

Europe's Underused Asset:

A Pragmatic Path to Customs Union 2.0



European-Turkish Trade and Investment Council, ETTIC

Position Paper

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Europe's Underused Asset: A Pragmatic Path to Customs

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Outline

Executive Summary	5
Preamble.....	8
Introduction and Background Data.....	9
Chapter 1: Geopolitics & Security — A European Interest.....	14
Chapter 2: Supply Chains & Competitiveness; Securing Europe’s Industrial Base.....	16
Chapter 3: Political Feasibility — Why a Controlled Update Is Easier to Defend Than the Status Quo	19
Chapter 4: A Pragmatic Pathway for Incremental Customs Union Modernization	22
Policy Recommendations	25
Conclusion	28
Bibliography	29
List of Abbreviations (in alphabetical order)	30
About European Turkish Trade and Investment Council (ETTIC).....	32

List of Figures

Figure 1: Customs Union 1995/96 versus Customs Union Modernization / 2.0 ..5	
Figure 2: European Union -Türkiye Trade Since 1996.....	10
Figure 3: European Union -Türkiye Investment Relations.....	10
Figure 4: EU Free Trade Agreements Topology (as of March 2026)	21

Executive Summary

A pragmatic update of the Customs Union can serve Europe's next economic priorities

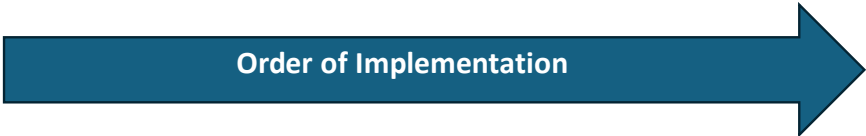
Europe's next economic phase will be defined by competitiveness, resilience and the ability to organize supply chains closer to home. In that effort, the EU already has an underused economic asset in its immediate neighbourhood: a deeply integrated economic relationship with Türkiye. It is commercially significant and industrially relevant.

However, it is no longer adequately governed by the current Customs Union framework from 1995.

As Europe seeks stronger industrial capacity, greater economic security and more reliable neighbouring production networks, the costs of leaving one of its most important trade relationships under an outdated framework are becoming harder to justify.

A pragmatic, modular approach towards a Customs Union modernization offers the EU a realistic way to close that gap. While aiming for a full scope update, the implementation could be executed on a sequential basis (Fig. 1), targeting improvements that reduce friction in the existing framework, improve its day-to-day functioning and support the next stage of economic cooperation where the practical gains on both sides are clearest.

Figure 1: Customs Union 1995/96 versus Customs Union Modernization / 2.0

Customs Union 1995/96	Customs Union Modernization / 2.0						
Industrial (manufactured) Products	Non-Tariff Barriers related to CU 1995/96	Digital trade / E-commerce	Services	Primary Agriculture	Public Procurement (government contracts)	Comprehensive Modern Trade Rules	Elimination of FTA Asymmetry
<ul style="list-style-type: none"> • Automotive (cars, trucks, parts) • Electronics & electrical equipment • Machinery & industrial equipment • Chemicals & plastics • Metals (steel, aluminum, etc.) • Consumer durables (appliances, etc.) 							
Agricultural Products							
Processed Products (partially covered)							

Across the main model-based assessments, a modernized Customs Union would benefit both sides, with positive effects for the EU across all major scenarios. The deeper the reform, the stronger the gains: limited modernization yields modest improvements, while broader scenarios — especially those addressing services, regulatory frictions and FTA-related asymmetries — generate significantly stronger effects. In that sense, the existing framework is not only outdated in principle; it is leaving measurable value unrealized.

The studies also point to a politically important conclusion: non-modernization is not a neutral option. Modernization is therefore not simply an optional upgrade, but the more rational economic path.

This matters because the current framework no longer matches the structure or speed of the relationship it governs. For businesses on both sides, the main issue is increasingly not whether the relationship exists, but whether it is equipped for the next phase of growth, industrial cooperation and cross-border competitiveness.

In a more fragmented international economy, the EU has a clear interest in ensuring that such frameworks in its neighbourhood are not merely maintained, but made more functional, more coherent and better aligned with future economic needs.

What the EU should do now

A pragmatic modernization track would therefore serve a European interest first and foremost. It would help align an already valuable framework with the Union's next economic priorities, while keeping the process politically manageable through sequencing, technical focus and limited, economically grounded steps.

1. Keep the file economic, practical and European

The case for action reflects European priorities: competitiveness, resilience, industrial capacity and economic security. The Customs Union is a functional economic instrument rather than a symbolic mini-Türkiye EU accession file.

2. Build momentum through limited but credible steps

The most convincing path forward is also the most feasible: The first phase of modernisation should focus on making the current framework work better for the firms already using it; then extend it where the economic rationale is the strongest and the benefits can be harvested the fastest (Fig. 1). That is the most credible way to align the Customs Union with Europe's next economic priorities while keeping the process manageable.

3. Start where the gains are most immediate

The strongest near-term case lies in reducing friction in trade that already exists at scale. Therefore, the first objective should be to improve the functioning of the existing framework while simultaneously expanding into more complex areas of the total Customs Union 2.0 package.

4. Prioritise the bottlenecks businesses identify

The evidence is unusually clear. In manufacturing and construction, firms rank digitalized customs procedures first at **78.9%**, followed by lower administrative burdens and fewer non-tariff barriers, both at **73.7%**. In trade, **63.6%** prioritize digitalized customs procedures, while **45.5%** point to lower administrative burdens and the removal of certificate-of-origin requirements. These are the areas where modernization would have the most immediate practical value.

