



ETCF II is co-financed by the European Union and the Republic of Turkey



# EU-TURKEY RELATIONS:

Perspectives from the European  
business community - 2013



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# EU-TURKEY RELATIONS: PERSPECTIVES FROM THE EUROPEAN BUSINESS COMMUNITY

EUROCHAMBRES and TOBB - 2013

This survey is carried out in the framework of the second phase of the EU - Turkey Chambers Forum (ETCF II) project. The ETCF II project is a three-year project implemented by the Association of European Chambers of Commerce and Industry (EUROCHAMBRES) and the Union of Chambers and Commodity Exchanges of Turkey (TOBB). ETCF II is co-financed by the European Union (EU) under the IPA 2009 Civil Society Facility. It aims at strengthening mutual knowledge, dialogue and long-term co-operation between the Turkish Chambers of Commerce and their counterparts in the EU, thus promoting the integration of EU and Turkish business communities.

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# TABLE OF CONTENTS

Introduction .....	7
Executive Summary .....	8
1 Respondent profile .....	11
2. EU – Turkey trade and investment relations .....	13
2.1. Profile of European companies that trade and invest in Turkey.....	13
2.2. Turkey’s share in European companies’ overall export strategies .....	14
2.3. Familiarity with and interest in the Turkish market.....	15
2.4. Attractiveness of the Turkish market.....	16
2.5. Main barriers to trade and investment in Turkey.....	17
3. The Customs Union between Turkey and the European Union.....	19
3.1. Level of awareness on the Customs Union and its perceived impact.....	19
3.2. Willingness to improve the Customs Union.....	20
4. Information needs and sources from the European companies on Turkey trade-related issues.....	22
4.1. Information needs on trade related issues on Turkey.....	22
4.2. Sources of information on trade related issues on Turkey.....	23
5. European companies’ view on Turkey’s access process.....	25
5.1. Level of awareness of Turkey’s EU accession process.....	25
5.2. Expectations from a potential EU membership for Turkey.....	26
5.3. Lobbying activities .....	31
Annex: Questionnaire .....	33



# INTRODUCTION

We are delighted to share with you the results of a detailed and unique survey on the perspectives of the European businesses towards EU-Turkey relations, both from a business and enlargement angle.

This survey offers a comprehensive assessment of the level of awareness of European companies about the Turkish market but also about institutional relations between Turkey and the European Union (i.e. the implementation of the Customs Union and the EU accession process). The survey was carried out among 1760 companies from all the EU 27 countries, representing all sectors and sizes. The survey also offers an overview of the attitudes of European companies towards Turkey, as an important trade partner for the European Union and a potential future EU Member State.

The main findings of this survey reveal that 1) European companies do not feel properly informed about both the Turkish market and Turkey's accession process to the European Union, 2) trade and investment opportunities for European companies in Turkey remain under-exploited, 3) European companies are divided regarding the impact of Turkey's potential EU membership on their business and on the overall society, 4) almost three quarters of European companies (72%) believe that Turkey will be member of the European Union one day.

The survey's results stress the importance of improving the business environment in Turkey as well as actively promoting the Turkish market in Europe, in order to further untap the potential for trade and investment between the two regions.

From an enlargement perspective, as European companies believe in their majority that Turkey will join the European Union, it is crucial that they are part of the accession process and make sure that their interest are taken into account while the terms and conditions of Turkey's membership are defined.

We believe that Chambers of Commerce and Industry, as leading business representatives, have a legitimate responsibility to help European companies in meeting these challenges. It is crucial that Chambers provide relevant information and efficient services to European companies before they go to Turkey and while they operate there. Moreover, thanks to their wide network, Chambers have the capacity to increase the mutual knowledge and understanding between both business communities.

It should also be the role of the Chamber network to inform European businesses about the benefits and challenges of Turkey's potential EU membership and to ensure that their voice is heard in the on-going EU accession process, in order to defend their interests.

This survey confirms the crucial importance of Turkey for the European Union. We are confident that it will, as well as the mirror survey on "Corporate preparations in Turkey for EU membership", contribute to the on-going debate about Turkey's EU membership.



Alessandro Barberis  
*President of EUROCHAMBRES*



M. Rifat Hisarcıkloğlu  
*President of TOBB*  
*Deputy President of EUROCHAMBRES*

# EXECUTIVE SUMMARY

## **European companies have displayed a low level of familiarity with the Turkish market and EU-Turkey relations in general ...**

The majority of the respondents (70%) are not familiar with the Turkish market or the Customs Union between the European Union and Turkey (53%).

Eight years after the beginning of the accession negotiations between the European Union and Turkey, European companies still do not feel they are well informed about Turkey's EU accession process. A majority of the participating companies (52%) declare to be aware about the accession negotiations, but only 9% consider that they are very well informed on the overall process.

## **... while at the same time expressing a fairly high level of interest in Turkey both from a trade and enlargement angle**

Companies participating in the survey have expressed a high level of interest in getting more information on several trade-related issues, in particular on commercial opportunities in Turkey, potential business partners as well as on the business environment in Turkey (relevant sectoral legislation and tax regulations).

European companies have also expressed an interest in being more informed about Turkey's EU accession process.

## **Filling the information gap might increase European companies' support for Turkey's EU integration process ...**

Filling the information gap on the Customs Union as well as the EU accession process is crucial as the lack of information seems to lead to a negative perception of the Customs Union as well as of the potential impact of Turkey's accession to the EU.

On the contrary, the more European companies are familiar with the Customs Union and the accession process, the more they perceive their concrete benefits. They know that they will directly benefit from the implementation of the EU *acquis* in Turkey. The business environment will keep improving and it will be easier to trade and invest in Turkey.

It is even more crucial to inform the European business community of the challenges and benefits of given that 1) European companies are quite divided on this issue if we consider the impact on their business and they are pessimistic if we take a wider perspective and look at the impact on the whole society; 2) in their large majority, the European companies which participated in the survey do believe that Turkey will join the EU and more than half of them consider it will happen by 2023.

## **... and strengthen their voice in the on-going debate on Turkey's EU membership**

Well-informed European companies would not only be able to show greater commitment to the overall process, they would also play a more active role in this process. Only a minority of European companies actively lobbied for Turkey's EU accession. However, they are in their large majority eager to be more involved in the on-going debate on Turkey's EU membership and consider that their business representatives should take a clearer position on this issue.

The business intermediary organisations, including Chambers of Commerce and Industry, should be the voice of the European business vis-à-vis European /national /local authorities. They should enhance their role of information interface between European companies and policy-makers.

## **There is room to improve the EU-Turkey trade relations**

There is still large untapped trade potential for EU companies in Turkey. Clear manifestations of this can be seen by the fact that the majority of the participating companies (87%) which are doing business in Turkey are not export-intensive companies and that the share of these companies' exports to Turkey remains low.

Moreover, one fifth of the participating companies have only business contacts in Turkey which could be further developed. At the same time, almost one third of the respondents (31%) would be interested in developing trade and investment opportunities in Turkey, even if they are unfamiliar with the Turkish market.



### **To improve and maximise the trade and investment relations between Turkey and the EU, the information gap should also be filled ...**

Internet and Chambers of commerce are recognised as the primary sources of information for European companies on trade-related issues on Turkey. Chambers have, therefore, a particular responsibility in filling the information gap and in providing accurate and targeted information to European companies to facilitate their entry into the Turkish market and to ensure they remain competitive while operating there.

It is crucial to ensure that European companies have access to objective information on opportunities as well as on the main challenges of trading with / investing in Turkey.

Awareness and communication campaigns should be inclusive and should also target European companies which affirm not being interested in Turkey.

### **... the remaining trade barriers tackled ...**

The majority of European companies (82%) operating or investing in Turkey consider that important barriers to trade and investment remain, the most important ones being: logistics, burdensome customs procedures as well as differences in technical standards and certification requirements.

As a result of the implementation of the Customs Union as well as the progressive alignment of Turkish legislation to the EU *acquis*, the business environment has already changed considerably in the past decade.

However, Turkey could attract more European businesses by further improving its business environment and tackling remaining trade barriers. Two findings confirm the need to improve the business environment in Turkey: 1) easier access to the Turkish market and more transparent business practices are the primary expectations from Turkey's potential EU membership, 2) business environment ranks last in the motivation of European companies to do business or to invest in Turkey.

### **... and the Customs Union improved.**

The success of the Customs Union, in place since 1996, is not contested. However, European companies, in particular companies with an experience in Turkey, agree that the Customs Union should be improved and extended to new areas, such as services, agricultural product, consumer protection, food safety, etc. The inclusion of these areas in the Customs Union would improve the regulatory environment in Turkey, and generate new business opportunities.

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1 They export less than 50% of their turnover.

2 A relative majority, which do export in Turkey, export less than 10% of their overall exports to the Turkish market.



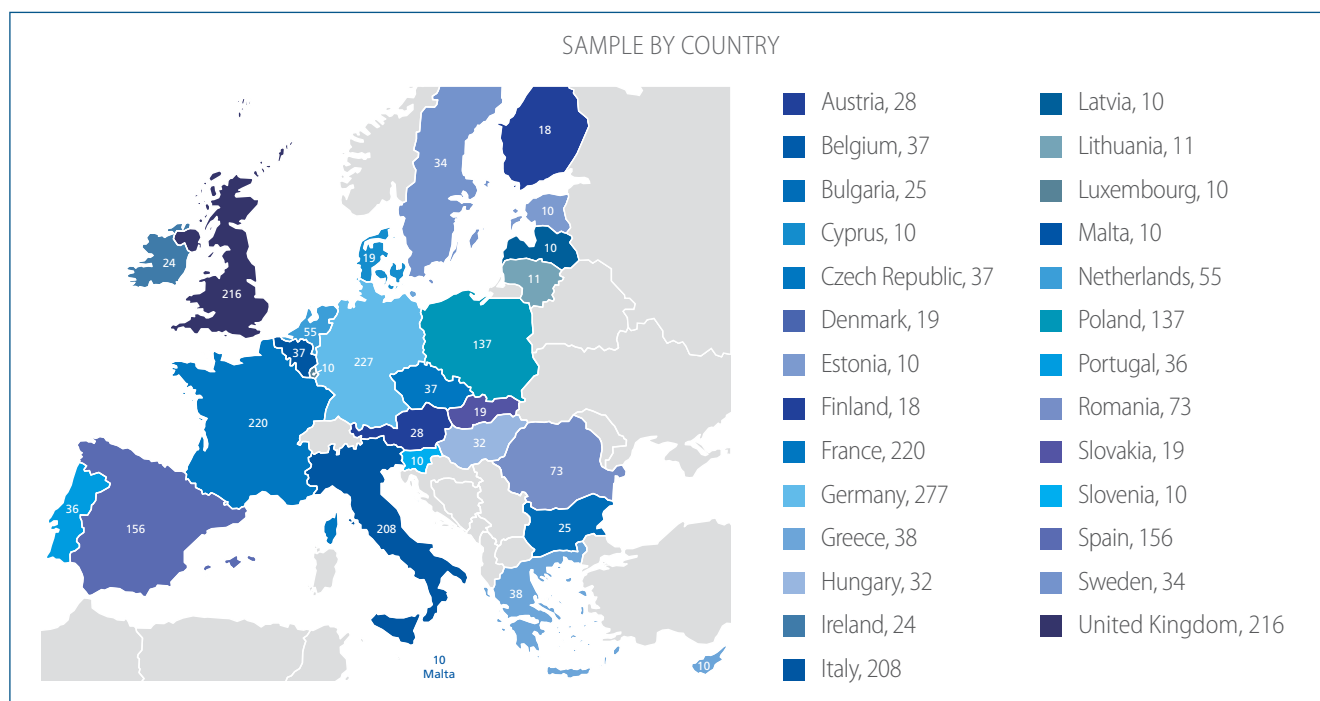
# 1. RESPONDENT PROFILE

A representative sample of 1,760 companies across the European Union fully completed a detailed questionnaire (see annex).

