
TURKEY - A NEW CORPORATE WORLD FOR EUROPE





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An evaluation of the implications of potential Turkish membership of the European Union.



This report has been prepared for the Turkish-EU Enlargement Council of the European Round Table of Industrialists. Its aim is to assist an evaluation of the implications of potential Turkish membership of the European Union. The EU is to review a European Commission report on Turkey's progress in meeting the Copenhagen Criteria for full membership at the European Council meeting due in December 2004 and, dependent on this review, decide on a date for starting negotiations with Turkey on full membership.

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FOREWORD

The European Round Table of Industrialists (ERT) presented two reports, in 1999 and 2001, explicitly expressing support for EU Enlargement as an important milestone to achieve one of its main objectives - a stronger and more competitive Europe in a global economy. In this context, ERT has welcomed the biggest round of enlargement ever, not only because of the business benefits this will bring, but because it will help guarantee the prosperity and continued peace and security of Europe.

In line with this, ERT has recently also adopted a statement, calling for a clear date for the beginning of accession negotiations with Turkey, as soon as it fulfils the Copenhagen Criteria. All evidence shows this would send out a clear signal and be a strong stimulus for Turkey's social and economic development, and support the adoption and implementation of the necessary legislative actions to integrate the country in the EU.

To foster this integration process, ERT has helped setting a company-driven Business Enlargement Council (TEBC) in Turkey, as it has done in a number of other candidate EU Member States. BECs give business advice to the respective governments with a view to highlighting priority areas for the improvement of the business climate and, where appropriate, the implementation of relevant parts of the *acquis communautaire*.

Turkey's full membership of the EU is likely to enhance trade and investment opportunities further, and thus Europe's competitiveness. Experience thus far has shown that by unleashing competitive forces, European integration - built on the achievement of the four freedoms - has contributed to economic growth, creating wealth and jobs. This book prepared by the ERT- Turkish Enlargement Business Council provides ample information on the evolution of the relations between EU and Turkey, and on the strength and openness of Turkish industry. I thank and congratulate Mr. Bülent Eczacıbaşı who as ERT member has initiated and chairs the work of the TEBC.

We in ERT are convinced that both the EU and Turkey have much to gain from EU accession, and we call upon the European Commission and the Member States, to no longer delay a decision and give a clear message on when the negotiations with Turkey can start, once it has met the Copenhagen Criteria.

Antony Burgmans

Chairman, ERT Enlargement Working Group

Chairman, Unilever NV

FOREWORD

The Turkish Enlargement Business Council commissioned this report because it felt that European decision-makers and European Round Table members ought to have a clear view of Turkey's longstanding efforts to converge itself economically, politically and socially with the European Union.

This process started in 1963, when Turkey and the European Community signed the Ankara Agreement. The first section of this report identifies the milestones in this process, highlighting the Customs Union that sets Turkey apart from other EU candidates. Turkey courageously lifted its barriers to trade after decades of import substitution and surprised everyone with its successful adjustment to the ensuing increase in competition. The section also demonstrates the determination with which Turkey has prepared itself for membership negotiations.

The Turkish corporate sector is to be commended not only for its resilience to recent economic turbulence, but also for its enterprising international approach, which has led it to pursue opportunities in the region. This region includes countries with considerable natural wealth and new markets with exciting investment opportunities.

Turkish companies have not been alone in these ventures; foreign direct investors entered Turkey as early as the 1950s, though with much smaller volumes than that invested in South East Asia and Eastern Europe. All the same, the Turkish corporate sector enjoyed the privilege of interacting with international companies, thus enabling it to climb the learning curve of globalisation quite smoothly. The second section of the report offers a lively narrative of this evolution, which demonstrates forcefully the readiness of Turkish companies and institutions to meet the challenge of EU membership.

Overall, the primary message of this report is that Turkey's institutions and dynamic private sector are well prepared to start the negotiation process that will lead to EU membership and a higher level of welfare for both Turkey and the European Union.

Bülent Eczacıbaşı

Chairman, ERT - Turkish Enlargement Business Council

Chairman, Eczacıbaşı Group

FROM ASSOCIATE TOWARDS FULL MEMBERSHIP

A Mutual Commitment Evolving

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This section briefly reviews the steps that Turkey has taken to transform its legal, legislative, institutional and economic environment since 1963, when it signed the Ankara Agreement. This agreement envisaged a process of gradual political and economic integration that would lead Turkey to full membership after a period of 22 years.

In recent years, Turkey has taken major steps to restructure its economic, administrative, institutional and judicial environment with the long-term objective of meeting the challenge of global competition as a strong partner of the European Union. Economic and political turbulence has not discouraged Turkey, but rather reinforced its resolve.

The obligations which Turkey has contracted with the European Union have served as fundamental benchmarks during difficult times. Turkey has responded to major economic crises with root and branch reform of its financial and regulatory institutions, thus demonstrating its reliability as a partner of the EU.

TOWARDS THE MAASTRICHT CRITERIA

Fulfilment of the Copenhagen Criteria and a fundamental transformation in the economy to eventually converge with the Maastricht Criteria are the principles of Turkey's long-term economic program. Major structural reforms have been accomplished in various fields since 1999, when Turkey began to implement IMF-designed reform programs. These programs were accelerated in 2001, following two severe financial shocks that led to a 9.4% contraction of the economy and demonstrated forcefully the need for faster structural reform. In the early summer of 2001, Turkey undertook a series of measures to stabilise the macroeconomic environment and pave the way for economic recovery. Turkey's GDP grew 7.8% in 2002 and 5.6% in 2003, driven mainly by exports and the restocking of inventories. Strong growth is expected to continue in 2004.

MONETARY POLICY, INFLATION AND INTEREST RATES: On February 21, 2001,

following a second financial shock, Turkey left its crawling peg exchange rate regime and floated the Turkish lira. The main goal of Turkey's current monetary policy is to cure Turkey of chronic high inflation, which has plagued the economy for almost three decades.

The amended Central Bank law, adopted in 2001, strengthened the independence of the Central Bank of Turkey. According to the amended law, the Central Bank sets inflation targets jointly

with the government, but acts autonomously in determining policy tools and implementing monetary policy.

The Central Bank's decisive implementation

of a restrictive monetary program has contributed greatly to reducing inflation levels and future inflationary expectations. In 2003, consumer and wholesale price inflation dropped from 30% at the start of the year to 18.4% and 13.9% respectively, their lowest rates of the last 27 years. The government's target is to lower inflation to 12% in 2004 and single-digit levels in 2005. In June 2004, the annual rate of inflation had already fallen to 8.9%. Overnight interest rates, which started at the 44% level at the beginning of 2003, declined to 26% at the end of the year.

PRODUCTIVITY: Turkey has increased

its total factor productivity by an average rate of 5.2% since 2001, primarily through structural and institutional reforms and improved macroeconomic conditions.

Labour productivity in the manufacturing sector increased by 11.9% in the fourth quarter of 2003 on a year-over-year basis. Over the last three years, output per worker has increased by a cumulative rate of 35.2%. Similar progress has been achieved in the public sector, where productivity has increased by 40.4% since the start of 2000.

EMPLOYMENT: Despite declining inflationary pressures and higher growth rates,

employment levels have not improved since the economic downturn in 2001. On the contrary, Turkey's unemployment rate rose from 9.3% in 2002 to 10.5% in 2003. Unemployment is particularly high among young people, with job seekers under 25 years of age constituting 27.8% of total unemployed labour.

Several factors have reduced employment growth.

One of these has been the relative strengthening of the Turkish lira since 2001, which has obliged producers to increase productivity in order to maintain their international competitiveness. Another has been the shift in the textile sector from low to high value-added products requiring less labour. The restructuring of Turkey's financial sector through bank take-overs and privatisation has also contributed to white-collar unemployment. At the same time, uncertainty in Turkey and the economic slowdown globally have discouraged new investments. High levels of unemployment have eroded real wages, especially in white-collar jobs.

PUBLIC SECTOR DEFICIT: Achieving a high public sector primary surplus

has been the central component of Turkey's stabilisation program since 2001. In 2003, the government



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realised a primary surplus equivalent to about 6% of GNP, up from 4.3% a year earlier. In 2004, Turkey is well on its way to achieving its 6.5% target according to current budget figures.

The Turkish government is committed to undertaking the structural reforms required to improve its fiscal performance. It aims to increase revenues and reduce expenditures by reforming the taxation and social security systems. Other areas in various stages of reform are public sector governance, state enterprise employment and the transparency of public sector accounts.

To strengthen the functioning of the market economy and improve the competitiveness of Turkish industry, Turkey is reducing the weight of the public sector through privatisation, the transfer of regulatory powers to independent authorities and the removal of legislative obstacles and economic uncertainties that obstruct market efficiency. Following the establishment of the Capital Market Board and Banking Regulation and Supervisory Agency (BDDK), Turkey has expanded its regulatory agencies to include the Telecommunications Authority, Competition Authority, Energy Market Regulatory Authority, Capital Market Board, Sugar Board, Tobacco and Alcoholic Beverages Board and Public Procurement Agency.

EVOLUTION OF RELATIONS BETWEEN TURKEY AND THE EUROPEAN UNION

In 1959, shortly after the creation of the European Economic Community (EEC), Turkey applied to become an associate member. Ensuing negotiations resulted in the Ankara Agreement, which is considered the basis of EU-Turkish relations.

The Ankara Agreement aimed to strengthen economic and trade relations between the European Economic Community (EEC) and Turkey and contribute to Turkey's development through the establishment of a customs union. Signed on September 12, 1963, and put into effect on December 1, 1964, the Agreement pledged to consider Turkey for full membership if and when it could prove its capacity to undertake the responsibilities set out in the Agreement.

Like the Athens Agreement signed with Greece, the Ankara Agreement sought to prepare Turkey for full membership through economic integration. Customs union was meant to lead to Turkey's full integration in the European Single Market over a three-stage period comprising a preparatory, transitional and final phase. In other words, even 40 years ago, the vision of Turkey-EU relations went far beyond the free movement of goods.

During the preparatory period, which was expected to last between five and 10 years, Turkey was to strengthen its economy with financial support from the Community.



The First Financial Protocol pledged to provide Turkey ECU 175 million in credit over a five-year period. The Provisional Protocol added to the text of the Ankara Agreement outlined the trade policies that partner countries were to follow during the preparatory period. Turkey's primary goal during this period was to expand its quotas in the Community for tobacco, grapes, dried figs and hazelnut exports.

Turkey and the EEC signed the Additional Protocol on November 23, 1970, following negotiations on the conditions, rules and timetables of the transitional phase. The trade provisions of the Additional Protocol came into effect in September 1971, through a provisional agreement, and the entire Additional Protocol came into effect on January 1, 1973, following its ratification by member state parliaments. With this Agreement, Turkey's preparatory phase ended and its transitional phase began.

The Additional Protocol foresaw the elimination of customs duties and quantitative restrictions on the trade of industrial goods between Turkey and the Community, Turkey's adoption of the Common Customs Tariff, special arrangements for agricultural products subject to specific import rules, and the free movement of movement of people and services. It also foresaw the closer alignment of economic, commercial and agricultural policies as well as the harmonisation of competition rules, taxation systems and legislation. This process was to be completed over a 22-year transitional period.

Beginning in 1971, the Community unilaterally lifted customs and quantity limitations on all Turkish industrial goods except selected petroleum products and textiles. To help Turkey carry out the required structural reforms, Turkey and the Community agreed on a second Financial Protocol comprising a credit package of ECU 195,000,000.

However, for reasons attributable to both Turkey and the Community, neither the Ankara Agreement nor the Additional Protocol was implemented as envisaged. During the preparatory stage, Turkey did not prepare itself for the transition stage and Customs Union with the European Community. Rather than encouraging exports and international competition, Turkey protected its industry with five-year development plans based on import substitution.

At the same time, developments within the Community placed Turkey in a difficult situation. The accession of new member states to the Community as a result of the first wave of enlargement and the establishment of preferential trade relations with third countries eroded earlier privileges granted to Turkey. In June 1973, the Community and Turkey signed a Supplementary Protocol to correct this, but the agreement did not last long.

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In the mid-1970s, Turkey's relations with the EEC were clouded by an increase in Turkey's current account deficit, the EEC's refusal to grant additional privileges to Turkish agricultural and textile products, and growing uncertainty about the free movement of workers envisaged by the Additional Protocol to begin in 1976.

In 1976, Turkey announced that it had postponed its responsibilities for one year. In 1978, dissatisfied with the EEC's response to its requests for revisions, Turkey put its relations with the EEC on hold.

All of this changed with Turkey's economic reform package of January 24, 1980, which embraced outward-oriented policies as a way of integrating the economy with world markets. This ambitious program introduced radical measures that reduced the economic role of the state and liberalised trade and prices. Over the decade, import restrictions were replaced by export incentives, conditions were established for the full convertibility of the Turkish lira and capital movements were liberalised.

Unfortunately, the ECU 600 million credit package designed to help Turkey facilitate these reforms, the Fourth Financial Protocol, was blocked by the veto of a member country. In 1983, the

restoration of civilian government and accelerated pace of economic liberalisation strengthened Turkey-EU relations. Turkey applied for full membership in 1987.

The European Commission issued its opinion on Turkey's membership application in December 1989. This opinion underlined Turkey's eligibility for membership, but deferred an in-depth analysis of Turkey's application until the emergence of a more favourable environment. In February 1990, the European Council endorsed the Commission's opinion on economic and political grounds, but stressed the need for intensifying and strengthening relations between the EU and Turkey.

In June 1990, the Commission adopted a set of proposals known as the "Matutes Package". These proposals foresaw the completion of Customs Union with Turkey, the resumption and intensification of financial co-operation, the promotion of industrial and technological co-operation and the strengthening of political and cultural ties. The Council, however, did not approve the package.

CUSTOMS UNION AND THE ACQUIS COMMUNAUTAIRE

On March 6, 1995, the EU-Turkey Association Council decided to push forward with Customs Union and resume financial co-operation. **Consequently, on January 1, 1996**, 32 years after

the signing of the Ankara Agreement, Customs Union between Turkey and the EU came into force.

The primary objective of Customs Union

was to achieve the free movement of industrial products between Turkey and the European Union as well as a common customs tariff for third countries. For the proper functioning of Customs Union, Turkey had to adopt large parts of the Community legislation even before its entry into force, notably in the areas of customs, commercial policy, competition and intellectual property rights.

Customs Union has been a cornerstone of EU-Turkey relations, but the greater turning point was accomplished at the Helsinki Summit in December 1999, where the EU recognised Turkey as a formal candidate for membership.

With the Helsinki decisions, relations between the EU and Turkey entered a new phase that exceeded the scope of Customs Union. These entailed a pre-accession strategy involving further political and economic co-operation with the goal of full membership.

TRADE POLICY: Customs Union guaranteed the free movement of industrial and processed agricultural goods between Turkey and the EU through the elimination of customs duties and quantitative restrictions. However, between 1996 and 2000, the EU allowed Turkey to maintain protective tariffs on specific sensitive products, such as motor vehicles, footwear, leather products and furniture originating from EU countries.

In 2001, Turkey adopted a new import regime

that harmonised its tariff rates on all industrial products with the Common Customs Tariff rates. Further changes in 2004 reflected Turkey's obligations and commitments to the WTO and free trade agreements signed with third countries.

Currently, Turkish authorities are working to

remove remaining technical barriers to trade that arise from differing methodologies or technologies, such as standardisation, testing, industrial metrology, calibration, conformity assessment and certification. They are also trying to improve the implementation of technical legislation.

To help remove technical barriers to trade,

Turkey founded the Turkish Accreditation Agency (TÜRKAK) in November 1999. TÜRKAK became a member of European Accreditation in November 2002. However, the EU still does not recognise TÜRKAK accreditation, due to TÜRKAK's failure to sign the EA multilateral agreement.

Structural reforms like the 2001 Alcohol Act

have also contributed to removing trade barriers. Aimed at liberalising the alcoholic beverage market, the Act established a Tobacco and Alcoholic Beverages Board, prepared the state tobacco and alcohol monopoly, TEKEL, for privatisation and enhanced market entry. Privatisation has been



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partially accomplished. Work is in progress on outstanding issues concerning the import regime for alcoholic beverages.

Trade barriers were also lowered by the establishment of an independently functioning Public Procurement Agency in April 2002, and the enactment of a new Public Procurement Law in line with UN standards in January 2003.

COMPETITION POLICY: Turkey has harmonised its competition laws with EU rules and legislation. In December 1994, it approved a new law on the Protection of Competition and in 1997, an independent Competition Authority became operational. Turkish Competition law prohibits agreements and concerted practices that restrict competition as well as the abuse of dominant market positions and monopolies. It also regulates mergers and acquisitions.

Over the period 1997-2002, the Competition Authority concluded 1,655 of the 2,006 anti-trust, merger and acquisition, exemption and negative clearance cases brought before it.

To achieve the full alignment of Turkish competition law with EU legislation, authorities have been working on harmonising laws on state aid, state monopolies, public enterprises,

enterprises with special rights, and commercial protection instruments. Recently, Turkey has:

- Strengthened the inspection powers of the Competition Authority.
- Secured more effective implementation of the Competition Authority's decisions. Parliament has adopted a law which allows fines imposed by the Authority to be collected immediately, without waiting for Supreme Court rulings on appeals.
- Transferred regulatory power of alcoholic beverages from TEKEL to the Tobacco and Alcoholic Beverages Board and abolished TEKEL's monopoly status.
- Prepared a draft law on the establishment of a national authority to monitor state aid.
- Published a communiqué on anti-trust rules that offers block exemption of R&D agreements, with the aim of encouraging co-operation in this field.
- Published "Guidelines on the Application of the Block Exemption of Vertical Agreements". Guidelines address such issues as selective distribution, agreements between competitors, agreements involving intellectual property rights and agency agreements.



INTELLECTUAL PROPERTY RIGHTS:

Turkey established the Turkish Patent Institute in 1994. Since then, it has made substantive efforts to align its legislation with the Community acquis in the area of intellectual property rights.

In 1995, before Customs Union came into force, Turkey aligned its legislation on patents, copyright and related rights, designs and models, trademarks, and geographical indications.

In 2000, Turkey ratified the European Patent Convention and established specialised courts in Istanbul to deal with intellectual property matters. Authorities continue to work on increasing the number of these courts.

In 2003, Turkey adopted the Bern Convention for the Protection of Literary and Artistic Works and the WIPO Performances and Phonograms Agreement and stepped up efforts to fight counterfeiting and piracy.

In 2004, Turkey approved the WIPO Copyrights Agreement. The Parliamentary Commission on Foreign Affairs has recommended that Turkey also approve the Geneva Text of the Hague Agreement on the International Registration of Industrial Designs and the WIPO Trademark Law Treaty.

The list above demonstrates that Turkey has successfully harmonised a significant portion of its legislation with the *acquis communautaire*.

Nevertheless, much remains to be tackled during the negotiation period.

THE BUSINESS ENVIRONMENT AND FOREIGN DIRECT INVESTMENT:

Foreign direct investment has not responded as fast as desired to Turkey's steady integration with the EU. Turkey has had a liberal legal framework for FDI since 1954 and currency convertibility for almost 15 years. Yet, FDI inflows over the past decades have not reflected Turkey's full potential.

To overcome this problem, Turkey initiated the Reform Program for the Improvement of the Investment Environment in 2001. The program aims to speed up investment procedures by eliminating administrative barriers and reducing red tape. A central component of this program is the **Co-ordination Committee for the Improvement of the Investment Environment (CCIIE)**.

The CCIIE has 10 technical working groups that submit quarterly reports to the Council of Ministers on the following issues:

- Company Establishment
- Employment
- Sector Licenses

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- Investment Location
- Taxes and Incentives
- Customs and Standards
- Intellectual Property Rights
- Investment Promotion
- Foreign Direct Investment Regulation
- SMEs

Through CCIIE, representatives of the private sector are able to express their concerns on the investment environment to public officials and participate in the policy-making process.

More recently, Turkey has established an **Investment Advisory Council** comprising the business leaders of 20 major international companies. IAC is designed to complement the work of CCIE by encouraging dialogue and proposing solutions to public officials. Issues identified in IAC meetings are later followed up by CCIIE. **IAC had its first meeting on March 15, 2004, in Istanbul under the chairmanship of the Prime Minister of Turkey.**

The investment reform program has led to numerous changes in related legislation, most notably the enactment of a new Foreign Direct Investment law in June 2003 that abolished the permission procedure and minimum capital requirement for foreign capital companies. The law redefined the definition of “investor” and “foreign direct investment” in accordance with international standards and confirmed investors’ right to national treatment, capital repatriation in the case of liquidation or sale, transferring profits and dividends, and employing foreign technical staff. Turkey had already introduced convertibility in the capital account in 1989. It also confirmed amendments to the Constitution and other laws concerning the acquisition of real estate, international arbitration and protection against expropriation. In general, the new law marked a shift in the mentality of public authorities from a “control system” to a “promotion and facilitation approach”.

Several other developments are making the business environment in Turkey more attractive to foreign direct investment. For example, Turkey has simplified the process for obtaining a work permit by giving the authority for granting work permits to a single office and eliminating the requirement that companies obtain an investment certificate before they use an investment allowance. Additionally, the previous costly and time-consuming procedure for registering a company that consisted of 19 steps and more than two months’ time on average has been



replaced by a new procedure requiring only three steps and one day.

Corporate transparency has been enhanced by the launch of the Turkish Accounting Standards Board in February 2003 and the Capital Market Board's Corporate Governance Principles. Studies continue on the legal changes required to improve company management and support banking reform.

Ongoing projects include the establishment of an Investment Promotion Agency and the simplification and shortening of licensing procedures. The CCIEE technical committee on land acquisition and site development is trying to find ways to make this problematic process more efficient.

OUTSTANDING ISSUES: In spite of all these efforts, there is still room for improvement to encourage foreign direct investment in Turkey. The concerns of ERT members can be divided into two categories, those related to political and macroeconomic risks and those related to government policies and business practices.

1. Political and macroeconomic risks

- Financial instability
- Low domestic consumption levels
- Foreign exchange risk
- Balance of payments risk

2. Existence or lack of specific government policies and business practices

- Taxation
- Investment incentives and R&D programs
- Customs
- Intellectual property rights
- Privatisation
- International arbitration
- FDI treatment
- Bureaucracy
- Regulatory framework
- Labour costs
- Judicial implementation
- Transparency in the business environment
- Effect of the unregistered economy on competition

ERT members discussed these issues with the Prime Minister and several state ministers at the Investment Advisory Council (IAC) on March 15, 2004. The European Round Table of Industrialists-Turkey Enlargement Business Council (ERT/TEBC) will monitor the progress made by Turkey in responding to investor concerns and establishing an investment-friendly environment.

On October 5 and 6, 2004, the ERT Enlargement Working Group will meet with the Turkish government to discuss progress made in improving the business environment in the context of Turkey's candidacy for EU membership.

TURKISH INDUSTRY

Rising to the challenge of Customs Union with the EU

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It is the deal which Turkish industry is eager to clinch. For long years, the country's business leaders have been the most assertive advocates of Turkey's full integration into Europe.

The reasoning is simple. European endorsement of Turkey's political aspirations will, as much as any other conceivable factor, guarantee the long-term, stable macroeconomic environment which industry demands. That environment, in turn, provides the conditions for growth and opportunity which European manufacturers are well situated to exploit.

As a destination for exports, as an opportunity for investment, and as a location for competitive manufacturing, even as the source of invisible earnings in tourism and finance, Turkey already offers immediate substantial returns to the European Union which it aspires to join.

In return, Turkey asks a low-cost, long-term commitment to work together. It is a textbook case of win-win.

While Turkish industry has been consistent in its commitment to Europe, it has also been realistic in its understanding of the institutional challenges which Turkish integration brings. "We are ready for a long negotiation period," says Ali Babacan, the Turkish Minister of State with responsibility for the economy.

Whether that period is a year or a decade, the mere prospect of membership has helped in the precision alignment of the interests of both parties in a whole series of fields of mutual endeavour. These fields range from the protection of intellectual property and environmental standards to co-operation in law enforcement and regional security.