5. Remove frictions the Customs Union was meant to eliminate

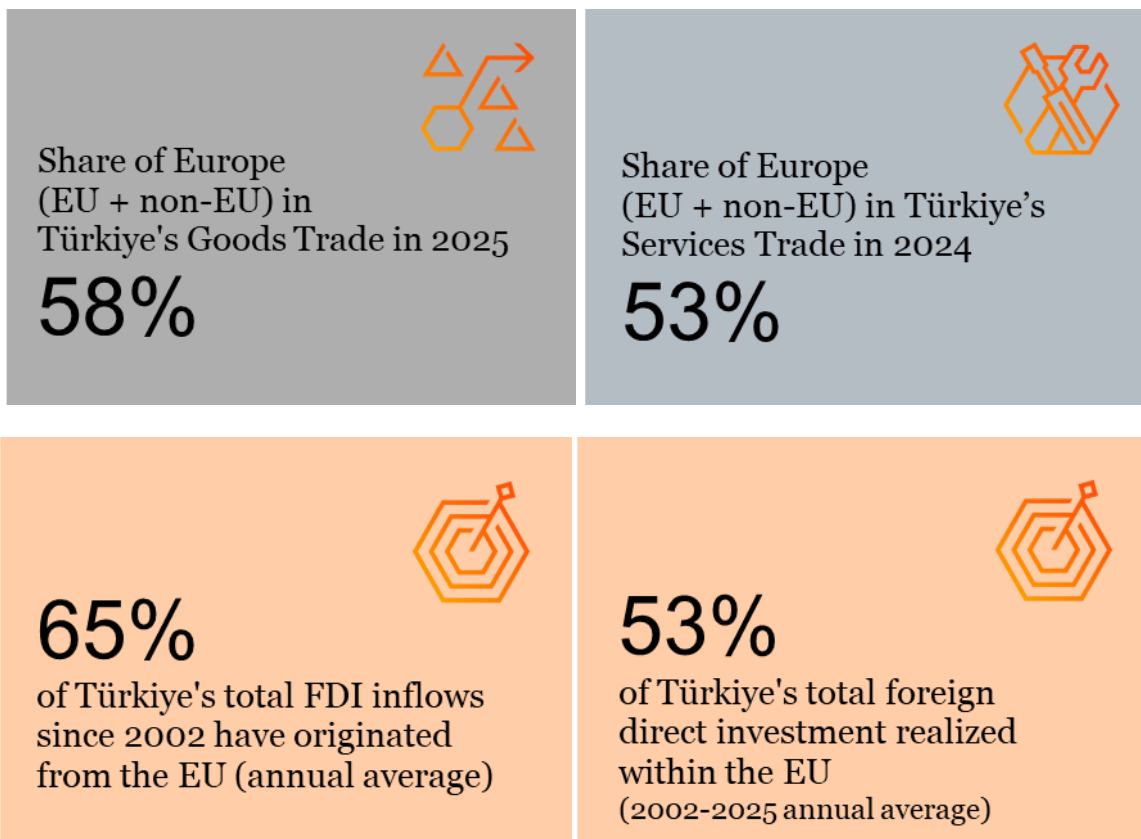
A particularly clear problem is the persistence of origin-related bureaucracy inside a framework designed to remove it. Across the business inputs, firms repeatedly point to additional proof-of-origin requirements despite A.TR (the movement certificate used for the circulation of goods under the EU–Türkiye Customs Union) circulation, duplicative paperwork and extra costs linked to the interaction between Customs Union rules and treatment of third-country goods. This is one of the most obvious areas for corrective action.

6. Modernize the implementation process

The issue is not only what the Customs Union covers, but how it operates in practice. Chambers and firms report repeated inspections, additional testing despite EU standards, TAREKS-related delays and procedural duplication at the border. A pragmatic update should therefore focus on execution as much as on formal coverage. A framework that works below its practical potential will not support Europe's competitiveness agenda.

7. Reaching full-scope rejuvenation via sequential updates

After operational bottlenecks in the current framework are addressed, the EU should move step-by-step into new implementation areas. Here, **digital trade/e-commerce** is the strongest candidate. It is the single most-supported expansion area in the survey evidence, backed by **32.5%** of respondents overall. That makes it the clearest next file for an economically grounded modernization.



Preamble

This is not about political symbolism. It is about aligning Europe's economic framework with Europe's own interests.

The modernization of the EU–Türkiye Customs Union is often discussed in the wider context of EU–Türkiye relations. But it should not obscure a more immediate question: whether the European Union can still afford to manage one of its most deeply integrated neighbouring economic relationships through a framework designed for a different era.

The economic relationship has moved on. Trade, investment and industrial integration have deepened far beyond what the current framework was built to accommodate. At the same time, the EU's own priorities have changed. Competitiveness, supply chain resilience, industrial capacity and economic security now sit at the centre of European policymaking.

This changes the meaning of the debate. The issue is no longer simply whether an update would be beneficial in general terms. The issue is whether the current framework still serves the European Union's own interests under present conditions.

From that perspective, the modernization of the Customs Union is not best understood as a symbolic political step. It is a practical question of governance, competitiveness and strategic coherence.

The argument developed in this paper is straightforward: the EU is already deeply integrated with Türkiye, but the framework governing that relationship no longer reflects its scale, complexity or strategic relevance. Under these conditions, maintaining the status quo is becoming harder to defend than a controlled and interest-driven update.

Introduction and Background Data

Europe's Strategic Interest in a Modernized Customs Union with Türkiye

The EU–Türkiye Customs Union was a success story. However, its benefits for EU member states are no longer growing in line with Türkiye's economic potential.

This is the central issue for the European Union. The relationship remains large, deeply integrated and strategically relevant, but the current framework no longer allows the EU to capture its full value. What once helped unlock growth is now increasingly limiting it.

Since its entry into force in 1996, the Customs Union has driven a substantial expansion of trade and industrial integration. Bilateral trade increased from roughly **€30–40 billion** in the mid-1990s to over **€200 billion** today, making Türkiye one of the EU's top five trading partners (Fig. 2). European companies have deeply integrated Türkiye into their production networks as a large, cost-competitive and geographically proximate production base, particularly in automotive, machinery and intermediate goods. This has supported lower costs, greater flexibility and faster delivery times for European industry.

What is a Customs Union?

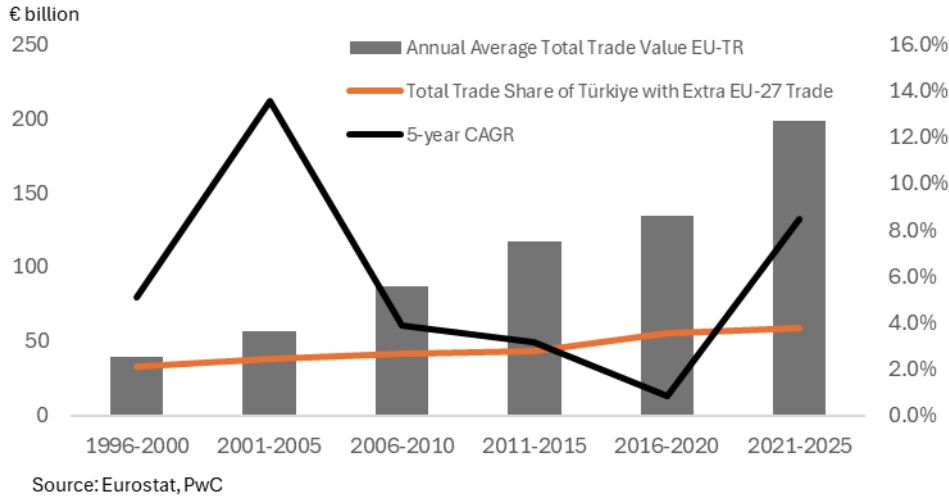
A customs union is a framework in which participating countries remove tariffs and other trade barriers between them, while applying a common external tariff to imports from third countries. It is designed to facilitate trade, deepen economic integration and create a more coherent market environment.

When functioning well, a customs union generates concrete economic gains: it expands trade, improves supply-chain efficiency, increases competition and supports investment and innovation. These effects are particularly valuable in an environment shaped by industrial competition, geopolitical fragmentation and the search for resilient production networks.

Despite its welfare-creating superiority over a free-trade agreement (FTA), a customs union is only as effective as its ability to reflect economic reality. When trade, technology and regulatory frameworks change, a customs union must evolve accordingly. Otherwise, an instrument created to enable integration can gradually become a source of economic friction.