All the 27 EU countries<sup>3</sup> have been covered by the present survey. The number of questionnaires completed by each country is proportionate to its population, ranging from 10 in the six smallest EU Member States to 277 in Germany. This should be borne in mind when comparing results across countries.

In terms of size, turnover, sector and export orientation, the sample represents a well-balanced structure of companies.

SMEs<sup>4</sup> and in particular micro-enterprises<sup>5</sup> and small enterprises<sup>6</sup> constitute the majority of the respondents (66.5% of the respondents employ less than 250 persons and 58% of the participating companies' turnover is less than €50 million).



<sup>3</sup> The survey was carried out just before Croatia's accession to the EU.

<sup>4</sup> We have applied the European Commission definition of micro, small and medium-sized enterprises adopted in the EC recommendation of 6 May 2003 2003/361/EC:

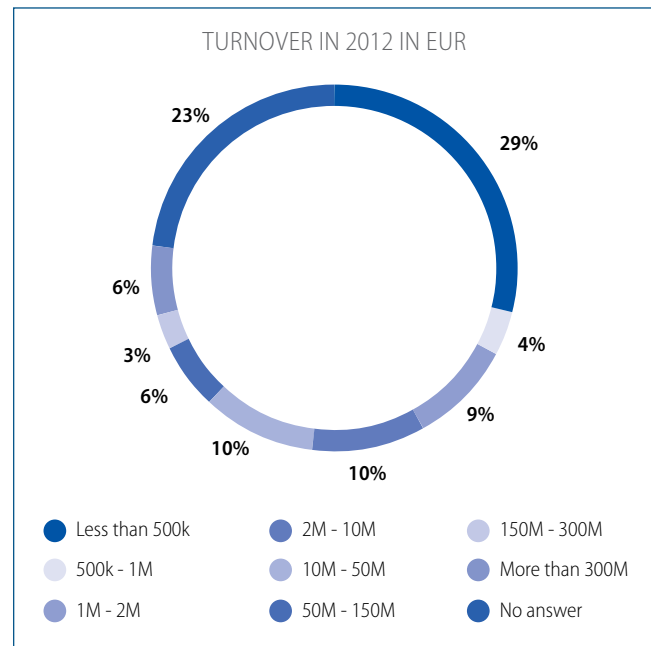
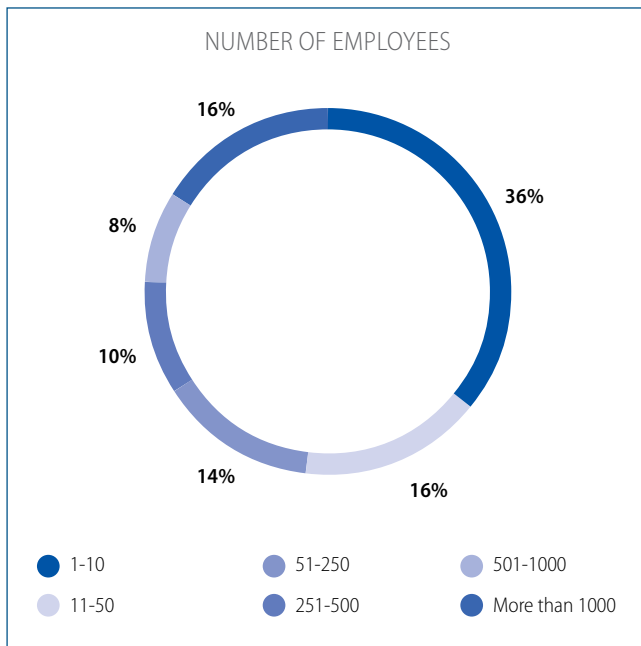
1. The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

2. Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.

3. Within the SME category, a micro-enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million. In order to avoid complexity in the classification, in this report, except for the section on company profiles, companies with less than 250 employees are considered as SMEs.

<sup>5</sup> 36.3% of the participating companies employ less than 10 persons and 39.4% of the companies have a turnover which does not exceed EUR 2 million.

<sup>6</sup> 15.9% of the respondents employ between 10 and 50 persons and 8.9% of the participating companies have a turnover between EUR 2 million and EUR 10 million.



All sectors have been represented in the survey. Manufacturing is the most represented sector; with almost 1 out of 5 participating companies (24%) operating in this sector.

62% of the surveyed companies exported less than 10% of their turnover in 2012 to Turkey while only 8% of the respondents export more than 50% of their turnover. This rather low figure can be explained by the high number of SMEs among the respondents and the fact that the smaller the company, the less it tends to internationalise.<sup>7</sup>

<sup>7</sup> According to the survey "Internationalisation of European SMEs" published by the European Commission in 2010, 25% of SMEs within the EU 27 export, of which about 50% also go beyond the Internal Market (13%).

## 2. EU – TURKEY TRADE AND INVESTMENT RELATIONS

This chapter describes the profile of European companies present in Turkey and their familiarity with the Turkish market. The main reasons to do business in Turkey as well as the main barriers to trade will be also analysed.

### 2.1. PROFILE OF EUROPEAN COMPANIES THAT TRADE AND INVEST IN TURKEY

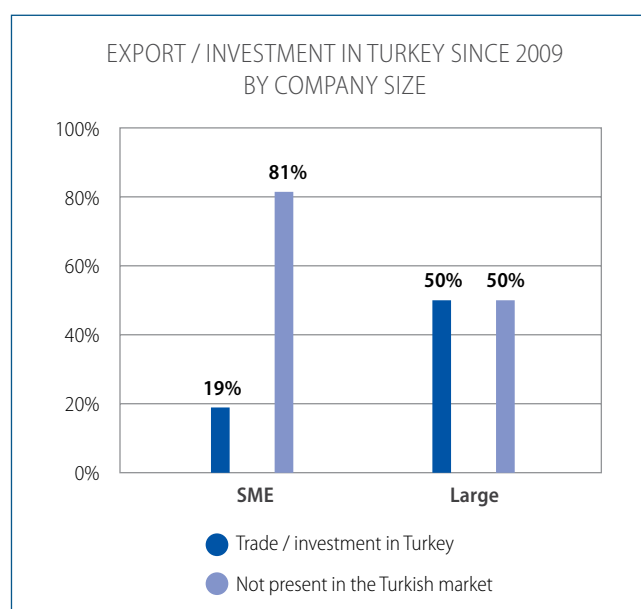
When conducting the survey, special efforts have been made to ensure that a significant proportion of the respondents have already traded with/ invested in Turkey. This allows for interesting comparisons of findings between companies which have an experience in trading / investing in Turkey and companies which are not present in the Turkish market. As a result, more than 1 out of 4 of the surveyed companies (26%) have already traded with/ invested in Turkey over the last three years. This category of companies is over-sampled to guarantee a sufficient number of observations<sup>8</sup>.

The highest percentages of trade and investment in Turkey among the respondents are recorded by companies from Malta (50%), Italy (45%), Austria (43%), Denmark (42%), Netherlands and Luxembourg (40%)<sup>9</sup>.

On the contrary, Lithuanian and Latvian companies which participated in the survey are absent from the Turkish market, while Bulgarian and Slovakian responding companies, and more generally respondents from the Eastern EU countries are less present in the Turkish market.

As expected, among the respondents, larger companies are much more present in the Turkish market than SMEs (50% of the large companies interviewed are present in Turkey against 19%

of the SMEs). This corresponds to the general trend: SMEs go less to the international market, in general, than large companies, due, mainly, to a lack of financial and human resources.

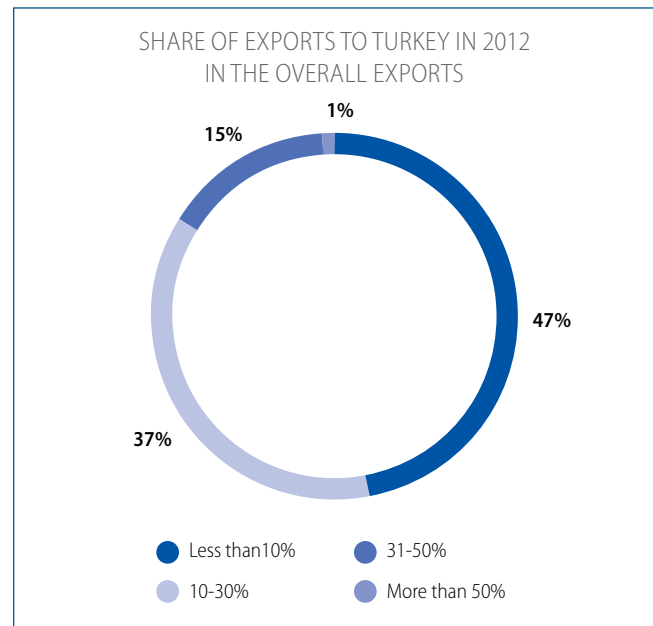
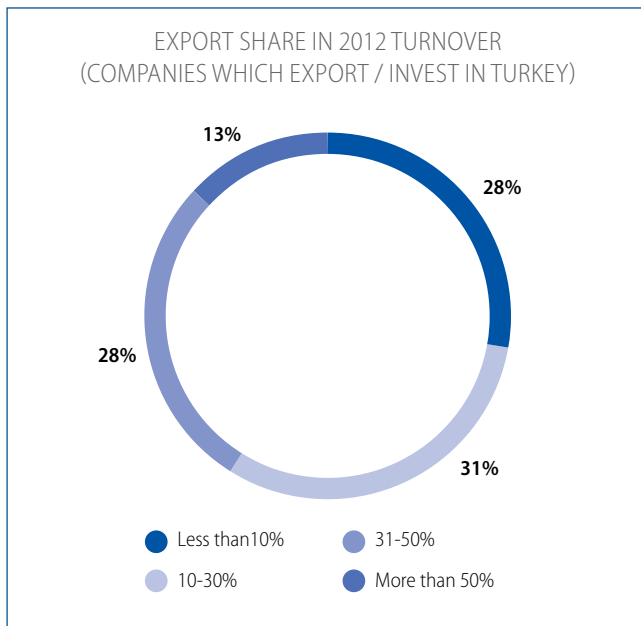


According to the sample, companies operating in the manufacturing sector (in particular, manufacturing of tobacco products, machinery and equipment, leather and related products, basic metals, and fabricated metal products), as well as companies operating in the textile and mining sector, are the most present in the Turkish market.

Among the participating companies, the “typical” profile of companies doing business with, or investing in, Turkey are companies exporting less than 50% of their turnover. Only 13% of export-intensive companies (more than 50% of their turnover in 2012) are exporting to or investing in Turkey.

<sup>8</sup> Turkey ranks 6th in the EU's top trade partners and accounts for 3.5% of EU trade (Source: DG Trade statistics, European Commission, July 2013) and 3% of EU foreign direct investments go to Turkey (Source OECD, April 2013).

<sup>9</sup> According to TUIK, the Turkish Statistical Institute, Turkey's five main EU trade partners in 2012 are: Germany, Italy, the United Kingdom, France and Spain and the main EU investors in Turkey are the United Kingdom, the Netherlands, Austria, Germany and France.



## 2.2. TURKEY'S SHARE IN EUROPEAN COMPANIES' OVERALL EXPORT STRATEGIES

The Turkish market still has a relatively secondary role in the commercial strategies of exporting companies, in particular of SMEs.

If we look specifically at the participating companies which export to Turkey, the share of their exports to Turkey remains low. Almost the majority of companies in this category (47%) export less than 10% of their overall exports to Turkey.

It is worth pointing out that in nine EU countries (Bulgaria, Denmark, Germany, France, Italy, Netherlands, Poland Portugal and Finland), more than half of the companies export more than 10% of their exports to Turkey.

If we look at specific sectors, we also notice exceptions. One third of the responding companies operating in the agricultural sector export more than 50% of their total exports to Turkey and three quarters of the surveyed companies operating in the mining sector, as well as manufacturing companies of beverages and tobacco products, export between 31 and 50% of their exports to Turkey.

The share of exports to Turkey is, also, more important for large exporting companies than for exporting SMEs. While the majority of exporting SMEs (62%) export less than 10% of their exports to Turkey, the majority of large companies export between 10 and 30% of their exports to Turkey.

