

a student project

finding market opportunities in

Turkey





Turkey



Why Turkey?

Turkey has got a dynamic emerging market economy with a young population of over 67 million people. There are more than 4600 enterprises with foreign partnership in operation in various sectors.

Turkey has a reputation for private sector entrepreneurship, and quick adaption of the newest IT technology. It is strategically located between Europe and Asia, and has one of the largest energy markets in the world. In close proximity to 70% of the world's energy resources are located in Turkey. Also you can find a large potential in the paper/pulp and aquaculture sector, and a strong maritime sector.

Words from our rectors

Turkey represents an interesting market for Norway. Throughout history, because of its geographical position, Turkey has been influenced by trading and cultural cooperation with Asia, Africa and Europe. This background and the fact that Turkey has a strong desire for membership of the European Union, adds to its potential interest for Norwegian companies.

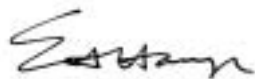
The world economy is characterized by increasing global competition, fragmented and demanding markets, and rapid technological change. It is therefore important that our students are eager to study foreign markets and learn from them. Consequently, we acknowledge and appreciate the value of the International Business project that allows 12 of our students to work as a team in order to explore potential markets for Norwegian business.

Having the opportunity to go abroad and develop knowledge about another market by applying theory and learning puts these students in a privileged position. Meeting business people and seeing how things work in real life will hopefully confirm the systematic and formalized knowledge they have acquired during their graduate education.

We believe that in rapidly changing environments effective managers need to improve their learning capabilities, communication skills and be able to work in cross-functional and cross-cultural teams. This project is a good contribution to these much-needed skills. It is also important to remember that projects like International Business also develop awareness of ethical issues and the plethora of cultural discrepancies that may occur when faced with an entirely new market.



Torger Reve
Norwegian School of Management BI
and Technology



Eivind Hiis Hauge
Norwegian University of Science



Per Ivar Gjørum
Norwegian School of Economics and Business Administration

CONTENTS

Part 1

GENERAL BACKGROUND

POLITICS	8
POLITICAL SYSTEM	8
PARLIAMENTARY SYSTEM	8
LEGISLATIVE BRANCH	8
EXECUTIVE BRANCH	8
JUDICIARY BRANCH	8
POLITICAL FORCES AND PARTIES	9
MEMBERS OF PARLIAMENT	9
POLITICAL SITUATION	9
FOREIGN POLICY	9
INTERNATIONAL RELATIONS	9
EU	9
POLITICAL ISSUES	9
HUMAN RIGHTS	9
WATER	10
THE ILISU DAM	10
FUTURE EXPECTATIONS:	11
TURKISH YOUTH IN THE PROCESS	
OF EU ACCESSION	11
ECONOMY AND THE BANKING SECTOR	14
ECONOMIC HISTORY	14
ECONOMIC REFORMS AND THE EU MEMBERSHIP	
NEGOTIATIONS	14
ECONOMIC SYSTEM AND CHALLENGES	15
FOREIGN DIRECT INVESTMENT (FDI) AND	
GOVERNMENT ACTION	15
UNDERSTANDING THE ECONOMIC COLLAPSE	
IN 2001 – A BANKING SYSTEM IN TRANSITION	16
PRIOR TO THE RESTRUCTURING	
PROGRAMME 1980 - 2001	16
MACROECONOMIC INSTABILITY	16
HIGH PUBLIC SECTOR DEFICIT	16
SYSTEMIC DISTORTIONS CREATED BY STATE BANKS	17
INSUFFICIENT RISK ASSESSMENT AND	
MANAGEMENT SYSTEMS	17
NOVEMBER 2000 TO FEBRUARY 2001 CRISIS	17
GOALS AND STRATEGIES TO RESOLVE	
THE PROBLEMS	18
WHAT HAS BEEN ACCOMPLISHED?	18
RESTRUCTURING OF STATE BANKS	18
RESOLUTION OF SDIF BANKS	18
STRENGTHENING THE PRIVATE BANKING SYSTEM	18
RESTRUCTURING OF DEBTS TO THE FINANCIAL	
SECTOR AND RESOLUTION OF PROBLEM ASSETS	18
STRENGTHENING THE FRAMEWORK OF	
SURVEILLANCE AND SUPERVISION	19
CONCLUSIONS	19
SOCIETY	20
POPULATION AND PEOPLE	20
POPULATION FACTS	20
RELIGION AND MINORITY GROUPS	20
EDUCATION	20

SCHOOL SYSTEM	20
EDUCATIONAL LEVEL	21
EMPLOYMENT	21
ENVIRONMENT ISSUES AND ATTITUDES	21
HEALTH	22
TURKISH FOLKLORE AND ART	22
PAINTING AND CALLIGRAPHY	22
CARPETS AND KILIMS	22
MUSIC	22
LITERATURE	23
BODY LANGUAGE	23
FOOD	23
FAMILY RELATIONSHIP	23
TURKISH WOMEN	23
LANGUAGE	23
TECHNOLOGY	26
THE INITIATIVES	26
LACK OF INVESTMENTS	26
IMPORTS AND EXPORTS	26
IT & TELECOMMUNICATIONS	26
TELECOMMUNICATIONS	26
MOBILE PHONES	26
THE INTERNET	27
MEDIA	27
TELEVISION	27
NEWSPAPERS	27
ENERGY SITUATION	27
MANUFACTURING INDUSTRY	27
TRANSPORT	27
ROADS & HIGHWAYS	27
AIR TRANSPORT	30
RAILWAY	30
CONSTRUCTION	30

Part 2

FRAMEWORK FOR DOING BUSINESS

THE JOTUN STORY	32
SETTING UP BUSINESS IN TURKEY	34
NEW INVESTMENT INCENTIVES TO	
ATTRACT FOREIGNERS	34
GENERAL INCENTIVE REGIME	34
HOW TO APPROACH THE MARKET	35
TYPES OF BUSINESS ORGANIZATION	35
JOINT STOCK COMPANY	36
LIMITED LIABILITY COMPANY	36
BRANCHES	36
LIAISON OFFICES	36
SELLING TO TURKEY FROM ABROAD	
APPOINTING AN AGENT OR DISTRIBUTOR	36
SUBCONTRACTING	37

REGISTRATION PROCESS OF A JOINT STOCK CORPORATION	37	NATURAL GAS	55
MANAGEMENT	38	HYDROPOWER	58
ACCOUNTING SYSTEM AND REPORTING REQUIREMENTS	38	ELECTRICITY	58
RESTRICTIONS TO BE AWARE OF	38	RENEWABLE ENERGY	59
THE LEGAL FRAMEWORK	40	WAVE ENERGY RESEARCH ACTIVITY AROUND TURKEY	60
CORPORATE TAXATION	40	ENVIRONMENTAL ISSUES	60
INDIVIDUAL INCOME TAX	40	MARITIME SECTOR	62
OTHER TAXATION	40	SHIPBUILDING INDUSTRY	62
VALUE ADDED TAX	40	BARRIERS TO ENTRY	62
BANKING AND INSURANCE TRANSACTION TAX	41	BUYER POWER	62
STAMP DUTY	41	SUPPLIER POWER	62
INHERITANCE AND GIFT TAX	41	WORKFORCE	63
PROPERTY TAX	41	CONCLUSIONS	63
THREE TYPES OF REGIONS	41	SHIPPING	63
PATENTS, TRADEMARKS AND COPYRIGHTS	42	SITUATION	63
HUMAN CAPITAL AND EMPLOYEE REGULATIONS	44	ADVANTAGES	65
IMPROVED LABOUR RIGHTS	44	LOCATION	65
EMPLOYMENT REGULATION	45	TRANSPORT	65
UNIONS AND CONFEDERATIONS	45	THE BLACK SEA	66
SUPPORT FACILITIES	48	THREATS	66
NATIONAL RESOURCE CENTRES AND THE EMBASSIES	48	FRAMEWORK FOR DOING BUSINESS IN THE SHIPPING SECTOR	66
THE NORWEGIAN TRADE COUNCIL	48	AQUACULTURE	66
THE ROYAL NORWEGIAN EMBASSY, TURKEY	48	FISHERIES	66
THE TURKISH EMBASSY, NORWAY	48	FISH FARMING	66
EXPORT FINANCING AND INSURANCE	48	POTENTIAL	67
THE NORWEGIAN GUARANTEE INSTITUTE FOR EXPORT CREDITS (GIEK)	48	HEALTHCARE & PHARMACEUTICALS	68
EKSPORTFINANS ASA	49	BACKGROUND	68
ECONOMIC SUPPORT THROUGH FUNDS	49	POPULATION AND HEALTH STATUS	68
THE NORDIC FINANCE GROUP	49	MARKET CHARACTERISTICS	69
THE NORDIC INVESTMENT BANK (NIB)	49	HEALTHCARE PROVIDERS	69
THE NORDIC DEVELOPMENT FUND (NDF)	49	PRODUCTION & TRADE	69
THE NORDIC ENVIRONMENT FINANCE CORPORATION (NEFCO)	50	FINISHED PRODUCTS	69
THE NORDIC PROJECT FUND (NOPEF)	50	RAW MATERIALS	70
NORFUND	50	IMPORTS	70
THE NORWEGIAN INDUSTRIAL AND REGIONAL DEVELOPMENT FUND (SND)	50	EXPORTS	70
CONTACTS	51	MARKET ACCESS	70
		PRICING SYSTEM	70
		REGISTRATION	71
		PATENTS	71
		CLASSIFICATION OF PHARMACEUTICALS	71
		TRENDS & OPPORTUNITIES	71
		ICT	74
		BACKGROUND	74
		WIRELESS COMMUNICATIONS	74
		OPERATORS	74
		COMPETITION	75
		TECHNOLOGY	75
		THE FUTURE OF ICT IN TURKEY	76
		INTERNET ACCESS	76
		IT MARKET	77
		PROJECT MEMBERS	78
		SPECIAL THANKS TO	80
ENERGY & THE ENVIRONMENT	54		
GENERAL SITUATION	54		
GROWTH	54		
2002	54		
OPPORTUNITIES	54		
RESOURCES AND CONSUMPTION	54		
OIL	55		

Part 3

INTERESTING SECTORS

Acknowledgement



Berhan Ekinci

Berhan Ekinci
Ambassador

It gives me great pleasure to acknowledge the annual International Business project on Turkey, carried out by students of distinguished Norwegian schools and universities.