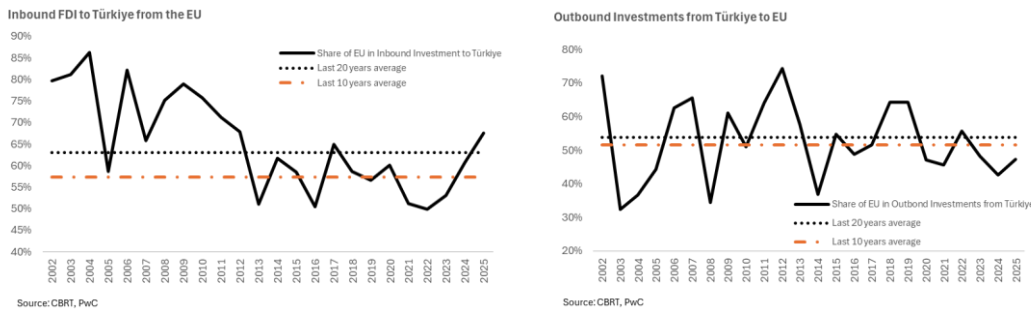
The scale of this integration is reflected in the underlying figures. As of 2025, bilateral trade between the EU and Türkiye stands at **\$233 billion**; when non-EU European countries are included, the total reaches **\$345 billion**. Türkiye directs **43%** of its exports to the EU-27 and sources **32%** of its imports from them.

Figure 2: European Union -Türkiye Trade Since 1996



On the investment side, **65%** of all FDI into Türkiye over the past 20 years has originated from Europe, while **53%** of outward Turkish FDI has gone to European destinations (Fig. 3).

Figure 3: European Union -Türkiye Investment Relations



This is not a marginal relationship. It is one of the EU’s most deeply integrated neighbouring economic spaces.

The current Customs Union has clearly delivered value. Studies (see also section on “Scientific Assessment” below) show that without it, Turkish exports to the EU would be approximately **7.2% lower**, while EU exports to Türkiye would be around **4.2% lower**. It also generated broader dynamic gains by supporting regulatory convergence, industrial upgrading and integration into European value chains. But this is no longer the relevant benchmark. The real question is whether the current framework still allows the EU to benefit fully from Türkiye’s economic growth, which has grown by an average of 4.8% per annum in real terms since the foundation of the Republic.

The reason is structural. While trade expanded rapidly in the early phases of the Customs Union, especially between 2000 and 2008, growth has since slowed and reached a relative plateau. Economic interdependence has continued to deepen, but it remains concentrated in industrial goods, while key drivers of modern growth — notably digital trade / e-commerce, public procurement and large parts of agriculture — remain outside the scope of the agreement. At the same time, non-tariff barriers,

regulatory frictions, logistical constraints and asymmetries due to new FTAs have become more prominent.

This shift is also visible in the policy debate. In EU–Türkiye economic relations, the focus has moved away from tariffs and towards standards, procedures, compliance and regulatory alignment. That matters because the main obstacle to further growth is no longer market access in the traditional sense. It is the absence of a modern framework capable of governing an already highly integrated economic space.

As the World Bank and the European Commission have repeatedly noted, the exclusion of services, agriculture and public procurement from the current framework generates measurable costs. For businesses, this means rising uncertainty, higher compliance costs and lost competitive opportunities. For the EU, it means that one of its most important neighbouring economic relationships continues to operate below its potential.

As long as this gap persists, trade can continue at current levels — but it cannot expand efficiently into new sectors, services or higher value-added activities. The result is a structural ceiling. The Customs Union, designed for the economic conditions of the mid-1990s, no longer reflects the complexity of today’s supply chains, production networks and cross-border services. Economic integration has advanced in practice; the institutional framework has not.

At the same time, the strategic environment around the EU has changed fundamentally. Europe now operates in a more fragmented global economy, under greater geopolitical pressure and with a much stronger need for resilient and proximate supply chains. Russia’s war against Ukraine, instability in the wider Middle East, pandemic-era disruptions and intensifying US–China rivalry have all reinforced the same lesson: cost efficiency alone is no longer enough. Economic relationships are now judged increasingly by resilience, proximity and political reliability.

This is where Türkiye becomes strategically important for the EU. It is the only large, industrially diversified economy in the EU’s immediate neighbourhood that combines scale, proximity and deep integration into European production systems. European firms are already acting on this reality, using Türkiye as a near-shoring hub, logistics corridor and production base linking Europe to surrounding regions.

Yet this integration is taking place within an outdated framework that no longer reflects its economic or strategic significance. This creates a growing mismatch between the EU’s own priorities and the rules governing one of its most important neighbouring economic relationships.

That is why the debate has changed.

The modernization of the Customs Union is no longer primarily a Turkish priority — it has become a European necessity. Updating the framework would not simply facilitate additional trade. It would allow the European Union to better organize, regulate and scale an economic relationship it already depends on — strengthening competitiveness, enhancing supply chain resilience and improving Europe’s ability to respond to geopolitical and economic shocks.

Scientific assessments

The analytical consensus across more than a decade of academic research is unequivocal: **a modernized Customs Union represents a vital strategic upgrade that offers a clear win-win for both the European Union and Türkiye.** While much of the debate naturally focuses on Turkish economic integration, the aggregate macroeconomic effects remain consistently positive for the EU across all modelled scenarios. This mutual benefit serves as the central pillar of the World Bank’s foundational evaluation¹ and the European Commission’s formal impact assessment², which highlights that the EU gains significant welfare improvements from a more streamlined and expansive partnership. This evidence is further reinforced by the high-level synthesis provided by Felbermayr and Yalcin for the European Parliament³, which confirms that modernization is the most reliable route toward shared economic stability. However, recent longitudinal studies, such as the gravity model analysis by Dursun⁴, suggest that the initial trade-creation effects of the 1995 agreement have plateaued. For the EU, this means that the current framework has reached its structural limits, leaving measurable European value unrealized and highlighting the need for a new engine of growth.

The depth of the literature reveals that the primary economic benefits for both parties no longer reside in traditional tariff reductions, but in the capture of dynamic gains through what Dawar, Hartwell, and Togan describe as a "21st-century trade agreement" model.⁵ As the ifo Institut and CEPR-related analyses by Aichele, Felbermayr, and Yalcin⁶ demonstrate, the real upside for the EU is found in the reduction of non-tariff barriers and the achievement of closer regulatory alignment,

¹ **World Bank. 2014.** Evaluation of the EU-Turkey Customs Union. Washington, DC: World Bank.

² **European Commission. 2016.** Impact Assessment Accompanying the Recommendation for a Council Decision Authorising the Opening of Negotiations with Turkey on an Agreement on the Extension of the Scope of the Bilateral Preferential Trade Relationship and on the Modernisation of the Customs Union. SWD (2016) 476 final. Brussels: European Commission.

³ **Felbermayr, Gabriel, and Erdal Yalcin. 2021.** The EU-Turkey Customs Union and Trade Relations: What Options for the Future? Brussels: European Parliament, DG EXPO / INTA.