These results highlight that there is still untapped export potential for EU companies.

### 2.3. FAMILIARITY WITH AND INTEREST IN THE TURKISH MARKET

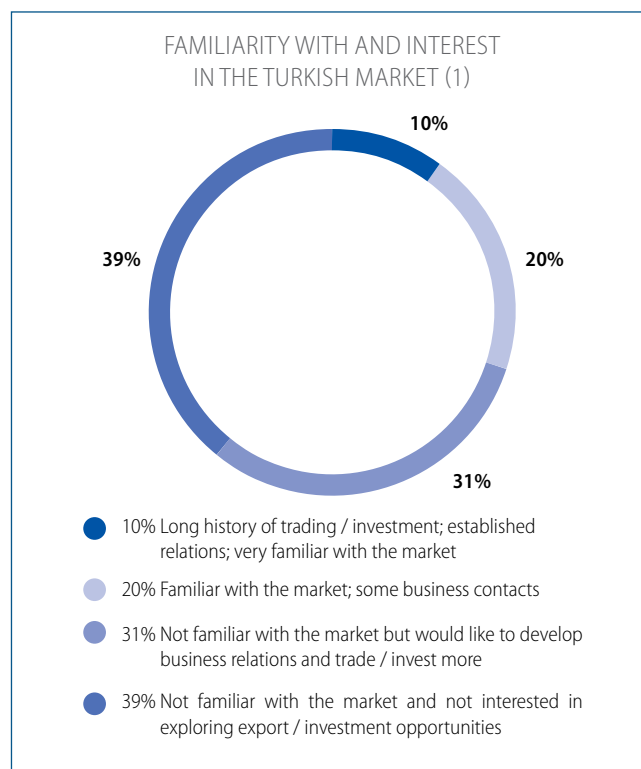
**European companies have expressed a fairly high level of interest in the Turkish market while at the same time displaying a low degree of familiarity with this market.**

The majority of European companies are not familiar with the Turkish market, but a non-negligible proportion would like to be more informed on the trade and investment opportunities.

3 out of 10 companies affirm being familiar with the Turkish market (of which 1 out of 10 being very familiar and having a long history of trading / investing in Turkey), while 4 out of 10 surveyed companies (39%) declare not to be interested in the Turkish market.

More than 3 out of 10 responding companies (31%) affirm being not familiar with the Turkish market but interested in developing business relations.

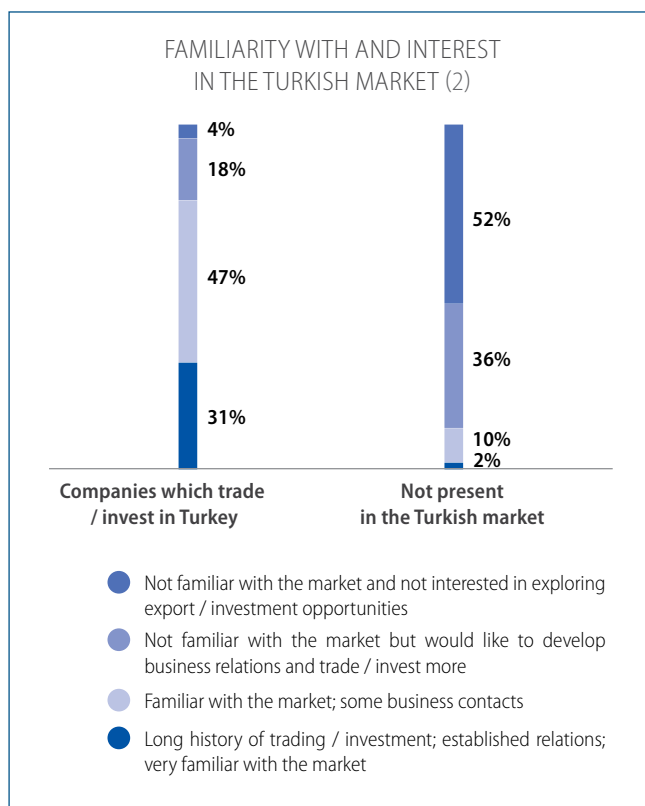
If we want to optimise trade and investment of European companies in Turkey, it will be crucial to target this specific category of European companies, interested but not aware of the opportunities of the Turkish market, and to provide them with relevant information to translate their interest into concrete business opportunities.



Among the companies which export to/ invest in Turkey, almost one third of the companies (31%) are very familiar with the Turkish market and have established relations in Turkey. Almost half of the respondents (47%) have only business contacts which could be further developed and almost one fifth of the surveyed companies (18%) are not really familiar with the market but would like to further develop business relations.

The majority of the surveyed companies (52%) which are not yet present in the Turkish market are not interested in exploring trade / investment opportunities in Turkey. However, more than one third of this category of companies (36%) would like to develop new opportunities but are not familiar with the market.

Once again, these results confirm that there is room for improving European business and trade opportunities in Turkey by better informing European companies about the Turkish market and its opportunities.



There is a direct link between the level of familiarity and the size of the company. The larger the company, the more it tends to be familiar with the Turkish market. Large companies are twice more familiar with the Turkish market than SMEs (53% of large companies are familiar with the Turkish market against 22% of the SMEs). They are also more interested in developing business relations with Turkey (only 28% of large companies are not interested in developing business relations in Turkey against 41% of SMEs).

An important proportion of SMEs (37%) is interested in developing business relations in Turkey even if not familiar with the market. It is important to assist these companies in tapping into the Turkish market.

At the country level, participating companies in the Netherlands (44%), Greece (42%), Italy (42%) and Austria (39%) seem to be the most familiar with the Turkish market.

The level of awareness is particularly low in the Baltic States, Cyprus and in some of the central European countries (Slovakia, Hungary, and Slovenia).

It's worth mentioning that surveyed companies from countries which have been suffering the most from the current crisis (Greece, Hungary, Ireland, Italy, Portugal, Spain) seem to be most interested in developing business relations with Turkey even if they are not familiar with the market.

On the other hand, companies reporting the least interest in developing trade/ investment opportunities in Turkey are to be found in France, the United-Kingdom, Poland and in the Northern EU countries (Denmark, Sweden, Finland, Latvia, and Lithuania).

## 2.4. ATTRACTIVENESS OF THE TURKISH MARKET

**The main attractions for European companies are the country's strategic location between the West and the East, as well as its good economic performances.**

The two main reasons which have attracted European companies in Turkey are: 1) its strategic location as a natural bridge between Europe, Central Asia, Asia and the Middle-East (64% of the respondents who have an experience in doing business / investing in Turkey); 2) its fast growing domestic market (57%).

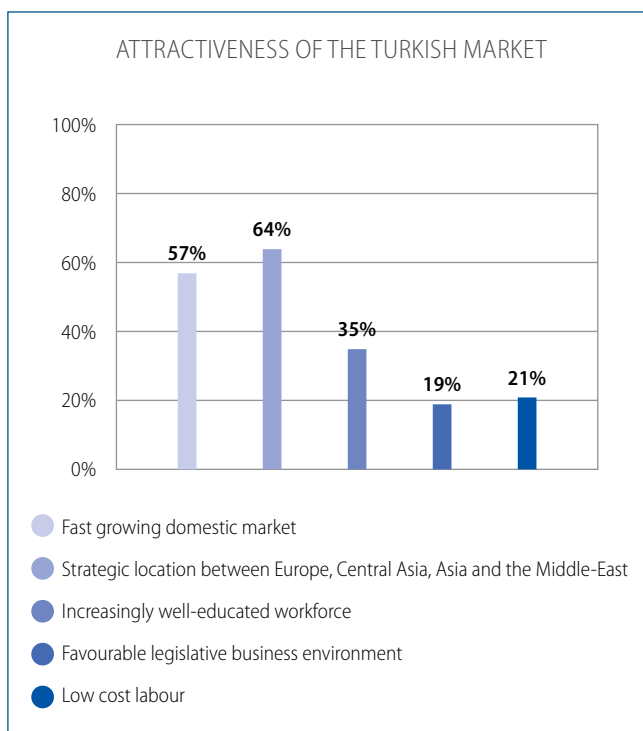
It is worth noting that as wages and incomes rise in Turkey, the country's attraction depends more on the skills and qualification of its workforce than on low -cost labour. 35% of the companies which have experience in doing business /investing in Turkey are attracted by the increasingly well-educated workforce (35%), whereas only 21% are attracted by the low -cost labour.

The legislative business environment ranks last in the motivation of European companies to do business or to invest in Turkey. Even if the business environment has changed considerably in the past decade<sup>10</sup>, thanks to the implementation of the Customs Union the alignment with the EU *acquis*, Turkey could attract more European businesses by further improving its business environment<sup>11</sup>.

<sup>10</sup> Turkey was ranked 71 among 185 countries in the 2012 survey "Doing business" carried out by the World Bank, before several EU Member States (Romania, Italy, Greece).

<sup>11</sup> The 2012 SME Policy Index published by the OECD, the EBRD, the ETF and the European Commission singled out Turkey as one of the leaders in SME policy reform among the candidate and potential candidate countries, however, it also highlights that Turkey still needs to improve the general business environment.





*It should be noted that the figures in this chart cannot be simply added as the respondents could provide up to three answers.*

## 2.5. MAIN BARRIERS TO TRADE AND INVESTMENT IN TURKEY

**European companies not present in Turkey consider that there are only few barriers to trade, while European companies operating in the country consider that the biggest hurdles to the efficient development of trade with the EU are Turkey's logistics, its burdensome customs procedures as well as its standards and certification requirements.**

European companies participating in the survey were given a list of possible barriers to trade and investment in Turkey to rate on the basis of their experience / perception. The majority of the surveyed companies consider that there are no significant problem in trading with / investing in Turkey.

It is, however, important to stress that these general results have to be put into context, since they vary widely depending on the degree of involvement of the companies in the Turkish market.

The less the company has relations with Turkey, the less the company considers there are problem in trading with / investing in Turkey. Almost two third of the surveyed companies (65%) which are not present in the Turkish market consider that there is no problem in trading with / investing in Turkey<sup>12</sup>. This ratio drops to almost one fifth (18%) for companies which have in the last three years traded / invested in Turkey.

All the barriers listed are also much more important in the perception of companies which have a recent experience in Turkey.

Moreover, the ranking of the perceived barriers by respondents that are not present in the Turkish market is different to the ranking of experienced barriers by companies which trade with / invest in Turkey.

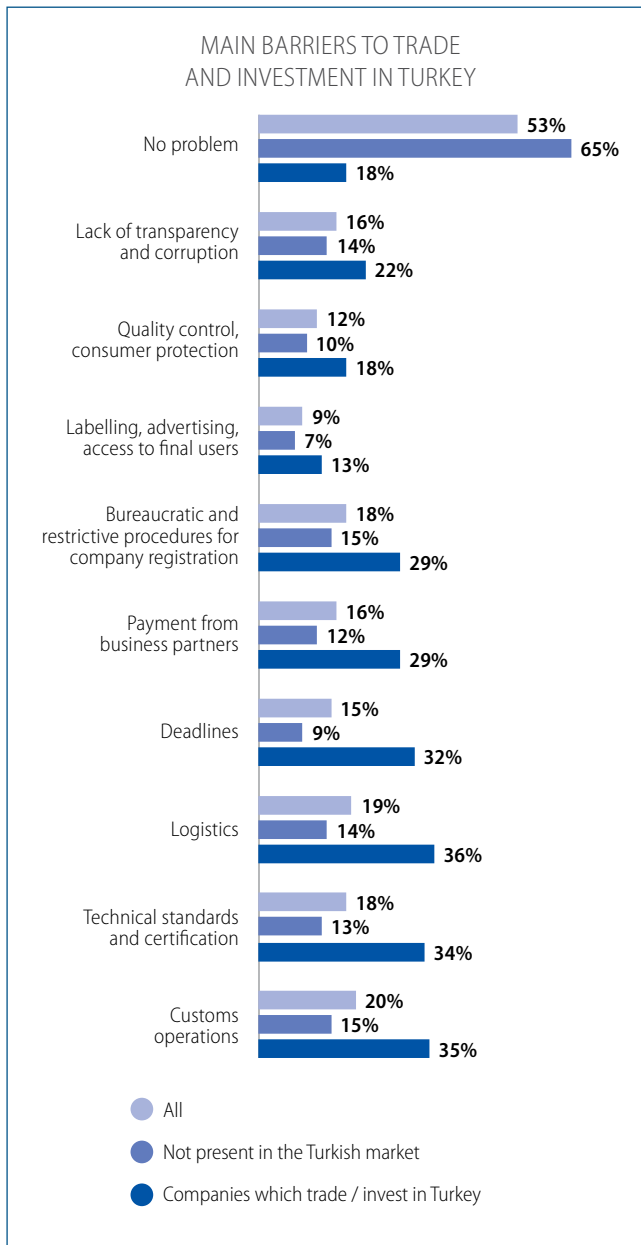
The three main practical barriers to trade and investment encountered by the respondents which have an experience in Turkey are: 1) logistics (36%); 2) customs procedures (35%); 3) technical standards and certification (34%). European companies regret poor logistics as well as burdensome customs procedures that increase the time to export to / import from Turkey, while differences in standard regulations create hurdles for market access, as they cause additional costs for manufacturers.