Turkey and Norway enjoy friendly relations. We share a lot in common as two NATO allies and two non-EU European countries.

I would like to point out that a positive trend has been maintained during the last couple of years in trade relations between Turkey and Norway. However, our trade volume is far below the real potential of our respective economies. Energy, food, textile, consumer goods,

electronics and tourism are among the sectors, which provide vast opportunities of mutually beneficial cooperation.

In the light of the above, I believe International Business project is very timely to underline the existing economic potential of our countries. I would like to thank all the members of IB project in this endeavor.



Randi Hestnes

Randi Hestnes
Director Operations Abroad
Norwegian Trade Council

Turkey is a fascinating country with a dynamic emerging market economy. After many years of sustained growth, Turkey has become one of the world's important countries, among which it plays an increasingly important role politically and economically. Turkey has become an important country, playing an increasingly important role politically and economically. An economic reform program was initiated together with IMF in 2001. The program is very ambitious, representing a new and very much strengthened initiative from the government. Although extremely ambitious, the program is presently on track. After a slow initial response from the market, the effects are now starting to materialize. It is

expected that foreign investments will soon increase anew. The interest for Turkey among Norwegian companies is growing. A number of companies within different sectors are presently considering investment, local productions or joint ventures in Turkey.

The trade between Norway and Turkey has increased substantially over the last decade. The total trade in 2001 was NOK 2.9 billion, up 10% from the previous year. Norwegian Trade Council (NTC) in Istanbul operates in cooperation with the Royal Norwegian Embassy in Ankara, and identifies market and investments opportunities in Turkey. Gas (LPG) counts for over 50% of the Norwegian export to Turkey. Other important products are metals, engineering products and machinery, seafood and paper.

Norwegian Trade Council in Istanbul operates on the following principles: Ensuring total customer satisfaction, offering a broad range of services, maximizing sales volume and driving profitability for Norwegian companies. The priority sectors are: Energy (Hydropower, Oil & Gas), Maritime Industry, Aquaculture, ICT, Sub-Contracting and Healthcare. Turkey is also strategically close to the markets in the Central Asian Republics and the Black Sea Area. An increasing number of Norwegian companies have seen the advantage of using Turkey and Turkish partners to reach the surrounding markets.

NTC regard Turkey with enthusiasm and great expectation. We consider Turkey a future market for many Norwegian companies. The choice of Turkey as the theme for this/next year's report from International Business will be an important contribution to this.

International Business

– A unique student project

In the last decade Turkey has emerged as a more active and important actor on the international stage. After the collapse of the Soviet Union, Turkey rediscovered a world of interests and affinities stretching "from the Balkans to Western China"—areas that had been largely absent from the mainstream Turkish foreign policy debate, not just since the start of the Cold War but since the foundation of the Republic. More recently, analysts have focused on the increasing activism in Turkish external policy. With few exceptions, this activism has been evident largely in traditional areas of interest such as Europe, as well as areas of perceived risk, above all the Middle East.

Turkey is, at base, a conservative society with a conservative approach to public policy in most spheres. Almost 80 years after the founding of the Turkish Republic this remains true. However, Turkey today is in the midst of a period of important political change that could have a profound effect on its foreign policy evolution. Looking ahead, several significant, open questions will shape the Turkish foreign and security policy debate. They will also shape to a considerable extent the character of Turkish relations with the West. These key questions concern the future shape of Turkey as a society, Turkey's international identity, its regional behavior, and its place in a globalized world.

The project group find many reasons for Norwegian companies to pay attention to the Turkish market. First, Turkey has a unique geographical location. Turkey enjoys a very special location at the crossroads between East and West, overlapping Europe and Asia geographically. The proxy to the new emerging markets in Middle East and Central Asia creates unique business opportunities. Second, the country has a strong international investment record. The experience of more than 4000 foreign capital establishments, including 104 of the Fortune Top 500 companies, confirms Turkey as a predominant investment location. Third, Turkey represents a huge domestic market. With a population of almost 70 million and an increasing consumer purchasing power, Turkey offers a huge and dynamic domestic market to investors. Fourth, the labour is high skilled and competitive. The Turkish labour force is well known with its skills and learning capacity, and competitive labour rates offer cutting edge for industries. Fifth, the country is a gateway of energy resources. Turkey is located at the gateway of Middle East and Caspian petroleum and Central Asian natural gas to the west, which are regarded as the future energy reserves of the world. Sixth, Turkey has strong cultural and historic ties with Caucasasia and Central Asia. Being

the leading investor in Caucasian and Central Asian Turkic Republics, Turkey provides privileged access and a perfect base to develop business with these countries.

Conclusively, the project group highly recommend Norwegian companies to explore the Turkish market. The potential is enormous.

International Business is a unique and recognized project carried out by students attending the Norwegian School of Management (BI), Norwegian University of Science and Technology (NTNU), and the Norwegian School of Economics and Business Administration (NHH). The project is formed in close collaboration with the Norwegian Trade Council and the network they have. During the last 18 years students have had this privilege of traveling around the world developing knowledge on various markets.

Due to economic downturn and the fact that Norwegian companies are not very familiar with the Turkish market, this year's project has had a special challenge with financing the project. However, Statoil and Jotun, two companies with considerable experience in Turkey, found the



interest in this kind of student work and became the main sponsors of this year's work. A special thank to these companies for the financing and the willingness to share in-depth knowledge of the Turkish market.

For the coming project, one should emphasize getting long-term financial agreements with strong Norwegian companies. This may stimulate to an even higher integration and knowledge sharing with the business life, and the project member can have more focus on developing concrete knowledge on the market opportunities. To put these thoughts into action, we believe that future members must be willing to see and exploit the potential that lies in this project.

We consider this student project to have a huge potential in expanding the work into an international network, where student societies from other countries establish

the same kind of project. The different International Business Projects can establish an umbrella organization with a coordination group consisting of members from the different countries. Information and findings for each year can then be distributed on a shared website. More focus can be on specific industries and industry analyses. Each year the various project groups could meet for workshops where findings are presented and social gathering is enhanced. If this becomes a reality, the International Business Project will stand forward as a stronger and more influencing organization. The thoughts may seem far-fetched, but we believe that this project has great potential to succeed due to its mandate.

We hope that you enjoy the reading.

International Business Project 2002/2003

Part 1



GENERAL BACKGROUND

- Politics
- Economy
- Society & Culture
- Technology

POLITICS

For the first time in 15 years there is one party with a majority in Parliament, consequently the outlook for stability in Turkish politics is very good. But still there are many challenges to overcome, such as matters concerning: passing and implementation of structural reform and meeting the conditions of the IMF review. On the political front, the EU and Cyprus are the main issues.

POLITICAL SYSTEM

PARLIAMENTARY SYSTEM

The Turkish Republic was declared in October 1923. According to the Constitution, unconditional and unrestricted sovereignty is vested in the nation. The people exercise their sovereignty directly through elections. The legislative, executive and judiciary are the organs which use sovereignty in accordance with the principles of the separation of power.

LEGISLATIVE BRANCH

The legislative branch is vested in the Turkish Grand National Assembly (TGNA). In accordance with the Constitution of 1980 it consists of one chamber. The members are elected every five years by the people of Turkey.

The Assembly takes its decisions by the absolute majority vote. All debates in the Assembly are held openly. The TGNA exercises its parliamentary control functions by means of parliamentary questions, parliamentary investigations, general debates, ministerial questioning and inquiries.

The duties and authorities of the TGNA are:

- To enact, amend and abrogate laws
- To monitor the actions of the Council of Ministers and Ministers
- To delegate to the Council of Ministers the authority to issue "Decrees with Power of Law" for specific subjects
- To debate and pass the Budget and the Bills for Final Accounts
- To ratify the printing of currency and the declaration of war
- To ratify international agreements

EXECUTIVE BRANCH

According to the Constitution, the exercise of the executive power is vested in and is used by the President and the Council of Ministers.

The President is head of state and represents the Republic of Turkey and the unity of the Turkish nation. The President is elected by the TGNA for a period of seven years.

The President appoints the Prime Minister, and has the power to appoint or remove ministers upon the recommendation of the Prime minister.



The President also appoints the members of the constitutional court.

With respect to the legislative the President has the power to decide upon renewal of parliamentary elections.

The Prime Minister acts to assure harmonious functioning and co-ordination within the Council of Ministers. The ministers are accountable to the Prime Minister who supervises and ensures that their work is in accordance to the Constitution and the law. The Council of Ministers is also politically accountable to the Legislature. Only the Prime Minister has to be a member of TGNA. The government programme is read to the assembly to seek a vote of confidence. The fundamental duty of the Council of Ministers is to formulate and implement the internal and foreign policies of the nation.

JUDICIARY BRANCH

Judicial power is exercised by independent courts functioning on behalf of the Turkish nation. No organ, office, authority or individual may attempt to intimidate, instruct or order, make suggestions or recommendations to or send notice to any judge concerning how they should exercise their powers in the courts

POLITICAL FORCES AND PARTIES

MEMBERS OF PARLIAMENT

Since 1946 the political landscape in Turkey has been competitive and pluralistic. Of 21 different parties, these were elected into the TGNA in November 2002:

Justice and Development Party	AKP	363
The Republican Peoples Party	CHP	187

The elections for the TGNA are to be held every five years.

POLITICAL SITUATION

As a result of the huge economic crisis in 2001 the election in November turned out to be a political earthquake, all the three parties in the former Ecevit coalition disappeared from the parliament, and the newcomer AKP led by former Istanbul mayor Recep Tayyip Erdogan got more than half of the seats in Parliament. Because of a four-month jail term in 1999, after quoting from a nationalist poem with religious overtones during a political speech, Mr Erdogan could not run for the polls in 2002. And Turkey's 58th government is therefore headed by Mr Abdullah Gül, Prime Minister, from the Justice and Development party.