⁴ **Dursun, Gökhan. 2023.** The Impact of the Customs Union on the EU-Turkey Trade. *International Economics*, Vol. 173. Amsterdam: Elsevier.

⁵ **Dawar, Kamala, Christopher Hartwell, and Sübidey Togan. 2018.** Reforming and Renegotiating the EU-Turkey Customs Union. *Turkish Policy Quarterly*, Vol. 17, No. 1.

⁶ **Aichele, Rahel, Gabriel Felbermayr, and Erdal Yalcin. 2016.** Turkey’s EU Integration at a Crossroads: What Consequences Does the New EU Trade Policy Have for Economic Relations between Turkey and Europe, and How Can These Be Addressed? GED Study / ifo Institut.

which would grant European firms more seamless access to a major neighbouring market. The gains from such a transition rise in direct proportion to the depth of the reform, with the strongest effects for the EU produced by scenarios that incorporate services, agriculture, and public procurement, which are sectors where European providers hold a competitive edge. In this context, research by Gros et al. for CEPS⁷ highlight that extending the framework into digital services and is essential for the EU to secure its own supply chain resilience and digital footprint in the region. Without moving toward institutional depth, including the robust dispute settlement and investment protection mechanisms argued for by Saatcioglu and Celikok⁸, the EU risks maintaining a relationship that is structurally ill-equipped for modern global competition.

Just as importantly, the research supports a point that is as politically significant for Brussels as it is for Ankara: non-modernization is not a neutral option. As the EU continues to expand its global trade network, the costs of inaction rise through a deepening "asymmetry trap" that ultimately threatens European policy coherence. El-Sahli⁹ provides empirical evidence that the current misalignment of incentives has led to a measurable divergence in tariff compliance; for the EU, this means that its own trade policy is not being fully mirrored by its Customs Union partner, undermining the integrity of the common external tariff. Furthermore, as Terzi¹⁰ questions, the political sustainability of the relationship is at stake; a modernized, "deep and comprehensive" framework would provide the EU with a more stable and predictable partner on its southeastern flank. Ultimately, the evidence suggests that modernization is not simply a concession to Türkiye but a rational economic necessity for the European Union. While the 1995 Customs Union served as a successful anchor for decades, the growing costs of regulatory friction identified by the OECD make the status quo progressively harder to defend for a Europe looking to lead in an increasingly digital and green global market.

The broad conclusion is straightforward: modernization is not simply an optional upgrade. It is the more rational economic path, while the status quo becomes progressively harder to defend.

⁷ Gros, Daniel, Jacques Pelkmans, Mehtap Akgüç, Matthias Busse, and Mattia Di Salvo. 2018. Strengthening EU-Turkey Economic Relations: Can Services Revitalize the Customs Union? Brussels: CEPS.

⁸ Saatcioglu, Cem, and Kaan Celikok. 2023. European Regional Integration and its Partnership with Türkiye: An Assessment of the Specific Customs Union. *International Journal of Economics and Financial Issues*, Vol. 13, No. 1.

⁹ El-Sahli, Zouheir. 2024. Asymmetric Free Trade Agreements and Misalignment of Incentives: Lessons From the European Union-Turkey Customs Union. *Journal of Common Market Studies*, Vol. 63, No. 4.

¹⁰ Terzi, Özlem. 2018. The EU-Turkey Customs Union: Shortcomings and Prospects for Modernization. In: *The EU-Turkey Customs Union*. Brussels: Bruylant.

Chapter 1: Geopolitics & Security — A European Interest

The Iran war of 2026 has reinforced Türkiye's role as a regional business and financial hub. Rising interest in Istanbul from Gulf- and Asia-based firms suggests that, in a more volatile environment, Türkiye's relevance to Europe extends beyond trade and manufacturing to business continuity and regional coordination. For the EU, this adds to the case for a more functional framework with an economically and strategically more important neighbour.

Thus, the modernization of the EU–Türkiye Customs Union is not primarily about bilateral trade. It is about whether the European Union is willing to align one of its most important neighbouring economic relationships with its own geopolitical and security interests. For the EU, the strategic logic is clear. Europe needs reliable, capable and geographically proximate partners to reduce risk, strengthen resilience and support its economic and security architecture. Türkiye is the only country in the EU's immediate neighbourhood that fulfils this role at scale.

This has direct consequences for the Union.

First, Europe's geopolitical environment has become more unstable.

Russia's war against Ukraine, instability in North Africa and persistent tensions in the Middle East have reduced the number of viable partners around the EU. In this setting, Türkiye stands out as the only large, functioning and industrially diversified economy in Europe's immediate periphery. For the EU, this lowers risk concentration and provides a nearby operational base for trade, logistics and production.

Second, Europe's security architecture increasingly depends on industrial and logistical capacity beyond its borders.

As EU member states accelerate defence spending, access to production, components and supply-chain support becomes more important. Türkiye's growing defence industry and its role within NATO make it a relevant contributor to this ecosystem. A modernized Customs Union would make these links more predictable, more efficient and easier for the EU to use in practice.

Third, this matters even more in light of the EU's evolving defence-industrial policy.

Programmes such as SAFE are designed to expand Europe's defence production base and define more clearly which suppliers and production structures are eligible in this process. That creates a practical challenge for the EU: Türkiye is already integrated into European value chains and is part of the wider NATO security ecosystem, yet it remains outside a modernized economic framework that would allow these links to be governed more coherently. Without such a framework, the EU risks excluding one of its most capable and proximate industrial partners from the very supply chains it is trying to strengthen.

Fourth, strategic autonomy has become a practical rather than theoretical priority.

The pandemic, the energy crisis and broader geopolitical tensions have shown how vulnerable Europe remains in critical sectors. From steel and cement to batteries, automotive, renewable energy equipment and critical raw materials, the EU is trying to reduce excessive dependency and build more resilient industrial structures. Türkiye is one of the few nearby economies with the scale and industrial diversity to support this effort in a meaningful way.

Fifth, the problem is not simply that the relationship is important.

It is that the EU already depends on it but still lacks the tools to govern it properly. European firms and public actors already rely on Türkiye in areas linked to energy transit, logistics and industrial production. Yet these flows continue to operate under an outdated framework. For the EU, this creates friction and limits control in areas that are increasingly sensitive, including sanctions exposure, dual-use goods and indirect trade channels. A modernised framework would not remove all risks, but it would give the EU more transparency, more predictability and more influence over how these links are structured.

Sixth, Europe's connectivity strategy increasingly runs through Türkiye.

As trade routes are reconfigured, the EU has a strong interest in secure, diversified and reliable corridors linking Europe to Asia, the Middle East and Africa. This is central to the logic of Global Gateway. Türkiye's geography, reinforced by initiatives such as the Middle Corridor, makes it a natural connectivity hub. For the EU, this is not only about facilitating trade. It is about reducing exposure to chokepoints, strengthening supply-chain continuity and anchoring key routes in a more stable and rule-based framework.

Taken together, these points lead to a clear conclusion.

The EU is already structurally linked to Türkiye in areas that matter for its security, resilience and economic stability. The question is no longer whether this relationship has strategic relevance. It is whether the EU is willing to manage it with a framework that reflects that relevance.