On the contrary, companies which have not traded or invested in Turkey recently ranked customs procedures, bureaucratic and restrictive procedures for company registration, as well as the lack of transparency and corruption, as the most important barriers to trade and invest in Turkey. It is noteworthy that lack of transparency and corruption is one of the least important problems for companies already operating or investing in Turkey whereas it is perceived as an important barrier for companies not present in the Turkish market.

This significant gap between the importance attributed to barriers by companies with an experience in Turkey and those which are not present indicates a further need for information and awareness among interested companies on the challenges of trading and investing in Turkey. To maximise the opportunities for European companies in Turkey and their chance of success in the Turkish market, it is fundamental not only to tackle these crucial issues to improve the business environment, but also to ensure that European

<sup>12</sup> It's important to stress that we speak, in that case, of perception and not of experience.

companies have access to objective information on the opportunities, as well as on the main challenges of trading with / investing in Turkey.



*It should be noted that the percentages in this chart cannot be simply added as the respondents could provide up to three answers.*

# 3. THE CUSTOMS UNION BETWEEN TURKEY AND THE EUROPEAN UNION

The Customs Union, which entered into force in 1996, has not only liberalised the trade in goods between the EU and Turkey, it has also accelerated Turkey’s regulatory convergence with EU rules on free movement of goods, competition policy and intellectual property rights.

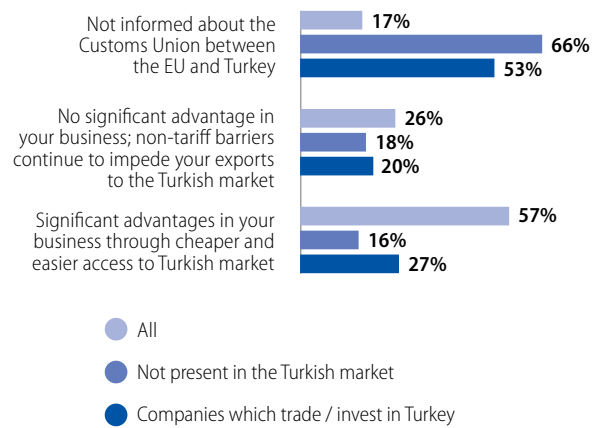
This third chapter presents the level of knowledge of European companies of the Customs Union and the perceived impact on their own business. This chapter also tackles whether and how the current Customs Union should be improved.

## 3.1. LEVEL OF AWARENESS OF THE CUSTOMS UNION AND ITS PERCEIVED IMPACT

**The more European companies have experience with Turkey, the more familiar they are with the Customs Union, and the more they perceive its concrete benefits.**

Only a minority of the respondents (47%) are aware of the Customs Union between Turkey and the European Union. Among those companies, a majority (27%) consider that the Customs Union has brought significant advantages for their business through cheaper and easier access to the Turkish market, while 20% believe that the Customs Union has not brought significant advantages for their business, since non-tariff barriers continue to impede their trade with Turkey.

FAMILIARITY WITH THE EU-TURKEY CUSTOMS UNION AND IMPACT OF THE CUSTOMS UNION



There is a clear correlation between the presence in the Turkish market and the level of awareness of the Customs Union as well as the experience in trading with Turkey and the perception of the benefits of the Customs Union.

Whereas the large majority (83%) of the responding companies which have recently traded or invested in Turkey are well aware of the Customs Union, two thirds of those companies not present in Turkey have no information on the Customs Union.

In order to improve trade relations between the EU and Turkey, it is crucial to better inform European companies about the benefits of the EU-Turkey Customs Union. Lack of information seems to lead to a negative perception of the Customs Union.

The majority of participating companies with trade / investment experience in Turkey consider that the Customs Union has brought important benefits to their business (57% against one quarter [26%] which believe that the Customs Union is bringing no real benefits). Surveyed companies not present in the Turkish are more divided and more likely to have a negative view of the impact of the Customs Union on their business. 18% consider that the Customs Union would bring no benefit to their business against 16% which believe that it would add significant advantages.

It's also important to stress that among the respondents that have an experience in trading / investing in Turkey, 26% consider that the benefits of the Customs Union are limited due to the non-tariff barriers which continue to impede trade. There is a clear correlation between this finding and the results highlighted in the previous section (section 2.5): companies with experience in Turkey believe that there are still important barriers to trade and investment.

In a country by country analysis, it is worth highlighting that in Denmark, Germany, Ireland, Italy, Cyprus, Luxembourg, Malta and the Netherlands, more than half of the surveyed companies are aware of the Customs Union, whereas companies in Slovakia and the Baltic States are the least informed.

Participating companies from eleven EU countries (Germany, Estonia, Greece, Spain, Italy, Latvia, Hungary, the Netherlands, Poland, Portugal, Romania) stressed the positive effect of the Customs Union; whereas companies in Denmark, Malta, Bulgaria and the Czech Republic are particularly critical regarding the impact of the Customs Union.

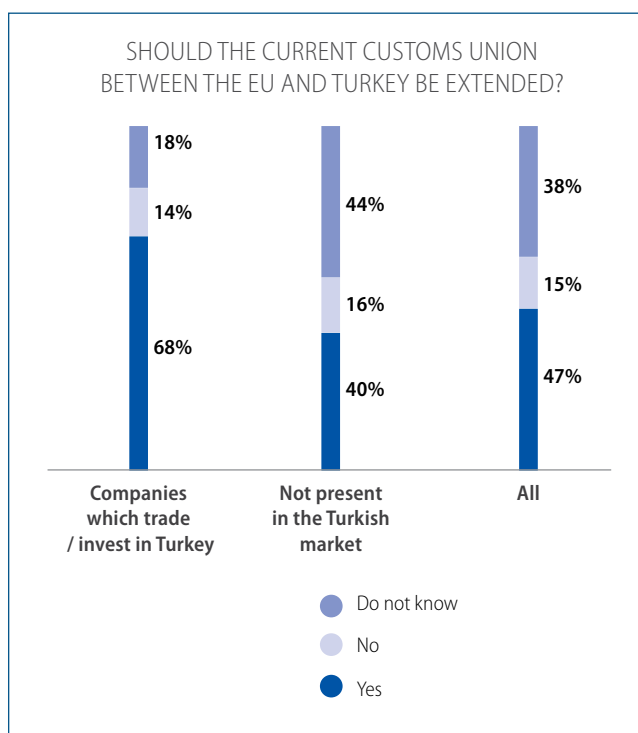
As far as the sectors are concerned, sectors which operate intensely in Turkey, such as the textile sector, the mining sector, as well as the metallurgical and petrochemical sectors, praised the benefits of the Customs Union.

### 3.2. WILLINGNESS TO IMPROVE THE CUSTOMS UNION

#### European companies, in particular companies with experience in Turkey, agree that the customs Union should be extended to new areas.

Even if the Customs Union has overall been successful, it could still be improved. The Customs Union only covers trade in industrial goods. It does not cover services nor agricultural products. Many EU rules of particular importance for businesses are not included, for example the right of establishment, company law, public procurement, food safety, consumer protection, taxation and environmental rules. The inclusion of these areas in the Customs Union would not only improve the regulatory environment in Turkey, it would also generate new business opportunities.

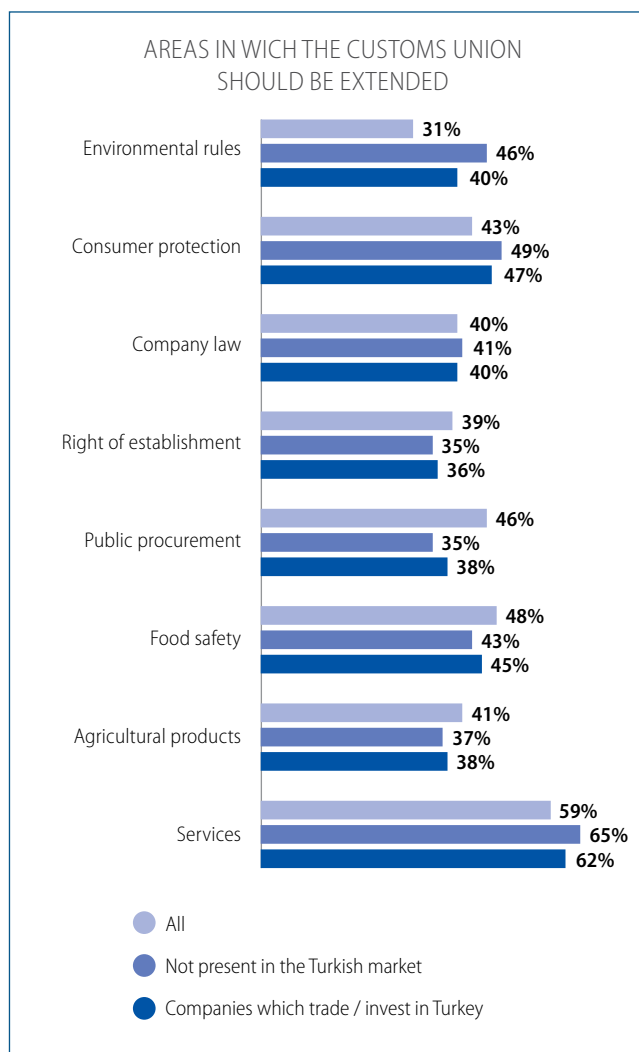
Almost half of the respondents (47%) agree with this statement and consider that the current Customs Union should be improved and extended to other areas. When we focus on companies which have exported or invested in Turkey in the last three years and which are more aware of the business environment, this result is even higher: two thirds of this category of companies consider the current agreement should be extended to other areas.



There is a consensus among European companies participating in the survey that all listed areas are important and should be integrated in the Customs Union. Services rank at the top of the list: 62% of the respondents agree that the Customs Union should be extended to this sector. The liberalisation of services would increase trade in services, decrease costs for those who operate in the Turkish market and increase business opportunities in a key sector for both economies. For all the other areas, between 47% (consumer protection) and 36% (right of establishment) of the respondents consider that the area should be extended.

This ranking slightly differs if we focus on the participating companies which are already present in the Turkish market. If the extension of the Customs Union to the areas of services (59% of the respondents) and food safety (48%) remain a priority for this category of companies, they also stress the importance of including public procurement. Large companies have also stressed the importance of including public procurement. Public procurement contracts constitute considerable business opportunities in sectors where EU industry is highly competitive. The opening of the Turkish public procurement market would, therefore, increase transparency and legal certainty and increase the opportunities of EU suppliers when tendering in Turkey.

These findings should be taken into account while the European Union and the Turkish government, in the context of the positive agenda launched in May 2012, are looking at how to revamp the Customs Union.



