530
Çankaya / ANKARA
TÜRKIYE

Dear Minister:

We write to you in a private manner on behalf of global services industries engaged in trade and investment with Türkiye, to share with you the importance we see of a lasting moratorium on customs duties on electronic transactions, especially for MSMEs in Türkiye.

We appreciate the Government's objective to make Türkiye a digital economy and innovation hub, and the efforts made towards that goal, including investment in digital infrastructure, and building out digital governance that allows data to flow. The benefits of these efforts are already bearing fruit. Türkiye's service exports in the ICT sector amounted to nearly US$1.5 billion in 2019 and US$2.6 billion in 2022 (+70 % in 4 years) while the ICT sector grew by 7% in 2021, exports rose by 30%. Fintech, cybersecurity, gaming, ICT in healthcare, ICT in mobility, e-commerce, and telecommunications are just a few sub-sectors within the ICT industry that have seen rapid technological development and growth.

Nevertheless, foreign digital businesses have found it increasingly difficult to operate in Türkiye due to local content requirements, restrictions on social media platforms, and other measures including the 7.5% digital services tax (DST) (from which we understand Türkiye will transition to a new international tax framework under the OECD/G20 Inclusive Framework's Two-Pillar solution, a development we welcome.)

In this context, we appreciate the Government of Türkiye's active participation in and support for the WTO Joint Statement Initiative (JSI) negotiations on E-Commerce. We are concerned, however, by Türkiye's recent announcement during the last consultation phase on the stabilized text of 26th July 2024 that the country will not be ready at this point in time to support the Agreement on Electronic Commerce.

We consider great progress has been made with the achievement of important digital trade facilitation provisions which will be helpful for the growth of digital services globally. We also are very encouraged by the critical mass of support achieved for a lasting prohibition on customs duties on electronic transmissions. We recognize there is still more work to be done to ensure that the benefits of the WTO e-commerce moratorium endure and are shared by all.

Given the relative current lack of digital trade provisions in Türkiye's various regional and bilateral trade agreements, Türkiye is ranked 84th in the OECD's initial work underway to measure digital trade integration and openness (INDIGO). We therefore welcome Türkiye's recent increased interest in negotiating digital trade provisions with trading partners as this will enhance Türkiye's integration in the global digital economy. Of the 91 WTO members that participated in the JSI on e-commerce, Türkiye is among those which stand to gain the most. The OECD estimates that Türkiye would benefit significantly by participating in the JSI e-commerce agreement, including the provisions on custom duties on electronic transmissions, with its digital trade integration and openness score more than doubling (an estimated increase of 130%), ratcheting Türkiye to a higher-level position and sending a positive policy signal for digital services investment.

The reverse is the case should Türkiye falter in signing on to the JSI agreement on e-commerce and lose the economic opportunity on offer. Türkiye's score would drop lower than it is at present, sending a decidedly negative policy signal for digital services investment, prejudicing ongoing growth in the local ICT sector.

There is abundant recent research on the value of digital services to developing and emerging economies and to MSMEs in particular (a summary of this research is enclosed). With international trade now dominated by business-to-business transactions in global value chains, this extensive research documents the benefits of digital services imports, as well as exports for small business, and the importance of avoiding barriers to cross-border data flows. OECD estimates suggest that a potential duty on electronic transmissions would likely generate no more on average for upper middle-income countries than 0.06% of government revenue and potentially come at the expense of sectors which rely heavily on imported services[1].

Customs duties on electronic transmissions would also increase the cost of basic digital services for consumers in Türkiye. Potential countermeasures by other countries could further exacerbate these costs.

In summary, the global and local studies suggest that customs duties on inbound data transfers, online access to operating software and other digital tools would fuel inflation, raising the costs of digital business inputs for Türkiye's MSMEs, prejudicing their consumption and reducing their global competitiveness and export performance. The damage to small businesses would reduce economic growth and, in turn, tax collection.

There are better, more efficient and higher revenue-producing tax alternatives to imposing duties on digital imports, such as VATs and GSTs, that follow established international tax norms and are non-discriminatory, applying to both domestic and imported services. A study from the International Monetary Fund estimates that at the global level, a VAT on electronic transmissions would yield about 150% more potential revenue than tariffs[2]. Türkiye already has a VAT in place and many other countries have implemented such taxation frameworks.

We consider that it would be valuable for the WTO e-commerce work programme to host information-sharing events and facilitate technical capacity building, to help WTO members to implement VATs or GSTs and draw on the experience of members that have successfully managed this. We understand technical assistance may also potentially be forthcoming under the JSI Agreement on E-Commerce and would encourage Türkiye to seek access to any such support which may be required. The ACP group's communication to the WTO in December 2023[3] called for multilateral bodies such as the WTO or OECD to do more work on VATs and GSTs, including through information-sharing about their implementation by WTO members. If there are other areas that the WTO e-commerce work programme could explore that would benefit Türkiye's MSMEs, we would be interested in your recommendations.

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[1] See page 31 – Table 2B - OECD, Understanding the Potential Scope, Definition and Impact of the WTO E-Commerce Moratorium, OECD Trade Policy Paper, October 2023 n°27

[2] International Monetary Fund, *Fiscal Revenue Mobilization and Digitally Traded Products: Taxing at the Border or Behind It?* IMF Not 2023/005 (2023) (The "maximal revenue potential of VAT on trade in digitized goods, based on a static analysis, is about 150 percent higher than that of tariffs."); *See also,* OECD, Understanding the Potential Scope, Definition and Impact of the WTO E-Commerce Moratorium, OECD Trade Policy Paper, October 2023 n°27, ("Standard VAT/GST taxes applied on digital services imports would offset in most countries the fiscal revenue effects of the Moratorium." Page 36).

[3] https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/GC/W916.pdf&Open=True

We greatly appreciate your consideration of these perspectives. Please do not hesitate to make contact if you have any questions or concerns that we can address.

Sincerely,

ACT | The App Association
Asia Pacific Services Coalition
Australian Services Roundtable
Coalition of Services Industries
European Services Forum
Global Data Alliance
Global Services Coalition
Hong Kong Coalition of Service Industries
Japan Services Network
Taiwan Coalition of Service Industries
TheCityUK
TechUK

Cc: Presidency of the Republic of Türkiye Digital Transformation Office
Minister Mehmet Simsek, Ministry of Finance of Türkiye