A modernized Customs Union would do exactly that. It would allow Europe to turn an existing dependency into a more governable and more strategic relationship — one that better serves its own geopolitical interests.

Chapter 2: Supply Chains & Competitiveness; Securing Europe's Industrial Base

The modernization of the EU–Türkiye Customs Union is a strategic instrument for strengthening Europe's industrial competitiveness in a more fragmented global economy.

For the EU, the challenge is clear: global supply chains have become less reliable, more politicized and more expensive. In response, Europe has adopted a strategy of de-risking — reducing excessive dependence on distant markets while preserving access to trade and production capacity. This strategy requires viable alternatives close to home. Türkiye is the most immediate and scalable one.

First, the EU needs geographically proximate production capacity to stabilize its industrial base.

In sectors such as automotive, machinery, textiles and intermediate goods, Türkiye is already part of Europe's production reality. This is not a hypothetical future option. It is an existing extension of European industry. For the EU, this means lower transport costs, shorter delivery times and reduced exposure to disruptions in distant markets.

Second, Türkiye allows Europe to combine cost efficiency with strategic proximity.

Full re-shoring into the EU is often too costly to be economically viable. At the same time, continued dependence on distant suppliers increases geopolitical and logistical risk. Türkiye offers a middle ground: industrial scale, competitive production costs and immediate geographic reach. For European firms, this supports competitiveness without deepening vulnerability.

Third, the EU's industrial strategy remains incomplete if it does not fully integrate this reality.

Europe is trying to accelerate industrial capacity, strengthen resilience and secure supply chains. But it is doing so without fully integrating the nearest extension of that capacity. This is the central contradiction. The EU is trying to accelerate its industrial base without fully integrating its most immediate industrial partner.

Fourth, this contradiction is increasingly visible in the EU's own policy agenda.

Initiatives such as the Green Deal, the Clean Industrial Deal and the broader "Made in Europe" logic are redefining market access and industrial competition. Price and quality alone no longer determine success. Sustainability, traceability, regulatory alignment and supply chain security are becoming just as important. Public procurement is moving in the same direction, giving greater weight to resilience and production origin.

Fifth, the Industrial Accelerator Act reinforces this shift.

By setting the goal of raising manufacturing's share of EU GDP to 20% by 2035, the EU is signalling that it wants to strengthen Europe as a production base, not merely as

a consumer market. Accelerated permitting, industrial zones and more strategic procurement all point in the same direction. But this agenda remains incomplete if Türkiye — already deeply embedded in European production networks — remains outside a modernized framework.

Sixth, an outdated Customs Union weakens the EU’s own industrial and green agendas.

If Turkish firms invest in decarbonization, regulatory compliance and supply chain transparency, they become exactly the type of nearby and reliable production partners the EU says it needs. Without an updated framework, however, these firms remain structurally disadvantaged. That does not only affect Türkiye. It weakens the effectiveness and coherence of Europe’s own industrial and climate strategies.

Seventh, the current framework imposes avoidable costs on European business.

The Customs Union does not adequately cover services, public procurement, digital trade or modern trade facilitation. This creates unnecessary friction in precisely those areas where European competitiveness now depends on speed, coordination and scale. It also affects small and medium-sized enterprises in particular, since Europe’s industrial strength depends not only on large firms, but on dense SME networks that need simple and predictable cross-border integration.

Eighth, digital integration is now part of industrial competitiveness.

Modern supply chains depend on real-time data flows, digital customs procedures, integrated logistics systems and cross-border services. The current framework lags behind these realities. A modernized agreement would improve transparency, reduce delays and lower transaction costs across the EU–Türkiye production space.

Ninth, other areas could further strengthen the relationship, even if they are not the core of this chapter.

Closer financial integration — including progress towards SEPA alignment — would reduce transaction costs and remove another layer of friction. A structured dialogue on China would help ensure that deeper EU–Türkiye integration supports, rather than complicates, Europe’s wider economic security agenda. These points are secondary, but they underline the broader value of a modernized framework.

Lastly, a structured and constructive dialogue on China is essential to align the EU–Türkiye economic space with global shifts.

European concerns that the Customs Union could serve as an indirect “back door” entry point for Chinese firms require a joint approach to ensure fair competition and regulatory integrity. A coordinated framework for dialogue on China between the EU and Türkiye would allow both sides to align expectations on investment screening and supply chain security. Such engagement ensures that Türkiye’s economic diversification remains compatible with its deep integration into the European market.

Taken together, the economic logic is clear.

The EU already depends on Türkiye as a near-shoring hub and industrial partner. Modernizing the Customs Union would reduce friction, improve resilience and make Europe's own industrial strategy more coherent. Without such an update, the EU risks pursuing competitiveness with an incomplete toolkit while its major competitors move with greater strategic consistency.

Chapter 3: Political Feasibility — Why a Controlled Update Is Easier to Defend Than the Status Quo

The modernization of the EU–Türkiye Customs Union is often treated as a politically sensitive option. Under current conditions, however, the opposite is increasingly true: maintaining the status quo is becoming harder to defend than a controlled update.

The EU is not dealing with a hypothetical relationship. It is already deeply integrated with Türkiye in trade, production and supply chains. The relevant question is no longer whether to engage, but whether this interdependence is governed in a way that serves European interests with sufficient coherence, flexibility and control.

First, the EU already acts pragmatically with Türkiye when its own interests are at stake.

This is not a theoretical proposition. The EU has already shown that it can build deep, functional and politically contained cooperation with Türkiye when the cost of inaction becomes too high. The most obvious example is the Facility for Refugees in Türkiye. What matters politically is not only that this mechanism mobilized major resources, but that it established a workable model of structured cooperation without turning that cooperation into a broader political integration process. The logic is directly relevant here. The issue is not whether such cooperation is politically comfortable. It is whether it is necessary, manageable and defensible in the EU's own interest. The EU's recent approach to Türkiye also points in this direction: engagement has advanced in phased, proportionate and reversible ways, precisely because Brussels already has a language for controlled cooperation under sensitive conditions.

Second, the current EU agenda creates a stronger policy case for action than in previous years.

The Union's central economic priorities now revolve around competitiveness, supply chain resilience, industrial capacity and economic security. The Competitiveness Compass explicitly links Europe's future competitiveness to stronger and more diversified supply chains, new trade and investment partnerships and a more strategic use of policy tools. In parallel, the Industrial Accelerator Act is designed to strengthen Europe's production base and raise manufacturing's share of GDP. In that context, the logic of a Customs Union update becomes materially easier to defend. The EU is trying to strengthen industrial resilience and reduce excessive external dependencies, yet one of its most integrated neighbouring production spaces remains governed by a framework that no longer reflects current realities. That is no longer a minor inconsistency. It weakens the effectiveness of the EU's own policy agenda.

Third, the political threshold is lower than often assumed.