For the first time in 25 years with one party with a majority in Parliament, the outlook for stability in the Turkish politics is very good. Even if AKP has been meeting scepticism from Europe, and parts of Turkey as well, Mr Gül has made the right decisions so far, and has put forward a credible and well-respected cabinet. But there is no doubt that the new government will meet great challenges in many areas. These include the matters concerning: passing and implementation of structural reform and meeting the conditions of the IMF review. On the political front, the EU and Cyprus are the main issues. The issue of a war in Iraq is also very important, as are the internal and external effects that this could have. It is very hard to predict the future, but there is little doubt that military conflict in Iraq will cause Turkey new problems.

FOREIGN POLICY

INTERNATIONAL RELATIONS

Turkey's position at the borderline between Europe and the Middle East is constantly putting the country in a difficult and also dangerous position in this area full of conflict. Turkey's strong bonds with Europe and the USA has caused particular concern, especially during times of dispute between the USA and Iraq, as well as in the "war against terrorism" since September 11th 2001. Again the conflict between Iraq and the USA is heating up, and Turkey fears a new war. A military conflict would bring new concern to the already unstable Turkish economy.

The relationship between Greece and Turkey has also been a difficult one for many years, triggered by the many

attacks on the Turkish population of Cyprus and the following disputes concerning the population's status, civil rights and independence in a Cyprus under Greek rule.

Turkey was a founding member of the UN, is a member of NATO, the Council of Europe, the OECD and an associate member of the Western European Union.

EU

Turkey already placed its first application for European membership as early as in July 1959, shortly after the founding of the EEC. An association with the EEC was suggested by the organization, and was formalized by the signing of the "Ankara Agreement" in 1963. The aim was full membership within three phases of a customs union. The Ankara Agreement is however still the legal basis for the relationship between Turkey and the EU.

Following the economical and political changes in Turkey in the early 1980s, Turkey applied for full membership in the European Commission in 1987. It was decided by the European Commission to further develop the Customs Union as it stipulated in the Ankara Agreement, aiming at a completion in 1995 and facilitated by a constant cooperation between the EU and Turkey. Due to Greece's objection at that time, however the agreed cooperation package as proposed in 1990 could not be adopted.

The EU has since then been demanding political, economic and legislative reforms in order to consider Turkey as a potential new member of the EU. In order to start negotiations for full membership in the EU, the Turkish government passed a portmanteau European harmonization law, to meet the famous "Copenhagen criteria for membership". The most important resolutions were; granting new civil rights to the Kurds (and other ethnic groups) and abolishing the death penalty. Even if Turkey fulfilled the Copenhagen criteria they were not given a date for negotiations at the EU meeting in Copenhagen in December 2002. The Turks were very disappointed with this decision, and the fact that ten other countries were given a date for negotiations, did not make the situation better. But even if Turkey suffered a rejection from the EU, it seems like the new government will continue their work to become a EU member.

POLITICAL ISSUES

HUMAN RIGHTS

One of the most important issues in Turkish politics has been human rights. For many years Turkey has been criticized by organizations and other countries for breaking human rights, especially when it comes to questions according death penalty, torture and treating of the Kurd population. During summer 2002 the Turkish government made a resolution, which abolished the death penalty in peacetime. New civil rights for the Kurds have also been recognized.

These resolutions will be of great importance for Turkey when it comes to foreign politics, and especially in

the EU membership question.

The Turkish government has also implemented some measures to prevent torture, but still they have not solved the whole problem. Both EU and human rights organizations such as Amnesty International have put Turkey under pressure to bring torture to an end.

Another issue, which has caused a problem for Turkey, is terrorism. Since the early 1980s Turkey has faced extraordinary challenges due to domestic terrorism, to an extent no other European country has experienced. The Kurdish organization PKK and other radical leftist groups pursuing a Marxist revolutionary policy, e.g. DHKP-C, have been in the forefront of such activities. The Turkish army has fought against PKK in the south-eastern part of the country, and more than 30 000 people have lost their lives. In 1999, after the arrest of the PKK leader Abdullah Öcalan, the guerrilla warfare came to an end.

While some countries until recently have considered PKK as freedom fighters with a legitimate political cause, the experience drawn from the tragic incident that occurred in New York on September 11th. 2001 has created a more uniform consensus in the world; in terms of rejecting any form of terrorism, in which Turkey has been a major victim for the past 15 years. This realization led the EU to include PKK on their terrorist list as of May 2002, while at the same time also including DHKP-C.

According to the Norwegian Trade Council in Istanbul, terrorism and political polarisation, the sources of human rights violations, no longer pose a threat to political stability, the Turkish economy or economic activity. Terrorism in Turkey has gradually declined then disappeared over the last few years, which has resulted in major improvements in the human rights situation and depolarization of politics. As a result, Turkey has entered a positive dialogue with the international community on these issues, and would not be a candidate for boycott or trade restrictions.

WATER

Water is another issue on the Turkish agenda. In the recent years, the water problem has come to the forefront in the relations among the countries of the Middle East. The main characteristics of the problem can be highlighted as follows. Current water resources in the Middle East have become insufficient to meet the needs. The scarcity of water will continue to increase in the future as the population grows and consumption per head increases. As a result, water is likely to become the cause of conflict among the countries of the region.

THE ILISU DAM

The building of the Ilisu Dam in eastern Turkey has been a major environmental issue. According to groups like Greenpeace the dam will destroy dozens of Kurdish towns and villages including the world historic site of Hasankeyf, lead to thousands of Kurds losing their homes without adequate compensation, and threaten conflict over water resources with Syria and Iraq. On the other side the Turkish government says that only one town will be flooded and those people who have to be resettled

will get financial compensation. But it has been claimed by environmentalists that this compensation is far too low. Turkey also claims that if the project does not go ahead, they are denying people power, jobs and economic progress. When it comes to the question about a conflict with Syria and Iraq, Turkey is unconcerned. Because the project is familiar to both countries and the dam is not an irrigation dam, no water will be taken out of the river.

REFERENCES

Ministry of Foreign Affairs, Republic of Turkey [Online]
URL: <http://www.mfa.gov.tr/grupa/default.htm> [Cited January 2003]

CSIS [Online]
<http://www.csis.org/turkey/TU021108.htm> [Cited November 2002]

OECD Observer. Turkey's crisis [Online]
http://www.oecdobserver.org/news/fullstory.php/aid/435/Turkey's_crisis.html
[Cited May 2001]

The World Bank Group. Comment and analysis: Turkey [Online]
<http://www.worldbank.org.tr/ECA/Turkey.nsf/ECADocByLink/BB5792FD4FE8F80BC2256CB5004E694C?Opendocument> [Cited November 2002]

European Union. Enlargement-Candidate Countries [Online]
<http://www.europa.eu.int/comm/enlargement/turkey/index.htm> [Cited February 2003]

Turkish Embassy in Washington. Government and politics [Online]
<http://www.turkey.org/governmentpolitics/index.htm>
[Cited July 2002]

Amnesty International [online]
<http://www.amnesty.no/web.nsf/SearchResults?SearchView&Query=tyrkia>

Greenpeace [online]
<http://archives.greenpeace.org/search.shtml>

Meeting with the Royal Norwegian Ambassador Hans Wilhelm Longva, Ankara, 23 January 2003

Future Expectations

Turkish youth in the process of EU accession



Deniz Merdanoglu

Canan Karaosmanoglu

Students at Bogazici University, Centre for European studies

In this paper we will modestly elaborate the evolution of EU-Turkey relations, and the existing attitude of Turkish youth towards membership candidacy of Turkey. The discussion also casts doubt on the capacity of Turkey to tackle with the problems that has prolonged the negotiation of full membership to the EU relevant to current political developments and Iraq conflict. Turkey is a longstanding ally, and an important regional power for both the EU and US. It has a young population, a large and well-trained army, links to the Turkic-speaking countries of Central Asia and the Caucasus, and a long-standing diplomatic orientation to the West. The expectations of the young population from the full membership may be categorized in three main subjects; education opportunities, free movement of persons, and economic development. Turkey's standpoint towards the Iraq crisis and the debate over the Occidental or Orientalist identity of Turkey are also two major issues that need to be delineated within the framework of discussion.

Turkey has a vibrant young population of over 64 million people — over 73 percent of which lives in urban centers. About 75 percent of the population consists of young people in Turkey who are under 35, and 20 million of its population is under age of 18. The main advantage with having such a young population is that by educating these young members, the country has a "great potential" now in the Internet age. Education is by no doubt a crucial issue for socio-cultural integration between EU and Turkey. Becoming a part of the student academic exchange programs peculiar to EU member states is one of the major motives for the Turkish youth to support and develop accession strategies to the EU. It is these pro-

grams, such as Socrates and Erasmus that foster integration of youth and provide a framework for recognition of different cultures as well as giving a wider transnational perspective for the participants and prospective students concerning European integration. Turkish students seem to be quite enthusiastic to participate in these programs and have already initiated contacts with the European correspondents to build up a basis for the forthcoming projects. Furthermore, EU citizenship will also provide Turkish students the opportunity to study abroad without paying the extra tuition fees that are being charged from students of non-EU countries. The EU passport and EU citizenship will also introduce the possibilities of free movement inasmuch as for a Turkish student, it has always been a demanding effort to go abroad no matter what the purpose is, either studying or traveling.

The enhancing power of civil society and lobbying of interest groups in Turkey also had remarkable roles in the constitutional reforms and amendments relevant to the completion of Copenhagen Political Criteria. Accession to the EU has become a very important agenda of the government, as well as the civil society. A great number of Turkish civil societies under the banner of the "Turkish Civil Society Platform" (Turkey platform) held a meeting in Brussels with their EU counterparts to give a strong message to EU. The Turkey Platform is formed by 175 Turkish nongovernmental organizations mainly headed by the Economic Development Foundation (IKV).

EU membership will also provide investment opportunities for young Turkish entrepreneurs who are strong supporters of the full membership of Turkey. EU membership has become an ultimate relief for these people particularly with respect to mounting amount of unemployment due to the unprecedented economic crisis that has reduced per capita income to near \$2,000.