To give the most recent example, although progress in the resolution of the divided island of Cyprus has never been a formal criterion for Turkey's accession to the EU, Ankara grasped the point that not simply good will but an unambiguous dedication to produce a settlement was a precondition for progress in its own negotiations with Europe. In 2004, for the first time in thirty years, a Turkish government committed itself to a Cyprus solution, and soon found it had the bulk of public opinion behind it. No group followed the ups and downs of negotiations more closely than investors on the Istanbul Stock Exchange, with each step forward producing a modest rally and every step back a small decline. In this new climate, the government felt empowered to reverse entrenched attitudes in the country's institutions of state and to use the full weight of its influence to commit the Turkish side to what it saw as the equitable process set out in the Annan Plan of the UN Secretary General.

REWARDING INITIATIVE: As in Ireland, as in Northern Spain and as in the long-standing disputes between Greece and Turkey itself, the



prospect of a greater degree of prosperity and of acting under a common European umbrella and within a supra-national European identity may well prove the antidote to local conflict. The Turkish business community is banking additionally that the realistic prospect of membership will stimulate a well-rehearsed set of reforms not just in the economy but in all areas of Turkish life. This prospect has already proven the impetus for reforms as diverse as the introduction of inflation accounting and the abolition of capital punishment.

The unequivocal commitment to Europe found in most Turkish board rooms may appear surprising given that many of Turkish corporate reflexes were conditioned during the post-war era of import substitution—the production of local or international brands under license and their sale in a protected market. Although Turkey may have stood guard as NATO's eastern stalwart against the Warsaw Pact, it shared some of the command economies' habits of competition avoidance. At the same time, however, post-War Turkey was a rapidly industrialising economy. It was a culture that encouraged entrepreneurship and risk. Then as now, Turkey remains an environment which amply rewards initiative. And Turkish entrepreneurs have been quick to take their skills abroad, not least to the new markets emerging from the collapse of the former Soviet Union.

Economic and political crises in the late 1970s left the country with little option than to open up

to the fast globalising economy. The great structural reform of the Turkish private sector occurred a full decade earlier than those in Central and Eastern Europe. Indeed, since 1996 Turkish industrialists have had to compete on equal terms on both price and quality with their European competitors. That was the year in which Ankara entered into a full Customs Union for industrial products with the European Union. That agreement also committed Turkey to follow the EU's common external trade policy and tariffs without a full voice in their deliberation.

Turkey remains unique among the new accession states in having taken so bold a step without the firm commitment to political partnership. Turkey is also unique in having made this transition without significant financial aid from Europe.

AN INTIMATE COMMERCIAL RELATIONSHIP:

Customs Union was an important formal commitment but in another sense merely institutionalised what had long been the case – Turkey's intimate commercial relationship with Europe. In 2002, even while recovering from a devaluation crisis, Turkey was Europe's 10th most important export destination and the 11th biggest exporter to the EU (up from 17th in 1990).

Unlike some accession states whose trade remains focused on one or two EU states, the

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Turkish pattern has been more widely dispersed, with France, Italy and the UK vying for second place to Germany.

Seen purely in trade terms, Customs Union would not appear to have operated to Turkey's advantage. Turkish exports to the Union rose from \$11.4 billion in 1995 to \$24.4 billion in 2003, but imports from \$6.9 to \$31.5 billion during the same period. In relative terms, the EU's share in Turkey's trade deficit remained fairly constant. However, in this period, most Turkish manufacturers adapted to the pressures of competition, improving their products and services to the undoubted benefit of the consumer.

At the same time, the Turkish side was less concerned with the size of the imbalance than that the good will beyond Customs Union was being allowed to dissipate. Turkey believed that in completing Customs Union it had all but qualified for inclusion into the accession process. However, at the Luxemburg Summit of 1997, it discovered that it was being sent far back in the queue.

The Turkish business community's great accomplishment in this period has been to preserve a sense of realism during what were turbulent years in their country's relations with the EU.

It never concealed that it perceived the obstacle to its own sustained profitability not as fair competition from Europe but the crowding-out by the state-owned banking sector, and a whole set of distorting linkages between politics and the economy. Customs Union was meant to open the sluice gates to substantial foreign direct investment, but investors looked at Turkey's chronic inflation and preferred to partake of Turkish risk in the form of high-yield Treasury Bills instead.

With Customs Union, Turkey opened its private sector to the global economy. The one thing the state had neglected to reform was itself.

Twin crises in 2000 and 2001 meant that the state-owned banks in particular had to be rationalised, and Turkey began the serious work of ending its economic imbalances. It did so buttressed by two pillars of stability – a stand-by agreement with the International Monetary Fund and the Copenhagen Criteria for entry into the European Union.

A VIRTUOUS CIRCLE: The firm sense of purpose behind Turkish recovery is readily visible in the current virtuous circle of lowering interest rates and falling inflation. "Having a primary surplus of 6.5% two years in a row – these are deeds not words," comments Jacques de Larosière, advisor to the chairman of BNP Paribas and a former head of the IMF, on the country's record in 2003 and target for 2004.

Turkey is due to end its current stand-by agreement with the IMF in February 2005 and



the expectation is that it will enter into a monitoring agreement.

It will learn at the end of 2004 whether Brussels will agree to begin accession talks. Whether Europe wants the responsibility or not, its decision will contribute to the course of Turkey's development.

The start of accession negotiations, the markets are convinced, will remove the final barrier to investor confidence. Although Turkey attracts its share of portfolio investment, historically foreign direct investment has been below \$1 billion per year. This is less than 0.5% of GDP. International experience shows that an economy of Turkey's size and importance should be attracting six to eight times that ratio. Re-confirmation of its eventual membership of the EU and the consequent stimulation of FDI will open major employment opportunities.

As far as Turkey and Turkish industry is concerned, Europe is not an option but an already present reality. The reverse, of course, is also true. Turkey has just too big a population, is too large a market, and is too critically situated for European leaders and industrialists each not to evolve their own strategy for the country. In this sense, Turkey has long moved on from being a mere option for Europe too.

Turkey is already important to Europe economically, politically and strategically. That importance can only increase. Turks believe that Turkey is already an asset and not a liability to

Made in Turkey - 1

The March to Moscow

"Our aim was to become Turkey's first true multinational" says Muhtar Kent, President and Chief Executive Officer of the Efes Beverage Group, which in 1999 specifically targeted the 450 million people living between China and the Adriatic. It kept to target and in less than five years has managed to ensure that half of the group's revenues now come from outside Turkey. Efes has two businesses, the first making beer, the second selling Coca-Cola and other soft drinks. While both businesses generated sales of over \$450 million in 2002, the first was vastly more profitable than the second. According to Kent, this is only natural: "You get higher returns when you create your own brand and do not have to split revenues with the brand owner." The Coca-Cola division now operates bottling plants in five countries – Turkey, Azerbaijan, Kazakhstan, Kyrgyzstan and Turkmenistan. Efes has almost doubled its international operations, adding breweries in Kazakhstan, Moldova and Serbia. In Russia itself, Efes bought Russia's Amstar breweries and used those facilities to develop new brands which have captured 41% of the Moscow local premium market.

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Europe – a point which Turkish industrialists are determined through their efforts and co-operation to establish beyond a shadow of doubt.

At the moment, Turkey stands as a buffer between Europe and conflicts further east but – as the fastest growing economy in the area and with the region's largest population and one of its most youthful – it is necessarily on the side of the angels in wanting to see those conflicts resolved. And, as discussed below, Turkey is strategically positioned so that much of the vast energy resources of Central Asia and the Caucasus will pass through its territory to find Western outlets.

COMMON PATTERN OF CONSUMPTION:

Already Turkish businessmen have been busy creating if not a common market, a common pattern of consumption in the CIS countries and Eastern Europe. Turkish contractors have responded with missionary-like zeal in building new dams, highways, airports, and luxury hotels in the old Soviet domains. Turkish retailers and manufacturers too have played their role in providing wide but affordable and sophisticated choice to a new generation of shoppers. Russian families, like those in Kazakhstan, drive to do their weekend shopping in a Turkish-manufactured Renault to a Turkish supermarket chain where they choose from shelves stocked with made-in-Turkey comestibles which they may have seen advertised on their made-in-Turkey television sets. And when they get home, they may drink a Turkish-branded beer.

Made in Turkey - 2

Banking on Stability

Siemens, a company which installed telegraphs in the Ottoman Empire, has had a manufacturing base in Turkey for over 40 years. Once upon a time, the Turkish consumer dutifully bought Turkish motor cars that were a compilation of parts made elsewhere and sold in a heavily protected market. In 1990, one of the Siemens companies began exporting its entire production of cable sets manufactured in Turkey to Volkswagen assembly lines in Europe. It has also anticipated a growth in the Turkish consumer market in white and brown goods. The Polish market is slightly larger than Turkey with only 60% of the population. The Italian market with 80% of Turkey's population is over four times the size. The assumption is that economic stability will encourage a consumer credit boom. True to this perception, Bosch-Siemens moved from a majority to 100% holding of the Turkish electrical and electronics company, Profilo, and is becoming increasingly involved in servicing domestic appliances. The same trends explain Siemens' commitment to a wide range of activities in Turkey from generating electricity to selling medical equipment.



If Turkish businessmen have a skill in developing new and challenging markets, it is one developed from mastering their own domestic market. Turkish managers, used to coping with chronic inflation, stop-start growth, devaluation and interest rate crises, see themselves as a case-hardened breed. The new challenge they face is stability. As inflation goes down, the ordinary consumer's ability to buy on credit is going up. Turkey is already Europe's fastest growing credit card market. It is extremely competitive too. Whereas once Turkish retailers made their customers pay the commission, now customers are rewarded with cash-back "bonus" points for using plastic and not cash. Firms like Fiat or Unilever are heavily invested in Turkey in anticipation of the consumer boom.

Until now, Turkey advertised the size and growth potential of its domestic market and its access to European markets as well as expertise in difficult markets on the European perimeter. The automotive industry – names like DaimlerChrysler, Fiat, Ford, Renault and Toyota – have identified Turkey as an important manufacturing base in part because of reasonable labour costs - though there are always cheaper places elsewhere – but also because of the right mix it provides of a growing market, proximity to Europe and expertise in non-European export markets. Turkish proximity to European suppliers (unlike Korea which relies on Japan) means that its goods have the requisite European content to enter freely into the EU. A similar situation applies in televisions. Vestel, one of the Turkish success stories of the 1990s, has

gone the OEM (original equipment maker) route. Now, the television manufacturer, Beko, has acquired the ailing giant Grundig as a means of marketing under a brand label it controls itself.

Customs Union has stimulated a broad range of industries. The export orientation of the Turkish garment industry has made it one of the net beneficiaries of Customs Union – not through producing a generic product but through multi-billion dollar investment in capital equipment mainly imported from Europe itself. Textiles and clothing accounted for 33% of exports in 2003, a slight decline in relative terms from 1990 when that figure was 38%. The numbers do not reveal the sophistication today of a ready-wear industry that produces a high value-added, fashion product and competes not just on price but its ability to deliver a designed garment to a specific retail shelf in Dortmund or Dallas. The great successes of the Turkish rag trade have been those groups which do not simply export the garment, but also the brand label and the very store in which it is sold.

SEIZING OPPORTUNITIES: The notion that "business generates more business" underlies Turkish-EU commercial cooperation. The figure is difficult to calculate but there are clearly tens of thousands of EU households which owe their livelihoods to the Turkish market.

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That figure is augmented by five million Turks travelling abroad each year as tourists and shoppers as well as by the portfolio investment which Turks make abroad. Increasingly, as Turkish business refine their global strategies, Turkey has become a direct investor in the European economy. Turkish businessmen have been quick

to seize opportunities in the next-wave accession states of Rumania and Bulgaria, which from Brussels' vantage point is helping to keep jobs in those countries.

Yet there are increasing examples of Turkish-originated firms which have a multi-national perspective that includes direct investment in Western Europe as well. Examples include the Eczacıbaşı Group's investments in Ireland and Profilo Holding's investment in Ekranas in Lithuania, one of the biggest picture tube manufacturers of Europe. ■

Made in Turkey - 3

Also Made in Ireland

"Twenty years ago, no one thought of the 'made in Turkey' label as an actual advantage," according to Eczacıbaşı Holding Vice President, Tayfun İndirkaş, who heads the group's large building material division. That view has changed dramatically in the last few years. Vitra, the ceramic tile and sanitary ware manufacturer which specialises in bathroom and sanitary products, is one of the group's strongest brands and is involved in prestige projects – the swimming pools on the decks of Queen Mary 2, the floors of the airports in Frankfurt or Munich, even the sanitary fixtures in the Lisbon Stadium that will host the European Football Championships. Vitra now entertains a 13% market share in Germany, 6% in the UK and 3% in the United States. Its share back in Turkey of the high end of the market is 55%. Vitra broke ground for a new plant in Ireland to produce tiles as part of a logistic decentralisation and is considering other investments in Central Europe. The firm's perspective is global rather than European and a 20% growth in sales puts it well on target to being one of the five largest companies in its field world-wide. Vitra's business is capital intensive. New product lines call for fresh investment every year.

TURKEY AND ITS POTENTIAL

Developing into a regional leader

In 2007, the borders of the EU should expand to end at the Bulgarian-Turkish frontier, and by 2010 Turkish membership of the EU should be clearly on the agenda.

The Turkey of 2010 will be a far cry from the country which was the lonely bastion of NATO through the long years of the Cold War. Instead, it will be a central element of the new Eurasia that is building itself from the embers of the Soviet Union.

For the countries of the Black Sea and Central Asia, Turkey is already an essential partner, straddling their trade and communication routes, helping to build their infrastructure and industry, and offering an alternative to continued dependence on trade routes controlled by Russia. Moscow has long had to face this problem: two-thirds of the imports it makes by sea come through the narrow Straits of the Bosphorus.

For the Middle East too, Turkey provides critical access. This applies to its neighbours – Syria, Iraq and Iran – and their neighbours too, including the Gulf states who, until 1990 and the closure of Iraq, were largely supplied by trucks transiting or originating in Turkey. In 2005, oil from Azerbaijan will join that from Iraq being shipped by pipeline to the southern Turkish port of Ceyhan.

By the end of the decade, the country could be even more important to Europe because of the natural gas transiting it on its way from the Caspian and Middle East, providing Europe with an additional source of gas and thus slightly reducing its dependence on Russian supplies.

Water too, the blue gold of the future, may be playing its role and Turkey should soon be shipping water from its southern rivers to Israel, Cyprus and other countries in the Middle East.

It is also well on the way to harnessing the Euphrates and the Tigris, managing their spring floods in a way accepted by its riparian neighbours, Iraq and Syria, and – provided ecological balances can be maintained – turning the plains of northern Mesopotamia into a region as rich as it was under the Romans.

AN INTEGRAL ELEMENT OF ITS REGION:

Add to this the products that Turkey will be exporting to north, south, east and west – already 55% of its trade is with the EU – and it can be seen that its role will neither be as crossroads or bridge but as an integral element of the region in which for long centuries it was the dominant force.

The Byzantine and Ottoman Empires together lasted 1,500 years. Both took no notice of geographers' divisions of Europe and Asia.

The Ottoman Empire alone lasted longer than the Empires of Britain, the Habsburgs, the Holy Roman Emperor, the Romanovs or Spain.

The Ottoman hinterland stretched from the Balkans to Baghdad and from North Africa to the Caucasus.

It is only natural that, while Turkish politicians settled for the borders of the Turkish Republic



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established in 1923, Turkey's traders should again be reaching out to a world of which they were once citizens.

Holding Turkey back in the 20th century were the closed autarchy which came with early Republican nationalism, political volatility, delayed economic development, and long disputes with Greece and over Cyprus.

The new century has opened with progress on all these fronts. Travel, the introduction of television, and the education of large numbers of Turkish students at the best universities in Europe and North America have contributed to the increasingly global view of today's Young Turk. Liberalisation and the reduction of tariff barriers in the 1980s and 1990s, the dismantling of much of the political patronage system as a result of the structural reforms undertaken with the support of the International Monetary Fund – all these have led to much more transparent and efficient economic management.

Successive governments have espoused the cause of liberalisation, and by the end of the current decade, Turkey can look forward to fully competitive markets in telecommunications, electric power and natural gas.

Turkey has had to come a long way, but recent years have seen a whole series of constitutional

and legal reforms aligning Turkey with practices in the EU. A current issue is the relationship of politics and Islam.

The modern Turkish Republic is committed to secularism. Once Erdoğan's Justice and Development Party (AKP) shows the same pragmatism here as it has on other issues, it will confirm a model which has much to offer to democracy in the Islamic world, while assisting Europe in developing its dialogue with this world.

A prerequisite in this is improved relations with Greece and the Greek Cypriots. Athens and Ankara are well on the way to easing the issues which once made the Aegean a flash point.

Indeed, the perspectives are that the islands of the Aegean will again be open to Asia Minor as they have through most of their history, and passenger and commercial routes across the Aegean will burgeon.

Regarding Cyprus, the perspectives are more complex after Southern Cyprus refused to take advantage of the goodwill shown by the Erdoğan Government in early 2004. The EU has now imported the Cyprus dispute into all its institutions.

In short, much has been achieved at home. But attitudes in Europe still need to be confronted. The dominant image of the Turk is at variance with the reality that visitors to the country find.

Equally, the value of the Turks to Europe's business world has yet to be widely appreciated. Their companies are a major source of products ranging from televisions and ceramic tiles to textiles and automotives. They are excellent



partners for industrial and contracting projects in third markets, whether the Turkic republics of Central Asia or challenging markets from Afghanistan to Morocco and from Russia to Singapore.

Many Turkish companies have a record of successful joint ventures with leading companies in Europe, America and Japan. Additionally, many European companies are among the 6,000 companies set up in Turkey with foreign capital and now taking advantage of Turkey as a manufacturing base to supply both a domestic

market expected to total 77 million people in 2010 and countries around Turkey as well as the EU itself. As the survey carried out for this report on ERT members in Turkey showed (see page 38), what companies most appreciate about Turkey is the quality of management and labour—that is, the Turks themselves.■

Made in Turkey - 4

Customs Union Winner

The Zorlu Group of companies is a story of rag trade to riches. A company which started in 1953 by weaving bed linen for the local market registered \$1.4 billion worth of exports in 2002. It is Europe's largest producer of bed linen, but for the Group that is now virtually a side activity. A plant in Bursa produces under one roof a formidable 440 tonnes of polyester textured yarn per day. In 1994, the group took over some ailing consumer electronics activities. "It had the right whiff about it," says Ahmet Nazif Zorlu, President of Zorlu Holding, describing the decision to purchase Vestel from the court-appointed administrators. "All it needed was the right management." Today, Vestel produces a wide range of home electronic products, including some four million colour television sets per year, and sells them to over 80 countries. The vast majority of its exports go to the EU. Vestel is an OEM manufacturer for many of Europe's leading brown goods suppliers and for several of its largest retail chains. This has given it a 12% share of the highly competitive European market. Growth is driven not just by exports but by the group's own research and development. This R&D includes research offices in Silicon Valley and Japan.

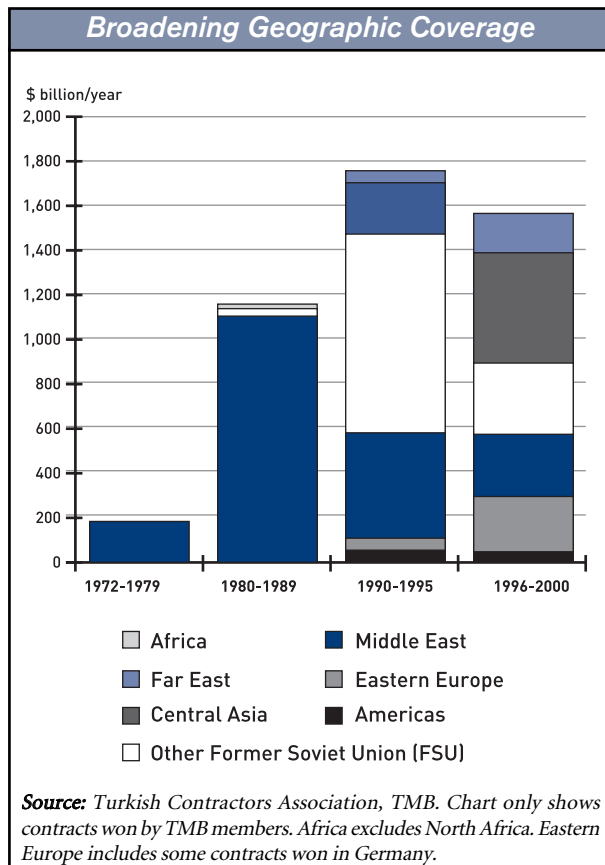
ASPECTS OF TURKISH CORPORATE LIFE

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TURKISH CONTRACTORS, A FORCE AT HOME AND IN THE REGION.

The Kabul-Kandahar highway runs 482 kilometres through the lawless mountains of Afghanistan. The Turkish contractors Mensel, Kolin Nafter and Gülsan/Çukurova, have rebuilt 254 kilometres and five of the six bridges on this highway.

For the Turkish construction industry, operating



in high-risk environments is nothing new. Much of the \$49 billion worth of contracts that they have carried out in the past three decades has been in areas where many Western companies have feared to tread. Indeed, the only unusual element of the Afghan work – as of upcoming work in Iraq – is that the Turks work as sub-contractors (in this case, a USAID financed project, to Louis Berger), rather than as prime contractors.

Housing and power stations in Ireland, ministries and shopping centres in Moscow, a cement factory in Ethiopia, airports in the Middle East and Central Asia, petroleum installations in Siberia – today, Turkey's contractors range the world. To date, they have earned the country over \$15 billion in foreign exchange. Their record dates back to 1974 when two civil engineers, Sezai Türkeş and Fevzi Akkaya, won the first of five contracts for reconstructing harbours in Libya. The success of their company, STFA, showed the way to other Turkish contractors. Saudi Arabia and Iraq soon joined the list of key markets, and by 1988, 310 contracting firms, led by companies such as Enka, Kiska, and Kutlutaş, were active from Tunisia to Iran.

By the time economic problems and political instability in the Middle Eastern and North African countries caused these markets to weaken, Turkey's contractors were already looking north. The 1980s had seen the industry boosted by Moscow's agreement to use part of Turkey's payments for natural gas to buy Turkish contracting services. The experience gained in these years put Turkish firms in a strong position to take advantage of the opening



up of the Central Asian republics after the dissolution of the Soviet Union. Proximity, cultural links, a certain availability of credits from Turkey's Eximbank, technical skills and an ability to operate in awkward circumstances – all these contributed to the successes of Turkish contractors. Now, they are also looking further afield, towards South and South East Asia, with contracts won in India, Indonesia, Malaysia, Pakistan, the Philippines and Thailand.

Histories of the Turkish construction industry

record how from the 1950s Turkey began to build its domestic infrastructure. Many of the initial contracts were carried out under NATO programmes, with the prime contractors being international companies. The experience gained on these projects led a number of Turkish engineers – almost all of them graduates from Istanbul Technical University, as indeed were the 8th and 9th Presidents of the Republic, Turgut Özal and

Süleyman Demirel – to set up their own companies. These started with civil engineering projects, moving on to increasingly demanding tenders for power stations and process engineering. By the time companies such as Enka, Gama, STFA and Tekfen were reaching abroad, they already had built up their teams, their track record and their financial base. Indeed, the track record of many is striking. Gama, for instance, has now worked on power projects totalling over 7,000 MW, as has Enka, which with Intergen, the Shell-Bechtel partnership, co-owns and operates 3,500 MW of current-generation combined cycle gas generating units. And they have also proved their ability to bring down the prices which the end user has to pay. Contracting

The Enka Group in Russia

One of the flagships of the Turkish construction industry has been Enka, a construction group dating back to 1957. This undertook its initial construction projects in Russia within the framework of the Turkish-U.S.S.R. Natural Gas Agreement in 1988. These projects included the restoration and renovation of Petrovsky Passage, a historic architectural landmark in Moscow, the turn-key construction of a 1,000-bed Hospital for World War II Veterans, as well as the renovation of the State Duma and the White House buildings in Moscow. It has also built and is helping operate a series of Ram Stores for Turkey's Koç Group which serve 50,000 Muscovites daily. In the early 1990s, Enka founded two joint stock companies, Mosenka and Moskva Krasnye Holmy, to develop and manage office and residential buildings in Moscow. Led by Şark Tara and his son Sinan, it now also owns and manages 135,000 sqm of office space in Moscow providing headquarters and facilities to a variety of international firms. Like many Turkish construction companies, Enka's success abroad followed on solid achievements in Turkey.