The lack of movement in accession talks is usually seen as an obstacle. In practice, it also lowers the symbolic stakes. Because there is no active enlargement dynamic, a Customs Union update can be treated for what it actually is: a technical and economic adjustment to an already existing relationship. That makes it easier — not harder — to

support. It allows decision-makers to argue that the issue is limited in scope, focused on practical outcomes and not part of a broader political repositioning. This matters especially in the Council, where the viability of any move will depend less on enthusiasm than on whether it can be presented as controlled, limited and politically containable.

Fourth, a phased and reversible update fits EU decision-making logic.

The modernization of the Customs Union does not require one large political leap. It can be structured as a gradual implementation process, beginning with areas of clear European utility such as trade facilitation, regulatory alignment, dispute settlement and the removal of bottlenecks in integrated value chains. This fits how the EU already handles sensitive files: incrementally, conditionally and with review points. Once framed in those terms, the political nature of the issue changes. What may appear difficult as an abstract strategic choice becomes easier to support when presented as a modular and controlled process with visible practical gains.

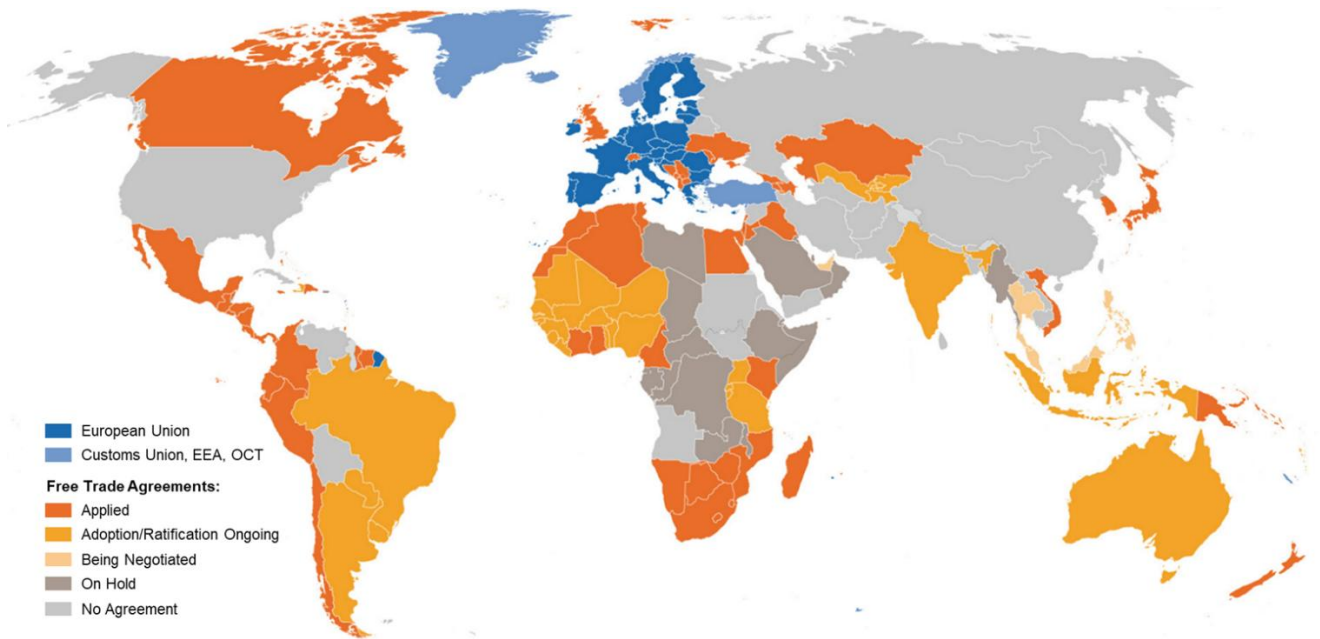
Fifth, the cost of inaction is no longer neutral.

The existing economic relationship is already large enough that an outdated framework creates a genuine governance gap. The EU carries the exposure of deep integration, but without the instruments needed to shape, monitor and optimize that integration fully. This is increasingly relevant in areas such as regulatory coherence, sensitive trade flows, industrial coordination and supply chain management. In other words, the status quo no longer preserves stability. It leaves the EU economically exposed while limiting its ability to exercise strategic control. The issue is no longer simply that modernization would be beneficial. It is that non-modernization is becoming progressively less defensible from a European point of view.

Sixth, the EU's wider trade policy is beginning to work against the coherence of its own regional production space.

As the EU expands its network of free trade agreements, it is improving access for more distant partners while leaving one of its most deeply integrated neighbouring economies under an outdated framework. From a European perspective, this is not primarily a Turkish grievance. It is a problem of strategic coherence. The Competitiveness Compass itself stresses the need to strengthen supply chains and build new trade and investment partnerships in ways that reduce vulnerabilities. That objective becomes harder to achieve if the EU continues to deepen preferential access for more distant markets (e.g. MERCOSUR, India, Australia) while leaving friction in one of its closest and most integrated production relationships unresolved. For European policymakers, that is the relevant point: the current asymmetry increasingly cuts against the EU's own supply chain, competitiveness and industrial-policy objectives.

Figure 4: EU Free Trade Agreements Topology (as of March 2026)



Rationale

The EU already works with Türkiye pragmatically when its own interests require it. It already has the language, the institutional habits and the policy rationale to justify a controlled update. What has changed is that the economic and strategic cost of not acting is becoming more visible across multiple EU policy files.

That is why a Customs Union update should no longer be seen as a politically awkward exception. It should be understood as a practical correction in the EU's own interest — one that brings an already significant economic relationship back into better alignment with Europe's priorities on competitiveness, resilience and economic security.

Chapter 4: A Pragmatic Pathway for Incremental Customs Union Modernization

If the EU wants the Customs Union to serve Europe's next economic priorities, it should proceed through a pragmatic but purposeful modernization track. The most credible way forward is not a politically overburdened grand bargain, but a sequenced implementation process that begins with practical gains, improves the functioning of an already highly relevant framework and then moves toward more complex implementation chapters where the economic case is strongest. That is not a minimalist approach. It is the most convincing way to generate movement on a file that has often been trapped between economic necessity and political hesitation.

1. Keep the file economic, practical and European

The case for action should be framed in European terms: competitiveness, resilience, industrial capacity and economic security. The question is not whether the Customs Union is symbolically important for Türkiye. The question is whether the EU is prepared to make one of its most important neighbouring economic relationships work better for its own next economic phase. Many studies support exactly this framing. The strongest modernization demands come from areas that directly affect day-to-day business performance.

2. Build momentum through credible, immediately value creating steps

The strongest route to progress is also the most realistic one: first make the current framework work better for the firms already using it; then extend it only where the economic rationale is clearest. This logic is strongly supported by business evidence. The chambers and companies do not primarily call for an abstract institutional leap.¹¹ They point to practical obstacles that raise costs, delay shipments and reduce predictability. The value of a first modernization phase is therefore not only economic. It is political. Credible improvements would show that movement on the file can produce concrete benefits.