Regarding the conflicts with the southern neighbor Iraq, Turkey faces additional economic disruption. Turkey seems to be a necessary component of any U.S. coalition of forces invading Iraq, or of any NATO or U.S. action in the Middle East or Central Asia, or of any stable structure in the Eastern Mediterranean. An invasion would also have severe consequences at a time when the Turkish economy is slowly emerging from the deepest recession since 1945 and a military occupation in Iraq could force another downturn in the economy. In addition to the possibility of an emergency conscription to which a large portion of young male student population is against, the financial cost is also estimated to be high. Turkey calculates its losses since 1990 from UN sanctions on Iraq at

some \$40 billion. Prior to the Gulf Crisis, Iraq was Turkey's fourth-largest trading partner and its major supplier of crude oil. In terms of the level of support needed, recent figures produced by several sources indicate that Washington would need to provide at least US\$7 billion annually to ensure Turkish economic security. The political aspect of the Turkish standpoint is not to contradict the EU's anti-war attitude in general in order to become a full member of the Union. This duality is not only due to Turkey's unique geographic location that literally straddles Asia and Europe. Such a geography, which neither isolates nor insulates Turkey from turmoils in other countries, indicates, "We still have a long way to go."

Collect miles.
With Miles & More.

"Mine forretninger strekker seg over hele kloden. Mitt flyselskap også, heldigvis."
Lufthansa flyr deg dit du skal.



Sammen med våre partnere i
Star Alliance kan vi tilby stor valg-
mulighet og fleksibilitet slik at du
får gjort dine globale forretninger.
Vårt sterke verdens-omspennende
nettverk kan fly deg til over 800
destinasjoner i 128 land. Det betyr
at du kan komme deg hvor du vil
i verden – enkelt og greit.
For reserveringer og informasjon
besøk www.lufthansa.no eller
kontakt ditt nærmeste reisebyrå.

There's no better way to fly.



Lufthansa

A STAR ALLIANCE MEMBER



ECONOMY AND THE B

Structural problems and the fragility which became even more evident after the November 2000 and February 2001 crises made it clear that an extensive restructuring programme of the Turkish economy was something that could not be postponed. The preliminary outcome of the intense restructuring programme in the banking sector has been positively responding growth indicators and production indicators that are starting to reflect rapidly expanding industrial activity.

ECONOMIC HISTORY

After the Second World War, international trade continuously showed a performance above the growth rate of the world economy. World production increased by an annual average of 2 per cent, while the world trade grew 6.2 per cent between 1990-1995. The most important reason for this rapid growth was the gradual liberalization of trade in countries and their concentration on negotiations in this direction. As a result of these developments, the import taxes applied by the industrialized countries that were around 40 per cent in the 1950s, have regressed to around 3-4 per cent today. Similar policies gained importance in other regions of the world. Turkey attempted to reduce import taxes to the levels applied by the member countries of the European Union (EU) and signed the Customs Union Agreement in 1996.

With the Customs Union Agreement, which went into effect between Turkey and the EU as of 1 January 1996, all protection in the trade of manufacturing goods with EU countries was abolished and the EU's Mutual Customs Tariff started to be applied in trade with other countries. Although the foreign balance of trade experienced some deterioration due to this development, exports increased by 13 per cent in 1997 reaching a level of 26.2 billion US dollars and imports increased by 11.3 per cent reaching 48.6 billion USD.

In the same year, the foreign volume of trade was realized at the level of 74.8 billion USD and the foreign trade deficit at the level of 22.3 billion USD. In fact, according to a report by the World Trade Organization (WTO) published in 1997 on "Developments in World Trade", Turkey was among 21 countries with the most rapidly increasing volume of foreign trade and thus having the greatest foreign trade dynamism.

ECONOMIC REFORMS AND THE EU MEMBERSHIP NEGOTIATIONS

After the Customs Union was established Turkey's share in EU's total exports has increased from 2.3% to 2.7% in 1999, and from 1.7% to 1.9% in imports. As one can see, Turkey's share both in term of imports and exports in EU's trade developed positively and in equal manners. As of 1999, Turkey is the EU's 7th biggest export destination and 13th biggest exporter to the EU. This shows that both sides profited from the Customs Union Agreement.

The reform programme, initiated together with the IMF as of March 2001, is clearly thorough, and represents

a new and very much strengthened initiative from the government. Although it is extremely ambitious, the programme is presently on track. However, the markets responded slowly to these strengthened underlying fundamentals of the economy. Why?

First, the markets worried that the programme is being implemented reluctantly. There have been political controversies, to be sure. But these have not prevented the passage of a truly massive legislative agenda and the full implementation of the program. Indeed, the political controversies mask the strength of the consensus in favour of the basic economic objectives of the policies, which are the same as those enunciated in the government's original coalition agreement.

Second, markets feared that the government will not be able to roll over its debt. This is a serious issue, partly because Turkey has a high level of debt but also partly because such concerns are, to an extent, self-fulfilling.

However, it is for this very reason that the programme is structured with a view to ensuring the rollover of the public debt. It does so through two principal channels:

The first is through fiscal adjustment, which implies declining debt ratios in the medium term for a wide range of growth and interest rate combinations. This should ensure solvency.

The second is the latitude the authorities have for the central bank to lend the foreign exchange reserves received from the International Monetary Fund to the government to satisfy up to a third of its domestic financing requirements.

One reason why these fundamentals have yet to convince the markets is that it takes time for them to show up in the data. Another is that it has been Turkey's misfortune to make radical changes in its economy at a time when the world economy is not supportive, when capital markets are casting a skeptical eye on emerging markets generally.

It may well be just a matter of time for the markets to appreciate Turkey's stronger fundamentals. Already, inflation is slowing, the current account is swinging sharply into surplus and growth appears to be turning on the strength of booming exports and tourism.

With disciplined implementation, this is a programme that is on the edge of paying off.

BANKING SECTOR

ECONOMIC SYSTEM AND CHALLENGES

Turkey's dynamic economy is a complex mix of modern industry and commerce along with traditional agriculture that still accounts for nearly 40% of employment. It has a strong and rapidly growing private sector, yet the State still plays a major role in basic industry, banking, transport, and communications.

The most important industry – and largest exporter – is textiles and clothing, which is almost entirely in private hands. In recent years the economic situation has been marked by unpredictable economic growth and serious imbalances.

Real GNP growth has exceeded 6% in most years but this strong expansion was interrupted by sharp declines in output in 1994 and 1999. Meanwhile the public sector economic deficit has regularly exceeded 10% of GDP - due to a large part to the huge burden of interest payments, which now account for more than 40% of central government spending – while inflation has remained in the high doubledigit range.

The high inflation rate in Turkey may be difficult for foreigners to understand. The high inflation rate has contributed to a short-term attitude in business life. Turkey's consumer inflation rose by 29.7 per cent in 2002, according to figures released January 2003. It was lower than the 35 per cent target set in the country's International Monetary Fund-backed economic recovery programme. According to The State Statistics Institute, wholesale inflation was 30.8 per cent in 2002. These are good indicators of a reform program that is on track. Turkey's new government has said it will aim for 20 per cent inflation in 2003, in a sign that it plans to stick to the IMF programme.

A common view of the direction of the relationship between the inflation rate and growth does not emerge either in the empirical or theoretical studies in the economic literature. The most well known view of the relationship between growth and inflation in contemporary literature is that high inflation affects economic growth positively in the short-run while it leads to a reduction in the growth potential in the long-run. The high inflation rate has affected the growth rate negatively during the last three decades in Turkey. A high inflation rate that has been persistent since 1970s has played an important role in the emergence of social and economic problems, which led to lower economic growth.

FOREIGN DIRECT INVESTMENT (FDI) AND GOVERNMENT ACTION

Perhaps because of these problems, foreign direct investment in Turkey remains low – less than USD 1 billion annually. Prospects for the future are improving, however, because the ECEVIT government since June 1999 has been implementing an IMF-backed reform programme, including a tighter budget, social security reform, banking reorganization, and accelerated privatization. As a result, the fiscal situation is greatly improved and infla-

Main economic indicators

		Main Economic Trends					
Turkey		1998	1999	2000	2001	2002	Latest
Real GDP growth rate	%	2.8	-5.0	7.4	-7.4	2.3	2002Q1
Inflation rate ¹	%	84.6	64.9	54.9	54.4	42.6	June 02
Annual average	%	69.7	68.8	39.0	68.5		
End-of-period	%						
Unemployment rate	% labour force	6.4	7.6	6.6	8.5	11.8	2002Q1
General government budget balance (ESA 95)	% GDP	-11.9	-18.7	-6.0	-28.4		
Current account balance	% GDP	1.0	-0.7	-4.8	2.3	-0.6	2002Q1
	Mio	1,766	-1,276	-10,574	3700	-250	2002Q1
Foreign debt	% GDP	119	156	195	177		Dec. 01
Debt-export ratio	Bio	66.6	87.3	117.9	128.5		Dec. 01
Gross foreign debt	% GDP	0.5	0.4	0.5	2.2	0.2	2002Q1
Foreign direct investment (inflows)	Mio	837	735	1054	3647	62	2002Q1

Source: National sources, OECD external Debt Statistics, IMF Government Finance Statistics, ESTAT



tion has dropped below 40% the lowest rate since 1987.

The country experienced a financial crisis in late 2000, including sharp drops in the stock market and foreign exchange reserves, but is recovering rapidly, thanks to additional IMF support and the government's commitment to a specific timetable of economic reforms.

Flexible foreign investment policies have been introduced as a part of the liberalization of Turkish economy. The foreign investment legislation has provide a secure environment for foreign capital via support from several bilateral and multilateral agreements and organizations,

granting such capital the same rights and obligations as local capital, while guaranteeing the transfer of profits, fees and royalties, and the repatriation of capital.

At present, there are more than 4600 enterprises with foreign partnership in operation in various sectors. Among the major investors, one can find familiar names such as Toyota, Honda from Japan, Ford, P&G, Philip Morris from the USA, Renault, Cement Française from France, Bosch, Mercedes, Siemens from Germany, Pirelli, Fiat from Italy. These companies are just some of the many international firms poised to take advantage of Turkey's favourable investment policies.