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and material costs of a kilometre of natural gas pipeline laid in Turkey by Turkish contractors are 30-40% less than the rates current in Europe.

The 1980s and 1990s saw the meteoric rise and equally dramatic fall of a handful of companies, but they also saw the large but lean institutionalise and build reserves to handle the volatility of the Turkish market itself.

Working with companies abroad: Some Turkish contractors have continued to focus purely on contracting, but many have diversified. A few, such as Koray, Maya, Mesa and Yüksel, have concentrated on real-estate development. Others have branched out to create broad holding groups, with some examples being:

- **ALARKO** Real estate, air-conditioners, power generation, tourism
- **ENKA** Power generation, foreign trade, steel working, furniture, real estate
- **GAMA** Boilers, natural gas import, power, utilities, tourism
- **TEKFEN** Pipelines, transportation, infrastructure, banking, fertilisers, textiles
- **TEPE** Real estate development, airport operation, system integration, retail

In parallel with these activities, as discussed below, a number of these firms have played important cultural roles.

In the 1980s, export companies set up by the construction companies spearheaded the growth of Turkish exports. Today, their success serves as a model to which others now aspire.

Turkish contractors have long worked together with international companies. The consortia that they are today building to work in Iraq follow on many others developed to work on projects in Turkey, the Middle East and Former Soviet Union. Often, these consortia have been with American companies. But there are just as many examples of co-operations with large and small companies from Europe – with the current projects to upgrade the Ankara-Eskişehir rail line (with Spanish firms) and to build a tube-tunnel under the Bosphorus (with Japanese aid) an indication of what could come.

European engineering companies active in Turkey include WS Atkins, Dar Al Handasah (UK), Gibbs, Lahmayer, Ove Arup, Sogrea, Tractebel, and European subsidiaries of the US companies Bechtel and Parsons Brinckerhoff. European contracting companies with recent projects include Agrupacion Guinovart Obras, Ansaldi, Balfour Beatty, Thames Water, Obrascon Huarte Lain and Voest Alpine.

At the same time, Turkish companies have been reaching out into Europe. The Tekfen Group purchased HMB, a construction giant of the former German Democratic Republic, and Gama has now

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won seven tenders in Ireland. Particularly important for the future are the examples of European and Turkish companies working together, for instance:

- Alarko and John Laing on Ashgabat airport,
- Construction and erection of the 1,210 MW İskenderun-Sugözü Thermal Power Plant by a consortium of Siemens and Babcock Borsig Power Energy GmbH of Germany with a Gama-Tekfen joint venture and Simko from Turkey,
- Boiler erection for the 734 MW Shoaiba Power Plant in Saudi Arabia by Gama as subcontractor to Alstom Power, Italy.

The record shows that Turkish contractors have achieved a base of experience, competence and cost effectiveness which makes them valuable partners not just in the mountains of Afghanistan but in the heart of Europe itself.■

INDUSTRY: FROM CUSTOMS BARRIERS TO GLOBAL COMPETITION

The long years when Turkish industrialists were cosseted behind customs barriers and lobbied against any reduction in protection are well behind. The 1996 Customs Union with the European Union has dramatically extended the horizon of the Turkish consumer, opening up a growth market to European products in Turkey. Consumption of foreign products, mainly of European provenance, has soared, as have Turkish exports to European Union countries. As for Turkish companies, most have overcome the challenge despite dire predictions of economic failure and the blockage of EU financial aid promised

to ease the transition. The State Planning Organisation reports that Turkey has received a mere 33% of the 2.8 billion euros in financial assistance pledged at the time of agreement on the Customs Union.

The immediate and potential benefits of Customs Union were initially accompanied by protests from Turkish manufacturers who found themselves in a different playground defined by accelerated adoption of European standards and soaring imports from the EU. Yet, few of the businessmen that opposed the Customs Union with the EU are of the same mind today. Even most of those groups that benefited from customs barriers while they were building their empire are today staunch advocates of integration with Europe. One example of these is the Koç Group, a group which used the protection of tariff walls to build up investments in a wide range of consumer durables, including refrigerators, brown goods like television, and a full range of automotive products.

Like household durables, the Turkish automotive sector has shown the flexibility characteristic of Turkish industries, weathering successive crises in the economy and building an international presence. The Turkish automotive industry was originally established to supply domestic consumers who could then ill afford imported vehicles. By the mid-1990s, its products were beginning to age, but the Customs Union agreement stimulated major

The Koç Group

The Koç Group traces its origins to a grocery store opened by the late Vehbi Koç at the age of 16 with an \$8 investment in Ankara in 1917. When the city became designated as the new capital of the Republic, Vehbi Bey moved on to building materials, and later into a full range of consumer goods. The group, whose Chairman is now his grandson, Mustafa, is today Turkey's biggest industrial and trade concern with assets of \$5.9 billion and 118 industrial, trading and finance companies. It dominates the nation's motor vehicles and home appliances. The flagship of Koç Holding, Arçelik A.Ş. is Turkey's leading manufacturer of durable household consumer goods Turkey's largest private sector company in terms of sales, Europe's 7th and the world's 15th biggest durable consumer goods manufacturer and the best-known brand in Turkey with the highest name recognition. It has flourished with Customs Union and half its sales now go abroad, with 65% of its exports to the European Union. In 2003, Arçelik's international sales rose 26%, with its global brand Beko, the market share leader in the UK refrigeration market and newly acquired brands including Blomberg, Elektra Bregenz, Leisure and Arctic.

investments by both local and foreign groups. As described in more detail below, these investments and an increase in competitiveness since the 2001 devaluation of the Turkish lira, have seen the industry become increasingly export-oriented. In the first two months of 2004, exports amounted to \$1.2 billion, up 54% from the same period in 2003. Turkey was the world's 20th biggest automobile producer in 2003, with automobile production up 44% that year.

DEVELOPING ITS INDUSTRIAL BASE: One side effect

of long being a closed economy is that Turkey had to develop a strong industrial base to make its way in the world. Import substitution may have lasted too long in Turkey, but the intention was to nurture young industry, not to shield it from competition forever. As a result, Turkey succeeded in developing both an industrial base, and an effective transport and energy infrastructure. Networks of supply and demand were determined by the market and not central planners. When Turkey did lift its tariff barriers, its industries had the marketing, managerial and labour skills to adapt. The result is that Turkish industry suffered none of the trauma of Soviet and COMECON nations which found themselves with entire sectors lacking market rationale and huge industrial complexes whose only value was as scrap. Turkey has thus escaped the social and political consequences associated with the Eastern Bloc's industrial upheavals.

One great difference is that in the 1980s Turkey acquired the export orientation which was to bolster it during the economic turbulences affecting its



home market. To do so, it supplemented a respect for competition with an appreciation of competition. DEİK, the Foreign Economic Affairs Council, jointly created by the Union of Chambers, the Industrialists and Businessmen's Association and seven other private sector organisations, was established to spearhead Turkey's outward reach, establishing business councils with many countries, some of which at that time hardly had their own business community.

Today, Turkish industry is highly diversified, meeting most of the requirements of its large population and exporting goods worth over \$40 billion per year. One of the most diversified local conglomerates is the Sabancı Group. It is active in

cement, packaging, textiles, financial services, consumer goods, vehicle tyres, retailing and energy. It is now exploring telecommunications.

Abroad, Turkish brands are gaining increasing recognition. For more than a decade, Turkey has been the main supplier of textiles to the European Union. Many Turkish companies spent their early years serving only the domestic market, but most of them now have a broader perspective.

Sabancı Holding

The history of Sabancı Holding mirrors the transformation of the Turkish Republic. In 80 years, it has developed from rural roots to become one of the region's most powerful industrial and trade conglomerates with a \$7 billion turnover and 30,000 employees. Scarcely a household in Turkey is without a product bearing the distinctive "SA" logo of a Sabancı company. When it lost its head, Sakıp Sabancı, one of the most original spirits of the business world in Turkey, in April 2004, 100,000 people followed the funeral. The Sabancı group has formed partnerships with leading multinationals, stimulating growth through the import of know-how and technology. An example of this approach is Kordsa, established in partnership with DuPont and now the world's largest tyre cord fabric producer, with an estimated global market share of 13%. The company also controls a 15% global market share in industrial nylon yarns, with a 59% market share in emerging markets. The two groups merged their existing facilities in Europe, South and North America, the former Soviet Union, Middle East, Africa, Brazil, Argentina and Turkey. To date, Sabancı Holding has formed 43 joint ventures, most of them on a 50-50 basis. These include BNP-AK-Dresdner Bank, a partnership with Banque National de Paris of France and Dresdner Bank of Germany, CarrefourSA (with France's Carrefour), PhilSA (with Philip Morris) and DiaSA (a retailing joint venture with Spain's Dia).

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Since 1996, Turkish goods have been competing directly with European ones in the EU and winning a steadily larger market share. Turkish staple industrial goods command respect.

Borusan of İstanbul has established itself as one of Europe's best manufacturers of steel pipes and piping materials, and, relying largely on its own in-house R&D, Dizayn has done the same with plastic pipes. Eczacıbaşı has managed to hold its own in competition with the giants of the international pharmaceuticals scene and to seize a sizable share of the European markets for ceramic sanitary ware and tiles.

All these are private sector groups, set up and, in most cases, still run by families. One exception to this practice is Şişecam, which makes flat glass, glassware, glass packaging, glass fiber as well as sodium and chromium chemicals. This was established by Türkiye İş Bankası in 1935 to meet the requirements of the country in glass products. Today, this non-family group ranks between third and tenth position worldwide in its various product categories. And its subsidiary companies are reaching abroad. It has invested in Solvag S.A. in a soda plant in Bulgaria. Anadolu Cam's glass packaging subsidiary, Ruscam, became operational in the Russian Federation in June 2002. It immediately launched an expansion project and a second furnace which started production in April 2003. A second subsidiary, Trakya Cam, has initiated a \$100 million float line project in Bulgaria which is scheduled to come on stream in 2005.■

Made in Turkey - 5

The Brand Plays On

Turkey's roaring nineties saw its own youth wearing not just jeans but Turkish blue jeans. The Mavi brand was created in 1991 and the firm began exporting three years later. By 1996, Mavi was outselling Levi in Turkey and it had the temerity to sell its own designer brands not just throughout Europe, but in the United States itself. Products with friendly monikers like Molly, Mark, Millie and Meg turned Mavi into one of America's top brands for under-25s. There are now Mavi flagship stores in Berlin's Neueschönhauser Strasse and New York's Union Square as well as in Frankfurt, Montreal, Vancouver and, of course, İstanbul. The company created Europe's largest integrated fashion jeans factory in a rural settlement some 120 km west of İstanbul, where 1,500 people produce every year 11 million pairs of jeans. Half of production is of other people's brands like Calvin Klein or Guess, but Mavi is still king. In 2002, sales in the US were \$45 million out of a worldwide total of \$250 million.

ASPECTS OF TURKISH CORPORATE LIFE



FINANCE AND ITS SHORTAGES

The accomplishments of the Turkish private sector over the last two decades are all the more remarkable when one considers the difficult political and financial environment in which it was forced to operate. It is difficult to overstate the hurdles that companies had to overcome as they emerged from the protection of an inward-looking economic structure to face a global challenge.

Chronic high inflation caused many distortions to all aspects of life in Turkey, but perhaps to none more than the financial system. While international competitors enjoyed a cost of capital in the low single digits, Turkish companies were struggling with a cost of capital well in excess of 20% in real terms during the 1990s and the first three years of the new millennium.

High inflation encouraged the creation of far too many banks, most of whom operated as hedge funds rather than proper financial intermediaries. Banking operations were focused on trading short-term government bonds rather than corporate lending. Soaring public sector expenditures coupled with a limited tax base forced the government to resort to short-term debt financing to close the widening expenditure/revenue gap. The ever increasing public sector borrowing requirement simply crowded the private sector out of the picture.

Banks derived a large part of their income from their very high yielding securities portfolio. Corporate

lending was a distant second. The predictable result was high financing costs for the private sector. Whatever bank lending existed was for a few months and at burdensome interest rates. Normal financial instruments used in Europe to finance corporate growth never really had a chance to develop. The capital markets have only partially filled the void, and there is no corporate bond market to alleviate the lack of bank lending. Simple mortgages are extremely limited.

The owner of a pharmaceutical company said that the lack of external capital is one of the main reasons his company has remained relatively small. "We generate enough cash to keep the business running at its current size, but we have nothing available for growth. Borrowing from banks at these interest rates is not an option. Using high-interest, short-term loans for long-term growth investments is a recipe for disaster."

BANKS AS A LAST RESORT: The result is that through most of recent history, companies would turn to banks only as a last resort. As a consequence, the ratio of corporate borrowing in GDP in Turkey was only 13% in 2003 vs. 22% in 2000. Given the several internal and external economic crises that rocked Turkey during the 1990s, the relatively low corporate leverage was perhaps a blessing in disguise.

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The capital markets have offered limited relief in this period. **Since 1994 a total of \$17.4 billion has been raised on the Istanbul Stock Exchange: \$4.5 billion in initial public offerings, \$3.7 billion in secondary offerings and \$9.2 billion in rights issues. The Istanbul Stock Exchange has modern, efficient trading and settlement systems, and can easily and accurately handle daily trading in excess of \$1 billion. The market, however, remains relatively small.** 270 companies are listed on the Exchange and the capitalization of the market is approximately \$70 billion. Only a few companies have a market capitalization over \$1 billion. Because of the overall low percentage of free float (shares available for trading), the number of companies with a free float of more than \$1 billion drops to only two – both banks. By contrast there are more than 100 listed companies with a free float of less than \$10 million.

Capital markets are also hampered because additional, more flexible financial instruments were difficult to introduce during the high inflation period. Consequently, the sophisticated financial engineering used to create products to help companies raise capital in more developed markets has been simply unavailable to Turkish companies. The corporate bond market in general is almost non-existent, convertible bonds exist in theory but not yet in practice, and instruments like preferred stock and mezzanine finance are notable by their absence.

The tools used by Turkish companies to overcome this lack of traditional sources for capital reflect their ingenuity in dealing with inflation. The revaluation fund allowed companies to revalue their fixed assets according to an inflation-adjusted percentage announced each year by the government. Depreciation rates far exceeded the normal accelerated depreciation used in most other countries. The government also offered generous investment incentives that allowed significant tax savings for investments. Companies also benefited from high profit margins available during inflationary times.

There are, however, signs of improvement. The banking system is now beginning to recover from the 2001 crash that saw the collapse of more than 20 banks and the severe weakness of the survivors. Total banking assets in Turkey amount to about \$150 billion, about half GNP. This ratio is low. Total Greek banking assets, for instance, are a similar figure but are equivalent to Greek GNP.

With a single-party government in Ankara, the authorities are in a stronger position to create the environment required for creating the external sources of capital needed by the private sector as it continues its strong growth. The government is committed to a sweeping economic reform programme that should lead to reducing the high public debt/GDP ratio of about 80%, thereby making more credit available for the private sector.

Assuming continued high annual growth of about 6% and a reduction of real interest rates to 15%,

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the Treasury estimated in autumn 2003 that the public debt/GDP ratio should fall below 50% by 2007. The government is currently on track and real rates are now 11%, well below earlier forecasts, according to economists.

The improving economic climate has also encouraged large European banks to establish a presence in Turkey. Italy's Unicredito entered into a 50/50 joint venture with Koç Bank last year, and another Italian bank, Banca Intesa, is in negotiations to buy a major share of Garanti Bank. Earlier, the UK-based HSBC acquired Demir Bank.

But the lesson is clear. Turkish industry has survived, even flourished, in the absence of the financial support that its competitors have been able to count on. As the country's financial system improves, so industry should be able make an even more striking advance.■

TOURISM – A JEWEL PRESERVED

Turkey has all the warmth and charm of the Mediterranean. Its shores include many of the last unspoiled areas of Southern Europe and it offers a wealth of natural beauty, combined with the archaeological remains of the civilisations which have risen and declined in Anatolia. The Aegean itself was home to the Lydians and Phrygians, while the Hittites and other Anatolian civilisations, the Greeks and Romans left behind them such glories as Aphrodisias, Ephesus, Miletus, Pergamon, and Troy. Investors and operators involved include Club Méditerranée,

Conrad Hilton, Four Seasons, Hilton, Hyatt Regency, Sheraton, and TUI.

Turkey is within three and one-half hours' flight of the main European tourism sources, and citizens of the EU, in particular from Germany, Britain and the Netherlands, dominate tourist arrivals. In the first three months of 2004, 24% of all arrivals were from Germany, with the Netherlands and Greece following and the EU 14 accounting for 44% of the total. Arrivals from Russia are also important, with 1.5 million Russians visiting Turkey in 2003.

Three-quarters of arrivals are between May and October, but travel agents are beginning to develop winter breaks in Turkey and also, as infrastructure develops, to promote retirement tourism. For the younger, sailing and beach holidays are now being joined by trekking, and convention tourism by faith holidays to follow the footsteps of St Paul.

The Aegean accounts for one-fifth of arrivals in Turkey, and this could rise as links between Turkey and the Greek islands become progressively stronger. Already, yachting is developing fast, with 20 marinas in operation, nine under construction and four planned. Particularly striking has been the development of Turkey as a yacht production centre. In 2003, the country produced 166 motor and sailing boats of over 10 metres length and exported 65 of

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these. Foreign companies building in Turkey include Perini Navi of Italy, whose Yıldız Gemi yards at Tuzla are now producing a large 87-metre sailing yacht utilizing carbon fibre composite technology. Another yard, RMK, belonging to Rahmi M. Koç, is building 30-40 metre steel trawler-type yachts for an American distributor. A further one, Proteksan, has built some 30 steel/aluminium yachts in the 20-53 metre range.

The past two decades have seen a massive development in tourism infrastructure. The key developments have been in the Antalya area, both south-west of what used to be known as Attalos, and east of it in the Belek area, where golf courses vie with theme hotels built to emulate the Kremlin, Topkapı Palace and the White House. The general quality of resort hotels is good, many being designed by Italian-trained Tuncay Çavdar, whose work in Turkey for companies such as Club Méditerranée, Club Robinson, LTU, TUI and Steigenberger has led

to them commissioning projects from him in the Caribbean, Portugal, Iceland and Sri Lanka.

The big cities too are well equipped with hotels, with the Four Seasons next to Topkapı Palace winning numerous quality awards. This is owned by the Çukurova Group which has also taken over a number of resort hotels. Other large owners include the Dedeman Group and the construction companies, Limak, MNG, and the developers of the Magic Life theme hotels. But the scale of such operations is still small by international standards, partly as a result of geo-political concerns about the Turkish “neighbourhood”. In fact, Istanbul is actually one of the world’s safer cities, with crime rates one-sixth of those in Rome and one-tenth of Berlin. Tourism receipts totalled nearly \$10 billion in 2003 and over 1 million Turks directly earn their livelihood from the sector and far more indirectly. Yet Turkey allocates a mere \$50-60 million per year to promoting itself. It seems determined to remain a relatively undiscovered jewel for some years to come. Some visitors welcome this slow pace of development.■

TOURISM FACTORS, 1991-2004

YEAR	FOREIGN ARRIVALS	TOURISM INCOME	
		\$ billion	% of GNP
1991	5,517,897	2.7	1.8
1996	8,614,085	5.7	3.2
2000	10,428,153	7.6	3.8
2003	13,958,045	9.7	4.2
2004 forecast	16,500,000	12.9	4.7

Source: Ministry of Tourism, 2003/4 GNP share estimates by IBS

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SHIPOWNERS RAISE THE FLAG

At the beginning of 2003, Turkish ship owners mustered a commercial fleet of 889 ships totalling 8.8 million dead weight tonnes. One-third of these were registered in Turkey and the rest abroad, but the total tonnage is ahead of the commercial registers of Germany and Russia and behind only six members of the EU 24. Of the total, 4.9 million dwt is accounted for by bulk carriers, 1.4 million dwt by oil tankers, and 1.3 million dwt by dry cargo vessels.

For a country edged by four seas, so large a fleet is understandable. Indeed, two of the largest owners, the Çolakoğlu and Karamehmet groups, have built up their fleets largely to carry scrap metal from east coast USA to their steel mills. Other large owners include Yalçın Sabancı (connected to the Sabancı industrial group), the logistics company Arkas and Dünya Denizcilik. Most of these are relatively new entrants to the market.

Other owners such as Pekin Baran, Eşref Cerrahoğlu, Asaf Güneri, the Kalkavans and Kaptanoğlus have taken over and developed businesses originally founded by their fathers or, often, grandfathers. Indeed, one characteristic of Turkish shipping is the extent to which it has built on the rugged character of its entrepreneurs, many from ports along the country's Black Sea coast.

Turkish ship owners complain that they rarely get support from Ankara. In the early 1990s, the "second fleet" policy saw many taking advantage of the easy credit terms available from the state Emlak Kredi

Bankası as well as from certain German banks. This caused the Turkish-owned fleet to reach a peak of 10.9 million dwt in 1996, though, with many ships bought too expensively, the total has now fallen by 19%.

Increasing pressure from the International Maritime Organisation of the United Nations, not least after the MV Erika disaster of December 1999, has led to tighter regulations, particularly where tankers are concerned. The growing responsibilities of states to control the sea-worthiness of ships calling at their ports puts a particular obligation on Turkey, which has a relatively aged fleet.

As of January 2003, 42.8% by tonnage of its bulk cargo ships over 20 years old, as were 52.3% of its oil tankers, and 55.4% of its dry cargo ships of over 1,500 dwt.

Looking to the future, Turkish ship owners see major changes resulting from closer links with the EU, not least in the passenger industry. There are still virtually no passenger lines between Turkey and Europe, or in Turkey itself, where 30 million of Turkey's 70 million people live in towns on the country's 8,000 kilometre coast. ■

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AUTOMOTIVES - CASE STUDY FOR THE NEW MILLENNIUM

One of the sectors most affected by Turkey's increasing economic integration with the rest of the world is the rapidly expanding automotive industry. Established as an assembly industry in the

1960s, the sector has transformed itself into one of Turkey's major production and export sectors.

The main early investors in Turkey's automotive sector were Fiat and Renault, who both set up assembly plants with local investors to take advantage of the high customs walls protecting Turkish producers. The Customs Union changed the rules of the game and exposed the domestic industry to the harsh winds of competition. Manufacturers and suppliers responded vigorously

Modern Land Transport Fleet

Turkey has an international land transport fleet of 25,000 vehicles, one-fifth of them added to the fleet in 2003. 40% of the companies involved are based in Istanbul and they underline the modernity of the fleet, with geographic positioning systems and other technological applications the norm. One of the sector leaders, Omsan, a subsidiary of Oyak and the main carrier of Renault cars to Europe, is offering integrated supply chain service management through offices in 20 European countries.

The International Transporters Association (UNDT) points out that Turkey has been connecting east and west for centuries, most notably via the historic Silk Road. However, the share of its trade taking place with such neighbours as Greece, Bulgaria, Georgia and Iraq is a mere 12.5%. Expectations in the sector are that this share will double.

The Turkish logistics sector is rapidly evolving into a high potential, fast developing sector with an increasing number of new entrants. 30% of the companies in the sector have been operating for less than eight years, and 13% for two years or less. As the volume of commerce develops both inside the country and outside, companies like DHL or UPS have established a strong foothold in the country while local transport companies have been developing and diversifying their services and launching partnerships with international companies. TNT is in partnership with the Koç Group, while GeoPost of France has a 51-49 joint venture with Yurtiçi Kargo, one of the leading domestic courier companies. Logistics service providers have been focusing on the textile sector, followed by the retail, food, automotive, food cold chain, pharmaceutical and health and chemical sectors respectively. UTİKAD, the International Transportation and Logistic Services Providers' Association, became a member of CLECAT, the European Association for Forwarding, Transport, Logistic and Customs Services, at the end of 2003.



to the new rules, investing heavily and causing production volume and quality to improve sharply.

In 2003, production of passenger cars and commercial vehicles was 562,466 units, 57% up on 2002. Automotive exports in 2003 increased 50% to \$6.5 billion, made up of \$2.4 billion in components and \$4.1 billion in cars and commercial vehicles.

The industry has been integrated with the EU's automotive sector since the 1960s, but it was not until the late 1980s and 1990s that production began to increase rapidly to meet growing domestic and export demand.