## 4. INFORMATION NEEDS AND SOURCES FROM THE EUROPEAN COMPANIES ON TRADE-RELATED ISSUES ON TURKEY

The specific information needs on trade-related issues on Turkey is analysed in this chapter, as well as the sources where European companies can get the relevant information in this field.

### 4.1. INFORMATION NEEDS ON TRADE-RELATED ISSUES ON TURKEY

**European companies mainly need information on commercial opportunities in Turkey and on potential business partners, as well as on the business environment (relevant sectoral legislation and tax regulation), before going to Turkey or while operating there.**

There is a clear need to further inform European companies about trade-related areas. This would facilitate trade and investments between the EU and Turkey.

More than two thirds of the companies have reported that they were not familiar with the Turkish market (see part 2.3) and more than half of the participating companies indicated that they did not have any information about the Customs Union (see part 3.1). Companies participating in the survey have however expressed a high level of interest in getting more information in all the areas of specific relevance while trading with / investing in Turkey.

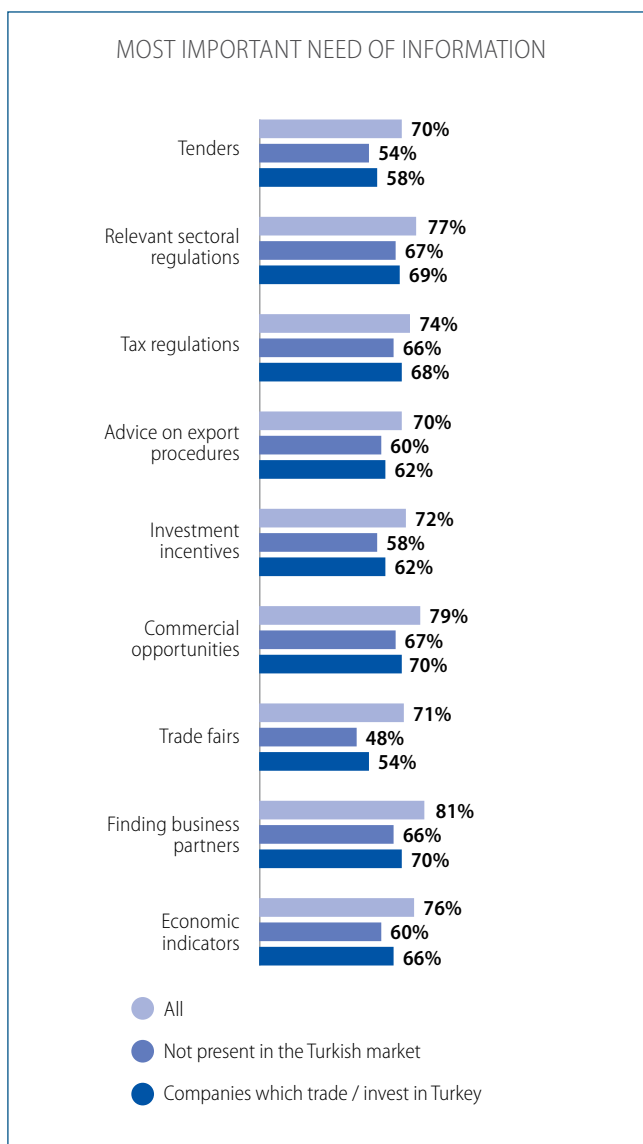
Higher level of information either on pure trade issues or on the business environment can be considered as an incentive to enter the market.

More than two thirds of the surveyed companies found it important or very important to receive information about commercial opportunities (70%), business partners (70%), relevant sectoral legislation (69%) and tax regulation (68%).

There is a correlation between the information needs and the presence or not of the surveyed companies in the Turkish market. Companies with already established business relations with Turkey flagged even higher information needs than those which are not active. Three quarters of the companies which already trade or invest in Turkey consider important or very important to get information on how to secure business partners (81%), commercial opportunities (79%), relevant sectoral regulations (77%) and economic indicators (76%).

Information on tenders (58%) and trade fairs (54%) ranked at the bottom. While trade fairs bring companies together and allow them to develop their business, they seem to be less relevant for market penetration, in particular for companies not yet present on the Turkish market.

These findings give a good indication for information service providers on how to improve the services they provide to their members to maximise their chance of success in the Turkish market.



## 4.2. SOURCES OF INFORMATION ON TRADE-RELATED ISSUES ON TURKEY

### Internet and Chambers of commerce are the primarily sources of information for European companies on trade-related issues on Turkey.

Across the European Union, companies gain information on trade-related issues on Turkey mainly via internet (60%), the Chamber Network (45%) and the European trade / business associations and Turkish partners (both 41%).

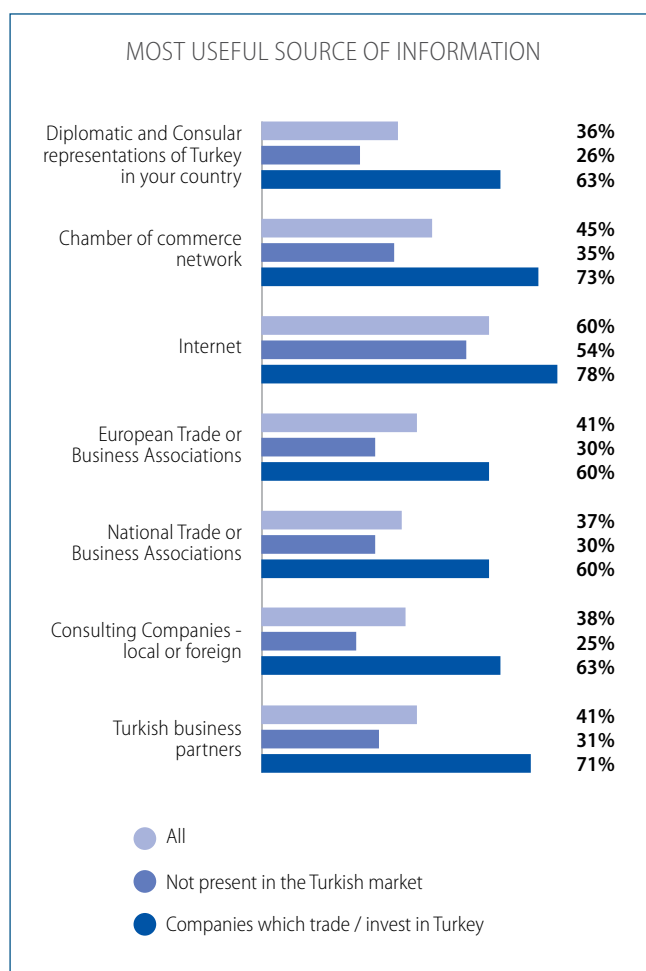
This finding is consistent with similar surveys in the European Union, in which internet is traditionally considered as the most important source of information. As regards Chambers of Commerce and Industry, their large network, which ensures an unique proximity with the European companies and their recognised leading role in the internationalisation of companies<sup>13</sup>, can explain why they are considered an important and reliable source of information on trade-related issues on Turkey by European companies.

Companies present in Turkey seem to be more satisfied in general by the information they get on trade-related issues on Turkey from the various sources than companies not present in the Turkish market. However, their ranking of the information sources does not vary.

*It should be noted that the figures in this chart cannot be simply added since the respondents didn't have to rank the information between themselves, but assess each information need independently.*

In a country by country analysis, we can observe that respondents from Southern EU countries (Greece, Spain, Italy, Portugal), but also from some of the Eastern and South-Eastern EU countries (Hungary, Slovenia, Slovakia, Bulgaria and Romania), are particularly interested in getting more information on Turkey. The five Southern European countries mentioned, as well as Hungary, are also countries which expressed an interest in the Turkish market (see chapter 2.3).

<sup>13</sup> According to a survey carried out on a yearly basis by EUROCHAMBRES, in 2012, 1,200,000 businesses benefited from Chamber internationalisation services; 90,000 businesses participated in Chamber trade missions; 85,000 businesses participated in Chamber seminars and workshops on international issues, 5,000 trade missions were organised by Chambers.



In general, specific efforts should be made by the various source of information to improve the information they provide on Turkey and to increase the access to this information for European companies. A non-negligible percentage of respondents, between 29% (for Diplomatic and Consular representations of Turkey in their own country) and 47% (for local and foreign consulting companies), declare to have no information from these sources of information or to be unaware of the information available.



## 5. EUROPEAN COMPANIES' VIEW ON TURKEY'S ACCESSION PROCESS

In this fifth and last chapter, a detailed insight into European companies' knowledge about Turkey's EU accession process is provided, as well as their perception of advantages and disadvantages of EU membership. Finally, the chapter analyses the lobbying of the European business community on this specific issue.

### 5.1. LEVEL OF AWARENESS OF TURKEY'S EU ACCESSION PROCESS

**European companies do not feel they are well informed about Turkey's EU accession process.**

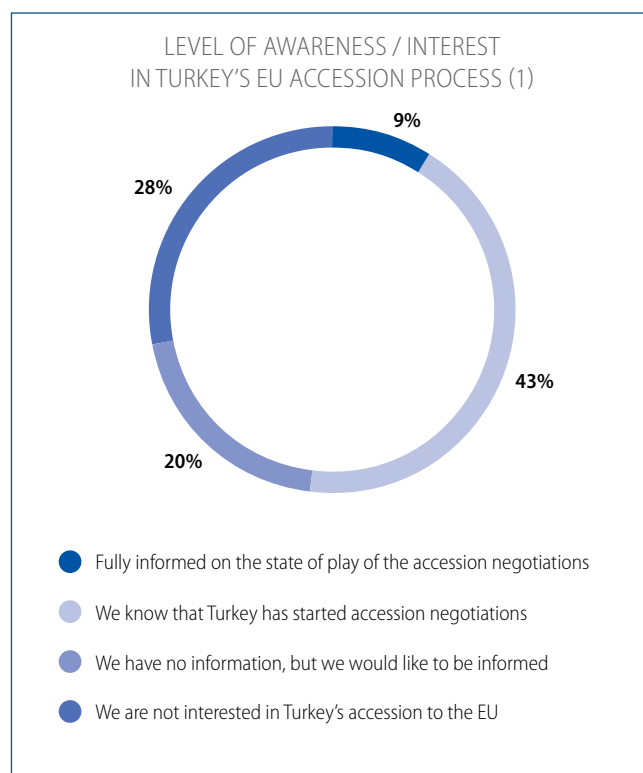
Eight years since the start of accession negotiations, a majority of the responding companies (52%) declare to be aware about the accession negotiations. However among them only less than 1 out of 10 companies (9%) consider to be fully informed on this issue.

A rather high percentage of European companies which participated in the survey (28%) declare to be simply not interested in Turkey's EU accession process. It is worthwhile highlighting that this figure is lower than the percentage of European companies which are not interested in exploring export / investment opportunities (39% see chapter 2.3). Some of those companies not interested in doing business with Turkey are, nevertheless, interested in being informed about Turkey's EU accession process.

Of those companies which admit to have no information on the accession process, 1 in 5 would be interested in being more informed.

It is quite interesting to note that the results to a similar question in a mirror survey among Turkish companies were much more positive. Only 8% of the Turkish companies participating in the survey on "Corporate preparations for EU membership in Turkey",

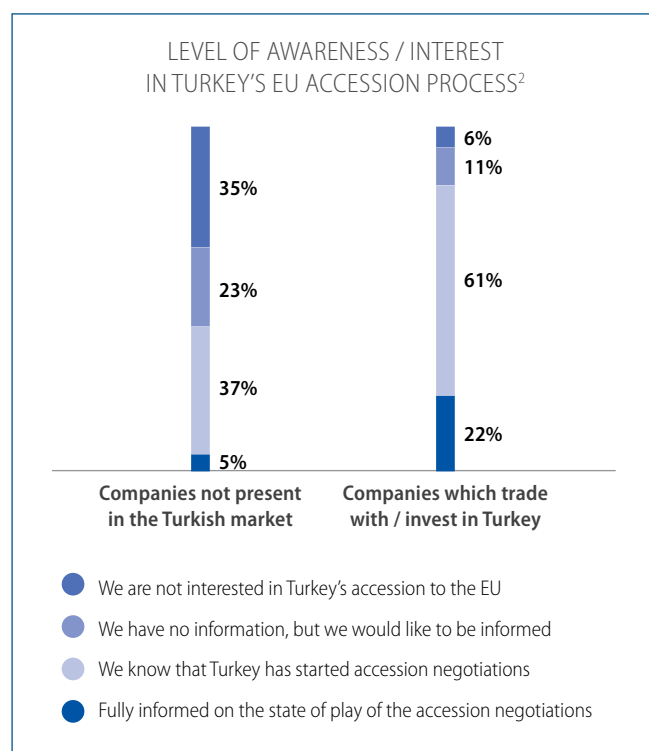
published by EUROCHAMBRES and TOBB in 2013, felt they were not informed about the accession process (against 48% of the European companies, according to the results of this survey).