The result of the liberalization policies and promotion measures adopted has appeared as increased direct foreign investment flows into the country. While the cumulative foreign capital approvals between 1954-1980 were USD 280 million, this amount has reached to USD 23.8 billion at the end of 1998. The leading investors in Turkey are France, the USA, Netherlands, Germany, Switzerland, the United Kingdom, Italy and Japan.

UNDERSTANDING THE ECONOMIC COLLAPSE IN 2001 – A BANKING SYSTEM IN TRANSITION

The year 2001 saw a severe financial crisis – with immediate detrimental effects on interest rates, inflation, and exchange rates – turned quickly into a full-blown economic crisis with declining consumption and production. In summary the results were declines of 9.4% in GNP and 7.4% in GDP.

The tensions that culminated in a crisis in late November 2000 were deeply rooted in Turkey's economic system, and the development in the banking sector. The immediate cause was a combination of portfolio losses and liquidity problems in a few banks, which sparked a loss of confidence in the entire banking system. When the central bank decided to inject massive liquidity into the system in violation of its own quasi-currency board rules, it created fears that the banking sector restructuring programme and currency peg were no longer sustainable, and the extra liquidity merely flowed out via the capital account and drained the reserves.

PRIOR TO THE RESTRUCTURING PROGRAMME 1980 – 2001

Turkish financial system went through significant structural changes and gained dynamism as a result of the liberal policies adopted starting from 1980 onwards. Along with deregulation measures introduced, such as removal of selective credit policies, free determination of interest rates on deposits and credits, and liberalization of foreign exchange transactions, efforts to increase the level of compliance of the legislation with the international norms also played a contributing role in this development.

With the help of legislative and institutional arrangements that eased the entry, competition and growth in the sector, the Turkish banking sector experienced a process of fast expansion in terms of members of banks (both domestic and foreign), employment, service

Number of banks

	1980	1990	1994	1999	2002 ^(*)
Commercial Banks	31	54	55	62	41
Public	8	7	6	4	3
Private	19	25	29	31	21
Foreign	4	22	20	19	15
SDIF	-	-	-	8	2
Investment and Development Banks	6	10	12	19	14
Public	4	3	3	3	3
Private	2	4	6	13	8
Foreign	-	3	3	3	3
Total	37	64	67	81	55

Source: BRSA, Banks Association of Turkey

(*) As of November 11, 2002

diversity and technological base.

Throughout this period the banking sector took important steps towards adapting itself to developments in technology and improving its technological base. In the last decade, rapid progress has been observed in the number of ATMs, number of branches having on-line connection, use of the Electronic Fund Transfer (EFT) and SWIFT systems, interactive banking services and Internet banking.

There has been a significant progress in the diversification of banking services and use of bank cards/credit cards has expanded rapidly. The number of credit cards, which was about 1 million in 1992, increased to 13.4 million at the end of 2000.

Despite positive developments in the share of the Turkish banking sector within the economy, the sector's openness, diversification of banking services and the legal and corporate framework, there was a marked decline in the functioning of the banking sector to support production activities and direct resources to long-term investments. The share of loans in total assets of the banking sector declined from 47% in 1990 to about 32.8% in 2000. Similarly, the (gross) loans to deposits ratio declined from 85% in 1990 to 56% in 2000. The credit to GNP ratio in Turkey stayed at the lowest levels among the emerging market economies.

The following factors have contributed to the decline in the financial intermediation function of the banking sector:

MACROECONOMIC INSTABILITY

High and volatile inflation rates of the 1990s, the boom-bust cycles of economic growth and the fragility of foreign capital inflows all contributed to the uncertainties and eventually led to a domination of short-term behaviour on the part of economic agents. The confidence in the Turkish lira also got worse leading to an extensive currency substitution. Consequently, the maturity of bank funding sources fell substantially and the share of foreign currency liabilities in total liabilities increased sharply.

HIGH PUBLIC SECTOR DEFICIT

The increase in public sector deficit and its financing with high real interest rates from the domestic financial markets led to a sharp decline in the allocation of resources to the real sector. Arbitrage opportunities resulting from high domestic real interest rates made it attractive for the banking sector to borrow abroad and finance public sector deficits paving the way for an increase in the foreign exchange position of the banking sector. As a result, the

share of government securities in deposit money banks' total assets increased from 10% in 1990 to about 25% in recent years. Also, tax advantages provided to government securities and legislative changes made in reserve requirements and liquid assets contributed to the increase in the government securities portfolio of banks.

SYSTEMIC DISTORTIONS CREATED BY STATE BANKS

The financial health of the State banks deteriorated rapidly as a result of the accumulation of duty losses and inefficient management. Illiquid State banks covered their financing needs from market borrowing at very high rates and at short maturity. This led to an increase in interest rates and created an uneven playing field for the other banks in the sector. As a result, the State banks became unable to fulfill their banking functions; although State banks accounted for 40% of total deposits their share in total loans was only 25%.

INSUFFICIENT RISK ASSESSMENT AND MANAGEMENT SYSTEMS

Although the banking sector became more exposed to liquidity, interest rates and foreign exchange rate risks, the macroeconomic policies followed especially during the late 1990s, which tended to ease the financing of public debts, made the perception and management of these risks an issue of secondary priority for the banks. The lack of independent and effective supervision and regulation and the existence of deposit insurance also contributed to the weaknesses in risk management.

As a result of all these developments, the Turkish banking system as a whole became subject to the following structural weaknesses characteristics: *Inadequate capital base, small and fragmented banking structure, dominance of State banks in the whole banking sector, weak asset quality (concentrated credits, group banking and concentrated risks, mismatch between loans and provisions), extreme exposure and fragility towards market risk (maturity mismatch, FX open position), and inadequate internal control systems, risk management and corporate governance*

Eventually, these structural weaknesses made the banking sector highly sensitive and fragile to domestic and foreign shocks.

NOVEMBER 2000 TO FEBRUARY 2001 CRISIS

In sum, the banks were hit by three main shocks:

1. Sharp increase in funding costs due to the increase in interest rates and maturity mismatch.
2. Capital losses due to a sharp mark-to-market decline in the value of government securities holdings
3. Capital losses due to a sharp change in foreign exchange rate and open foreign currency position.

Turkey had adopted a comprehensive disinflation programme at the beginning of 2000. Main pillars of the programme were tight fiscal and monetary policies, ambitious structural reforms and use of a pre-determined

exchange rate path as a nominal anchor. Monetary policy was conducted under a currency board type arrangement with liquidity expansion being strictly linked to foreign currency inflows.

The disinflation programme had a major impact on banks' balance sheets. First and foremost, with the initial sharp decline in market interest rates and expectation of further fall in these rates, and the banks' reduced deposit and lending rates. They also increased their exposure to fixed rate treasury securities during this period. On the other hand, the pre-announced exchange rate path and real appreciation of the Turkish lira meant lower cost of funding for foreign currency liabilities. As a result, a number of banks borrowed in foreign currency terms with short maturity and lent in Turkish lira terms with longer maturity. This led to a sharp increase in maturity mismatch and in the foreign currency open position of the private banks.

The composition of the asset structure of the banking sector changed significantly in 2000 with an increase in the share of loans and a decline in liquid assets. The increase in consumer credits was particularly notable; it four folded in 2000. Unlike the change in the currency composition of deposits (towards an increase in foreign currency deposits) the currency composition of loans increased in favor of the Turkish lira. As a result of these changes, the exposure of the banking sector to liquidity, interest rate and exchange rate risks increased in 2000.

The subsequent November 2000 crisis led to a significant erosion of the capital base of the banking sector and revealed further the fragility of the system. In particular, the financial health of the state and SDIF banks that relied heavily on overnight funding deteriorated sharply.

Rapid announcement of an additional USD 7.5 bn support under the Supplementary Reserve Facility of the IMF in December 2000 could only calm the market for a limited period. Escalating political uncertainties, the loss of credibility of the exchange rate regime and finally the abolition of the exchange rate peg in February 2001 further hit the already weakened banking sector.

The crises experienced led to a serious contraction in the private sector which, in turn, exerted an adverse impact on the asset quality of the banking sector and increased the credit risk of banks.

In consequence, the government adopted a new programme "Transition to a Strong Economy" in order to eliminate the confidence crisis and financial instability. The strategy was strongly based on market-orientation and openness to the world economy. An important pillar of the programme consisted of a renewed effort to eliminate structural weaknesses that had not been fully tackled by the 2000 programme, particularly by strengthening governance and good economic management. Key elements in the area of banking included: a deep financial restructuring of state and SDIF banks; measures to facilitate the participation of private capital in the strengthening of the private banking system; and, a further improvement of banking regulation and supervision.

GOALS AND STRATEGIES TO RESOLVE THE PROBLEMS

The mission of the Banking Regulation and Supervision Agency (BRSA) is to create the proper environment in which banks and financial institutions can operate with market discipline, and in a healthy, efficient and globally competitive manner. The creation of a sound banking system is key to achieve long-run economic growth and stability of the country.

In order to fulfil its mission BRSA aims to establish, implement and develop the necessary regulatory and supervisory framework. In this process, the main goals of the BRSA are:

- *To enhance banking sector efficiency and competitiveness*
Elimination of distortions created by the State banks; strengthening of the banks' capital base; reduction of the banks' intermediation costs; minimization of group banking and non-financial activities.
- *To maintain confidence in the banking sector*
In accordance with market discipline and "self responsibility" principle, to design the proper regulation for public awareness; making adequate, understandable and accurate information accessible to the markets in a timely manner; promoting international best standards in accounting and reporting systems; providing a transparent environment in which information on risks is clear and accessible for all parties.
- *To minimize the potential risks to the economy from the banking sector*
Prevention of all kinds of transactions and practices that can jeopardize the smooth and safe operation of the banks; developing early warning and prompt correction systems to prevent individual problems from causing systemic risk.
- *To enhance the soundness of the banking sector*
Enhancing the flexibility of the sector against risks; giving importance to the improvement of corporate governance; developing internal control and risk management systems; taking market risk into account in the calculation of capital adequacy; improving the BRSA's capacity for risk-focused and consolidated supervision and control.
- *To protect the rights of depositors*
Establishing a balance between the adverse effects of deposit insurance, such as erosion in market discipline and increase in moral hazard, and the need to protect the rights of depositors.