In 1980, for example, less than 68,000 vehicles were produced. Of this amount, less than 32,000 were passenger cars, 15,000 were trucks and pick-ups, and 16,000 were farm tractors.

Twenty years later in 2000, total production had jumped to more than 468,000, including 297,000 passenger cars, 97,000 trucks and pick-ups, and 37,000 farm tractors.

Currently, there are 17 companies in the sector operating mainly under foreign licenses or as subsidiaries of major international producers. Nine of these firms are joint ventures, five operate under licensing agreements, and two are completely foreign-owned direct investments. Major international manufacturers operating in Turkey include DaimlerChrysler, Fiat (in a partnership with the Koç Group), Ford (also in partnership with Koç), Honda, Hyundai,

Isuzu, MAN, Peugeot, Renault (in partnership with OYAK) and Toyota.

Investments in the sector have grown steadily since the Customs Union in 1996. That year, total investments in the automotive sector were \$220 million. This amount more than doubled to \$450 million in 2001, despite the beginning of a serious economic crisis that saw the Turkish lira weaken sharply against foreign currencies. In 2001, Ford completed a \$650 million plant designed to manufacture light commercial vehicles. Given the strong market conditions, Ford has increased its 2004 domestic sales target from 90,000 to 130,000 vehicles. Combined with an export target of 135,000 vehicles, total 2004 sales from the Turkish plant are planned at 265,000 units. Total production targeted for 2005 is 500,000 units.

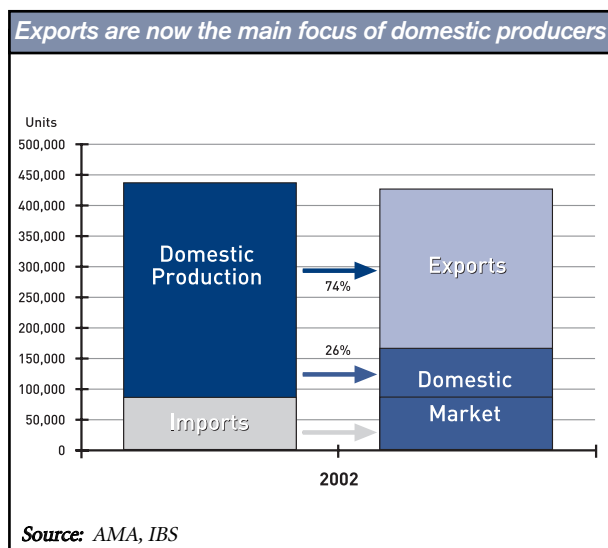
The automotive sector has become one of Turkey's major employers with about 35,000 workers in vehicle production and approximately 75,000 in the components sector. A number of the major manufacturers have announced employment increases in response to strong domestic and export demand.

EXPORTS AS THE SOLUTION: As the sector maneuvered its way through volatile domestic markets during the past decade, it faced instability

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in demand and constant currency fluctuations. Exports began to increase sharply in 1999 and helped absorb the swings in domestic demand. In 1998, domestic sales of locally produced passenger cars amounted to 204,000 units and just under 25,000 units were exported. In 2001, domestic demand collapsed with the financial crisis and only 59,000 locally produced passenger cars were sold. Exports helped pick up the slack that year as more than 145,000 units were exported. Germany is the largest motor vehicle export market followed by France and Italy. Exports now account for 65% of total Turkish passenger car and light commercial vehicle production.

One of the major consequences of the automotive industry's investments and quality improvement over the last 10 years is that



international manufacturers have made Turkey the production base for a number of global models.

DaimlerChrysler (locally Mercedes Benz Türk) exports \$260 million per year of intercity coaches to 64 countries from its modern plant just west of Istanbul.

DaimlerChrysler plans to move all its European production of intercity coaches to Turkey. DaimlerChrysler is also developing production of medium-heavy and heavy trucks. The company is targeting exports of \$100 million of the Atego and Axor models by 2007 from its plant in Aksaray, south of Ankara. **Combined with the increase in coach exports, DaimlerChrysler exports could reach \$500 million by 2007.**

Tofaş, Fiat's joint venture with the Koç Group, has rejuvenated its product line, and has been exporting the Fiat Doblo. Oyak-Renault has been successful with the Megane and Clio Symbol. Renault produces these models only in Turkey. The CEO of Tofaş said recently that Turkey is one of three countries in Europe where Fiat is intensifying its activities, the others being Poland and Russia.

Toyota has invested \$700 million in its plant in Adapazarı, and recently began production of the Verso model. Toyota forecasts that its total production in Turkey for 2004 will be 140,000 cars, and 130,000 of these will be exported.

The sharp rise in demand in the early 1990s also led to an increase in imports, especially from EU countries. Although imports varied with Turkey's

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volatile economic fortunes during the last decade, they demonstrated quick recovery once macroeconomic conditions stabilized. In 2003, total imports of passenger cars and light commercial vehicles amounted to 216,827 units, meeting 55% of domestic demand. More than 180,000 of the imports came from Europe.

The sharp increase in automotive production has also been reflected in the supply of automotive components. Approximately 700 suppliers of automotive components operate in Turkey. Production in 2003 totalled \$4.3 billion, 26% up on the previous year. Exports, over 70% of which are destined for the EU, accounted for \$2.4 billion of that production.

For both manufacturers and suppliers competitiveness at the domestic level has now been replaced with competitiveness on a global scale. Fluctuations in production resulting from economic crises have given way to more stable production patterns. And supplying captive consumers has given way to meeting the quality standards of customers worldwide.

LIBERALISATION OF POWER AND GAS

The year 2001 marked a turning point in Turkey's energy markets. In April and May that year, laws were enacted to end the state's monopolies in power and natural gas and to liberalise these markets in line with European Union directives. The government which took office in 2002 has confirmed its

predecessor's policy, most recently in a detailed power privatisation strategy endorsed by the High Planning Council on March 18, 2004. A similar strategy for the gas sector is to be finalised by mid-2004. These policies create new opportunities for foreign investors to help Turkey build up its energy infrastructure.

A STRAINED TRANSITION IN POWER: Like many Western countries, Turkey long relied on the state to provide power, gas and water. In the case of power, 66.1% of the country's 31,846 MW of power plants (as of end 2002) and 98.5% of distribution assets are owned or administered by the state. Attempts to change this have had a mixed result. In the 1990s, successive governments encouraged private sector investment, arguing that the state could not afford the annual \$4-5 billion expenditures required to keep up with soaring demand for power.

The first result of this was a series of investments in generating facilities, with finance secured against state-guaranteed off-take agreements under a so-called Build-Operate-Transfer (BOT) model. Companies involved in this model include Edison, Enron, International Power and Midland.

A second model, in which ownership of the plant remained with the investor, was then developed, with joint ventures of Intergen (Shell and Bechtel)

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and Enka, the Turkish industrial group, winning tenders for three Build-Operate plants, a company now led by Tractebel a fourth, and a Siemens-led consortium a fifth. The third model has been that of auto-producers such as AkEnerji (Dinçök Group), EnerjiSA (Sabancı Group) and Zinerji (Koç Group), who have quietly built up portfolios of power plants supplying energy to industry.

However, the process of liberalisation has been painful. Unrealistic forecasts of demand growth caused the commissioning of excess capacity and take-or-pay agreements at what today seem high prices. This is particularly the case in the BOT projects, and the result has been that the authorities have sought to delay or cancel as many contracts as possible. A similar situation has applied in power distribution.

To many, the situation is one of “the pioneers get the arrows, the settlers get the land.” For those investors who sought to take over state assets, it has been a difficult period, but today, with procedures increasingly transparent, the legal situation for would-be entrants is clearer than it has been for many years. It is hoped that the major international investors will be convinced that Turkey’s moves towards liberalisation have created the right conditions to re-awaken their interest.

SMOOTHER PROGRESS IN NATURAL GAS: Turkey started importing natural gas

in 1986 and the fuel now accounts for one-fifth of the country's energy needs. All imports are carried out by BOTAŞ, the state pipeline company, which has also built out the national transmission infrastructure and wholesales gas to industry. Distribution in the major cities of Istanbul, Ankara and Izmit is carried out by municipal companies. Private companies are increasingly active elsewhere.

The 2001 Natural Gas Market Law required BOTAŞ to reduce its share of imports to 20% by 2009. With consumption lagging far behind contracted imports, this deadline may be changed. However, the unbundling of BOTAŞ into separate import, transmission and trading companies is likely to be advanced. The leading international gas companies have been investigating investments, with Statoil establishing a marketing venture with the Koç Group. The over-supply of gas and overshadowing role of BOTAŞ mean that the key opportunities for investors are likely to emerge later this decade. By then, however, Turkey could well have established a role for itself as a key route in the Nabucco Project for the transit of natural gas from the Caspian, Iran and Middle East to south-east and central Europe. BOTAŞ is currently investigating this prospect together with Bulgargaz of Bulgaria, Transgas of Romania, MOL of Hungary and OMV of Austria. The European Commission, keen to see Europe reduce its dependence on Russian gas, has been supporting this initiative through its Inogate programme.■

ENTREPRENEURS AND OPPORTUNITY

From commodity products to branded items

Thirty years ago the Turkish private sector was operating in a typical developing country environment of heavy state involvement, high protection barriers, and import substitution. In 1974, total foreign trade was less than \$5 billion and exports less than \$2 billion, being mainly agricultural products.

The rules of the game changed in the early 1980s as the late Prime Minister Turgut Özal introduced sweeping market-oriented reforms aimed at revitalizing the moribund economy. His goal was to reduce the heavy, unproductive state involvement in the economy and encourage a dynamic, export-oriented private sector.

Long before the term 'globalisation' became widely known, Özal challenged Turkey's private sector to develop the products and services required to operate on the global level.

Özal's challenge was all the more daunting given the structure of the Turkish private sector. At that time, the private sector consisted mainly of thousands of small family-owned companies dotted around the large country, particularly in a few centres like Istanbul, Bursa, Izmir and Adana. The popular attitude seemed to be "Let it be small, let it be mine." Despite this structural handicap, the private sector in general accepted Özal's challenge and pushed its way onto the world stage.

"We really had no choice. You cannot stick your head in the sand and pretend that the rest of the world does not exist. The only way we were going to survive and grow was to join the global economy

and struggle to compete with the best companies in the world," says Haluk Kaya, chairman of Üçgen Construction, which is also involved in the upstream petroleum business in Kazakhstan.

Despite chronic high inflation and soaring interest rates combined with frequently changing governments, the private sector rose to the challenge and became closely integrated with the world economy.

In this process, the private sector changed the face of the Turkish economy. The best companies, the most flexible and resilient not only survived the serial home-grown and imported economic crises, but managed to make serious inroads into foreign markets.

Exports increased from \$2.9 billion in 1980 to \$47 billion in 2003. Foreign trade now accounts for more than 40% of GNP. Components of foreign trade indicate the changing nature of Turkey's economy. In 1980, industrial /consumer goods amounted to only 36% of total exports. Now, more than 85% of total exports are industrial/consumer products while the bulk of imports are the raw material and intermediate goods used to manufacture those products.

During this same period, Turkey has become a major production centre for global automotive



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companies, while other companies to enter include food companies like Danone and Unilever, telecommunications companies like Alcatel, Nortel, Siemens and Telecom Italia, building materials companies like Lafarge and Italcimenti, and the pharmaceutical giants.

A \$25 BILLION FOOD RETAIL MARKET: The rapidly evolving economy has had a strong impact on the retail consumption patterns of Turkey's large domestic market of 70 million people. Consumers have responded quickly to the spread of branded products and organized retail operations. In 2003 Turkey had a food retail market of more than \$25 billion. Organized retail operations – supermarkets and hypermarkets – accounted for more than \$6 billion, 24% of this total.

Migros, owned by the Koç Group, dominates the Turkish food retailing business with more than 500 stores across the country. Other domestic retail supermarket chains like Gima and Tansaş are also expanding operations. The French giant Carrefour has a joint venture with the Turkish Sabancı Group, and the British Tesco group recently entered the market by acquiring a small local chain in the Aegean region.

“The consumer shopping culture in Turkey has changed. Increased food sector imports showed domestic customers the wide variety of products,

product differentiation, and branding available in more developed markets. Consumers and, consequently, the retailers forced producers to differentiate themselves,” says Erdal Bahçivan, President of the Dairy Association and CEO of his family's owned company, Bahçivan, which specialises in dairy products, adding: “Turkey has a total cheese market of 450-500 million tonnes, and packaged cheese represents no more than 10-15% of that market.”

The 1996 Customs Union removed the tariff barriers on industrial goods traded between Turkey and the EU. After eight years, it is clear that, for the most part, Turkish companies have been able to withstand the European challenge and have capitalised on the Customs Union to expand their exports to the EU.

Turkish manufacturers, Vestel, Beko, and Bosch-Siemens, have made major investments and now supply more than 30% of the televisions sold in Europe. Vestel has also made a major move to capture a large share of the Russian market by establishing a manufacturing plant to produce televisions there by 2005.

The Customs Union raised the question of whether Turkish companies could defend their home markets from competition from larger, better capitalized international rivals. Could they match the production, marketing, distribution and service standards of European companies? In many cases, the very opposite proved the case, with local companies continuing to dominate the relatively new, high growth



sectors like consumer durables, retail, and food products. Would-be entrants into the Turkish consumer durable market faced formidable rivals in Arçelik and Vestel, who had established dominant positions in the local market – and soon built on these to carve out market share in Europe itself.

Equally, food companies had to confront Ülker, a company that began with three employees and one product in 1944. Ülker now produces hundreds of different biscuit, chocolate, dairy, and soft drink products, has 17,000 employees and exports to 95 countries.

In many ways, the Customs Union and general integration with the global economy was the least of the challenges facing Turkish companies during the last two decades. By necessity Turkish companies became masters of crisis management, as governments changed frequently and inflation remained well above 60%. With real interest rates of more than 30%, the cost of capital for most companies remained prohibitively expensive compared with costs for their European competitors.

INVESTING IN THE FORMER SOVIET UNION: Despite these handicaps many Turkish companies continued their expansion plans and capitalised on opportunities presented by the collapse of the Soviet Union. They moved quickly to fill 70 years of pent up consumer demand for a wide range of products from houses to beverages. Construction companies such as Enka became major components of the Russian construction and real estate market. The Koç Group's Migros was one of the pioneers in

introducing the concept of organized retailing in Russia and CIS countries and now has 31 Ram Stores in Russia and the CIS. "We plan to invest more than \$100 million in new stores in that region for the next several years," said Ömer Bozer, general manager of Migros, which operates abroad as Ram Store. Dating back to 1954, Migros was originally a joint venture of the Swiss retailer with the Istanbul Municipality. In 1975, the Koç Group took over Migros's shares.

Thanks to companies like Koç, the amount of money invested by Turkish companies in countries that were formerly part of the Soviet Union has jumped by \$1.6 billion since January 2002, according to the Foreign Economic Relations Board. Overall, Turkish companies have invested \$6.3 billion in the region since 1991, including \$1.3 billion in Kazakhstan, \$1 billion in Russia, and \$1.25 billion in Turkmenistan, making Turkey one of the top ten foreign investors in the region along with the United States, Germany, Korea, Canada, and China.

In oil and gas, Turkey's TPAO is investing steadily in Azeri assets, while in the service sector, mobile phone company Turkcell's 41.5%-owned joint venture with Finland's Telia Sonera, Fintur Holdings, owns majority shares in cellular networks in Azerbaijan, Georgia, Kazakhstan and Moldova.

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Textiles continue to be one of the largest sectors in Turkey. The successful textile companies responded to the challenge from China, India and Pakistan by moving to higher value-added products. The shift from yarn to cloth and then to ready-wear is well known. Less known is how Turkish companies have created their own brands. Just one example is Sarar, which used to produce men's suits for Boss. Now, the company has developed its own line of men's clothing and has stores in the United States, Japan, Europe and the Middle East.

Fashion wear company Vakko began as a hat manufacturer in 1934, as Vitali Hakko took advantage of the opportunity presented by the law forbidding men from wearing the traditional fez. Over the years, Vakko developed additional ready-to-wear fashion products and is a leading supplier of home furnishings. Its first store opened in Istanbul in 1962 and now there are more than 50 Vakko stores in major centres around the country. The company has recently expanded its operations outside Turkey and has stores in Frankfurt, Hamburg, and Abu Dhabi. A store will open in Dubai in autumn 2004.

“The days of the 50 cent T-shirt are long over. We have had to move up the quality chain, and people now perceive that Turkish companies can produce textiles to world standards,” says Jeff Hakko, a member of the board.

Turkey is in the middle of a sweeping reform program design to correct macroeconomic imbalances and bring inflation and interest rates down to single digits. As the country is moving into unfamiliar territory of improved public finances and lower inflation, companies must show they can manage this difficult transition.

One incidental aspect of the move towards higher-value added production and commercial sophistication has been the increased premium on commercial land in Istanbul and Western Turkey.

Soap – Knowing How To Learn

Soap manufacturer Evyap is another traditional Turkish company that has been able to adapt successfully to the demands of a global economy. “My father started this business in 1927 in Erzurum, when he learned contemporary soap manufacturing from a Russian expert who had escaped from the civil war in his country. Today, we have the largest soap manufacturing capacity in Europe, have established plants in Egypt and the Ukraine, and export to more than 100 countries,” said Fikret Evyap. The company has also established its own port facility just outside Istanbul and built a second plant to produce additional personal care products, disposable diapers and feminine hygiene products. Evyap has about 3,000 employees in Turkey and has continued to improve productivity. In 2002 it took 35 man hours to produce a ton of soap. It had reduced this to 22 man hours by early-2004.



This has resulted in a reverse of a historic trend of immigration from east to west, as production is increasingly out-sourced to the periphery or firms relocate to the new centres of Anatolian industry.

OPERATING FLEXIBILITY: Will the same operating and management skills they developed over the past decade or more be sufficient for the next decade? In this effort, Turkish companies have a number of strong assets and a few big liabilities. One of the major assets is high-quality human capital. Middle level and senior professional management is well educated and highly trained. With the reforms of the 1980s, the Customs Union of 1996, global expansion, and the radically changed macroeconomic environment, companies have often had to reach beyond immediate family members to help develop the business.

A major asset of Turkish companies is the operating flexibility that is the envy of many companies in the European Union. Turkish entrepreneurs have proved quick to respond to rapidly changing economic conditions. Production can be shifted quickly from domestic markets to exports. Managers have moved quickly to capitalize on emerging opportunities in Russia, the Middle East, or Central Asia.

After surviving the confusion in Turkey during much of the last 15 years, managements are more comfortable in those types of markets than many of their EU counterparts. While labour costs in Turkey are certainly lower than in the EU, managers are well aware that low labour costs alone are not

enough to succeed. Turkey itself is facing labour-cost competition from countries like Pakistan, China, and India. Companies like Çalık and Zorlu Holding have moved their commodity textile operations to Turkmenistan in order to remain competitive. The company's Turkish textile operations are focusing on higher value-added complex materials.

To some degree, the major liabilities facing Turkish companies today result from the same macroeconomic instability that created good crisis management. Many companies believed they could protect themselves from sudden changes in policy or frequent devaluations by remaining small. There was general fear of the operating complications that would accompany high growth, and many families did not want to risk the loss of control that might result. Furthermore, inflation created unsustainably high expectations for profit and valuation. In the brave new world of lower inflation and enhanced competition, Turkey's managers now face problems similar to those of their EU counterparts – how to wring greater profits out of increased productivity instead of price increases.

Turkey has always been a dynamic place in which to do business. But, as the country emerges from crisis with sounder economic fundamentals and a

stronger regulatory framework, that excitement has a more positive flavour. As the country begins to realize the potential of its size, strong industrial

foundation, human capital, and general entrepreneurial zeal, it is becoming a much more attractive location for serious investment. ■

ERT members' views

In April 2004, IBS Research & Consultancy carried out a survey of members of the European Round Table of Industrialists present in Turkey. The survey was in the form of a faxed questionnaire and achieved a response rate of around 50%.

*The majority of respondents believed that the **EU should begin negotiations** for full membership with Turkey in 2005, that is, immediately after the end-2004 summit.*

*For most respondents, the key **positive features** of the market were the quality of Turkish manpower, both management and labour. A second critical factor was the size and potential of the Turkish market itself. On the **negative side**, several companies were concerned about political volatility and changing regulations, in taxation in particular. Inflation, bureaucracy and unfair competition were mentioned by only a few respondents. With few exceptions, corruption was not seen as an acute problem.*

*Experiences of **profitability** varied widely. Most companies said that their return on assets was slightly lower than elsewhere in western Europe, but notable exceptions were firms operating in consumer durables and light building materials. By contrast, pharmaceutical manufacturers (who suffer from government price controls) and cement producers (where the market has been volatile and distorted by one large producer) said they had achieved low returns.*

*All companies agreed that there were good **prospects of increased political and economic stability and of increased economic growth**. Despite this, **few***

***planned to increase their investment in Turkey**. On the other hand, virtually none had any intention to reduce their commitment to the country.*

*While few companies had said they attached importance to **Turkey as an export base**, almost all intended to increase their use of Turkey to supply other markets. This approach applied almost across the board, from building materials to pharmaceuticals. There was also a wide variety in expectations of markets which could be served, with a slight emphasis on the Middle East. At the same time, most companies looked for increased sales to the Turkish market.*

*The companies' **main concerns** were of political volatility in Turkey and a spillover of the problems seen in Iraq.*

*Most respondents also welcomed **other qualities** that Turkey could bring to the EU, notably a link to the Islamic world (disproving talk of a "clash of civilisations") and its large market. Several emphasised the importance of Turkey as a bridge to Central Asia and its low manufacturing costs. The main problems which it would bring were almost all associated with increased budgetary costs, largely because of the need to help Turkey's large agricultural sector. A few respondents were also concerned about the risk of large-scale emigration to the EU. However, respondents were unanimous in believing that **Turkey's private sector qualities** were equivalent to those in Western Europe, and most thought that they were much better than those in Eastern Europe.*

THE PRIVATE SECTOR'S SOCIAL AGENDA

A broader responsibility

In 1998 Turkey raised the age of compulsory education from five years to eight, one of the most significant poverty reduction programmes in its post-war history. The programme succeeded in enrolling 1.1 million children and required the immediate construction of 3,900 new primary education schools and the addition of 15,300 new classrooms to existing institutions. That initiative would never have succeeded without the support of the country's private sector.

The Istanbul Stock Exchange was one of the biggest contributors, giving well over \$200 million. Much of the Exchange's efforts went into building boarding schools for children from remote regions who had no easy access to education. These efforts, according to a World Bank assessment, "gave positive publicity to the Exchange and showed its members to be formidable social partners."

This language of civic partnerships and social responsibility is now very much a part of Turkish corporate life. The rise in less than two decades of non-governmental organisations and a new generation of civic activists has coincided with a new corporate and individual attitude towards philanthropy and sponsorship.

Turkish business has promoted independent think-tanks and policy units as well as environmental and conservation NGOs.

Corporations, successful businessmen, and well-motivated individuals continue to endow museums, professorial chairs abroad, and private universities at home. Industry has rushed to the

aid of victims of flood and earthquake, women wanting to read and write, and pre-school children, along with wildlife and endangered habitats.

A glance at the skyline of any classical Turkish city is proof that charitable works are not a recent habit. Mosques built by rulers or the rich were traditionally the centrepieces of social welfare complexes which included schools, medical centres, public kitchens and the other functions which have long since devolved to the secular polity.

Industry's social commitment has remained constant and now ranges from well-intentioned corporate sponsorship to the anonymous funding of non-profit foundations which attempt to plug gaps in the welfare state. Increasingly, however, corporations are thoughtfully engaged in strategic and social change philanthropy. Business has learned the wisdom of emerging from shadows and political lobbies and becoming an open partner in public debate. It does not simply talk about reform but is acting within the transparent framework of NGOs and other organisations of civil society to make that change a reality.

Overwhelmingly, it is the incentive of membership of the European Union and the example presented by organisations as various as George Soros's Open Society Institute or the German "Stiftung" system – the foundations



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associated with political parties – which has prompted this change in attitude. Support for economic liberalism is being transformed into support for greater social liberalisation.

INFLUENCE AND RESPONSIBILITY:

Although not always of one voice, the business community has been at important historical moments more forward-thinking and less timorous in focusing on long-term social objectives than the often fractured political leadership of the 1980s and 1990s. It was business which helped bring about a change of attitude in the way Ankara dealt with Kurdish cultural issues, thus bringing Turkey into line with the EU declarations on minority rights.