The presence or not in Turkey has the most important influence on how well respondents feel informed about Turkey's EU accession process.

As expected, companies which have been traded or have invested in Turkey in the last three years are more aware about Turkey's EU accession process (22% declare to be fully informed and 61% are at least aware that the negotiations were launched) and interested in receiving more information. Only 6% of this category of companies was not interested in Turkey's EU accession process.

On the contrary, a high percentage of companies which are not present in the Turkish market have no information on the topic (58%), among which a majority (35%) is not interested in being more informed about Turkey's EU accession process.



Larger companies in general felt they were well informed about Turkey's EU accession process (66% against 48% of the SMEs). SMEs declare, also, to be less interested in the process (35% against 6% of large companies).

We can also notice important differences in EU Member States. Companies in Italy, Slovenia (both 70%), the Netherlands (69%) and Germany (66%) seem to be the best informed. Two thirds or more of the surveyed companies in these countries declare to be, at least, aware of the launch of the accession negotiations; whereas the lowest level of informed companies seems to be found in Latvia (20%), Luxembourg (30%), the United Kingdom (36%), Romania and Ireland (37%).

Moreover, more than 4 out of 10 respondents in Latvia (60%), Denmark (47%), the United Kingdom (44%) and Sweden (41%) are not interested in Turkey's EU accession process.

These findings stress the limited knowledge of European companies about Turkey's EU accession process. Further efforts need to be made to ensure that the business community in the European Union is aware of the overall process.

Finally, it will be important to also target, in awareness and communication campaigns, companies which affirm not to be interested in the process and inform them about the concrete impact of Turkey's EU membership on their business.

European companies recognise the important role to be played by business representative organisations, such as Chamber of commerce and industry, as well as European trade and business associations (see chapter 4.2). These intermediary organisations should have a responsibility to improve their information services towards their member companies, to provide more useful and relevant information on Turkey in general.

Well-informed companies would be able to show greater commitment to the overall process (see chapter 5.2), to play a more active role (see chapter 5.3) and, therefore, to maximise the mutual benefits of Turkey's EU accession process.

## 5.2. EXPECTATIONS FROM POTENTIAL EU MEMBERSHIP FOR TURKEY

**European companies are divided on the impact of Turkey's potential EU membership. They are more pessimistic regarding its impact on the whole society than on their own business.**

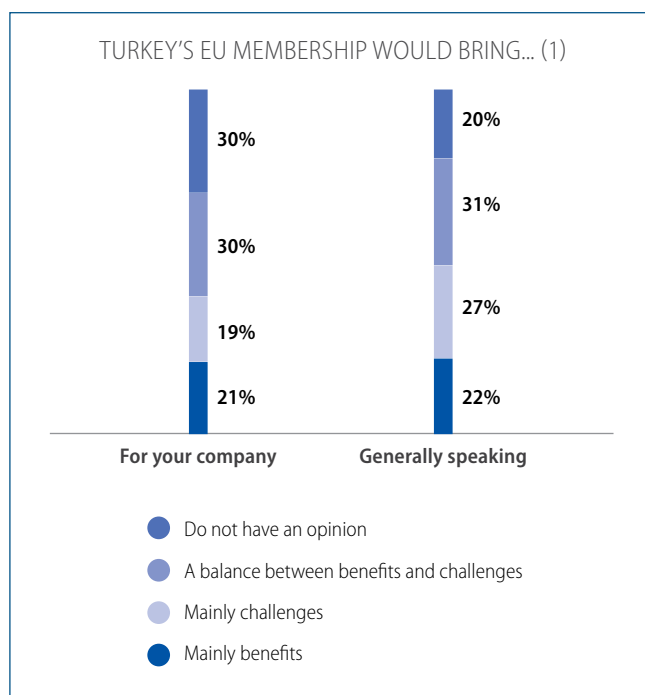
Companies participating in the survey were asked about the impact of Turkey's potential EU membership on their company, but, also, on the whole society. The results show that European companies have no clear-cut position on this issue, in particular when companies focus on the impact of Turkey's potential EU membership on their company.

30% of the responding companies consider that Turkey's EU membership would bring as many benefits as challenges for their company and another 30% of the companies don't have an opinion. The rest of the participating companies are almost equally divided on this subject: 21% believe that Turkey's EU membership

would bring mainly benefits for their company, while 19% consider that it would bring mainly challenges.

When the same question is asked from a wider perspective (impact on the whole society), almost the same percentage of surveyed companies (31%) believe that Turkey's EU membership would bring an equal balance of benefits and challenges.

Interestingly, it seems that European companies which have expressed no specific opinion on the impact of Turkey's EU membership on their business and which do have an opinion regarding the impact on the whole society consider that Turkey's EU membership would bring mainly challenges (27% against 22% which believe it would bring mainly advantages) to the whole society. This result is in line with official European statistics. The Eurobarometers regularly published by the European Commission confirm that, of all the candidate and potential candidate countries, Turkey's potential EU membership generates the highest level of disapproval among the European population.



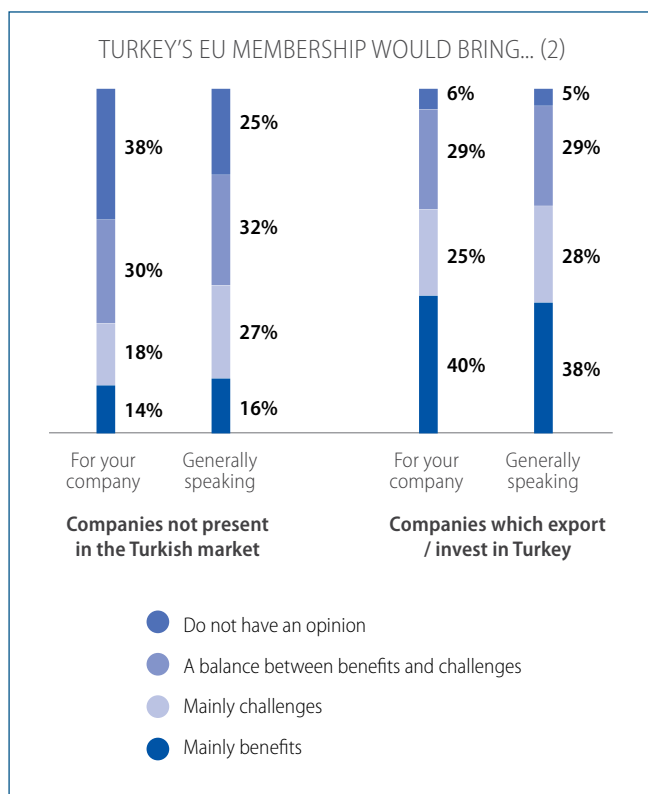
European companies which have recently exported to or invested in Turkey see more benefits than challenges in Turkey's potential EU membership for their own business (40% against 25%), as well as for the whole society (38% against 28%). They

are slightly more positive about the impact of Turkey's potential EU membership on their own business than on the society as a whole. They understand that Turkey's EU membership will imply the full implementation of the EU *acquis* in Turkey and that Turkey will have to fully open its economy. The business environment will keep improving and it will be easier to trade and invest in Turkey. They will directly benefit from it.

On the contrary, companies which are not present in the Turkish market and which are less knowledgeable about trade-related issues on Turkey (see chapter 2.3), as well as Turkey's EU accession process (see chapter 5.1), see more challenges (18%) than benefits (14%) for their company, as well as more generally for the whole society (27% see mainly challenges versus 16% mainly benefits).

A higher proportion of companies not present in the Turkish market have no opinion on the impact of Turkey's potential EU membership on their company (38%) or on the whole society (25%).

These results confirm that the more a company has relations with Turkey and has information on trade-related issues on Turkey as well as on Turkey's EU accession process, the more it considers Turkey's EU membership would bring benefits for its own business but also for the whole society. On the contrary, the lack of interest and information on trade-related issues on Turkey and Turkey's EU accession process coincides with a high level of mistrust about Turkey's EU membership.

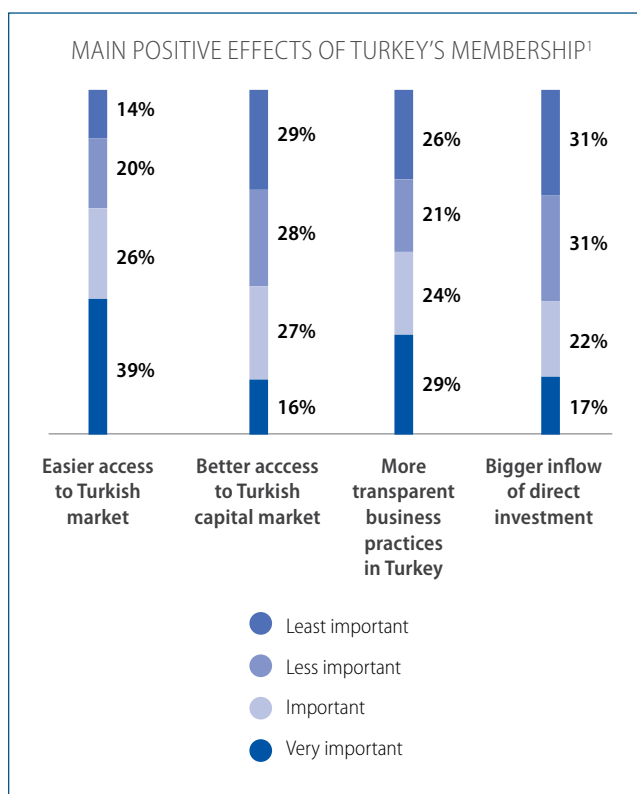


### European companies expect mainly easier access to the Turkish market and more transparent business practices.

European companies were asked to provide their views on the potential positive and negative effects of Turkey's EU membership.

Almost two thirds of European companies which have been surveyed are expecting easier access to Turkish markets (65%) and more than half of them expect more transparent business practices in Turkey (53%).