WHAT HAS BEEN ACCOMPLISHED?

RESTRUCTURING OF STATE BANKS

Financial restructuring of State banks has been completed and they have begun to make profits. Significant steps have been taken within the framework of operational restructuring. Organizational, technological, product, human resources, loan, fiscal control, planning, risk management and service structures of the banks have been restructured in compliance with requirements of modern banking and international competition. A considerable downsizing has been carried out, with approximately 30% decrease in number of branches of the state banks, and a 50% reduction in the number of personnel.

RESOLUTION OF SDIF BANKS

20 banks were taken over by the SDIF between 1997-2002. Following the resolution of these banks through mergers, sales and liquidation, only two banks, namely Bayindirbank and Pamukbank, remain under the management of the SDIF as of 11 November, 2002.

STRENGTHENING THE PRIVATE BANKING SYSTEM

Strengthening private banks, whose financial structures and profitability performances were worsened due to the crises, composes an important part of the Banking Sector Restructuring Programme. Within the scope of the programme focused on private banks, first steps were taken towards strengthening of the capital structures of private banks with their own resources and limiting the market risks. Important progress has been realized in these areas.

According to the consolidated data of the 25 banks covered by the Bank Capital Strengthening Programme, the funds generated through deposit taking and own fund increases by these banks have been mainly placed in securities. With the improvement observed in profitability, the capital adequacy ratio of the 25 banks in subject was realized as 15.8%.

RESTRUCTURING OF DEBTS TO THE FINANCIAL SECTOR AND RESOLUTION OF PROBLEM ASSETS

Following the completion of necessary regulatory and institutional infrastructures, 169 firms applied for financial restructuring of their debts amounting approximately to USD 2.9 billion as of October 2002 and a total amount of USD 406 billion debt of 28 firms was restructured.

Besides, the regulation on asset management compa-



EUROPEISKE REJSEFORSIKRING

nies (AMC) to be established in order to resolve the non-performing loans and mobilize assets of banks was completed and put into effect. Within this framework, the SDIF has initiated feasibility studies concerning the establishment of AMCs.

STRENGTHENING THE FRAMEWORK OF SURVEILLANCE AND SUPERVISION

Concurrently with financial and operational restructuring of banking sector, significant progress has been achieved in legal and institutional regulations which will strengthen the surveillance and supervisory framework, ensure competitiveness and efficiency and improve confidence to and endurance of the sector.

Along these lines, regulations have been issued to prevent risk concentration in loans, limit participation of banks to subsidiaries except non-bank financial institutions and ensure preparation and disclosure of banks' balance sheets in compliance with international accounting standards.

CONCLUSIONS

The tragic incident in New York as of September 11th 2001, has re-confirmed Turkey's role as a pivotal state in the region, being the only secular nation, in addition to being a NATO member.

In this context, US Foreign Policy makers as well as the White House have been in close co-operation with their Turkish counterparts, being fully aware of the fact that Turkey is in close proximity to 70% of the world's energy resources.

In this regard, the positive developments in the post Cold War era regarding the transportation of the energy reserves of the Caspian Sea basin to world markets over Turkey have crystallized Turkey's position. The "Turkish Caspian-Mediterranean Crude Oil Pipeline Project" was developed as the main export route for the transfer of Kazakh and Azeri oil.

Turkey believes that the realization of this project will contribute to the political independence and economic development of these republics.

The project will increase the crude oil export capacity of the region offering a viable, reliable, cost effective, technologically and environmentally feasible and safe option. Moreover, the transfer of Caspian and Central Asian oil through a pipeline overland from Turkey to world markets will diversify the sources of such supply. By creating interdependence among the suppliers and investors as well as eventual transit countries, it will contribute to the establishment of peace, prosperity and stability in the region.

Based on the abovementioned developments, prominent credit rating agencies have revised Turkey's status from "negative" to "stable". Moody's Turkey analyst Kristin Lindow said the nation's decisions in the direction of economic reform decisions as well as steps to implement them were encouraging developments. Lindow added, "The capacity to pay debts is an important element in terms of ratings and the support of certain institutions, such as the IMF, is important in terms of our confidence in the government. The 'B1,' which shows a country's



capacity to pay debt in foreign exchange, is a high rating."

The process leading Turkey to the EU accession is also exerting a positive influence on policies, and could serve as an anchor for structural reform in the long-run. All the same, it is important that fiscal targets be met and further progress be made to reduce inflation and implement structural reforms. Continued progress and a period of stability will help to swing market perceptions around, restoring investor confidence and allowing the economic reforms to have their desired effect on the country-risk premium and long-run macroeconomic performance.

"Turkey has made important efforts to restructure and reform its economy. The EU welcomes the progress which has been made, particularly in the light of continued economic difficulties. Turkey is encouraged to continue this work, for example to adopt further legislation to liberalize the telecommunications and energy markets over the coming months. The continued restructuring of banking and in the agricultural sector is also important."

*Mr Günter Verheugen,
Commissioner with responsibility for Enlargement*

REFERENCES

2001 CIA WORLD FACTBOOK

Republic of Turkey, Ministry of Foreign Affairs [online]
<http://www.mfa.gov.tr/grupd/default.htm>

European Union. Enlargement-Candidate Countries [Online]
<http://www.europa.eu.int/comm/enlargement/turkey/index.htm>

http://www.bddk.org.tr/english/publicationsandreports/brsareports/BSRP_Progress_112002.doc

http://www.photius.com/wfb2001/turkey/turkey_economy.html

SOCIETY

POPULATION AND PEOPLE

POPULATION FACTS

Turkey has a population of 67,308,928 (July 2002 est.). There is a 1.5% annual increase of the population, and this makes the population of Turkey a young one. The fertility rate in the country is about 2.07 born babies per woman.

27.8% of the population is under the age of 14, and 65.9% is between 15-64.

Life expectancy at birth is 71.52 for the whole population, respectively 74.01 for women and 69.15 for men.

The population is divided into two ethnic groups, roughly 80% Turkish and 20% Kurdish.

The Turkish peoples originated in Central Asia, and were nomadic. The Chinese called them Tu-küe, and they ruled several empires in Asia before they were forced by the Mongols to move west.

RELIGION AND MINORITY GROUPS

The population of Turkey is 99.3 percent Moslem. The remaining, less than 1%, is composed of Orthodox Christians, Jews, Catholics, Protestants and other Christian sects. Everyone has freedom of religious belief. No one can be compelled to worship or to participate in religious ceremonies and rites, to reveal religious beliefs convictions. No one can be blamed or accused because of his/her religious beliefs and convictions.

Non-Muslim groups make up less than 0.7% of the Turkic population, so to talk about Turkic religion is to talk about Islam. Most of the Muslims are Sunny, but there are some smaller groups of Shiites in the east and south-east.

The greatest minority of Turkey are the estimated 10 million Muslim Kurds. Along the Black Sea Coast, other minority groups like Laz and Hemsin people are settled, and on the eastern Mediterranean coast the Yöürüks and Tahtacıs.

In Istanbul one can find approximately 100 000 Christian Turkish inhabitants, a minority group which consists mostly of Armenians and ethnic Greek.

Kurds

Ethnologists believe that the Kurds are related to the Persians, and that they migrated from Northern Europe before Christ. They speak an Indo-European language, and today the majority of the Kurdish population live in the eastern and south eastern part of Turkey. They keep their language, culture and family traditions very sacred.

Jews

A community of about 24 000 Jews is centred in Istanbul. The Jews of Spain migrated to Turkey in the 16th century, and were welcomed into the Ottoman Empire. They brought valuable scientific and economic knowledge from Europe.

Armenians

There are 70 000 Armenians living in Istanbul and around Lake Van in the east. There are several theories of the Armenian origin, and they have lived in eastern Anatolia for a thousand years. Under the Ottoman Empire they lived in Peace with their neighbours; the Kurds and the Turkic population, but the modern ethnic nationalism has resulted in a tragedy for the Armenians.

EDUCATION

SCHOOL SYSTEM

In Turkey, preschool education, which is optional, includes the education of children in the 3-5 years of age group, who are not at the age for obligatory primary education. Preschool education is given in kindergartens, preparatory classrooms, application classrooms, day nurseries, nursery schools, daycare homes, and child care homes by various ministries and institutions, and by the Ministry of National Education most of all.

The duration of primary education in Turkey is 8 years and includes the education and training of children in the 6-14 years of age group. The primary education institutions consist of eight-year schools, uninterrupted education is carried out in these schools and a diploma of primary education is given to graduates. The fact that primary education is compulsory for all male and female citizens and it is free of charge in the State schools is guaranteed in the Constitution, Basic Law for National Education and the Law for Primary Education and Training.

Secondary education includes all the general, vocational and technical institutions of education, based on primary education, that give at least three- years education, and consists of high schools that apply various programs. Every student who completes primary education and who has a right to enter secondary education can benefit from the opportunities of secondary education.

In Turkey, the higher education includes all the educational institutions after secondary education that provides at least two years of higher education and educates students for associates, bachelors, masters or doctorate degree levels. Institutions of higher education consist of universities, faculties, institutes, schools of higher education, conservatories, vocational schools of higher education and application-research centres.

The special education services in Turkey are carried out in special education schools established according to disability groups. Today special education services are provided for children and youth in five different disability groups, including blindness, deafness, orthopaedic disabilities, mental retardation and long-term illnesses.

Extensive opportunities are provided for students in fee-paying private schools and especially foreign language education and education by computer are emphasized. The share of private schools in general education today is 1.5 percent and is intended to be increased to



6 percent in the short-term and to 15 percent in the long-term.

Turkey has 29 government-funded universities, and at Ankara's Middle East Technical University, Bilkent University and Istanbul's Bosphorus University, English is the language of instruction.