The Turkish Union of Chambers of Commerce, in a well-publicised survey of public attitudes in the Southeast of Turkey in 1995, concluded that support for Kurdish rights was very different from support for radical methods and that the Turkish state would be well advised to use more carrot and less stick. Although received wisdom now, these conclusions were deeply controversial at the time, yet were publicly endorsed by the largest business confederation, TÜSİAD, the Turkish Industrialists and Businessmen's Association.

The instincts of Turkish business are global and not narrowly nationalist, which has made it a

dependable ally in the process of harmonization in non-economic areas. The relative decline in the state industrial sector, the decoupling of the state from economic activity through globalisation itself, and the eventual unsustainable structure of the state-owned banks all worked to increase the power of the private sector.

With power came responsibility, with independence from day-to-day state interference, a new articulateness. Industry is very aware of the damage to Turkey's general reputation caused by rogue companies who seek to evade international norms. Turkish firms have become increasingly obliged to take on issues of transparency and corporate governance and general shareholder accountability. The Corporate Governance Forum of Sabancı University in partnership with TÜSİAD is just one such example.

Industry has long set the lead in expressing its definition of the public good before the public itself. A clear example of this has been assertive public positioning of TÜSİAD. In 1979, it famously posted a newspaper advertisement critical of the entire tenor of the government of the time. Since then, its recommendations have been more strategic and better defined, forwarded in working committees and policy documents, and argued through formal representation at home and abroad. TÜSİAD sounded a sustained demand for reform of public finance throughout the 1990s and has been outspoken on a great number of particular issues. It is engaged in debates on education, issues of transparency and corruption as well as political party law and electoral reform.



TÜSİAD maintains its own representation offices in Brussels, Paris and Washington, not in competition to Turkish diplomatic missions but independent of them.

Business has seen the need for direct action and to invest in independent policy-generating bodies such as ASAM, the Eurasian Strategic Research Centre, which has supplied new intellectual rigour to the right of the Turkish political spectrum. ASAM supports research in Central Asia and provides important feedback to

think-tanks in America and Europe, whose big ideas do not always take account of what is actually happening on the ground. The Turkish Economic and Social Studies Foundation (TESEV) has its origins in a standing conference founded by Dr. Nejat Eczacıbaşı in 1961. It

Istanbul Festivals

“Imagine an Istanbul without its festivals,” asks Görgün Taner, general director of the Istanbul Foundation for Culture and Arts, who relies on corporate goodwill to mount a busy schedule of events, now recognised as among the highlights of Europe's festival calendar.

The first festival was founded with the vision and encouragement of Eczacıbaşı, which remains the principal sponsor of the classical music festival.

Turkcell and Garanti Bank have stepped in to adopt the cinema and jazz festivals. Foreign firms present in Turkey are also major contributors. Names like Pirelli, Novartis, and DaimlerChrysler take second billing to the Berlin Philharmonic, the Kirov, or the Netherlands Dance Theatre.

The Istanbul Foundation administers five of the festivals for film, theatre, classical music and jazz as well as an art biennial every other autumn. The events are unique partly because

of their imaginative use of the historical buildings of the city, from a sixth century basilica to the imperial eighteen century mint to a customs warehouse from the 1950s. They are unique as well because of their almost total reliance on the goodwill of the business community. The private sector comes up with 72% of funding in the form of corporate sponsorship and the Turkish press and media organisation provide sponsorship in the form of free advertising. “We are the only festival organisation of its kind to depend to such a large extent on private sponsorship,” Mr. Taner said.

In 2003, the European Culture Forum awarded the Foundation the European Award for Cultural Achievement, in recognition of its contribution to the development of human rights, law, democracy and intercultural dialogue. It was the first time this award had gone to an institution outside the European Union.

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was formally established in 1994, since which time it has acted as a bridge between academic research and the policy-making process and has had a profound influence in shaping public attitudes. Although it receives a large grant from the Open Society Institute, it is very much the product of individual Turkish philanthropy, relying on the generosity of prominent people in Turkish life rather than the beneficence of a single donor. One of its current projects is to monitor Turkish harmonisation and implementation of EU criteria and to evaluate the EU's own assessment process.

Commercial sports sponsorship is not something new. Volleyball and basketball teams bear the name of their corporate owners, with Eczacıbaşı's girls' volleyball team even entering the Guinness Book of Records.

The GSM operator Aria, the subsidiary of Telecom Italia Mobile which has just merged with Türk Telekom's Aycell, is an active sponsor of professional football.

The success of the Istanbul arts festivals, the principal conduit for arts sponsorship, has in turn encouraged other corporations to administer their own activities. The firm Borusan runs its own symphony orchestra. Tekfen, too, sponsors the Black Sea Symphony Orchestra as well as

TEMA, an environmental foundation seeking to promote reforestation.

Banks like Ak and İş have their own cultural programmes. Garanti promotes an innovative art gallery. Yapı Kredi runs a well-respected, academic-oriented publishing house. Enka has set up a respected secondary school and lycée and sports centre. Tepe has used its profits to build to international standard Bilkent University in Ankara.

A SOCIAL ROLE: Industry has increasingly become involved in sponsoring social foundations, and the list of foundations which rely on individual and corporate generosity is long. TAP promotes demographic planning in the context of mother and child health care. The Mother Child Education Foundation encourages pre-school education and parental awareness.

The Education Volunteers Foundation of Turkey has helped mobilise a nation-wide army of activists devoted to broadening the horizons of some half million children through activities after school. The Turkish Wildlife Foundation is now a respected campaigner for the preservation of genetic diversity and Turkey's many world-important habitats.

Proof of the increasingly ambitious scope of Turkish philanthropy has been the endowment of some 23 private foundation universities. The first of these, Bilkent, was started in 1984, at the time that the government was centralising the state university system. Koç University opened its doors to 191 undergraduates and 42 graduate



students in 1993 and now has an enrolment of some 3,000 students in its own prestigious campus outside Istanbul.

Bilgi University chose the different strategy of siting itself in two inner-city, poor neighbourhoods. It has attracted a highly respected faculty, many of whom felt out of place in the state system and who were attracted by the institution's "alternative" image. Unlike New York City's New School, to which it is sometime compared, Bilgi rejects the public funding available to it. It has tried to integrate itself not just into its own neighbourhoods but the fabric of the country with community projects and outreach programmes.

Another newcomer and highly respected for its attitude towards academic innovation is Sabanci University. It is widely regarded as having raised the bar on academic freedoms in Turkey. Sabanci also adopts a broad interdisciplinary approach to learning in contrast to the traditional faculties, and requires its undergraduates to do two terms of NGO work or other community service, attracting highly-qualified Turkish and other academics as a result.

Construction and Seismic Research

Yapı Merkezi, which began as a research and design company in 1965, has become Turkey's largest prefabricated concrete producer and is highly committed to seismic research. The company builds underground railways, pharmaceutical factories, and restores historical buildings. Like other corporations, it makes active contributions to the community, in its case particularly in the field of science education. It sponsors schools, science fairs, and scholarships for higher study. Yet perhaps the greater contribution is that the industrial estate which it built in the Marmara Basin near the epicentre of the 1999 earthquake was unaffected by that disaster. The public buildings which it retrofitted in the city of Adapazarı in 1967 are still standing after a 7.4 Richter quake.

Greater proof of Turkish firms' new sense of responsibility is not the charitable activities which they chose to finance but a change in corporate culture itself. Increasing Turkish industry's definition of social responsibility is not an "add-on module" to its mainstream activities but something intrinsic to what it does best.■

TURKEY AND THE LISBON AGENDA

A rapid response to the information age

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Turkey has a broad and continuing commitment to the issues in the Lisbon Agenda of entrepreneurship, competition, innovation and research and development. The examples cited above of successful Turkish groups and their export record speaks for itself, while the mobile operator, Turkcell, is both symbol of and contributor to Turkey's advance into the digital age. It has 19 million subscribers, making it the sixth largest mobile operator in Europe, and has helped establish GSM operators in Azerbaijan, Georgia, Iran (agreement signed in February 2004), Kazakhstan and Moldova. To date, it has invested around \$4 billion. It is the first Turkish company to be quoted on the New York Stock Exchange. As of February 2004, it had international roaming agreements with 384 operators in 158 countries.

Just as the launch of private sector mobile operators stimulated this sector, so the impending privatisation of 51% of the shares of Türk Telekom, the incumbent fixed line operator, is expected to stimulate investment in other forms of communication. January 2004 saw the formal ending of Türk Telekom's monopoly in voice communication and infrastructure, and investors, local and international, have been developing plans for value-added services.

The Turkish information technology market is estimated to have been worth \$1.8 billion in 2003. About one-half of this was made up of hardware, one-sixth by packaged software and the balance by customised software, services and consumables, according to IDC. Improved protection of intellectual property – a by-product of Turkey's Customs Union with the EU – has reduced the problem of piracy, and the recent launch of courts specialising in the area is expected to improve enforcement of legislation. Telecommunications added a further \$7.4 billion

Turkish ICT Market Breakdown

(Million USD)

SUBSECTOR	2001	2002	SHARE IN 2002 (%)
IT HARDWARE	1,565	1,070	11.2
SOFTWARE	433	300	3.15
SERVICES	869	742	7.8
TELECOM HARDWARE	1,565	1,173	12.3
CARRIER SERVICES	6,173	6,129	64.4
CONSUMPTION GOODS	118	101	1.06
TOTAL	10,723	9,515	100

Source: Bilisim 500 study (www.interpro.com.tr/bilisim500)



to the sector's turnover in 2002, with carrier services the major element in this.

The rapid response of Turks to the services offered by Turkcell, which include General Packet Radio Service (GPRS) and multi-media messaging (MMS), and by the two other Turkish GSM operators (Telecom Italia's subsidiary, İştım, recently merged with Türk Telekom's Aycell) is a confirmation of one of the key lessons of the past decade, the speed at which Turks adopt to new

technology. Around 500,000 PCs are sold each year and 1 million Turks are Internet subscribers.

ENHANCING PRODUCTS DEVELOPED ABROAD: A second key element has been the imagination which Turks have shown in

Nortel in Turkey

From switch gear to software

Netaş is the largest private R&D organisation in Turkey and allocates 6-9% of its annual revenues to R&D activities. Its R&D laboratory has been the fourth largest institution engaged in the development of Synchronized Digital Hierarchy (SDH) technology, the international standard for synchronous data transmission over fibre optic cables, within Nortel Networks. Its members work as technology spokespersons in various national and international platforms, and participate in the technology meetings with the ATM and DECT manufacturers, European and North American standards bodies. It is the largest software exporter in Turkey, with its total exports exceeding \$40 million per year. After long concentrating on digital switching, it has recently been working on optical technologies such as Dense Wavelength Division Multiplexing (DWDM), used to increase bandwidth over existing fibre optic networks

and SDH. SDH is the core technology of the 10Gbit/sec networks, the fastest optical networking technology available today. 90% of the world's optical traffic is carried over Nortel Networks' products. Nortel Networks/Netaş has also developed the switch infrastructure for the TASMUS (Tactical Field Communication System) project to supply the tactical communication needs of the Turkish Armed Forces as well as a Ruggedised Switch to address the voice and data communication needs of the military units in the open field. This switch can be quickly re-positioned, is fully compatible with severe environmental conditions, and can function on both analogue and ISDN (Integrated Services Digital Network) networks. This completely locally designed switch is also suitable for other applications, including ATM (Asynchronous Transfer Mode) and IP (Internet Protocol).

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enhancing products developed abroad. IBM found this nearly 15 years ago when it licensed banking software to Yapı Kredi Bank in Istanbul. Yapı Kredi studied the software and then worked with IBM on a series of enhancements which IBM was later able to roll out to its customers elsewhere in Europe. Today, too, whether it is in process engineering or SCADA applications, Turkish software engineers – many of them trained abroad – are showing a skill in using existing platforms for purposes or on a scale which their original designers had not considered. This has contributed to the growth of numerous strong systems integrators such as Gantek (in which Intracom of Greece has a shareholding), Meteksan, Probil, SBS (Siemens) and Tepum.

Expenditure on Research & Development, 1999	
% of GDP	
TURKEY (2000)	0.63
GREECE	0.67
PORTUGAL	0.7
HUNGARY	0.75
POLAND	0.8
SPAIN (2001)	0.96
IRELAND	1.3
EU AVERAGE (2000)	1.88
FRANCE (2000)	2.15

Source: OECD Main Science and Technology Indicators 2000

Since the beginning of the 1990s, NETAŞ, the joint venture of Northern Electric (now Nortel Networks) and the PTT (now Türk Telekom), was successfully exporting digital exchanges for rural usage which had been developed in its laboratories in the Ümraniye area of Istanbul. As described in the text box, it has since built up its exports to over \$40 million per year.

R&D in Industry

Şişecam shines

The glassmaker Şişecam's automotive subsidiary, Trakya Autoglass, has long sought to match the latest developments in the automotive industry and respond to its customers with the most modern products. With car makers aiming to produce more economical vehicles and respond both to environmental concerns and to the growing selectivity of customers, Trakya has developed a solar-control system glass that is used as windshield controls and filters the sunrays so that the driver gets a more comfortable drive. The company's "Athermique" system reduces the burden of air conditioning, which leads the car to consume less fuel. R&D at Trakya Autoglass and Şişecam's R&D Center have resulted in completing sample production and preparing for commercial mass production. In addition to Athermique glass, Trakya Autoglass has finalized the production process of "Aquistic", which provides sound insulation. It is now preparing the commercialisation of this.



However, in general, Turkey's record on innovation is fragmented, and expenditure on Research & Development is low compared with Western Europe – though high compared with Eastern Europe. R&D expenditures doubled as a percentage of GDP during the 1990s to 0.64% in 2000, but still were only one-third of the average for the EU14 for that year – and far below the Barcelona 2002 target for the EU of 3% by 2010.

Of these expenditures, 38% were carried out by business enterprises, compared with a 64% ratio in the EU as a whole.

A number of Turkey's universities have good high technology faculties, not least the Middle East Technical University in Ankara and Bosphorus University in Istanbul, which has a good medical engineering department. But in overall scale the education system is lagging behind the needs of the country. The percentage of university graduates in the population aged

25-64 was a mere 6% in the late 1990s, about the same as Portugal, but half the level of Hungary, Poland and Spain.

Even more striking differences are evident between Turkey and the countries of Eastern Europe, where levels of secondary education are concerned. The situation reflects long years of under-spending on education.

Successive governments have launched a series of initiatives to tackle this problem. Leading these has been TÜBİTAK (The Scientific and Technical Research Council of Turkey), which has established a chain of key research centres, including:

- TÜBİTAK Marmara Research Centre (MAM)
- Information Technologies and Electronics Research Institute (BİLTEN) (METU-Ankara)

<i>Education Indicators in Turkey</i>			
	Public expenditure % of GDP 2000/01	Secondary	University
		% of population aged 25-64	
BULGARIA (1998/9)	3.4	-	-
HUNGARY	5.2	63	13
SPAIN (1999/2000)	4.6	30	13
POLAND	5.3	74	10
PORTUGAL	5.9	20	7
IRELAND	5.1	50	11
TURKEY	3.4	17	6

Source: IBRD, World Development Report

- Defence Industries Research and Development Institute (SAGE) (Lalahan, Ankara)
- Basic Sciences Research Institute (TBAE)
- The National Observatory (TUG)
- National Electronics and Cryptology Research Institute (UEKAE)
- Çukurova Advanced Agro-Technologies Research and Development Institute (CITTAGE)

The View from Brussels

Turkey and other countries entering the EU

The environment remained 'less than positive' for innovative businesses in seven candidate countries, according to a survey carried out for the European Commission's Enterprise Directorate General in 2002. The report examined the innovation policy framework, measures to foster innovation in enterprises and business innovation interfaces, such as cooperation between large and small businesses and between academia and industry, in Bulgaria, Latvia, Lithuania, Malta, Slovakia, Romania and Turkey. The authors of the report wrote that the findings do not compare favourably with the results of an earlier study carried out for the European Commission on innovation in Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia.

The study finds that the legal and administrative environment is more hostile in the seven countries covered by the report than in the six countries examined earlier and 'the climate conducive to business development in general, and innovative businesses in particular, remains less than positive.' It says over-regulation is a

particular problem in Romania, Bulgaria, Lithuania and Turkey, while businesses are hampered by a weak financial system in all seven countries.

The report finds that only Turkey has an institutional structure with a long tradition of policy development in the field of innovation. In addition, it is the only country having a government agency with a direct remit for innovation policy. Although Turkey and the Baltic States have begun to embrace new innovation support structures such as technology parks and technology transfer structures (Innovation Relay Centres exist in five of the seven countries), the report points out that innovation funding mechanisms are 'few and far between' in all of the countries. Venture capital funds continue to focus on investment in larger initiatives or development rather than seed or early stage funding.

Interim report on 'Innovation policy in seven candidate countries: the challenges,' carried out for the European Commission's Enterprise DG, 2002. CORDIS (Community Research and Development Service).



- DNA/Tissue Bank and Genetic Research Laboratories (DNA/DB)

Also important have been:

- The Turkish Technology Development Foundation (TTGV), established in 1991 in order to raise the industrial sector's awareness of R&D and to support technology development projects of Turkish Industry through funds provided by the Undersecretariat of Treasury from the resources of the World Bank. TTGV is an independent non-profit organisation established jointly by the private and public sectors.
- The Informatics Association of Turkey (TBD), an NGO which supports widespread utilisation of information systems

In the field of e-government, Turkey has instituted a number of projects designed to increase the share of the population who use Internet for public services from the 3%

determined by the National Productivity Centre in 2003 closer to the 10-20% range applying in western Europe.

A central birth registry, Mernis, became operational in January 2003. Other areas of e-government include land registry, pharmaceutical prescriptions, vehicle taxes, and the automation of tax offices and Ministry of Justice records.

The State Planning Organisation says that the main policy of the government in the telecommunications sector is to establish a competitive market structure in all segments, in order to help increase service quality and the range of innovative and value-added services while reducing costs.

It argues that the government has taken measures to improve ICT production and R&D in order to increase exports as well as to meet domestic market needs.

Software has been classed as a strategic sector for Turkey. Tax exemptions until the end of 2013 are provided for companies operating in technoparks and the action plan of the e-Transformation Turkey Project envisages Turkey becoming a centre of excellence in software.

The government is encouraging foreign direct investment into the sector. It also aims for Turkey to become a service provider for outsourcing. ■

Vision 2023

This is a programme launched in 2000 by the Supreme Science and Technology Council. It aimed to develop by 2003 a 20-year programme for IT development culminating the centenary of the foundation of the Turkish Republic. It has four components, developing a technological perspective for the country, taking an inventory of national technology, building a database of Turkish scientists, and developing the country's R&D infrastructure. Progress to date has been less rapid than planned.

A BURGEONING CULTURAL LIFE

Creativity as a lifestyle

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Turkey today is a modern metropolitan society capable of further accelerating progress and playing a much more important role in the world of arts and culture. About two-thirds of the 70 million Turks live in urban settlements and their lifestyle is more often than not simply that of the modern world.

The growth of the last two decades has been accompanied by an amazing transformation in the quality of life. Turks, in Turkey and abroad, are fast shrugging off the image of the rough Anatolian peasant. There are no communities in Turkey which are so remote now that they do not have access to television, and the prototype Turkish family resembles that of any modern society. If a house is tucked in a street too narrow for a truck, as in historical Mardin, donkeys will perform, and the obligatory washing machines will reach its destination.

Use of the Internet, often through Internet cafés, spreads right down into the most remote rural community. Car ownership has become widespread while foreign-made cars abound in Istanbul. Yet few of the drivers of the snappy Peugeot 206, one of the popular models, are aware that this car is the brainchild of a Turkish-born designer.

The "culturally different" label notwithstanding, in recent years, Turkey has made significant strides

on Europe's cultural scene with success in music, sports and art. In France, a Turkish journalist established Sipa, one of the country's leading photographic agencies. In the visual arts, Turks have performed especially strongly and the centre of their activities has been Paris.

Designers like Rifat Özbek or Hüseyin Çağlayan have paved the way for the many young Turks of the fashion world. Turkish designers like Defne Koz or Ayşe Birsnel are recognised in Milan and New York.

Individual Turks have also taken up prominent positions in international organisations. Mr. Rıza Türmen, for example, sits as a judge in the European Court of Justice. Until he returned to become Minister for the Economy in March 2001, Mr. Kemal Derviş was senior vice-president of the World Bank. Earlier, Atilla Karaosmanoğlu had served as Executive Vice President at the Bank for many years.

In a land where thoroughly modern ideas and practices exist side-by-side with centuries-old structures and customs, Yaşar Kemal and Orhan Pamuk have woven the past into the present in their novels which have been translated into many languages. So has the famous Turkish piano virtuoso Fazıl Say, who recently promoted his new album "Black Earth" in New York, in which he uses the piano as if it were a "saz," a traditional Turkish stringed instrument.

Turkish music has become a significant part of the European popular musical tradition. Sertab



Erener won the Eurovision song contest in 2003. Like her, Tarkan and Sezen Aksu are known to young people across the continent, with songs climbing the hit parades. Institutions to be recently honoured by Europe include the Museum of Health at Edirne, the Museum of Anatolian Civilisations in Ankara, and the Istanbul Archaeological Museum.

Sport is another of the levels on which integration of Turkey with Europe is taking place. In the 1990s, Naim Süleymanoğlu won Olympic medals in weight-lifting. Now, Turkish sportsmen, boxers, runners, and footballers attract increasing attention in the rest of the continent.

By 2000, Fatih Terim, the former manager of Galatasaray was training some of the best Italian football teams, while the best Turkish players were signed up for international teams. In May 2000, Galatasaray of Istanbul won the Football UEFA Cup Final in Copenhagen, trouncing British club Arsenal and becoming the first Turkish club to win a European soccer championship. Turkey

was a semi-finalist in the 2002 World Cup, being beaten by winner Brazil.

In August 2002, a Turkish 1,500-metre runner, Süreyya Ayhan, was the first Turkish women athlete to win a European championship. Beyond the sports field, Turkish director Nuri Bilge Ceylan won the Grand jury prize at the prestigious Cannes Film Festival for his film *Uzak* in 2003 while director Fatih Akın, a German of Turkish origin, won the Golden Bear award at the 2004 Berlin Film Festival with his film *Duvara Karşı*, Against the Wall.

In the 19th century, many European houses had Ottoman corners, but then a distance began to grow. Today, arts and sport are beginning to erode this sense of unfamiliarity with things Turkish.■

Designed in Europe – by Turks

As Turkey's factories develop at home, young Turkish car designers have been winning plaudits in Europe. The star of these is Murat Günak. Brought up in Germany, he made his name at Mercedes-Benz in the late 1970s. He left in 1983 to join the Ford Design Center in Cologne. He returned to Mercedes-Benz in 1986, where he was a key contributor to the styling of the A class and SLK roadster, moving on to become chief designer at Peugeot in 1994, responsible for projects such as the 206 supermini. Günak returned to Mercedes-Benz in 1998, becoming design chief for Mercedes passenger cars and light commercial vehicles, and working on the Maybach luxury brand and Mercedes SLA. In 2003, he became head of design at the Volkswagen group.

TURKISH ENTREPRENEURS IN GERMANY

A force for dynamism

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With more than 3.6 million Turks within the borders of the European Union, Turkey is by no means a negligible force in European "domestic" politics. The Turks are the second largest nationality in both Germany and in the Netherlands after the Germans and the Dutch, respectively.

Today, there is hardly a region in Germany without a sizeable Turkish community. Their total is equivalent to half the 6.9 million population of Latvia, Slovenia, Estonia, Cyprus and Luxemburg combined.

The number of Turks residing in Europe and seeking to become self-employed is increasing rapidly. According to the Turkish Research Centre TAM, in Essen, **the number of Turkish entrepreneurs in the EU is over 80,000. The bulk of these are in Germany, where 2.5 million Turks live. Here, 57,000 entrepreneurs of Turkish origin have set up businesses, making 26.5 billion euros of investment and providing employment for 327,000 people, many of them Germans.**

With the number of such entrepreneurs increasing by an annual average growth rate of 11% over the past two decades, the prospect for 2015 is even more impressive.