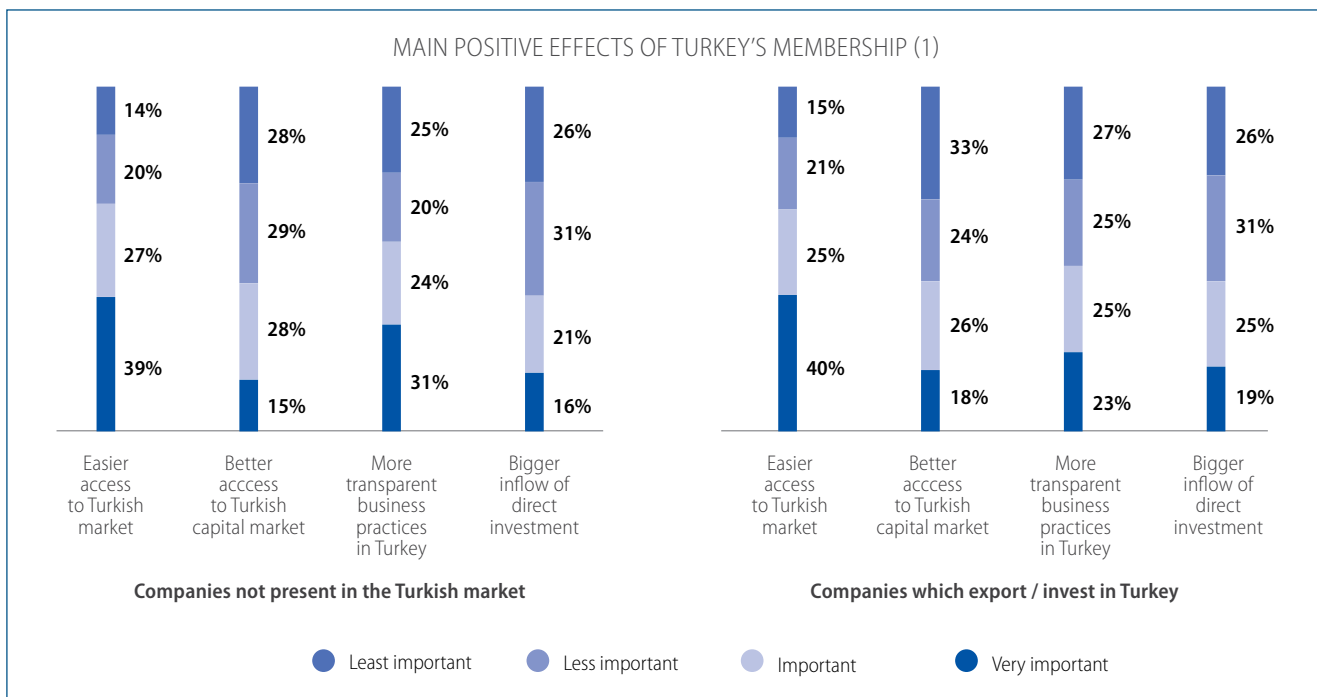
Better access to Turkish capital markets and bigger inflow of direct investment are expected to a lesser extent (respectively 43% and 38%).



Opinions differ among companies from the 27 EU countries. Companies in Southern Europe (Italy, Spain, and Greece), South-Eastern Europe (Bulgaria, Romania), as well as Luxembourg, are particularly optimistic as regards Turkey's EU membership and the impact on their own business. On the contrary, companies in Cyprus, Denmark, Latvia, Malta and Slovakia tend to be more pessimistic and consider that Turkey's potential EU membership will bring mainly challenges for their own business.

When asked about the impact of Turkey's potential EU membership on the overall society, the responses differ slightly. Companies from Italy, Luxembourg, Romania, Spain remain the most optimistic. Whereas, companies in Denmark, Cyprus, Ireland, Finland, Germany and Austria, consider that Turkey's EU membership will bring mainly challenges to the overall society. These findings are close to official EU statistics. In Europe-wide surveys on Turkey's EU membership, the strongest opposition can be observed in Austria, Germany, Luxembourg, Cyprus and Greece.

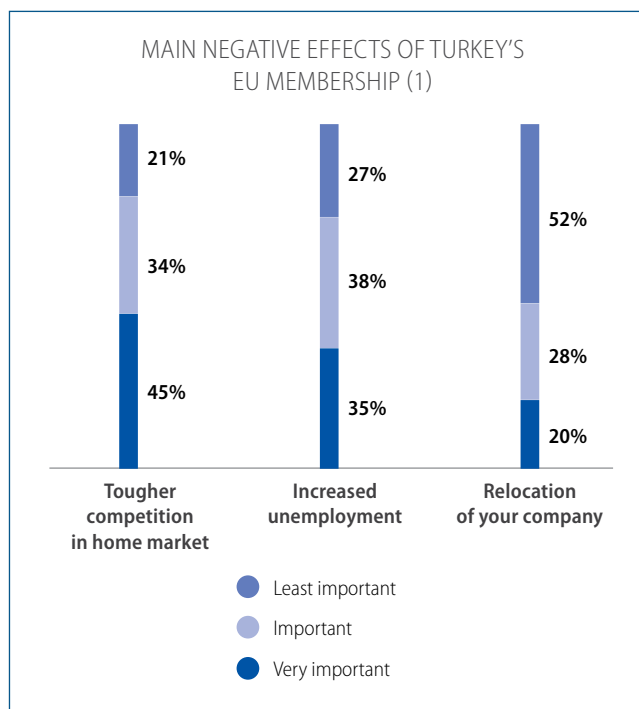
The expected positive effects of Turkey's EU membership are not fundamentally different for companies present in the Turkish market than for those which are not, except regarding the improvement of business practices. Companies which have not traded or invested recently in Turkey expect more transparent business practices from Turkey's EU membership. This finding highlights the importance of improving the business environment to attract new European companies in Turkey (see chapter 2.4).



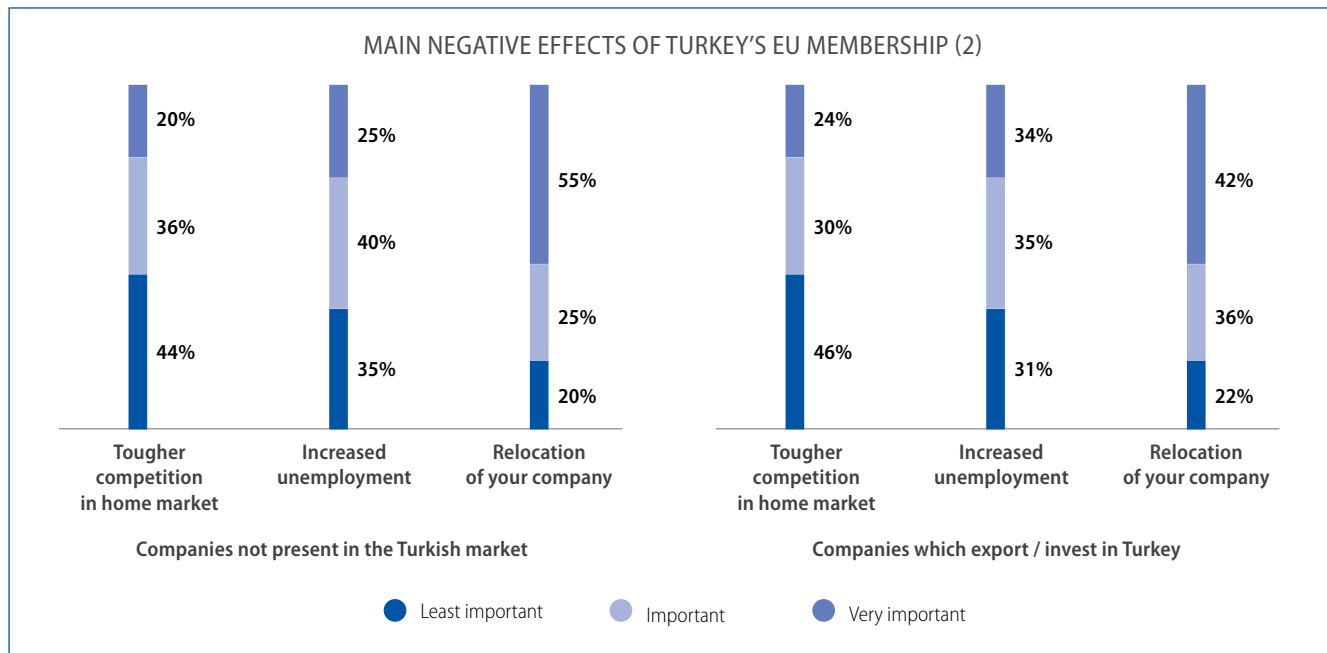
**European companies fear tougher competition in home market.**

If we focus on the most negative effect of Turkey's potential EU membership, 45% of the respondents mainly fear tougher competition on their domestic market. This finding stresses the clear competitive potential of Turkish companies and the good performance of Turkish economy. Tougher competition on the home market is ranked as the main concern by companies in all EU Member States, except by companies in Ireland, Lithuania and Finland, which mainly fear relocation of their company further to Turkey's EU membership.

The risk of higher unemployment in EU countries derives, somehow, from the higher competitive pressure that could potentially be caused by Turkey's EU membership. More than 1 out of 3 European companies (35%) consider that increased unemployment would be the main negative impact of Turkey's EU membership, while only 1 out of 5 European companies believe that it would be the relocation of their company.



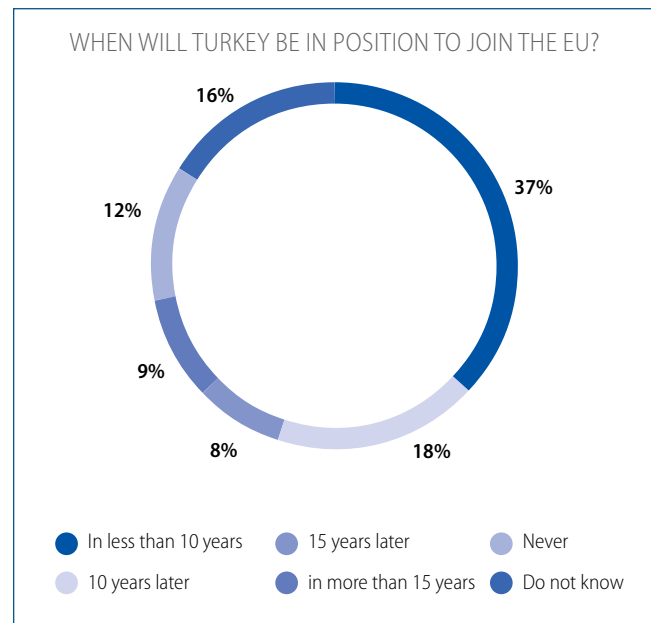
Opinions on the main negative effects of Turkey's potential EU membership do not vary significantly between companies which trade / invest in Turkey and those which do not.



**More than half of the European companies believe that Turkey will join the EU by 2023 and only one eighth European companies consider that Turkey will never join the European Union.**

While accession negotiations started eight years ago and have been progressing slowly<sup>14</sup>, the respondents were surprisingly optimistic regarding the actual date of Turkey's entry into the European Union. More than half of the surveyed companies (55%) consider that Turkey will be an EU Member State by 2023 and only one eighth of the companies interviewed (12%) believe that Turkey will never join the EU. In a similar survey conducted by EUROCHAMBRES and TOBB<sup>15</sup> among 3710 Turkish companies, the findings were less optimistic. 51% agreed that accession will happen by 2023, while 28% believed that Turkey will never join the EU.

It seems that, even if European companies are more divided on the impact of Turkey's potential EU membership (see chapter 5.1) than Turkish companies<sup>16</sup>, a higher percentage of European companies believe that Turkey's EU membership will happen.



Unsurprisingly, companies which have recently traded with or invested in Turkey are slightly more optimistic regarding the date of Turkey's entry into the European Union. Two thirds of European companies which trade with/ invest in Turkey believe that Turkey will enter the European Union by 2023, against half

<sup>14</sup> Since the opening of the accession negotiations, one chapter on Science and Research has been provisionally closed, in June 2006. In addition, negotiations were opened on 13 other chapters (out of 35 chapters): Enterprise and Industry (March 2007), Financial Control and Statistics (June 2007), Trans-European Networks and Consumer and Health Protection, (December 2007), Company law and Intellectual property law (June 2008), free movement of capital and Information society and the media (December 2008), taxation (June 2009), environment (December 2009), Food safety and veterinary and phytosanitary policy (June 2010) regional policy (October 2013).

<sup>15</sup> The second edition of the survey on « Corporate preparations for EU membership in Turkey » published in 2013 by EUROCHAMBRES and TOBB

<sup>16</sup> In the same survey, three quarters of the participating Turkish companies support Turkey's EU membership and almost two thirds (64%) are optimistic about the impact of Turkey's EU membership on their business.

of the companies (52%) not present in Turkey. Moreover, 14% of the companies in the latter category agree that Turkey will never join the EU, against 8% of the companies which have a recent experience in trading with / investing in Turkey.

Companies in Lithuania, Hungary, Estonia and Italy are particularly optimistic about Turkey's entry date into the EU. More than 70% of the respondents in these countries agree that Turkey will join the EU by 2023. These four countries have, also, the lowest percentage of companies which consider that Turkey will never join the EU.