3. Start where the gains are most immediate

The first implementation objective should be to improve the functioning of the existing framework. The strongest near-term case lies in reducing friction in trade that already exists at scale. This is where the evidence is most persuasive and the threshold for action lowest. A business survey is particularly clear on this point: companies do not

¹¹ **AHK Turkey and TEPAV (2021)**. *Customs Union Position Paper*. Prepared with the support of TOBB and Bilateral European Chambers.

primarily point to tariffs as the core problem, but to customs friction, non-tariff barriers, documentation burdens and implementation problems.¹²

4. Prioritize the bottlenecks businesses identify

The evidence is unusually clear on where immediate priorities lie. In manufacturing and construction, firms rank **digitalized customs procedures** as the leading modernization priority at **78.9%**, followed by the reduction of **non-tariff barriers** and **administrative burdens**, both at **73.7%**. More than half, **52.6%**, also point to the **removal of certificate-of-origin requirements**. In trade, the pattern is similar: **63.6%** prioritize digitalized customs procedures, while **45.5%** identify both lower administrative burdens and the removal of certificate-of-origin requirements as priorities. These numbers matter because they show where modernization would generate the most immediate practical value: faster customs processing, fewer duplicative controls, lower compliance costs and more predictable operation of integrated value chains.

Across the inputs, e.g. from AHK Türkiye, Advantage Austria, the Dutch Business Association, the French-Turkish Chamber and several company case studies, the same priorities recur: leaner procedures, broader use of **electronic A.TR** and **electronic certificates of origin**, fewer repeated checks and less documentation-heavy border management. The degree of overlap between the survey evidence and the chamber evidence is itself an argument for action. Different methods, different contributors, same bottlenecks.

5. Remove frictions the Customs Union was meant to eliminate

A particularly clear problem is the persistence of origin-related bureaucracy inside a framework designed to reduce precisely this kind of friction. Across the business evidence, firms repeatedly point to **additional proof-of-origin requirements despite A.TR circulation**, duplicative paperwork and extra costs linked to the interaction between Customs Union rules and Türkiye's treatment of third-country goods. German, Austrian, Dutch and French business inputs all describe this issue as a major practical irritant. The German submission is especially direct in arguing that the need to provide certificates of origin despite A.TR circulation "basically contradicts" the logic of the Customs Union.

This is not a marginal technical complaint. It goes to the heart of whether the framework still performs its most basic trade-facilitating function in an efficient way. A first modernization phase that fails to address this issue would leave one of the clearest and most visible sources of avoidable friction untouched. Precisely because the problem is so concrete, it is also one of the strongest candidates for early corrective action.

¹² Slevogt, M.C. and Seyfert, P.S. (2022). 'A Modernization So Close Yet So Far? A Strategic Perspective on the Customs Union 2.0 Discussion Between the EU and Turkey', in Bilgin, M.H., Danis, H. and Demir, E. (eds.), *Eurasian Business and Economics Perspectives*. Eurasian Studies in Business and Economics, Vol. 24. Cham: Springer, pp. 299–321.

6. How to modernize the implementation process

The issue is not only what the Customs Union covers, but how it operates in practice. Business submissions point to repeated inspections, additional testing despite EU standards, TAREKS-related delays and procedural duplication at the border. Siemens Healthineers, for example, points to average delays of **7 to 10 days** linked to safety inspections after import procedures. Several chambers also underline that products already certified according to EU rules are still re-tested or re-checked in Türkiye. The Austrian chamber, the French chamber and Dutch business input all highlight time-consuming TAREKS inspections, repetitive approvals and the need for renewed testing of goods that should in principle move more smoothly.

That makes implementation reform more than an administrative side issue. A framework that works below its practical potential will not support Europe's competitiveness agenda, however ambitious the language around resilience or near-shoring may be. A pragmatic modernization track should therefore focus on execution as much as on formal coverage: better customs management, more predictable documentation, fewer duplicative checks, stronger technical coordination and more effective ways to resolve operational disputes before they become structural irritants.

Once operational bottlenecks in the current framework are addressed, the EU should move into new areas. Here, **digital trade and e-commerce** is the strongest candidate. It is the **single most-supported expansion area**, backed by **32.5%** of respondents overall, ahead of services, public procurement and agriculture. That is a highly useful finding for policymakers because it identifies a future-oriented area where business demand is already visible and where the gap between the current framework and the structure of contemporary trade is especially obvious.

Rationale

The strength of this implementation approach lies precisely in its discipline. It does not require a broader political reset. It begins from a simpler and more defensible proposition: if the EU is serious about competitiveness, resilience and the better organization of its economic neighbourhood, it should focus the Customs Union's initial modernization on where trade already exists at scale. The evidence points clearly to where those gains lie — in digitalized customs procedures, lower administrative burdens, fewer non-tariff frictions, more coherent implementation and the removal of origin-related bureaucracy that the framework should have rendered unnecessary in the first place.

That is the most credible path to movement on the file: economically meaningful, politically manageable and fully aligned with Europe's next economic priorities.

Policy Recommendations

1. To the European Union

- **Keep the process economic, practical and European.**
Frame Customs Union modernisation with Türkiye as a tool to advance the EU's own priorities like competitiveness, resilience, industrial capacity and economic security, ensuring a focused, technically grounded and politically manageable process.
- **Launch a phased Customs Union modernisation track.**
Adopt a sequenced approach that begins with practical, low-risk steps such as trade facilitation, regulatory alignment and stronger dispute-settlement tools before moving into more complex areas. Within this context:
 - **Start by improving the functioning of the existing framework.**
Prioritize reducing friction in already high-volume trade flows by addressing inefficiencies in current practices, rather than reopening the entire framework at once.
 - **Prioritize business-identified bottlenecks.**
Focus on areas where firms report the greatest constraints, particularly digitalized customs procedures, reduced administrative burdens and the elimination of non-tariff barriers.
 - **Remove residual frictions and modernize implementation.**
Address persistent inconsistencies such as duplicative proof-of-origin requirements, additional paperwork and costs linked to third-country goods, while improving how the system operates in practice by reducing repetitive inspections, avoiding duplicative testing, minimising border delays and streamlining regulatory procedures.
 - **Update the scope where the economic case is strongest.**
Gradually extend the framework to reflect current trade realities, especially in services, digital commerce, public procurement and selected agricultural areas, following progress on core operational improvements.
- **Align the Customs Union with EU industrial strategy.**
Treat Türkiye as part of Europe's wider production space, and integrate this reality more clearly into EU industrial, resilience and supply-chain policies.
- **Correct asymmetries created by the EU's wider FTA agenda.**
Introduce mechanisms to minimize competitive distortions arising from the EU's trade agreements with third countries, while maintaining the integrity of the Customs Union.
- **Deepen strategic and technical integration.**
Link Türkiye more closely to relevant EU programmes, connectivity initiatives, digital

trade frameworks and payment systems where this enhances efficient and resilient cross-border economic activity.

- **Strengthen governance through coordination and business feedback.**
Enhance the effectiveness of existing joint bodies while establishing structured mechanisms for regular input from business associations and sector representatives to identify bottlenecks, track implementation gaps and ensure consistent interpretation, faster problem-solving and smoother day-to-day functioning of the Customs Union.
- **Establish a structured dialogue on China and external economic risk.**
Develop an EU–Türkiye channel to coordinate approaches on investment screening, supply-chain vulnerabilities and regulatory standards in response to shared external economic challenges.