TAM forecasts that the total turnover and cumulative investment volume of Turkish

entrepreneurs in Germany in 2015 will amount to around DM 130 billion and DM 30 billion respectively.

This dynamism is reflected in the demographics: 50.5% of the Turkish residential population (as they are called in Germany) is aged between 14-29 (25% for the Germans), only 15.7% are over 50 (43% of Germans are over 50). An increasing number is opting for German citizenship. When the Turkish gastarbeiter appeared in Germany 40 years ago, it was as a temporary measure to deal with the chronic labor shortage and the initial migrants mainly held low paid jobs which no one else wanted. Now, most of the German Turks are fully participating citizens of German society.

According to a survey made in 2002 by the finance institution DtA, while 5.4% of migrants started a new business in Germany, this figure was only 2.1% for Germans.

In Berlin alone, around 5,000 Turkish businesses currently employ approximately 20,000 workers in 90 different fields of activity. Only 30% of Berlin's Turkish businesses are in the traditional strongholds of the restaurant and catering industries: 37% are involved in trade, and 18% in the services sector.

Indeed, one sees more and more nameplates of lawyers, doctors, architects and engineers on the streets of Kreuzberg. They form a dynamic and flexible business sector that benefits the whole country. Nor should the economic dimension of Turkish fast food be neglected. This has become a favourite, competing comfortably with its



American counterparts. The “döner” industry, with stands, restaurants and “döner” factories all over Germany, has a turnover of 1.8 billion euros a year (1996 data). 200 tonnes of döner kebab are sold daily in Germany, 25 tonnes in Berlin alone.

One of the most shining examples of entrepreneurship is that of Vural Öger. A freshly graduated engineer, he traveled with all his worldly possessions to Hamburg for a wedding. His car caught fire, leaving him bereft. A few days later, he noticed that there was no direct flight between Hamburg and Turkey, borrowed DM 100 from a compatriot, managed to rent a plane and two decades later he owns one of the largest travel companies in Europe. Öger also illustrates the close link that German Turks retain with their country of origin. A candidate for Germany’s Social Democrat Party for the European Parliament elections, he has helped set up meetings between German and Turkish politicians and businessmen, including at the level of prime ministers.

A second case is that of Kemal Şahin. Denied permission to work as an engineer, he had to find a new profession. He went into textiles and now Sahinler Holding, which he created, has an annual turnover of 770 million euros. His empire comprises two companies in Germany and one in each of Austria, Bulgaria, France, Great Britain, the Netherlands, Romania, Slovenia, Spain, Switzerland, and the USA. In Turkey itself, he has 18 companies and is one of the country’s leading exporters of textile and clothing articles. Like Öger – and a number of leading Turkish

businessmen in their home country – he has written his auto-biography.

Integration is evident too in politics. Currently there are three second-generation “German-Turks” sitting in the Lower House of the (German) Parliament, Leyla Onur of the SDP and Cem Özdemir and Ekin Deligöz of Bündis 90/ Die Grünen.

Numerous “German-Turks” have also been elected to the Lande, the local Parliaments. Many of them contribute to bilateral communications between Germany and Turkey and act as middlemen between the two cultures and the two peoples.

These are supported by the increase in intercultural exchange that has been flourishing in Germany. Turkish actors and actresses have managed to move beyond the traditional, stereotyped roles for Turkish migrants that used to be their fare. An example is the impact of the actress Renan Demirkan, who uses her strong immigrant identity to reflect on the problems of the second generation and create a climate which leads to greater understanding and acceptance of migrants in German society. And the Germans themselves are responding to this, witness the Golden Bear for the film *Duvara Karşı* – a film made by German Turks about German Turks. ■

LOOKING AHEAD

Turkey and its contribution to Europe

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When asked why Ford was preparing to invest \$650 million in yet another automotive plant in Turkey, the company's CEO William Clay Ford Jr. gave the three classic reasons. "Location, location, location". These fundamentals have, of course, not changed.

Turkey is still a big market of some 70 million people with easy access to an even larger international market of one-quarter of the world's population and one-quarter of the world's GDP. What has changed is that Turkey is no longer prepared to trust in geography alone. The country's economic and political leadership now realise that their future prosperity depends on "stability, stability, stability" – that, and a proven ability to listen and respond to blunt advice.

Turkey listens carefully to the councils of the market. The market rewards Turkey's ability to follow the path to Brussels and to financial prudence. Ankara is in the middle of a standby agreement with the IMF and that calls for strict fiscal discipline and severe limitations on public spending. Yet, for all that, the current reform-minded government is riding a crest of popularity as high as any post-war Turkish administration.

The results of the March 2004 nation-wide municipal election suggest that the ordinary population believes its sacrifices are at last

producing results. A stronger lira against the dollar is fuelling this perception. The rate of inflation is currently at its lowest since 1977 and, as it continues to fall into single figures in 2005, the Central Bank will perform the symbolic surgery of removing six zeroes off a Turkish lira.

In Central and Eastern Europe, they refer to the collapse of Communism. Turkey, with the exception of the small economies of Cyprus and Malta, is one of the few accession candidates which did not require a political revolution to open up its economy. Yet in many ways the changes in Turkish society during the 1990s have been more profound precisely because they happened from the bottom up. The same is true of Turkish development. The country's most significant natural resource is that of water.

Unlike diamonds or petrol, commodities notorious for carrying their own economic "curse", water bears a particular blessing. It is an input that is only valuable if it is carefully used and preserved. Turkey expects no windfall, only the fruits of its own efforts.

The social consensus of today is different from that of even a few years ago and has prepared Turkey for even greater adjustments in the year ahead. Turkey knows that the country which will eventually enter the European Union is not the same country of today. It is a country that not simply accepts change but actively wills it.



A DYNAMIC PICTURE: The static picture of today of a country that might export its own problems of unemployment to Europe is not the dynamic picture of tomorrow in which European countries with an ageing population will of necessity be looking to attract an educated and skilled work force.

Today, Turkey is a large country with the consumer potential of a small European country. Tomorrow, it will be a market which few companies can afford to ignore. The Turkey of today is a strategic asset to Europe by providing a buffer against rogue states and regional uncertainties. The Turkey of tomorrow is an asset as the power engine of regional growth and stability.

“Turks have no friends but themselves” has been the defensive rallying posture of Turkish nationalists. It is one that is sounding increasingly hollow in a world where no single nation can preserve its prosperity and security without the friendship of its neighbours.

In 1998, in a momentary spark of conflict between their two nations, some Turks called for boycotts of Italian goods. No one listened. Today, Italy is Turkey’s second largest trading partner (Germany is first) and Italian exports rose last year alone by one-third.

Turkish realists assume that the journey towards European integration will be the project of the coming generation. This time will work to both sides’ advantage. Europe’s endorsement of Turkish prospects will increase market confidence and fuel foreign and domestic investment in

Turkish industry to take advantage of labour and transportation costs. It is a virtuous circle. A more prosperous Turkey creates European prosperity which is in turn reinvested in Turkey. All that is required is good faith on both sides.■

COMPANY REPORTS

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ERT companies operating in Turkey have been invited to contribute to this document with a summary of their corporate experiences in Turkey.

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COMPANY REPORT

BP



The History of BP in Turkey: The British Petroleum Company started to operate in Turkey in 1912. It pursued its activities under the name Steaua Romana until 1949, and then took the name Anglo Iranian Oil Company. Finally, in 1953, the company adopted the name BP Aegean Ltd.

BP Aegean Limited Company was re-founded, registered and announced as a Turkish company in 1957. From that date, BP Petrolleri Anonim Şirketi (BP Petroleum Limited) took its place in commerce with operations in fuel oil and lubricants.

Between 1996 and 1998, the BP and Mobil companies worked together on a Europe-wide basis in the fields of fuel oil marketing, refining and mineral oils. BP assumed responsibility for fuel oil marketing and refining, and Mobil for mineral oil production and marketing. The union between BP and Mobil officially came to an end in 2000. Following that, BP and Amoco amalgamated worldwide. In this way, BP Amoco PLC, based in London and constituting one of the world's main energy and petrochemical groups, assumed its place in the sector. These assets elevated BP Amoco to the position of England's largest company and of one of the three largest fuel oil companies in the world.

In February 2000, BP added Burmah Castrol to its corporate structure. The new company comprising BP, Amoco, Arco and Castrol began operating under a new logo in July.

The new BP logo began to be known by the name of "Helios," the ancient Greek Sun god, and the company aimed to reflect the dynamism of all varieties of energy, from petroleum and natural gas to solar energy, to 10 million people a day worldwide.

The initiative to comprise one single brand took place following a series of company mergers and take-overs in recent years. During this process, British Petroleum, Amoco Corporation, Atlantic Richfield (ARCO) and finally Burmah Castrol came together to create a group with a market value in excess of \$200 billion.

BP Turkey today: As one of Turkey's largest foreign investors, BP broadened its fields of investment in 1994. In addition to fuel oil distribution and marketing and mineral oil production and distribution activities, it is today also present in such energy sectors as LPG, Commercial and Industrial Fuels, Petroleum Exploration, Gas and Energy. BP Aviation, BP Chemicals and BP Marine Fuels are operating in Turkey under BP's international business arms.

The company has some 600 fuel oil and 130 BP auto gas stations, and 70 under the Petgaz and Ocakbaşı brands. BP Turkey's net revenue in 2003 was TL 5.5 quadrillion, with a trading profit of TL 66 trillion.

BP Turkey and its fuel operations: BP's objective is to ensure the highest level of fuel quality for vehicles by devoting great care and attention to all the stages undergone by fuel, from leaving the refinery to entering the vehicle's fuel tank. Fuel with additives to European standards was introduced to Turkey through BP in 1993. It was again through BP that the Turkish consumer became acquainted with the fourth generation of fuel with additives, which has now become more widely available.

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With its aim of being able to offer consumers the highest quality fuel, BP is engaged in a programme called “The BP Quality Assurance in Fuel”. In addition to this programme, a “Company Transport” project has been initiated at BP fuel oil stations in the Aegean, Marmara, Mediterranean and Central Anatolian regions. Within the scope of this project, fuel transport operations are carried out by BP and fuel stations are monitored by headquarters through an electronic system.

BP attaches the highest priority to the use of technology in the fuel sector. This was the framework for the BP “Vehiclematic” system that we placed at the service of our customers in mid-1999. The BP Vehiclematic system is currently serving more than 1,500 companies and some 50,000 vehicles.

Projects in which BP is engaged: BP is the largest partner in the Baku-Tbilisi-Ceyhan Crude Oil Pipeline Project, which will play a major role in Turkey's becoming an energy corridor between east and west.

In addition to the indirect benefits of the project, Turkey is expected to obtain annual average revenues of \$200 million from transport and operational fees between the first and sixteenth years, depending on the amount carried. In addition, the pipeline will strengthen Turkey's strategic position by establishing the country as a reliable energy corridor between Asia and Europe, and will produce employment and skills training opportunities. Environmental and Social Investment Programmes will provide additional benefits.

BP is also continuing its petroleum exploration activities in the eastern Black Sea region together with TPAO.

BP Turkey's objectives: BP Turkey's main objectives are to improve constantly product and service quality, provide product variety, and increase loyalty to BP by creating the highest levels of customer satisfaction. Our fundamental policy is to achieve these objectives “without harm to people or the environment, and without accident”.

In 2004, BP is continuing its investments aimed at increasing the quality of products and services it offers consumers. In the framework of its HSE-S (Health, Safety, Environment and Security) principles, which represent a lifestyle for BP, the company's priorities are to improve infrastructure conditions at its stations, and to create safe and secure environments for our employees, dealers and consumers by maintaining our programmes for enhancing road safety. Other aims include the expansion of company transport and our network of stations offering the BP Vehiclematic service.

BP and its new global vision: The new vision for the 2000s of BP, also the world's largest solar energy producer, revolves around the concept of “beyond petroleum”. BP makes use of solar panels in 400 stations worldwide, and is an international energy company offering consumers “innovation beyond petroleum”.

BP has also initiated its Clean Fuels Project in various regions of the world with the aim of contributing to the prevention of air pollution by reducing fuel emissions harmful to human health. The main priority of this project, which is based on local solutions to air quality, is to reduce lead emissions in cities with serious air pollution problems.■

COMPANY REPORT

BRITISH AMERICAN TOBACCO



The Company in Turkey: British American Tobacco (BAT) started its operations in Turkey by establishing a factory in Tire, Izmir in October 2002. BAT Turkey (BATT) was formed with the backing of two respected local partners, Sunel Ticaret A.Ş., a leading oriental tobacco supplier and Düzey Pazarlama, part of the Koç Group, Turkey's largest and oldest privately held commercial group.

BATT is committed to invest \$250 million over five years. The commitment to expand its Tire Factory and invest elsewhere in the country remains on track. Three international brands were launched over the past twelve months, namely, Kent, Pall Mall and Viceroy. By the end of 2003, BATT's market share reached 2%.

Further improvements are planned in the coming 12 months to prepare for growth.

In the past one and a half years, BATT has established its headquarters in Istanbul, a cigarette factory in Tire, Izmir and marketing and distribution offices in Istanbul, Ankara, Izmir, Bursa, Adana and Antalya. The company employs approximately 350 people directly and employs a further 330 indirectly via its main distributor Düzey Pazarlama and through contracted employees.

In addition, the company has undertaken a rapid development in its distribution network to the extent that by May 2004 a national distribution network of 125,000 outlets was in place.

In conjunction with its local investors in Turkey, BATT provides a viewpoint that combines the international perspective of British American

Tobacco with the local expertise and experience of respected local partners.

Rationale for investing in Turkey: British American Tobacco has been a multi-million dollar customer of quality oriental tobacco from Turkey for over 60 years. When taking the decision to invest in Turkey, British American Tobacco made a thorough analysis of the factors that influence the operating environment.

British American Tobacco believes Turkey could play a vital role with regard to global and regional development through her dominant position in the region, linking together diverse cultural and business traditions and customs.

The Turkish Government's efforts for attracting foreign direct investment are an encouraging factor. Especially in the past four to five years, Ankara has undertaken an ambitious program of reform and capital-raising to meet IMF loan conditions. Specifically in the past two years, British American Tobacco observes that the Government has been taking significant steps in terms of achieving macroeconomic stability via:

- reforms in the financial sector,
- privatisation,
- elimination of the unregistered economy,
- developing a sound regulatory and judicial framework for 'locomotive' industries,
- undertaking a reform of the public sector.

A key part of the Government's effort to achieve macro-economic stability involves privatisation of many

BRITISH AMERICAN TOBACCO

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of its state-owned enterprises to encourage greater efficiency in the economy. The sale of the state's tobacco business is a priority item in the privatisation agenda. Tekel comprises four businesses: cigarettes, tobacco leaf processing, alcoholic beverages and salt. The Government has recently completed the privatisation of alcohol beverages. It is possible the Government will commence the sale process of the cigarette business within the second quarter of 2004.

Given the status of Turkey's smoking demographics, including the prevalence rate of around 40%, which is high relative to the mature markets of Western Europe and North America, privatisation of the Turkish tobacco business provides a good opportunity for international tobacco companies to expand their operations in Turkey. With this in mind, British American Tobacco participated in the privatisation process undertaken by the Government during 2003. Subsequently this sale process was cancelled by the Government, however it is expected the Government will re-tender the business for sale in 2004.

Fast Moving Consumer Goods are a large and rapidly growing sector in Turkey. They have a pivotal role as the final link in a long value chain going back to agriculture. Significant growth in the past six to eight years has meant new players have entered the industry, which in turn has led to a transformation in the sector. BATT has worked hard to understand the needs and expectations of Turkish consumers, and this has meant BATT achieved a strategic position in the market in its first year of operation.

Turkey's economic growth in 2004 is expected to display an improvement over last year's performance.

Conclusion: BATT started operating in Turkey in 2002 - a period when the adverse effects of the economic crisis were endemic. British American Tobacco believes that Turkey has the potential to overcome complexities within a short period of time and is able to bring the economy back on track. In fact, with its highly qualified human resources, rapidly advancing technological infrastructure, private sector companies partnering foreign investors, and economic and regulatory reforms, Turkey has the potential to provide further opportunities for investment.

BATT is pleased with the performance in its first full year of operation, and feels confident about its future growth prospects in Turkey. ■

COMPANY REPORT

ECZACIBAŞI GROUP*



Market Leader in its Core Businesses: Eczacıbaşı is a prominent Turkish industrial group with a combined net turnover exceeding \$1.7 billion, 36 companies and more than 7,300 employees in 2003. Eczacıbaşı's core sectors are pharmaceuticals, building materials and consumer products. Other areas where the Group is active are finance, information technology and welding technology.

In Turkey, Eczacıbaşı is the leader in seven of its 13 industries, including pharmaceuticals, ceramic sanitary ware, tissue paper and personal care products. Most of Eczacıbaşı's manufacturing operations are the largest in Turkey; two of these - tissue paper and ceramic sanitary ware - are among the top three in Europe as well. As the first Turkish investor in just about all of its businesses, Eczacıbaşı has a tradition of paving the way for new products, services and ideas.

In recent years, Eczacıbaşı's Pharmaceuticals Division has responded to changes in the global pharmaceutical industry by building on its standing as a world class manufacturer of pharmaceuticals, active pharmaceutical ingredients, and parenteral and renal solutions. Backed by cGMP and cGLP approvals, it has obtained the production line approval of some of the world's most rigorous health agencies and a growing number of marketing authorisations in Europe and elsewhere. A major shift in research and development strategies has strengthened the Division's product portfolio with branded generic pharmaceuticals and biotechnological products mainly targeting new therapeutic areas. In 2004, the Division will launch close to 60 new pharmaceuticals in the national market.

Increasingly seen as a premier supplier of bathroom and kitchen suites and tiles for professional users, Eczacıbaşı's Building Materials Division is involved in virtually every related activity, from the extraction and processing of clay and feldspar through to the management of a large network of specialized retailers focusing exclusively on its products. High quality, original design and exceptional functionality are the focus of Eczacıbaşı's research and development efforts in this business, leading to such innovative products as the odor-free toilet system and the mix-as-you-please minimalist bathroom design system, Matrix.

Apart from operating one of the most sophisticated tissue paper plants in the world, Eczacıbaşı's Consumer Products Division has joint venture marketing operations with leading international skin care and professional hair product companies and the most extensive distribution coverage for fast moving consumer goods in Turkey, reaching over 90% of the nation's sales points.

Growing Presence in EU Markets: In Europe and other export markets, Eczacıbaşı's best known brand is VitrA, the leading contender in European bathroom and professional tile markets. VitrA offers complete bathroom solutions as well as fittings and furniture for kitchens and the full range of tiles for consumers and building professionals. Most of these products are manufactured at plants in Turkey and distributed throughout the European Union via two marketing subsidiaries and an extensive network of wholesalers, authorized dealers and showrooms. Eczacıbaşı has one manufacturing investment in Europe, Ireland's first and only ceramic

ECZACIBAŞI GROUP*

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tile plant, and is looking at the feasibility of other manufacturing sites in the EU. Eczacıbaşı's goal for VitrA, which already holds 6% of the UK market and 13% of the German market, is to make it one of the top five bathroom brands worldwide by the end of the decade. Apart from building material products, Eczacıbaşı exports tissue paper, pharmaceuticals, welding products and smart cards. More than half of Eczacıbaşı's \$270 million export sales in 2003 were to the EU.

Longtime Partner of Leading European Companies: International partnership is a central component of the Group's growth strategy. Eczacıbaşı has joint ventures with Baxter International (parenteral and renal solutions), Georgia Pacific (tissue paper), Union Bancaire Privée (asset management), Lincoln Electric (welding products), Giesecke & Devrient (smart and magnetic card production), Koramic Building Products NV (tile grouts, adhesives and leveling compounds), Beiersdorf (skin care), and Schwarzkopf (hair care). It also has close to 50 cooperation agreements with leading European companies such as AstraZeneca, Aventis and Roche in the pharmaceutical sector; and Hansgrohe, arwa and IKEA in building materials.

Corporate Social Responsibility as an Operating Principle: Corporate citizenship is a fundamental component of the Eczacıbaşı Group's identity that derives from the Eczacıbaşı family's tradition of community service and pioneering role in the development of modern Turkish industry and institutions.

Dr. Nejat F. Eczacıbaşı, who founded the Eczacıbaşı Group in 1942, firmly believed that every investor had a duty to use a portion of the wealth generated by his or her business to improve the community. During his lifetime, he sought to achieve this through the establishment and sponsorship of non-profit institutions involved in culture and the arts, education, scientific research, public policy and sports.

Today, every Eczacıbaşı Group company regularly contributes to one or several non-profit institutions and one of the primary corporate values that all Eczacıbaşı employees are expected to share is the "tradition of serving the community". Projects sponsored by the Group fall in four broad categories: education, culture and the arts, sports, scientific research and public policy. Protection of the environment and careful use of scarce resources are also fundamental Group values.

Professionally Managed Family Group: The parent company of the Eczacıbaşı Group is Eczacıbaşı Holding. This is a family-owned, professionally managed company now directed by the second generation. Five Eczacıbaşı companies are traded on the Istanbul Stock Exchange, including Eczacıbaşı Pharmaceuticals Manufacturing, Eczacıbaşı Building Materials Manufacturing and Intema Building Materials Marketing and Sales.■

*ERT member - Turkish company

COMPANY REPORT

FIAT



The Company: Fiat SpA, established in 1899 in Turin, is one of the originators of the European motor industry. The Fiat group operates in more than 60 countries, owns 216 plants along with 127 research and development centres, and employs 187,000 people throughout the world.

Fiat in Turkey: The largest joint venture of Fiat in Turkey is TOFAŞ Türk Otomobil Fabrikası A.Ş., which produces automobiles and light commercial vehicles. TOFAŞ, a joint venture between Fiat Auto and Koç Holding established in 1968, is one of the founders of the Turkish automotive industry. The importance of TOFAŞ in Fiat world has been increasing, as Turkey has become one of the major production bases of Fiat on an international scale - along with Brazil, Poland and China. TOFAŞ has a capacity of 300,000 units per year in its plant with 1 million sqm area. In 2003, TOFAŞ's exports amounted to €682 million.

Fiat has also been involved in three other significant operations in Turkey. Powertrain is a joint venture between Fiat Auto and GM, which produces gearboxes mainly for export purposes.

Otoyol Sanayi A.Ş., established in 1966, has a license agreement with Iveco SpA signed in 1989. Otoyol is a manufacturer of buses, tow trucks, light trucks and trucks with an annual capacity of 12,500.

Türk Traktör ve Ziraat Makineleri A.Ş., established in 1954, undertook a license agreement with Fiat in 1963. Fiat became a shareholder from 1967 until 1992, when it transferred its shares to Case New Holland Global N.V. Türk Traktör is a producer of tractors, accounting for 37 % of the total tractor park in Turkey. The company has an annual production capacity of 35,000.

Rationale for investing in Turkey: Turkey is an important country both as a production base and as a market. The main reason for the low levels of inflows of foreign direct investment (FDI) into the country has been instability in the past years. Recent developments such as increasing productivity, improvements in the FDI legislation and stability in political and economic life have rendered Turkey more attractive for investment. Fiat considered the following factors in its investment decisions:

► Growth Potential of the Turkish Market:

- Turkey has a population of 70 million, which is remarkably young compared to European countries. Changing lifestyles and increasing urbanisation rates are factors that result in a significant demand potential.
- The Turkish economy has remarkable growth potential. Structural reforms realised, especially after 2001, have laid a sound infrastructure for improvement of the macro-economic fundamentals.
- Per capita income has been on an upward trend, with a remarkable growth potential.

► Geopolitical Location of Turkey and Integration to Europe:

- Turkey has a strategic location, enhanced by the increasing trade opportunities with the Middle East and Turkic Republics.
- With the entrance of Turkey into Customs Union with the EU in 1996, the automotive industry has been integrated into the European auto industry.

FIAT

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► **Competitiveness:**

- Qualified human resources.
- High flexibility in terms of workforce and working conditions.
- Lower labour costs than most European countries.
- Significant R & D and investment incentives.
- High production quality and productivity.
- Competitiveness in terms of logistics.

► **Supplier Network:**

- Local entrepreneurs cooperating with international OEM suppliers have established a large and developed network, which is an advantage for Turkey. As further improvements are attained in the supplier industry, additional opportunities will arise.
- Various leading multinational suppliers are operating in Turkey.
- Quality and productivity is high in the supplier industry.