EDUCATIONAL LEVEL

In Turkey education is performed under the supervision and control of the state. According to Article 42 of the Constitution of the Republic of Turkey, everyone has the right to receive education. Individuals are educated by orienting them to various programs and schools throughout their education, depending on their interests and capabilities. It is essential that the educational system should realize this orientation.

Since education is considered as the most significant component of economic, social and technological development in the country, great importance is placed on education both in the government and development plans. Therefore, continuous increases in the resources are being made in order to meet the educational requirements of the population. For the formation of the infrastructure that will meet the goals and expectations in education, the preparations for the Educational Master Plan, including the years

The education level, especially for woman and girls, has increased over the last years. Still, the educational level of Turkey is insufficient, with a total literacy rate of 80.5%. The aim to narrow the difference between the male and female literacy level is an important one. The increase of educational level among the female population has led to a better understanding of the leading threats to good health, and a more frequent use of the health services.

Public schools give special importance on foreign language and computer-aided education.

EMPLOYMENT

The Turkish labour forces participation rate is approximately 48.7%, respectively 71.7% and 25.9% for men and women. On the other hand the unemployment rate is about 8.5% totally, 8.8% and 7.9% respectively for men and women. Unemployment rate is not easy to decide in a country like Turkey. The difficulty lies in the question about whether or not an unpaid family worker can be defined as an employee. Another aspect that has to be taken in consideration is the liability of the outcome of the surveys. It is for example decided that the sample size of the next survey has to be increased to make it more reliable.

Employment in Turkey can be divided into four sectors; agriculture, industry, construction and services, an important decrease in agriculture, and increase in services sector were emerged in the first quarter of 2000 HLF5. The shares of agriculture, industry, construction and service sectors were estimated to be 32.9%, 19%, 5.2% and 42.8% respectively. So the tendency in the labour market and markets generally, is that it is changing from focusing on agriculture to focus more on the modern and upcoming sector, service. The service sector is capturing increasingly more of the workforce, and its share of total production is growing each year.

ENVIRONMENT ISSUES AND ATTITUDES

The environment sector is a high priority sector in the Turkish market. Turkey's rapid industrialisation and the expansion of its cities have created complex environmental problems in public services, water, sewerage and energy distribution. The 1992 Constitution recognises the right of citizens to live in a healthy and balanced environment. Decades of rapid industrialisation, urban migration and little concern for the environment have had a visible impact on Turkey's waters and air. The country's attitude towards protecting the environment has changed substantially in recent years. On the official level, the government is quickly adopting environmental legislation comparable to the ones in the European Union. The Ministry of Environment, established in 1991, has been drafting practical regulations to this end, although lack of controls and enforcement mean that many merely exist on paper.

Government agencies and municipalities have launched several projects with pollution's growing threat. European Customs Union membership and Turkey's acceptance as a candidate for full EU membership has given added incentives to focus on environmental issues. The Government is quickly adopting legislation to conform to EU directives. Turkey will soon offer a wealth of opportunities for foreign firms with expertise in major environmental projects.

Emission of untreated sewerage, wastewater and solid waste is widespread. Turkey's rivers, lakes and territorial waters are suffering heavily as a result. The government is however, slowly coming to terms with the fact that traditional methods of waste disposal, although straightforward, are not economical.

Hence, co-operation with institutions such as the World Bank aimed at institutionalising modern methods of disposal is increasing every day. Turkey is also expanding greater efforts to clean up its seas and rivers, realising the economic costs in terms of losses to the fishing industry and clean-up far outweigh the short-term advantages of 'off-the-cuff' disposal.

Non-governmental organisations are playing an important part in developing awareness through active campaigning and co-operation with the international organisations. Environmental groups are forcing the industry to make decisions that harmonise with the environment.

HEALTH

The health status of the Turkish population has improved over the last decades. Market growth, urbanization and an improved educational level, especially for the female population, has made a great impact and bettered the health situation throughout Turkey. An increasing number of nurses, doctors and hospitals, and better supply of food and clean water, has also contributed.

TURKISH FOLKLORE AND ART

PAINTING AND CALLIGRAPHY

Painting in European style started to develop first in the nineteenth century. The government opened official painting and sculpture academies which encouraged to artistic expression in more western style.

Art under the Ottomans was very different from the art in the Turkish Republic. All mainstream artistic expression conformed to the laws of Islam. Instead of painting and sculpture, artists worked at arabesque decoration with motifs like flowers, pattern and Quranic inscriptions. In Islamic art, the artist's role is to affirm the unity and harmony of Allah's creations by producing beautiful objects.

The most important type of art for the Ottomans was the Calligraphy. A definition formed by Islamic writers is, "Calligraphy is a spiritual geometry produced with material tools."

The characters are based on Arabic script with contents mainly taken from the Quran.

CARPETS AND KILIMS

Carpets are the most visible and famous of the Turkey's traditionally arts and crafts. A typical Turkish home is decorated with a lot of carpets in all kind of colours. You will find them on the floor, on the walls and on the divans in the livingroom.

Turkish women have been weaving carpets for centuries, and are still practised in rural Turkey. When young girls prepared for marriage they weaved carpets and kilims and embroidered towels and clothes for their *ceyiz*. *Ceyiz* is a dowry collection of useful things that the girls bring to their new home.

The general pattern and colour scheme of old carpets was influenced by local traditions and the availability of certain types of wool and colours of dyes. Each artist imbued her work with her own personality, choosing a motif or a colour based on her own artistic preferences, and events and emotions in her daily life.

MUSIC

The Turkish tradition of troubadours is 1000 years old is fading, but some traditional songs of famous troubadours of the 13th and 16th century are still popular and available on CD.

Turkish music is not well known in Europe. There are numerous different music styles, but many of them are unfamiliar and can be difficult to get used to. Classical Ottoman music and some genres of folk music use a different scale system, although similar to the Western, called *makmas* (modalities). Travellers in Turkey sometimes find it hard to separate the nuances of folk music based on quartertones.

Türkü music is easier to get into, and you can hear lots of it on the radio.

The Turkish tradition of troubadours is 1000 years old is fading, but some traditional songs of famous troubadours of the 13th and 16th century are still popular and available on CD.

European and American music styles are of course adopted in Turkey. Surprisingly, the local music still makes its way, and if you travel in Turkey you'll still hear a lot more Turkish music than you'll hear the Western hits.



LITERATURE

One can divide the history of Turkish Literature into three periods: the years before the adoption of Islam (old Turkish), the Islamic period (mid-Turkish) and the period under western influence (new Turkish).

Islam mostly inspired literature in Turkey before it became the republic, and the Ottoman poets wrote poems of fulfilment with God. The "new language" movement in 1928 replaced the Arabic alphabet with the Latin one, foreign words were excluded and different literature styles from the religious ones were published.

BODY LANGUAGE

- Turks consider it impolite if you point your finger directly towards a person, if you turn the sole of your foot or shoe towards them or blow your nose openly in public.
- You should not pick your teeth openly, instead cover your mouth with one hand.
- Do not do a lot of kissing or hugging with a person of the opposite sex in public.

If you're planning to visit a mosque, there is special etiquette to consider.

FOOD

Turkish cuisine is at the heart of eastern Mediterranean cooking, it is amazingly varied and has left a mark on all the who have come into contact with it. It is said that there exists three major kinds of cuisine, and that the Turkish cuisine is among them.

One of the most famous contributions to the world cuisine is the yoghurt.

Yoghurt made its way north to Bulgaria and Eastern Europe during the Ottoman occupation.

The basic meat of Turkish kitchen is the Lamb. The famous sis kebab now known in many countries of the world is pieces of lamb threaded on a skewer and grilled over charcoal form. Another famous one is the tangy white cheese, known as feta, which has its origin in the Topkapi Palace.

FAMILY RELATIONSHIP

The family is a very important part of a Turks life. Traditionally, Turkish families can be quite crowded, where several generations live under the same roof. This type of family is becoming more and more rare today.

Parallel to the industrialization and urbanization in Turkey, families similar to the European families are becoming more common, and are more suitable to modern Turkish social life today.

There are some economic, traditional and emotional conditions that give the family members different duties and responsibilities.

It is usually the father who make the basic income, the mother can contribute by working and if not, she will use almost all her time to take care of the home.

TURKISH WOMEN

Turkey is an interesting example, from the aspect of the position of women, because it is a country which is influenced by all the contradictions of globalization and traditions. First of all, the great majority of the population in Turkey is Moslem. Today, women are observed in the forefront of various echelons of the administration of the state. However, there are still inequalities between women and men, and also between women from different sectors of society, in accessing important development sources, such as education, health and employment.

Turkey has participated in all the international conferences on the subject of women and has signed many international agreements directly or indirectly related to women. Turkey also accepted without reservations the Action Platform which was adopted at the Fourth World Women's Conference held in Beijing in 1995, in which she participated with a large delegation completely composed of women. By the year 2000, the Republic of Turkey represented by the State Minister at the Conference undertook:

- To increase the ratio of literacy among women to 100 percent,
- To decrease the maternal-child mortality by 50 percent,
- To make the eight year primary education compulsory, and
- To remove the reservations included in the Charter for the Elimination of Discrimination Against Women (CEDAW).

The participation of women in higher education has increased throughout the years. The data shows that the share of women in higher education is close to one third of the total. The formation and acceptance of the concept of the equality of women and men in a country like Turkey where the majority of the population is Moslem, and where patriarchal values are dominant, has been possible to a great extent with the existence of a secular educational system.

LANGUAGE

Turkish is the mother tongue of 90 percent of the population of the country. Some 70 other languages and dialects are also spoken, including various dialects of Caucasian and Kurdish as well as Arabic, Greek, Ladino and Armenian.

The language is also spread over a large geographical area in Europe and Asia; recent studies show that Turkish goes back 5500 years, and perhaps even 8500. You can find people who speak Turkish in one form or another, from Belgrade all the way to Xinjiang in China.

In 1928, Atatürk's reforms led to adaption of a Latin-based alphabet. This new alphabet was much better suited to easy learning and correct pronunciation than the Arabic one.