2. To EU Member States

- **Support modernization as a standalone economic instrument.**
Member States should frame a Customs Union update as a tool for competitiveness, resilience and economic security, rather than as a proxy for the accession debate.
- **Align national industrial strategies with EU–Türkiye integration.**
Encourage firms to deepen supply-chain integration with Türkiye through sourcing, investment and joint production.
- **Use Türkiye more systematically for nearshoring and connectivity.**
Prioritize infrastructure, logistics and corridor investment that strengthens Europe’s access to neighbouring production capacity and reduces exposure to geopolitical chokepoints.
- **Deepen cooperation in strategic sectors.**
Focus on sectors where complementarities already exist, including automotive, machinery, energy and defence-related industries.
- **Make cross-border integration easier for SMEs.**
Simplified procedures and lower compliance burdens are essential if smaller firms are to benefit from the wider EU–Türkiye production space.

3. To Türkiye

- **Accelerate regulatory alignment with the EU.**
Early adaptation to EU standards, especially in green and digital regulation, is essential to preserve competitiveness and market access.
- **Strengthen predictability for investors.**
Greater transparency, more reliable institutions and more effective dispute-

resolution mechanisms would improve Türkiye's attractiveness as a production and investment base.

- **Address FTA asymmetries more proactively.**
Türkiye should seek closer coordination with EU trade policy and pursue parallel agreements where necessary to avoid widening competitive gaps.
- **Position Türkiye as a strategic nearshoring and connectivity partner.**
A clearer national strategy should highlight Türkiye's role as a manufacturing base, logistics hub and corridor linking Europe to surrounding regions.
- **Advance financial and investment alignment.**
Closer integration with European payment and financial frameworks, alongside a more transparent and EU-compatible investment regime, would deepen economic integration and reduce transaction costs.

Conclusion

The EU does not need to decide whether to engage with Türkiye. It is already engaged. The real decision is whether this engagement will remain governed by an increasingly outdated framework — or whether it will be adapted to serve Europe's next economic priorities more effectively.

What gives the EU–Türkiye economic relationship its importance is not geography alone. It is the scale of trade, the depth of mutual investment and the existence of value chains that already matter for European industry, resilience and competitiveness. A relationship of this significance can no longer be managed as if the trade environment of the 1990s is still relevant.

That is now the central issue. The current framework no longer matches the economic weight, strategic relevance or operational complexity of the relationship it is meant to govern.

For the EU, the case for action is therefore practical before it is political. A modernized Customs Union would reduce friction, improve regulatory coherence, lower uncertainty and make it easier to align trade, industrial policy and supply-chain strategy. In doing so, it would allow the Union to make better use of an economic relationship that is already deeply embedded in its wider production and trade system.

This is why Customs Union modernization should not be approached as a political concession to Türkiye. It should be understood as a measured correction in the EU's own interest. It would help bring one of Europe's most important neighbouring economic relationships into better alignment with the Union's objectives on competitiveness, resilience and economic security.

From this perspective, the most relevant question is no longer whether modernization would be beneficial in principle. It is whether the EU can justify allowing such an important relationship to operate under a framework that increasingly falls short of its practical and strategic potential.

The cost of delay is not abstract. As the EU expands its trade network, advances new industrial priorities and seeks to organize supply chains more strategically, the absence of an updated framework with Türkiye creates mounting inefficiencies and weakens the coherence of Europe's own economic agenda. Over time, that risk is constraining investment, limiting supply-chain resilience and reducing Europe's competitive flexibility.

Acting now should therefore be seen less as a geopolitical gesture than as an exercise in economic realism. The most credible path forward is not a politically overloaded grand bargain, but a pragmatic modernization implementation track that improves the functioning of the existing framework, sequentially expands into new areas and aligns it more closely with Europe's next economic phase.

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List of Abbreviations (in alphabetical order)

- AHK** – Außenhandelskammer (German Chamber of Industry and Commerce Abroad)
- A.TR** – A.TR Movement Certificate
- CBAM** – Carbon Border Adjustment Mechanism
- CBRT** – Central Bank of the Republic of Türkiye
- CEPR** – Centre for Economic Policy Research
- CEPS** – Centre for European Policy Studies
- CU** – Customs Union
- ETTIC** – European Turkish Trade and Investment Council
- EU** – European Union
- EU-27** – The 27 Member States of the European Union
- FDI** – Foreign Direct Investment
- Fig.** – Figure
- FTA** – Free Trade Agreement
- GDP** – Gross Domestic Product
- ifo** – ifo Institute
- OECD** – Organisation for Economic Co-operation and Development
- SAFE** – Security Action for Europe
- SEPA** – Single Euro Payments Area
- SME / SMEs** – Small and Medium-Sized Enterprise(s)
- TAREKS** – Risk-Based Trade Control System of Türkiye
- TEPAV** – Türkiye Ekonomi Politikaları Araştırma Vakfı (The Economic Policy Research Foundation of Türkiye)
- TOBB** – Türkiye Odalar ve Borsalar Birliği (The Union of Chambers and Commodity Exchanges of Türkiye)
- TR** – Türkiye
- UK** – United Kingdom
- US** – United States
- World Bank** – World Bank Group



About European Turkish Trade and Investment Council (ETTIC)

ETTIC is a non-profit organization, registered in the Brussels Capital Region, with the main purposes:

- i. To promote the development of trade, investment and economic relations between Europe and Türkiye, including but not limited to the modernization of the Customs Union.
- ii. To voice the interests of the European businesses and companies in the scope of trade and investment relations with Türkiye.
- iii. To support and promote the implementation of legislations, policies, initiatives and strategies relating to ESG within the European - Turkish business community.

ETTIC works closely with its members, the European diplomatic & economic network, the Ministries of Trade and Foreign Affairs and the EU Delegation to Türkiye.

Founding Members and Board of Directors:

Chairperson: Dr. Markus C. Slevogt, Former President, German-Turkish Chamber of Industry and Commerce (AHK)

Vice Chairperson: Franck Mereyde, President, French Chamber of Commerce in Türkiye

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Members:

- European-Turkish Bilateral Chambers of Commerce, Trade or Industry established in the Republic of Türkiye.
- European trade, export or investment promotion organizations, institutions and offices involved with trade or investment in the Republic of Türkiye.

Associate Members:

- European-Turkish Bilateral Chambers of Commerce, Trade or Industry established in the Republic of Türkiye.
- European trade, export or investment promotion organizations, institutions and offices involved with trade or investment in the Republic of Türkiye.
- Companies with corporate seats in Europe or in the Republic of Türkiye which are actively involved in trade with or investment into the Republic of Türkiye.
- Former presidents or general secretaries of European-Turkish bilateral chambers of commerce, trade or industry established in the Republic of Türkiye.
- Former directors or heads of European trade, export or investment promotion organizations, institutions and offices involved with trade or investment in the Republic of Türkiye.
- European or Turkish former/retired diplomats.

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