Direct and indirect benefits for the local economy:

The development of the automotive industry has been

one of the most significant factors for the expansion of the Turkish economy, with Fiat joint ventures contributing to the local economy by creating employment, paying taxes and exporting in significant numbers while fostering the development of the supplier industry and securing advancement of human capital through various training programs in Turkey and in abroad.

Medium term prospects for the Company in

Turkey: Fiat Auto considers its Turkish joint venture, TOFAŞ, to be one of its major international production centers, along with Brazil, Poland and China. Owing to its competitiveness in various aspects, TOFAŞ is identified as an important export base for Fiat Auto in the medium term. As part of this plan, investments in new models oriented towards global markets are expected to take place.

Türk Traktör has become an important export center for CNH Global N.V. The company is expected to strengthen its position as further productivity and quality improvements are realised. The same prospect exists for Otoyol Sanayi, whose significance has been steadily increasing in the Iveco world.■

Automotive Development, 2003

COMPANY	EMPLOYMENT CREATED	TAXES PAID (BILLION TL) 2003	EXPORTS (UNITS) 2003	EXPORTS (MILLION EURO) 2003
TOFAŞ	4,096	76,422	82,614	682
Otoyol Sanayi A.Ş.	1,054	4,902	939	17
Otoyol Pazarlama A.Ş.	90	2,900	-	-
Türk Traktör A.Ş.	982	27,727	8,991	118
NH Trakmak A.Ş.	114	4,885	-	-
Powertrain	428	2,221	n/a	24
TOTAL	6,764	119,057	92,544	841

COMPANY REPORT

LAFARGE



The Company: Lafarge is the world leader in building materials and holds top-ranking positions in each of its four divisions: number 1 in Cement, number 2 in Aggregates & Concrete, number 1 in Roofing and number 3 in Gypsum.

The Lafarge Group is present in 75 countries with 75,000 employees. Its sales in 2003 amounted to €13.7 billion. Its growth is founded on sustainable development policy. Group know-how encompasses industrial efficiency, value creation, protection of the environment, respect for people and cultures, and preservation of natural resources and energy.

To improve building materials, Lafarge Group offers to all construction industry sectors – from architects to tradesmen, from distributors to end-users – a comprehensive range of products and solutions for each stage of the building process with innovative solutions bringing greater safety, comfort and quality to their everyday surroundings.

Lafarge in Turkey: Lafarge entered the Turkish market in 1989 by acquiring 97% of the shares of Aslan Çimento one of the leading cement producers in the Marmara Region, which is in the north-western part of Turkey.

Today, Lafarge is the biggest foreign investor in Turkish construction materials sector, with around \$400 million of investments generating \$210 million of annual sales in 2003. Lafarge Turkey employs more than 1,500 employees in its operations.

All the divisions of the Lafarge Group are present in Turkey.

- 4 cement plants and 4 grinding stations (3 plants and 3 grinding stations in a 50% JV with Yibitaş Holding),
- 2nd biggest group in Aggregates & Concrete with 4 aggregates quarries and 18 ready mix concrete plants (10 ready mix concrete plants in a 50% JV with Yibitaş Holding),
- Youngest company and the technological leader in Roofing with Lafarge Çatı Çözümleri (under Braas brand name),
- In Gypsum with Lafarge Dalsan (50% JV with Dalsan) and Entegre, the market leader in machine-applied plaster (a 50% JV with Ata İnşaat).

Rationale for investing in Turkey: Lafarge's entry to Turkey represented one of its first investments in developing countries. What attracted Lafarge was Turkey's potential for growth, though, as the company says today: "A group like ours that has the ambition to be truly international, had to be in Turkey anyway!"

It argues that Turkey has a young and well-educated human resources with a high capacity of adaptation to new developments. It also notes as an advantage Turkey's rich process and management experience in cement industry, with the first cement plant, which has 94 years old of experience, belonging to Lafarge Turkey.

Benefits to the Company: Thanks to its experience in Turkey, the Group has enhanced its capability to spread its good business practices, and to improve performance and professionalism in the countries into which it enters. A high number of Lafarge's Turkish

LAFARGE

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experts and managers are serving the Group abroad, with the company seeing this as a valuable contribution by its Turkish operations to the Lafarge Group.

Direct and indirect benefits for the local economy: Lafarge has been operating in Turkey for 15 years as one of the major foreign investors with all its activities in building materials; Cement, Aggregates & Concrete, Gypsum and Roofing, providing new products, systems and solutions and contributing actively to the development of the construction sector of Turkey. Its companies are active members of the associations and institutions in their sectors which are working for legal and sectoral stabilisation. Developing people is one of the main concerns of Lafarge and the company gives every opportunity to its people, on a local and international basis, for making progress in their professional careers.

As a company that has willingly put its stamp on numerous social responsibility campaigns all over Turkey since 1989, Lafarge is confident that it will be continuing its contribution to the future of Turkey.

Medium term prospects for the Company in Turkey: Turkey is a very big potential market. The potential for growth for most of Lafarge's products remains high. With the capacity of its people and its resources, provided the right economic environment is created, the future could be very promising.

The recent achievements of Turkish economy did not go unnoticed at Lafarge. Decreasing inflation and interest rates are definitely good news. The

country has embarked on a number of structural reforms, which are positive and could lead to more stable economic growth.

Lafarge is planning further progress for its activities in Turkey:

- Roofing and Gypsum activities are developing well.
- In cement, Lafarge Turkey still has to reach a level of profitability that will satisfy its shareholders. The sale of Rumeli cement plant that represents about 10% of the production capacity is an opportunity for industry consolidation. Lafarge is monitoring very closely these developments and sees an opportunity for growth.
- Concrete business is developed together with cement. In the aggregates sector, limited developments are also programmed in order to reach a more critical size.■

COMPANY REPORT

NESTLÉ



The Company: Nestlé's history dates back to 1866, when the Anglo-Swiss Condensed Milk Company was established in Cham, Switzerland, to produce condensed milk. In 1867, Henri Nestlé invented the first infant formula of its kind in the world, the "Farine Lactée" and established in Vevey the company that bears his name. Around that time, he chose the "nest" to be the logo of the company, symbolising safety, family, nature, nutrition and tradition.

The Nestlé Group is now the largest food group in the world with a turnover of more than \$65 billion, operating in 120 countries with 511 factories and employing more than 250,000 people. Nestlé's product portfolio covers categories like milk-based products, confectionery, instant beverages, bottled water, culinary, infant nutrition and pet food, under brands such as Nescafé, Maggi, and Nesquik.

Nestlé in Turkey: Turkey was one of the first countries in the world where Nestlé's "Farine Lactée" was imported, as early as 1875. Nestlé's presence from then on was strengthened by the importation of the confectionery range in the early 1900s and the establishment of a permanent presence in 1909. In 1927, Nestlé started local manufacture with the establishment of a confectionery factory. Subsequent acquisitions were made in the culinary category (Etsu) in the 1980s, and a new factory was established in Karacabey in 1990. Since then, further acquisitions were made in the dairy and water sectors. Nestlé also expanded its offering with the importation of infant nutrition, coffee and breakfast cereals products amongst

others. Following the recent divestment of the dairy business, Nestlé has a turnover in Turkey of around \$160 million and employs close to 600 people. Turkey is also the regional office for Nestlé operations in the Central Asian Republics and the Karacabey Factory serves an export base for the Middle East, mainly for culinary and instant beverage products.

Rationale for investing in Turkey: Nestlé, as one of the first foreign companies to operate in Turkey, has seen the country undergo major developments, starting with the collapse of the Ottoman Empire through to the foundation and development of modern Turkey.

With its large and growing domestic market, Turkey is a country with great potential. Its attractive geographic location makes it also an ideal base from which to access neighbouring markets. Furthermore the various measures taken in view of joining the European Union should have a positive impact on the economic and social development of the country.

Throughout its history in Turkey, Nestlé has invested heavily in developing its human resources, brands, production technology, sales and distribution. This has allowed the company to take leadership or strong positions in infant nutrition, coffee, breakfast cereals, confectionery, culinary, bottled water and pet food.

Achievements and benefits to the Company: Building on its strong heritage and market position in Turkey, Nestlé wants to realise the high growth potential existing in the country as well as further exploit export opportunities. Nestlé's fast and profitable growth in

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Turkey will add value to the Nestlé Group's global performance and will be another encouragement for the company to invest further.

Direct and indirect benefits for the local economy: Nestlé, as one of the first multinational companies in Turkey, has contributed to the improvement of the Turkish economy in general and the creation of various industry sectors in particular the infant nutrition, confectionery and instant coffee categories. Furthermore, Nestlé's entry in Turkey has encouraged other companies to invest in the same fields, resulting in a significant development of those areas.

As part of a truly multinational company, the company's staff benefit from the experience and training that comes from being part of such an enterprise. This is inclusive of short and long-term assignments abroad.

Nestlé's well-known quality, product safety, environmental and technology standards have helped raise industry standards. At the same time, it has contributed to the improvement of the operational standards of the over 1,000 small and medium enterprises that work with Nestlé.

Medium term prospects for the Company in Turkey: Following a recent divestment, Nestlé has focused its business towards accelerated profitable growth in Turkey by re-directing its resources and capabilities towards its well-established core categories. This should allow the company to sustain very rapid growth in the coming years.

In terms of exports, Nestlé sees Turkey as a promising export base and aims to increase significantly its exports to the Middle East and the EU. This would at the same time improve Nestlé's operational efficiency through capacity utilisation, harmonisation and operational synergy.■

COMPANY REPORT

PIRELLI



The Company: Pirelli's history goes back to 1872 when it was founded as a small family business in northern Italy. Today it is a truly multinational corporation and "Pirelli" has become a household name in world markets. Pirelli's business is centered on the key markets of Tyres, Energy & Telecommunication Cables and Systems and Real Estate, in which it is among the world leaders and innovators.

In 2001, Pirelli acquired a stake in Olivetti (recently merged with Telecom Italia). Through this acquisition, it now holds an important stake in Telecom Italia, one of the major telecom operators in Europe.

With full year 2003 consolidated revenues of €6.6 billion and operating income of €268 million, Pirelli & Co SpA employs approximately 36,340 people all around the world.

► Pirelli Tyre Sector

Pirelli's Tyre Sector has 21 factories and approximately 20,000 employees in Argentina, Brazil, Egypt, Germany, Great Britain, Italy, Spain, Turkey, United States and Venezuela, with a marketing network covering over 120 countries around the world. The Company is the world's fifth largest tyre manufacturer, with sales of approximately €3 billion in 2003.

The Sector's product range is one of the most complete in the industry, comprising tyres for cars (standard, high performance and motor sport), for trucks, buses, motorcycles and others. From the technological standpoint, the company has, for many years, succeeded in imposing an international leadership position, making

a considerable contribution to the development of tyre quality and performance.

► Pirelli Cable Sector

Energy Cables: With more than 12,000 employees and 50 plants in 22 countries in all continents and total sales of approximately €2.6 billion in 2003, Pirelli Energy Cables and Systems is the international leader in its field, with a market share in excess of 10%. Production comprises electric cables - from very high (500 kV) to low voltage, for underground, submarine and aerial applications - and a vast range of accessories.

Telecom Cables: Pirelli was able to anticipate the development of the optical tele-communications market. Today, Pirelli Telecom Cables and Systems employs more than 2,500 people in 11 factories in 13 countries and achieved a turnover of approximately €0.4 billion in 2003, continuing to maintain a strong emphasis on innovative research.

Pirelli in Turkey: Türk Pirelli Lastikleri A.Ş. was founded in 1960 and started its production in 1962 with 150 personnel and a capacity of only 200 tonnes per year. By end-2003, it had become one of the leading companies in Turkey with more than 1,300 personnel and a yearly capacity of 90,000 tonnes occupying one of the leading positions within the Pirelli Tyre Factories. Türk Pirelli has a network composed of 500 dealers and sales outlets. Exports amounted to 70% of Türk Pirelli's €245 million turnover in 2003. Türk Pirelli Lastikleri A.Ş. launched the first "made in Turkey" tyre in the Turkish

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market. Today, Türk Pirelli produces almost all type of tyres of Pirelli brand (high performance tyres included) and “made in Turkey” Pirelli tyres are exported to world markets. Industry quality prizes won since 1994 have recognized Türk Pirelli's exacting standards for excellence and innovation.

Following Pirelli's takeover of Siemens AG's cable sector, the affiliate in Turkey changed its name to Türk Pirelli Kablo ve Sistemleri A.Ş. in 1999.

Since its establishment in 1964 at Mudanya, Türk Pirelli Kablo has been producing a wide range of high quality and high technology electrical energy and telecommunication products.

In 2003, Türk Pirelli Kablo's annual sales amounted to €91 million of which 40% was for export. The Company had 290 employees as of January 2004. The product range of the company includes energy cables up to 220 kV, copper telecommunications cables with up to 3,600 pairs and fibre optic cables.

With its thermal, mechanical, chemical and electrical research and testing laboratories of high technological standards, Türk Pirelli Kablo is the only cable production facility attaining Turkish Standards Institution laboratory accreditation in the country.

The continuing goal of the Company is to set the standards in products, systems and services in its sector with continuous improvement in technology, high quality, and customer satisfaction and preserving the environment.

Rationale for investing in Turkey: Low labor costs, a young demography, a promising economy and easy

access to neighbouring countries were important factors in Pirelli's investment decision in the 1960s.

By implementing a comprehensive economic stabilisation and liberalisation programme, Turkish governments have had consistently three major objectives;

- a) minimising state intervention,
- b) establishing a free market economy,
- c) integrating the Turkish economy into the world economy. Türk Pirelli has enjoyed being part of this economic and social transition.

The current and expected economic growth rate of the domestic market as well as easy access to neighbouring countries and export possibilities offer important advantages to Türk Pirelli Kablo too. In addition, Turkey's strong ties with Caucasias and Central Asia and the gateway of energy resources are providing a convenient environment for further expansion.

Achievements and benefits to the Company:

As a result of a continuous focus on human resources and training programmes, today many Turkish employees are assigned abroad in the Pirelli Group. Export orientation, job creation and integration into the world economy are the obvious advantages the Group has been able to bring to the Turkish economy.

44 years down the road, Pirelli today thinks that Turkey's unique geographical location, its fast developing economy and domestic market, high skilled labor, and high quality standards are providing excellent conditions for further foreign investments in Turkey.■

COMPANY REPORT

RENAULT



The Renault Group: Renault is an international automotive company that has acquired a global reach through its Alliance with Nissan and acquisitions of Romanian car manufacturer, Dacia, and South Korea's Samsung Motors. Renault pursues a strategy of profitable and responsible growth with its innovative, quality range of vehicles and services. Worldwide, Renault employs 130,740 people. It sold 2,389,000 vehicles in 2003, recording revenues of €37.5 billion and a net income of €2.48 billion. In the first half of 2004, Renault has achieved global sales of 1,306,000 vehicles, up 6.5 percent compared to 2003. Renault is the number-one car brand in Western Europe for the 7th year in a row. For nearly 50 years, Renault has made safety a pillar of its strategy. Today it boasts the safest line-up in Europe – it has six cars with five stars in Euro NCAP crash tests.

Renault in Turkey: Renault has been present in Turkey since 1969 through its industrial and commercial partnership with the Oyak Group. The İstanbul-based Renault-MAIS (49% Renault, 51% Oyak Group) markets the Renault range, whether imported or locally assembled, while the Oyak-Renault plant at Bursa (51% Renault, 49% Oyak Group) manufactures the Clio Symbol and the Mégane II Sedan. The Bursa facility also produces powertrains and acts as a shipment centre for cars in kits and spare parts.

Renault was the number-one brand in the Turkish passenger car market in 2003 – as it had been for the previous five years – with a 19.7% market share. Clio Symbol was the best-selling passenger car. Mégane II, which received its market launch in 2003, took over as

leader in 2004. The model has given Renault a strong competitive edge, while production of the sedan version in Turkey has strengthened the company's position in a market where the C-segment accounts for more than 40% of total sales. Renault confirmed its leading position in the first half of 2004. It benefited from the strong recovery in the Turkish car market with 55,000 units sold, an almost fourfold increase compared to the previous year.

In 2003, Oyak-Renault's Bursa plant manufactured 132,257 vehicles, of which it exported 97,794. The resulting export sales of more than \$1 billion set an all-time record for the Turkish automobile industry. The site increased its sales to foreign countries ten-fold between 1998 and 2003. For the first 6 months of 2004, Bursa plant totaled a 103,475 vehicles output.

Bursa fully complies with the Renault quality standards and uses structures and methods in accordance with the Renault Production System (SPR): just-in-time supply, total quality methods, Elementary Work Units, a lean management structure (five levels), etc. Bursa's Body Assembly and Powertrain Departments received ISO 9001 certification as early as 1996 (renewed in 2003), making Oyak-Renault the first automaker in Turkey to gain ISO 9001 certification.

Today, Oyak-Renault's Bursa site is the largest Renault plant outside Europe with an annual production capacity of 172,000 cars on two shifts. The March 2004 output of 18,805 vehicles enabled the site to break both its own production record and that of the Turkish automobile industry.

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Rationale for investing in Turkey: Turkey is a key player in Renault's growth dynamic. The company holds a dominant position in the Turkish automotive sector and aims to defend its standing in a market which offers significant medium-term growth potential. Two years after the 2001 crisis, 2003 saw positive improvements. Although the market was still far below year 2000 levels, it reached 361,000 passenger cars.

The Turkish market has a high growth potential mainly because car ownership rate is still very low – 67 automobiles per 1,000 people – and the total number of cars on the road is only 4.6 million vehicles for a country with a population of 67.8 million.

The market is expected to grow to 450,000 passenger cars in 2004 and to 1,000,000 by 2010, depending on sales performance.

Taking advantage of Turkey's key strategic position between the European and the Middle Eastern markets, Oyak-Renault is currently a highly significant export platform. In 2003, the Bursa plant exported 98,000 Mégane and Clio models to 84 countries – 75% of its output. Exports go mainly to Western and Eastern Europe, but also to neighbouring markets such as the Central Asian Republics, Russia, the Gulf States, the Middle East and Africa.

Turkey also benefits from a highly qualified and cost-competitive workforce, great economic potential and its geographical proximity to Europe.

Direct and indirect benefits for the local economy: Oyak-Renault has about 4,000 employees.

It is the number-one automotive company in Turkey in terms of export revenues.

Oyak-Renault underpins the development of a strong supplier network. These suppliers, of which there are more than 100, have established partnerships with large international firms such as Faurecia (seats), Bosch (brakes), Autoliv and Visteon (interior trim). The density of the network and the quality of suppliers have enabled Bursa to use over 60% local content for local production. Local purchases for Oyak-Renault sum up to €500 million per year, while its suppliers' export sales to the Renault Group come to €200 million.

Renault has invested €200 million in ensuring its Bursa plant meets the technical standards required by the production of Mégane II Sedan and a further €67 million in the facilities of its partner suppliers. The entire Turkish economy has benefited. ■

COMPANY REPORT

ROCHE



The Company: The founder of Roche, Fritz Hoffmann-La Roche, was a pioneering entrepreneur who was convinced that the future belonged to branded pharmaceutical products. He was among the first to recognise that the industrial manufacture of standardised medicines would be a major advance in the fight against disease.

This led him to found F. Hoffmann-La Roche & Co. on October 1st 1896. From the very beginning, Fritz Hoffmann attached great importance to product information as the link between the pharmaceutical manufacturer and doctors, pharmacists and patients. Shortly after the foundation of the company, affiliates were opened in Germany, Italy, France, the US, Great Britain and Russia.

Since then, Roche has grown into one of the world's leading healthcare companies and one of the most important in Europe.

Roche is a leading healthcare company with a uniquely broad spectrum of innovative solutions. For more than 100 years, the company has been active in the discovery, development, manufacture and marketing of novel healthcare solutions. Its products and services address prevention, diagnosis and treatment of diseases, thus enhancing well-being and quality of life.

Roche's focus is not just the diagnosis and treatment of manifest disease. The integrated healthcare approach is increasingly offering ways of identifying and targeting diseases early, when their damaging effects can still be prevented.

Arranged in two operative divisions, the company's global mission today and tomorrow is to create

exceptional added value in healthcare. These two units are:

- Pharmaceuticals
- Diagnostics

Pharmaceuticals: When Fritz Hoffmann founded F. Hoffmann-La Roche in 1896, he realised what was then a revolutionary idea - producing medicines on an industrial scale outside the pharmacy and selling them on the international market. Innovation has been one of Roche's hallmarks ever since, and many of its pharmaceutical products have become milestones in drug therapy. Upon these products, it has built its present world leadership in the hospital pharmacy market.

Roche's Pharmaceuticals Division views continuous innovation as the most promising way to bring new medicines to the patient. Looking to the future, its long-standing expertise in medicinal chemistry and biotechnology has put the unit in an excellent position to exploit the huge potential of molecular medicine.

Diagnostics: Roche Diagnostics is the world's leading provider of diagnostic systems and decision-oriented health information. The unit is dedicated to research, development, marketing and servicing of products and solutions not only for medical laboratories, doctors' offices and patients, but also for research and industry.

A total of 19,000 people work on the broadest product range in the diagnostics industry at key research and production locations all over the world. The unit has affiliates in more than 50 countries and its products are available in even more.

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The entire organisation is co-ordinated out of Basel, the division's headquarters, where some of the most important global functions support the individual Business Areas and the regional organisations.

Roche in Turkey: Roche's journey in Turkey began in 1958 with an eight-member team at Esentepe. Having moved to its 36,000 sqm current site in Levent in 1971, Roche today provides service to all the regions of Turkey with a staff of 900 employees.

As an outcome of the reliability created by the successful efforts of Roche in Turkey, Roche has caused Turkey to attract the company's investment to its Gebze site and has become one of the most important centers in the world. In the light of the company's globalisation concept, Roche gave up the practice of building a separate factory in each country; instead, a new vision of building "Centers of Excellence" serving various countries was adopted. As one of the Centers of Excellence of Roche in the world, the Gebze Production Site will produce not only for Turkey but will also export to Eastern European countries.

Founded in 2001, the Gebze Center of Excellence cost \$85 million. Thus, the total investment of Roche in Turkey has exceeded \$200 million.

Since 2003, production started in the Gebze site as well as in Levent. As of June 2005, production will be shifted completely to Gebze. The official opening of the site will be in September 2004.

Equipped with the latest technology, production in the Gebze site is carried out via a closed system and the products stay untouched at all levels of production.

The building management system enables the whole site to be followed and controlled, and any problems occurring are immediately tackled. Equipped with the latest environment protection systems, all the materials used in production are processed in accordance with environmentally-friendly procedures.

Roche is one of the pioneers in establishing manufacturing sites in Turkey.

Rationale for investing in Turkey: One of the advantages of investing in Turkey in the 1960s was to enjoy being one of the "locally operating companies" in the territory. This brought big advantages in terms of manufacturing costs and therefore Roche had the opportunity to offer more economic products to the Turkish Market.

Due to its continuous investments in Turkey Roche achieved a leading position in the Turkish pharmaceutical sector and Roche Turkey ranks amongst the top 10 countries within the Roche Group in terms of sales. Roche is ideally positioned to benefit from the potential offered by the fast growing local economy. With more than 900 employees and working with numerous local suppliers and subcontractors Roche contributes directly to the economic development of the country.

The health-care requirements of the population will increase with the expected sustained economic growth and the underlying improvement in the quality of life. There will be a need for more sophisticated medical therapies and Roche is one of the worldwide leaders in this field.■

COMPANY REPORT

SHELL



The Company: In 1907, the Royal Dutch/Shell Group of companies was created to incorporate Shell Trade & Transport and Royal Dutch's operations worldwide.

Shell is a global group of energy and petrochemicals companies, operating 2,500 companies and joint ventures in over 145 countries, employing more than 115,000 people directly and more than 1 million people indirectly. Shell delivers a wide range of energy solutions and petrochemicals to customers. These include:

- Exploration and Production of Oil and Gas on land and at sea
- Gas and Power - transporting and trading gas, marketing natural gas, generating electricity and providing energy efficiency advice
- Oil Products - transporting and trading oil, producing and selling fuel for cars, ships and planes
- Chemicals produced and sold as petrochemical building blocks to industrial customers globally. These go into plastics, coatings and detergents used to make many modern products like fibres and textiles, insulation, medical equipment and components for lighter, efficient vehicles
- Renewables and Shell Hydrogen are small, but fast-growing businesses investing in making renewable and lower-carbon energy sources competitive for large-scale use.