On the contrary, in Ireland, Austria, Greece and Germany, we found the highest percentage of companies which consider that Turkey will join the EU after 2023 (between 42% and 30%). Finland, Belgium and France have the highest percentage of companies which believe that Turkey will never join the EU, respectively 28%, 27% and 24% of the respondents in these countries.

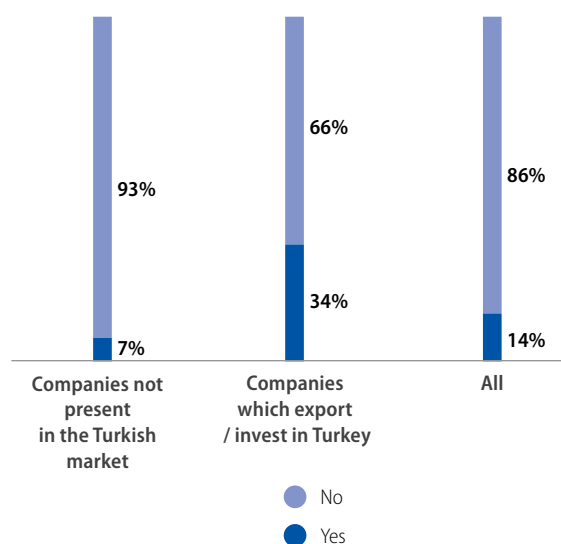
### 5.3. LOBBYING ACTIVITIES

#### Most European companies do not actively lobby either for or against EU membership for Turkey.

If European companies, in their large majority, believe that Turkey will join the EU, few European businesses would speak openly about Turkey's EU membership and its impact. The large majority of participating companies (86%) have never lobbied for or against Turkey's accession to the EU.

According to expectations, European companies which have traded with or invested in Turkey in the last 3 years have also been more involved in lobbying on Turkey's EU membership (34% of this category of companies against 7% of the companies which are not present in the Turkish market). This lobbying is very important, as they have the unique advantage of experiencing Turkey's transformation on a day-to-day basis. They have a privileged position to provide up-to-date information to the policy-makers on the benefits and challenges of Turkey's EU membership.

LOBBYING ON TURKEY'S EU MEMBERSHIP AT EUROPEAN, NATIONAL, LOCAL LEVEL



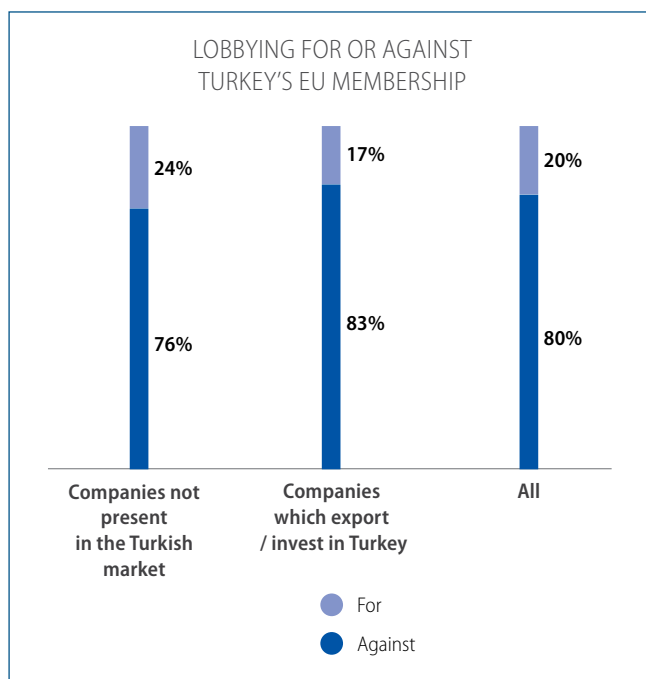
Large companies are also more involved in lobbying activities than SMEs (24% have lobbied European/national/local policy-makers against only 10% of SMEs). This result corresponds to the general trend: large companies have more resources to conduct their own lobbying campaigns than SMEs which depend more on intermediary organisations.

It is worth noting that, as far as the sectors are concerned, companies in the tobacco, mining and steel sectors are most involved in lobbying activities. They all have close relations with Turkey and are particularly concerned by the process.

The strongest lobbying from European companies can be found in Denmark (32%), Austria (29%), the Netherlands (26%), Poland (25%) and Germany (22%). More than 1 out of 5 companies surveyed in these five countries have lobbied European/national/local authorities.

When European companies do lobby, they lobby mainly for and not against Turkey's accession to the European Union, whether or not they have already operated / invested in Turkey (80% of the surveyed companies have lobbied for versus 20% against).





At the country level, this tendency can be observed in all EU countries except in Ireland, Finland, Austria and Slovakia, where more than half of the companies have lobbied against Turkey's EU membership. These countries are, also, among the countries which consider that Turkey's EU membership will bring mainly challenges either to their company or to the whole society (see chapter 5.2).

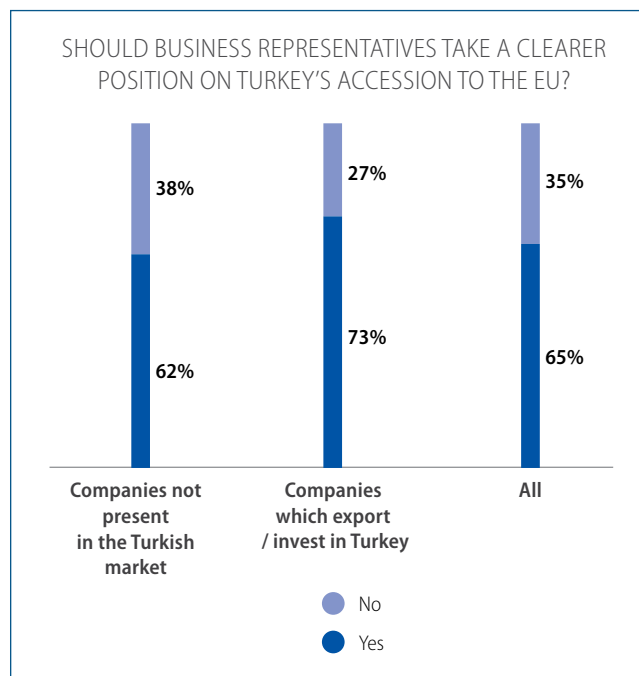
It is worth noting that the majority of the sectors, when they lobby on this issue, lobby for Turkey's EU membership. However, in three sectors which will be particularly affected by Turkey's EU membership (food industry, tourism industry and computer / electronic industry), more than half of the companies which lobby, lobby against Turkey's EU membership.

### Business representatives should take a clearer position on Turkey's EU membership

Even if the level of lobbying activities of European companies on this issue is relatively low, the large majority of the respondents (65%) agree that business representatives should take a clearer position on Turkey's EU membership. The business community should be more involved in the on-going debate on Turkey's EU membership, its benefits and its challenges.

This is particularly true for respondents in Estonia (100%), Malta Slovakia (90%), Spain (86%), Lithuania (82%) Romania (81%) and Slovenia (80%). On the contrary, only 20% of the respondents in Latvia and 43% in Austria consider that business representatives should take a clearer position on Turkey's EU membership.

No considerable differences can be observed between companies which have recently traded with / invested in Turkey and those which are not present. The first category is slightly more supportive of a clearer position from the business representatives on Turkey's EU membership.





# ANNEX:

## ETCF II SURVEY QUESTIONNAIRE

<b>1. CONTACT RECORD</b>
<b>2. COMPANY PROFILE</b>
<b>3. TRADE AND INVESTMENT RELATIONS ABROAD AND WITH TURKEY</b>
3.1. Which is the % of your exports to Turkey in your overall exports volume?
3.2. How do you assess your relation with the Turkish market? <ul style="list-style-type: none"> <li>■ Long history of trading/ investment; established relations; very familiar with the market</li> <li>■ Familiar with the market; some business contacts</li> <li>■ Not familiar with the market but would like to develop business relations and trade/invest more</li> <li>■ Not familiar with the market and not interested in exploring export or investment opportunities in this market</li> </ul>
3.3. If you have experience in doing business / investing in Turkey, what has attracted you to Turkey (fast growing domestic market; strategic location between Europe, Central Asia, Asia and the Middle-East; increasingly well-educated workforce; low cost labour)?
3.4. Do you encounter any of the following problems when trading with Turkey (customs operations; technical standards and certification; logistics; deadlines; payment from business partners; bureaucratic and restrictive procedures for company registration; labelling and advertising; quality control and consumer protection; lack of transparency and corruption)?
3.5. How do you assess the impact of the Customs Union between the EU and Turkey?
3.6. Do you think the current Customs Union between the EU and Turkey should be extended to other areas?
Answer Q3.7 if yes at Q3.6
3.7. Which area would you like the Customs Union to be extended (services; agricultural products; food safety; public procurement; right of establishment; company law; consumer protection; environmental rules)?
3.8. What kind of information would you need/be interested in on Turkey?
3.9. How do you obtain information on Turkey? Please evaluate the following sources of information (Enterprise Europe Network; diplomatic and consular representations of Turkey in your country; Chamber of Commerce network; internet; European trade or business associations; National trade or business associations; consulting companies; Turkish business partners)?
<b>4. TURKEY 'S ACCESSION PROCESS TO THE EU</b>
4.1. For your company, do you think that Turkey's membership of the EU would bring mainly benefits or challenges?
4.2. Generally speaking, do you think that Turkey's membership of the EU would bring mainly benefits or challenges?
4.3. What would be the most important positive effect of Turkey's accession to the EU for your company (easier access to Turkish markets; better access to Turkish capital markets; more transparent business practices in Turkey; bigger inflow of direct investment)?
4.4. What would be the most important negative effect of Turkey's accession to the EU for your company (tougher competition at home market; increased unemployment; relocation of your company)?
4.5. When do you think Turkey will be in a position to join the EU?
4.6. How well is your company informed on Turkey's EU accession process?
4.7.1 Have you lobbied regarding Turkey's accession to the EU at European /national / local level?
If yes at question 4.7.1
4.7.2 Have you lobbied for or against Turkey's accession to the EU?
4.8. In your opinion, should the business representatives take a clearer position on Turkey's accession to the EU?



Created in 1958, one year after the birth of the European Communities, EUROCHAMBRES is the Brussels based Association of European Chambers of Commerce and Industry.

EUROCHAMBRES represents over 20 million member enterprises in Europe through 45 members (43 national associations of Chambers of Commerce and Industry and 2 transnational Chamber Organisation) and a European network of 1,700 regional and local Chambers. 98% of these enterprises are Small and Medium Enterprises (SMEs). Chambers' members employ over 120 million employees.

EUROCHAMBRES is the sole European body that serves the general interests of European business – due to the multisectoral membership of Chambers – and the only one so close to business, as a result of the Chambers' regional focus.

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**TOBB**

The Union of Chambers and Commodity Exchanges of Turkey (TOBB) is the highest legal entity in Turkey representing the private sector. It is the umbrella organization for Chambers and Commodity Exchanges established in 1950.

TOBB represents today a network of over 1,4 million enterprises, 365 local Chambers and 59 sectoral assemblies. Chambers are the main business support organisations in Turkey, which has a strong national tradition of an independent and democratic chamber system where membership is compulsory, like in France, Germany, Italy, Spain, Austria, etc.

TOBB's national network includes the Foreign Economic Relations Board (DEİK) and the Economic Development Foundation (IKV). TOBB has established the University of Economics and Technology (TOBB-ETU) in 2003 and the Turkish Economic Policy Research Foundation (TEPAV) in 2004. Permanent representations are maintained in Brussels and Washington.

TOBB represents the Turkish private sector on international level at organisations like the World Chambers Federation, International Chamber of Commerce, EUROCHAMBRES, ECO Chamber of Commerce and Industry, Islamic Chamber of Commerce and Industry, ASCAME, OECD Business and Industry Advisory Committee (BIAC), Association of the Balkan Chambers, Association of Black Sea Zone Chambers of Commerce and Industry, the International Road Transport Union (IRU) and the Confederation of Asia Pacific Chambers of Commerce and Industry (CACCI).

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