Shell companies do not produce coal or nuclear power.

Shell companies produce more than 3.5% of global gas and approximately 3% of the world's oil. Shell produces 13% of the world's solar panels. Shell Aviation

refuels every four seconds a plane. In that time, 1,200 cars visit a Shell service station.

Shell in Turkey: Shell established its first company in Turkey in 1923, the same year as the founding of the Turkish Republic. The major activities and businesses of Shell Companies in Turkey are;

- **The Shell Company of Turkey Ltd:** 100% Shell UK owned marketing company with total sales of \$2.7 billion in 2003. 16.5% market share in fuel market is reached via 585 retail sites. Shell Turkey through its Lubricants oil blending plant at Derince leads the market in lubricants with a robust 20% market share. Sales are done via five company-owned installations and nine third-party off rack installations. Aviation, marine and chemicals businesses are also operating but are relatively small compared to retail and commercial activities.
- **Raffinederij Shell Mersin:** 100% Shell owned, Dutch company - Refinery Company owns 27% of Ataş Refinery - the only private refinery in Turkey until privatisation of Tüpraş. Its sales proceeds in 2003 were \$607 million.
- **Shell Petrol A.Ş.:** Turkish subsidiary of Shell. Main activity is operating Shell sites and Select shops, 20 sites as at end 2003 with \$127 million sales proceeds.
- **Shell Gas A.Ş.:** Turkish company, fully Shell owned, shareholder is Shell Gas (LPG) Holdings B.V. In February 2002, Shell acquired 100% shares of a LPG company in Turkey and got directly involved in LPG operation. Sales proceeds in 2003 were \$90 million, representing a 4% market share.

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- **Çekisan A.Ş.:** A 50/50 JV with BP. Operates JV depots.
- **Shell EP and Gas & Power Turkey:** Shell Gas and Power office in Ankara was established in 1998 as a representation office only. Since 2001, governance is with Gas and Power and the sole focus is on developing downstream gas and power opportunities in Turkey.

Nigeria LNG, in which Shell has a major stake, has been supplying 1.2 billion cubic metres per year of LNG to Botas, the state company, since end-1999.

Rationale for investing in Turkey: Shell has been in Turkey for 80 years and sees Turkey as a country where its investment is sustainable. Shell has always desired to be in non-traditional markets as well as traditional ones; Turkey with its young and dynamic population has long attracted Shell's attention.

Turkey being a growing market, with low car ownership, and a growing vehicle park, offers a huge potential to the fuel business. Shell has deeply rooted business relations in Turkey, and the good adaptive behaviour of Turkish people has made Turkey a natural service center.

Turkey's location has a significant geo-politic importance. Besides being described as an "energy corridor" and a location for intensive activity in power plant investment and pipeline construction; this represents opportunities for the company's Gas and Power business.

Achievements and benefits to the Company: Shell has been selected most respected fuel Company

for the last two years with BP closely following as leading brand. The company's Derince lubricant oil blending plant has become an export production centre for Shell.

Direct and indirect benefits for the local economy: Shell Turkey has 350 direct and over 10,000 indirect employees working at over 600 retail sites in Turkey. It has invested over \$50 million in the last two years at retail and commercial levels. Sales proceeds were \$2.7 billion in 2003 and \$30 million was paid as corporate taxation.

Shell has invested heavily in training and developing the competence of its staff considering that a high-quality and well-motivated talent pool is the critical success factor for the next decade. Currently, 15 Turkish people are working at Shell worldwide.

Procurement was centralised in 2003, with e-procurement offering new opportunities for Turkish vendors to become global suppliers for Shell.

Lubricants produced at the company's Derince plant are exported to other Group companies all over the world.

Medium term prospects for the Company in Turkey: The Turkish oil industry is moving to its next phase, with liberalisation of the market. Shell wants to expand its business in Turkey and strengthen its market share. It already has a strong foundation, with high-brand preference and site efficiency, ranking number one in motor-gas market share and 2nd in automotive gas oils. Network growth is essential to ensure availability and location convenience in fast developing areas of the country. ■

COMPANY REPORT

SIEMENS



The Company: Siemens stands for innovation, customer focus and global competitiveness -generating synergies for a unique array of products, services and solutions all around the world. Developing cutting-edge technologies for a better world, Siemens embodies sustainable success on a global scale.

Siemens's global network of innovation comprises more than 400,000 employees, millions of customers and hundreds of thousands of partners and suppliers in over 190 countries. Over 150 years of innovation have made Siemens a world leader in electronics and electrical engineering. Today, Siemens is poised to becoming a leading worldwide e-business company.

► Business Areas:

- Information and Communications
- Automation and Control
- Power
- Transportation
- Medical
- Lighting
- Financing and Real Estate

► Affiliates:

- BSH Bosch und Siemens Hausgerate GmbH
- Fujitsu Siemens Computers

Siemens in Turkey: The foundations of co-operation between Turkey and Siemens were laid down in the middle of the 1800s when the rulers of the Ottoman Empire decided to award the installation of telegraph facilities to Siemens.

In the 1950s, Turkish industry went through a period of rapid industrialisation with soaring production of various previously imported products. Turkey possessed the potential to develop, and Siemens the technical means and know-how to turn such potential into reality. Siemens and the Turkish group, Koç, established Simko which became operational at the end of 1958. Following the later transfer of the Koç shares to Siemens AG, the name of the company became Siemens Sanayi ve Ticaret A.Ş.

► Business Areas:

- Information and Communications
- Automation and Control
- Power
- Transportation Systems
- Medical Solutions
- Building Technologies
- Epcos-Components

► Other Siemens Companies:

- BSH Bosch und Siemens
- Fujitsu Siemens Computers
- Osram
- Siemens Leasing
- Volkswagen Elektrik Sistemleri
- Siemens Business Services

Rationale for investing in Turkey: Siemens AG invested in Turkey due to the following reasons:

- Current domestic market
- Potential domestic market

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- Access to Middle East, Russia, Turkic countries and EU
- Skilled workforce

Achievements and benefits to the Company:

Primarily, the company benefited from the dynamic nature of the local market. Cost competitive manufacturing labor force and highly skilled engineering workforce were the two pillars of its competitiveness. Easy access to neighbouring markets enabled an increase in export sales in the last five years.

Direct and indirect benefits for the local economy:

The company contributes a significant amount to the education and training system in Turkey by providing technology, know-how and monetary support. The Siemens group employs around 7,000 people and is one of the leading tax-payers among the main companies in Turkey. The Kartal campus in Istanbul has become a center of competence in electrical and electronical engineering for many business areas.

Medium term prospects for the Company in Turkey:

The medium term prospects of the company are for growth via customer-focused solutions. This encompasses increased expenditure on research and development, advanced engineering skills and cost competitive manufacturing locations.■

COMPANY REPORT

TOTAL



The Company: Total is the world's fourth-largest international oil and gas company. Its operations cover the entire oil and gas chain, from exploration and production to trading, shipping, refining and marketing, as well as chemicals. The company has more than 121,000 employees worldwide.

The new Total was created through two successive mergers; the first when the former Total joined with Belgian oil company Petrofina to form TotalFina, and the second when TotalFina merged with French oil company Elf Aquitaine to create TotalFinaElf. The new company reflects this prestigious Franco-Belgian oil and gas heritage, whose origins go back to the 1920s. The dynamic synthesis of the three companies' corporate cultures and expertise represents a wealth of technological and human capabilities that favourably position Total to help invent the future of energy.

The Group's oil and gas production increased 5% to 2.5 million barrels of oil equivalent per day in 2003, and is supported by proven reserves of 11.4 billion barrels of oil equivalent and a portfolio of assets distributed evenly among the world's main oil-producing regions. The North Sea, Africa and the Middle East are the main production regions, followed by Southeast Asia and the America.

Total is in a strong position in liquefied natural gas (LNG) and is expanding gas distribution and power generation operations in Europe, the Middle East and Latin America.

The Group has one of the most competitive integrated refining bases, tailored to the new European Union product specification standards having interests

in 28 refineries of which 13 are directly operated. The company's retail network comprises more than 16,700 Total, Elf and Fina-branded service stations, mainly in Europe and Africa.

In 2002, the Group refined 2.35 million barrels of oil per day (out of refining capacity of 2.7 million b/d) and sold 3.75 million barrels of petroleum products per day.

Total is pursuing a strategy of international development in specialty products, and is a front-ranking player in lubricants in 112 countries, in LPG in nearly 50 countries, and in aviation fuel with stations in 438 airports.

Atofina is the Group's chemicals arm. The Group's chemicals business is a European or world leader in each of its markets with €17.3 billion in sales. Most of the petrochemicals units are integrated with the Group's refineries.

Total in Turkey: Total Oil Türkiye A.Ş. was established in 1992. Total merged with Elf Selyak in June 2002 and with Tüpgaz in August 2003.

The company generated \$1.5 billion of net sales in 2003 and has 507 service stations in Turkey, spread over 75% of the country with more emphasis in high consumption areas. Four company-owned fuel terminals continue to provide an excellent logistics base to benefit from imports and capacity exchanges. The company has also one lubricants blending plant and strong LPG logistics with import ability.

The company has a market share of 8% in white products, 7.5% in lubricants and 5.5% in LPG.

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The company is continuing the development of its network, maintains consistent marketing initiatives and keeps on developing its service quality and differentiation.

The benefits for the Company: The presence of the company in Turkey is the result of its strategy of improving its geographic and competitive positioning by strengthening its activities in growing markets. The Group aims to maintain a balanced growth rate and to be well diversified geographically, on a sustainable and profitable base.

Investments made in Turkey have enabled the company to gain access to what is a promising market for the long term, to benefit from the skilled labour force by mobilising the employees within the Group and to increase its brand awareness.

The benefits for the local economy: The company has created job opportunities for almost 600 people, has transferred the Group's know-how to Turkey and introduced high quality products, which conform to European standards and improve the customer's choice. These benefits have been accompanied by development of competitive marketing knowledge.

The Group has committed itself to industrial risk prevention and environmental protection requiring a significant amount of investment in health, safety and the environment. The very nature of the company's operations requires strongly emphasising and investing in sustainable development projects. This quality is becoming one of the key determinants of competitiveness in the market.

Conclusion: Foreign investors are important for a growing Turkish economy. The long-term vision of multinational companies creates a strong base for accession to the European Union.

The company, having the capability of bringing the latest Group's applications and know-how and the opportunity to launch innovations, has shifted the competition to a higher level, benefiting both the country and the individual end user.■

COMPANY REPORT

TT&TİM İLETİŞİM HİZMETLERİ



The Company: TT&TİM İletişim Hizmetleri was officially founded on February 19th, 2004 with the merger of Türk Telekom's GSM operator Aycell with İş-TİM, joint venture of İşbank (51%) and TİM (49%). TİM and Türk Telekom own 40% stake in the TT&TİM each, and İşbank Group holds 20%.

There was a short period just after the merger in which Aria and Aycell brands were sustained under the umbrella of TT&TİM. As of June 23, 2004, the new "Avea" brand, expressing the synergy born after the merger, was introduced to the market to represent those two brands.

The merger is aimed at creating important operational and financial synergies, deriving from the integration of the two entities; in particular it will make the most of the innovation capacity, commercial and brand achievements by Aria, as well as the speed of infrastructure development and customer acquisition implemented by Aycell. TT&TİM will place side-by-side Türk Telekom's solidity and deep knowledge of the Turkish market, TİM's international know-how in the mobile business along with the financial expertise of İşbank, the most rooted establishment in Turkey.

The merger of Aycell and Arial has given birth to a new and strong entity that will contribute to the development of the Turkish telecommunications sector. The integration of the experience and the know-how of the two companies will create a powerful and remarkable operating and financial synergy, leading to positive consequences in the GSM market especially in view of offering even better communication opportunities by merging and optimising the networks

of the two companies by means of base stations, in line with the other operators, and consequently providing a real competitive environment to the benefit of the consumers.

Turkey's largest capital owner company TT&TİM with its 15 % market share is already challenging the number two position in the GSM sector.■

COMPANY REPORT

TÜRK PHILIPS

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Philips in Turkey: Philips started to do business in Turkey in 1930 under the name Türk Philips Limited Şirketi as a representative company importing products mainly from Holland. In 1953, Philips became a legal entity under the name Türk Philips Ticaret Anonim Şirketi. The purpose of the company was to market the products to be manufactured in the Philips factories in Turkey. In 1956, its first plant was established under the name Türk Philips Sanayi Anonim Şirketi where firstly radios, in 1967 black-white television sets and later in 1982 colour TV sets were manufactured.

In the same year a plant was established in İzmit where lamps, starters and ballasts were manufactured. Production was mainly aimed at sales to the local market, although some exports to the Middle East have been realised. In 1995, the Türk Philips Medical Systems company was incorporated to Türk Philips.

Consumer electronics is a global industry. Demand in many markets is mature, margins are slim, and competition is fierce. Companies face continuing pressure to innovate and to improve operating efficiency simultaneously. In the early 1990s, Philips faced growing price pressure from its Asian competitors and needed to find alternative sources of supply. When Turkey joined the European Customs Union and with local demand under pressure from economic and financial volatility in the Turkish market, Philips decided to transfer its production capacity in the mid 1990s mainly to the Far East.

At present, Türk Philips focuses on marketing and the sales of the products of its five Product Divisions in Turkey and on exporting through Turkey and with the

marketing expertise of Türk Philips to Central Asia and the Middle East. In most product categories, Philips is amongst the market leaders in Turkey.

Medium term prospects for the Company in Turkey: To strengthen its position in the field of Consumer Electronics, Türk Philips is cooperating with one of the leading Turkish electronics manufacturers for the production of consumer electronics products for sales under the Philips brand on the local market and also for export to Western Europe.

In view of increasing export possibilities to Central Asia and the Middle East, and because of forecast increasing construction activities in Turkey, Türk Philips continues investing in its Luminaires manufacturing factory in Istanbul.

Philips continues to look for opportunities to work together with Turkey's ever more sophisticated local industry for production of some of its products to export to the region and for sales on the local market.

Türk Philips continues to invest in marketing skills and in the further development of its nationwide distribution network in Turkey.

Türk Philips continues to being committed to bringing meaningful technology to our markets and to keep on exploring new business opportunities with sustainability as key driver. ■

COMPANY REPORT

TÜRK TUBORG



The Company: Carlsberg Beer was first brewed in 1847 by J.C. Jacobsen outside Copenhagen, pioneering steam brewing, refrigeration techniques and the production of a pure single yeast strain.

One of the top five world brewers, Carlsberg has been an influential player on the international beer market for well over a century. While the beer-drinking nations of Western Europe have traditionally been Carlsberg's most important markets, the company also has a strong presence in the growth regions of Eastern Europe and Asia.

► Carlsberg Breweries:

- Produces 8.2 billion litres of beer per year, equivalent to about 68 million 33cl bottles a day
- Sells beer in more than 140 markets
- Employs more than 31,000 people
- Owns a strong portfolio which includes some of the world's best known international beer brands - Carlsberg & Tuborg
- Brews beer in 90 locations in 45 countries

Tuborg in Turkey: Carlsberg traces its presence back to 1967 when United Breweries, now owned by Carlsberg, set up Türk Tuborg Brewing and Malting Inc. in partnership with Yaşar Holding.

Having started production in 1969, Türk Tuborg introduced to the market the first privately produced beer in Turkey under the trademark "Tuborg". Carlsberg Breweries A/S today holds a 95.5% shareholding in Türk Tuborg, the rest being traded on the İstanbul Stock Exchange. Since the acquisition by Carlsberg

Breweries A.Ş, Türk Tuborg has increased the scale of its investments in its plant in İzmir, made considerable improvements in its overall sub-structure, and diversified its product profile.

Rationale for investing in Turkey: Carlsberg has been active in Turkey as part owner of Türk Tuborg since 1967. Carlsberg became majority owner of the company in 2001 and increased its activities in Turkey in line with its global strategy and in view of the prospects of a growing economy and increasing consumer spending. Furthermore, Turkey is attracting an increasing number of tourists every year and serves as an excellent base for exports to neighbouring countries.

Achievements and benefits to the Company:

Per capita consumption is around 12 litres, a low figure when compared to EU levels. The Turkish market has potential for growth and has grown on average 9% annually between 1981 and 2002. Forecasts made last year for the 2002-2007 period demonstrate that sales can still grow, though at much lower rates. However, three subsequent excise tax increases during the course of 2003 and 2004 have dampened prospects.

Increasing exports, particularly to neighbouring countries is among the priority objectives of the company.

Direct and indirect benefits for the local economy: The Company has created additional

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demand for a large number of raw materials required for the production of beer including demand for the production of malting barley and hops, from which thousands of producers earn their livelihood from Türk Tuborg. In addition to the over 1,000 employees it directly employs in its operations, it has also created job opportunities in a wide spectrum of activities ranging from retailing, and wholesaling services to packaging and transportation industries. It has a well-established Research and Development Department equipped with highly sophisticated and advanced laboratory equipment. Employee training has been one of the top priorities of management policy. A considerable amount of funds is allocated every year for the training of company personnel at all levels.

Medium term prospects for the Company in

Turkey: The medium term prospects for the Company in Turkey will largely depend on government policies particularly with respect to;

- a)** Excise tax policy
- b)** Consumer promotions
- c)** Advertising bans.

The adverse changes that have taken place in the legal environment regarding the brewery sector during the last year, and substantial increases effected since October 2003 in the excise tax level for beer, have been mainly due to a lack of predictable public policy towards the beer industry which has been a source of serious concern. There have been two consecutive and significant excise tax increases for beer since October

2003 which have placed excise tax level for beer in Turkey considerably above the weighted average of excise tax levels of EU countries and much that those in the new EU members. Frequent changes resulting in prohibitively high excise tax levels have not only caused serious operational and fiscal losses for the company, but also made it impossible to rely on business plans and budget forecasting. The government's excise tax policy for beer has clearly failed to consider the market conditions under which beer companies in Turkey are operating. Another adverse development has been the total ban on consumer promotions, and the additional advertising restrictions of 2003.

While the company has had to increase the prices of its products above the inflation rate to compensate for the additional tax burden, many of its marketing channels will be closed as a result of the restrictive policies which ban consumer promotions and restrict beer advertisements. As a result of this, the medium-term positive prospects for the Turkish economy will not be sufficient for Türk Tuborg. The company wishes to see a positive and tangible change in the policies of the government towards lowering the excise tax level for beer which is at present prohibitively high, terminating the ban on consumer promotions, and removing restrictions on product advertising.■

COMPANY REPORT

UNILEVER



The global company: Unilever is one of the world's leading suppliers of fast moving consumer goods in foods, household and personal care products providing consumers with quality products and services for more than 70 years. Unilever operates with two global divisions - Foods, and Home and Personal Care, and has a portfolio of brands that are popular across the globe. Unilever brands are on sale in more than 150 countries and the company has manufacturing operations in nearly 100 countries.

Unilever operates a decentralised structure around the world and its values are rooted in being a "multi-local multinational". In keeping a multi local multinational approach, local Unilever companies invest in key issues of long-term importance to society, for example to further sustainable and economic development or to raise standards of education and health.

► Fact Sheet

- The world-wide turnover of Unilever in 2003 was €47.7 billion.
- Unilever employs 250,000 people, with 90% of managers locally recruited and trained.
- Every day, 150 million people choose Unilever brands to feed their families and to clean their homes.
- Over half of sales are generated by foods division brands.
- In many parts of the world, Unilever leads the home care market

- Unilever spends an average of €2 billion on research and development per year.
- Unilever spent €69 million on community programmes in 2002.
- Unilever aims to source all fish from certified, sustainable fisheries by 2005.
- Unilever has 111 sites certified to the international environmental management standard ISO 14001.

Unilever in Turkey: Unilever has been operating in Turkey for 50 years with brands of high quality standards. Unilever Turkey was established in 1951 and since then has been the first company to introduce many products, categories and concepts to Turkish households.

With its manufacturing and marketing activities in Home, Personal Care, Food and Ice Cream categories, Unilever Turkey meets the everyday needs of consumers with a vast range of products. Sales by the company and its subsidiaries UNICA, UNIPRO totalled \$700 million in 2003, of which annual exports was \$75 million - heading for \$100 million. Corporate tax in 2003 was €20 million. Growth was 60% in US dollar terms in 2003.

► Main Investments, Acquisitions and Disposals

Rationale for investing in Turkey: Turkey has been a substantial investment location for Unilever since 1951. If Unilever's Turkish operations were a public company in Turkey, its market capitalisation would be around \$1.2 billion.

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Turkey, sitting in a strategic geographic location bridging the East and the West, has always been a priority in Unilever's investment plans. The country's young population and rate of growth makes the country a primary consumer market. Thanks to the improving status of the trade relations of the country between the EU, the Caucasus and the Middle East, Turkey is a strong candidate to act as a regional center for exports for Unilever. Unilever already has yearly exports to neighbouring and other countries around \$75 million and plans to boost that to \$100 million in 2004.

Unilever has been investing in its factories and human resources periodically to enhance its operations and yield more productivity. The latest move has come in the production of its leading detergent brand, OMO. Thanks to a 3 year TPM (Total Productive Management) programme, the OMO factory has boosted productivity 40%.

Unilever in Turkey regards the country's rich cuisine culture as an advantage in developing and marketing food products to other countries in the region and supports the Turkish government's move to improve trade relations between Turkey and its neighbors as well as with Turkic states and EU countries where a Turkish community of significant scale exists.

Direct and indirect benefits for the local economy: Unilever Turkey invests an average of \$30-50 million per year, is among the top three advertisers in Turkey, and is number one in the FMCG sector. Unilever has seven factories located in Turkey, producing soup, bouillons, margarine, ice cream,

tea, home and personal care products. Unilever Turkey directly employs 1,714 people and its total employment including contractors is 3,500 people. 12% of its management currently holds global and/or regional responsibilities.

Unilever Turkey also makes investments in environmental and social projects to contribute to the community. It paid €20 million in corporate taxes in 2003 and achieved exports of \$75 million, with a target of \$100 million for 2004.

Unilever helps the local economy through the creation of new jobs, introduction of new technologies, stimulation of further investment, and substantial exports, and contributes to society through value added products and social responsibility projects.

As a global company with local values and significant investments in Turkey for more than 50 years, Unilever has the means and will to be present in the country for the next couple of 50 years to come. Parallel to Turkey's prosperous future, Unilever sets its strategic plans for the longer run. In the medium term, Unilever wants to position Turkey as an export base to the region, which will promote the integration of the country into global markets. Unilever also urges global businesses to invest in Turkey and is happy to share its own experiences and know-how in this context. ■

COMPANY REPORT

VOLVO



The Company: AB Volvo was established in 1927 as a car manufacturer in Gothenburg, Sweden. The following year, trucks were added to the product range. Today, Volvo is a global company with the following business areas:

- Volvo Trucks
- Mack Trucks
- Renault Trucks
- Volvo Construction Equipment
- Volvo Buses
- Volvo Penta
- Volvo Aero
- Volvo Financial Services

Today, Volvo employs approximately 75,000 people around the world. Total turnover for 2003 was approximately \$25 billion.

Volvo in Turkey: Volvo Otomotiv Türk Ltd. Şirketi (Volvo Türk Ltd.) was formed in 1999 and today embraces the operations of:

- Volvo Trucks
- Volvo Construction Equipment
- Volvo Penta
- Volvo Financial Services

Volvo Türk Ltd. today employs approximately 120 people mainly in the city of Istanbul area. Total turnover for 2003 was approximately \$130 million.

So far, Volvo Türk Ltd. has invested approximately \$25 million in facilities in Istanbul. During Volvo's 50 years presence in Turkey, Volvo has cooperated with

a number of Turkish partners. Some of these co-operations are still maintained.

Rationale for investing in Turkey: The main reasons for Volvo's focus on Turkey is the large domestic market potential as well as its geopolitical location offering access to neighbouring markets.

Turkey also represents a substantial potential for local production of components that could be used for Volvo's global industrial network. Local production /assembly of complete products is being considered.

Achievements and benefits to the Company:

Volvo considers the medium to long term prospects for Volvo Türk Ltd. as extremely promising. Currently, all its Business Areas are working on long-term plans all of which will lead to increased Volvo activities in Turkey. Future expansion will be achieved through a combination of investment and further employment and training of personnel.■