REFERENCES

The World Factbook online

<http://www.odci.gov/cia/publications/factbook/geos/tu.html>

CIRCA, online

<http://forum.europa.eu.int/irc/dsis/candidate/info/data/candidatecountries/turkey.html>

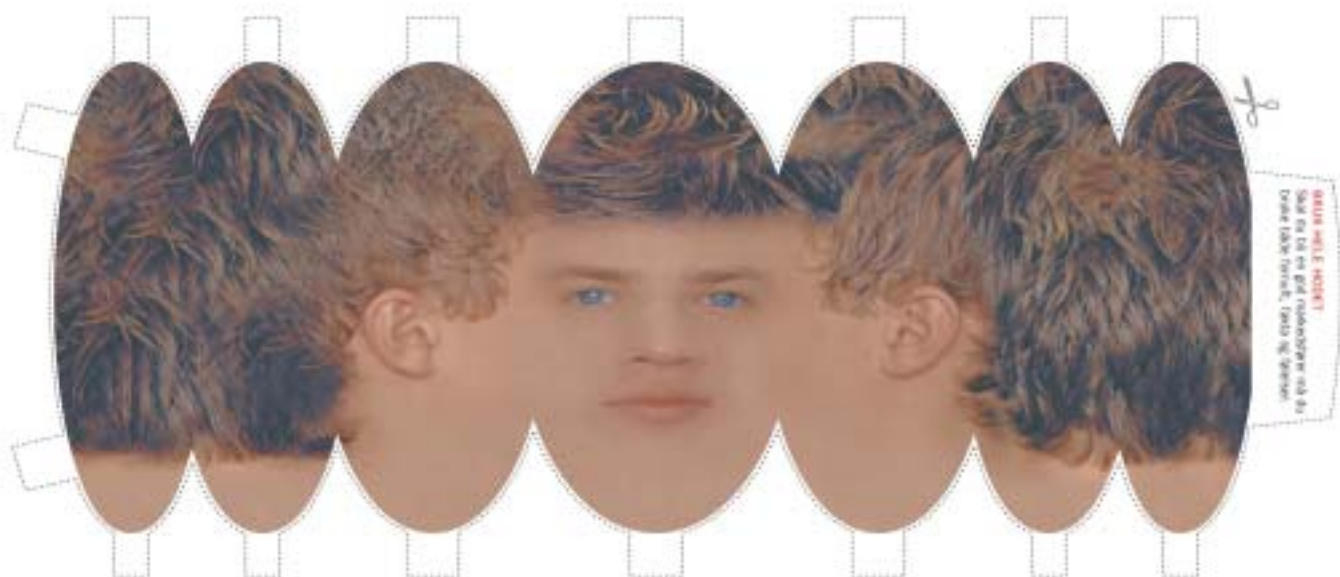
Republic of Turkey, Ministry of Foreign Affairs [online]

<http://www.mfa.gov.tr/grupe/eg/eg27/09.htm>

NTC, Norwegian Trade Council [online]

<http://www.ntc.no>

<http://www.tradeport.org/ts/countries/turkey/index.html>



VIL DU JOBBE MED MARKEDSFØRING MÅ DU BRUKE HELE HODET

En god markedsfører må ha bred kunnskap i ledelse, psykologi, markedsanalyse, økonomi og mye mer, og samtidig være kreativ og nytenkende. Med andre ord: Som markedsfører må du kunne bruke begge hjernehalvdeler. BI Norges Markedshøyskole (NMH) tilbyr bachelor- og masterstudier i markedsføring. NMH tilbyr tre toppstudier: Sivilmarkedsfører, Diplomeksportmarkedsfører og Diplommarkedsfører.

BI NORGES
MARKEDSHØYSKOLE

Se www.nmh.bi.no eller ring 810 00 500 for mer informasjon.
Bestill studiekatalog med mobiltelefonen. Send NMH + navn og
adresse til 2030. Eks: NMH ola normann, storgata 1 0241 OSLO

TECHNOLOGY

Despite Atatürk's (the founder of the modern Turkish State) visions on science and technology for the modern Turkey, the country has not yet developed a strong technological basis. But during the last decade initiatives have been taken for developments in this area.

THE INITIATIVES

In 1991, the Technology Development Project was established by the World Bank with the intention to stimulate innovation. The World Bank provided a loan of USD 43.3 million, and to administrate the project the Technology Development of Turkey (TTGV) was created. In order to harmonize the Turkish Technology Infrastructure with the European Customs Union standards, and to assist firms in upgrading their technological capabilities to improve the productivity and competitiveness both domestic and abroad, a loan of USD 155 million was raised in 1999 for the Industrial Technology Project (ITP). Some of the major initiatives in the ITP have been to strengthen industrial properties rights services, metrology services, restructuring of R&D institutions and to support technology upgrading by firms.

An evaluation done by the Middle East Technical University of the ITP concludes that R&D intensity has a very significant impact on generating both product and process innovation. In addition, also the size of firms and private ownership has a positive impact. Another item of significant importance is the correlation between foreign ownership, Internet use, advertisement intensity and the proportion of technical personnel. But although the involved firms are growing fast, most of them are still on the home market. The total impact of the ITP is high, and almost 90% of the receivers of TTGV support expect to launch new products and services as a result, and they plan to conduct new R&D projects in the coming next three years.

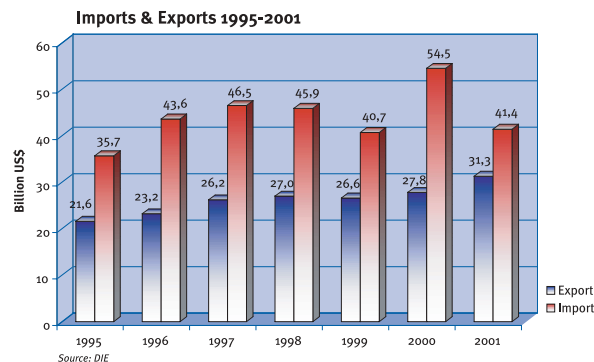
LACK OF INVESTMENTS

The Turkish industry and service sectors have suffered from the lack of investments from the banking sectors the years before the economic crisis. Because the banks made higher profits from government bonds there was not that much capital left for the private sectors, and thus technology developments were slowed down more than necessary. This has of course not been beneficial to Turkey, but it is about to change due to the impacts of the IMF programme. Also, foreign investments are very welcome and will be needed to maintain and increase the overall level of technology in Turkey.

IMPORTS AND EXPORTS

As a general overview, in 2001 the country's import was USD 41.4 billion. The export figure was at the same time USD 31.3 billion, which gives a coverage of 75.7% of the imports.

Turkey's main imports consist of crude oil and other oil products, natural gas, machinery, electrical equipment, chemical and pharmaceutical products, iron and



steel, and vehicles. The most important trading partners for Turkey are Germany, United Kingdom, USA, Italy, France and Russia. The main exports consist of textile and clothing, iron and steel, machinery, electrical machinery and equipments, vehicles and vehicle parts, chemical products, minerals and agricultural products.

IT & TELECOMMUNICATIONS

TELECOMMUNICATIONS

The Turkish telephone system is undergoing rapid modernization and expansion. The country's late entry into the most telecommunication fields in the 1980s enabled it to incorporate modern and technically sophisticated systems more rapidly than its developed neighbours. Thus, Turkey's high rate of digital and automatic telephone exchanges and lines put the country in the forefront of many European telecommunications networks. Additional digital exchanges and new technologically advanced intercity trunk lines between urban centres have permitted a rapid increase in subscribers. A goal is to reach a rate of 40% by the year 2005.

The Turkish telephone system is linked to the neighbouring countries through three submarine modern fibre-optic cables in the Mediterranean and Black Seas, as well as through the Intelsat, Inmarsat and Eutel international satellite systems

In addition to building a solid telecommunications system, domestic and foreign telecommunications companies have used Turkey as a base to expand operations in the Caucasus, Central Asian Republics and the Middle East. Turkey actually has the potential to become a communications hub between the CIS, Europe and the Middle East.

MOBILE PHONES

Turkey is one of the fastest growing markets for mobile phones in the Europe. The number of subscribers is forecasted to reach 25 million and the penetration rate will rise to 36% by the end of 2005.

Like most of the European countries Turkey uses the GSM (Global System for Mobile communications) standard in their digital cellular phone system. There are three operators, Turkcell, Telsim and Aria, offering state-of-the-art GSM services in Turkey today, all operating under government regulation and licensing.

The Turkish GSM coverage area (by March 2002) includes 100% of the population living in cities of 10 000 or more people and 99.5% of the population living in cities of 5000 or more people, as well as the 81 largest cities and the majority of the country's tourist areas and principal intercity highways.

THE INTERNET

The Turkish Internet country code is .tr. In urban areas it is easy to get internet access through one of the 22 Internet Service Providers (ISPs). In 2000, Turkey had an estimated 2 million Internet users and the number is growing fast. During the last few years also the use of Internet banking has faced a strong increase, with Garantie Bank as the market leader. Turk Telecom has control over international access lines but has allowed the private sector to establish service providers. Unfortunately, this continued control has been an obstacle for further growth.

MEDIA

TELEVISION

Before the 1980s Turkish TV was restricted to a single, closely controlled, state-run channel called TRT. The advent of satellite dishes essentially broke the public broadcasting monopoly, and there are now more than 264 licensed channels through the country. Quality in the private sector is fairly low, but the religious and political affiliations of the owners are seldom left open to doubt.

NEWSPAPERS

Turkey has more than 20 daily national newspapers today, including the English-language *Turkish Daily News*. There is also an abundance of local papers of varying quality throughout the country. The Directorate General of Press and Information, whose duties are to promote Turkey's image abroad; to ensure smooth flow of information from state into public domain, is used by the government to coordinate and support the press.

ENERGY SITUATION

Turkey has become a very dynamic energy market during the last two decades. The sector is quite robust compared to other sectors, and did not experience such a high decrease during the economic crisis. The country's population is young, growing and demanding, and combined with an economic growth this gives an increasing necessity for energy supplies in the future.

Because Turkey's own energy resources are limited, the country faces high dependence on imports, mostly of

crude oil and natural gas. Therefore, good relationships with diversified suppliers are important for the Turkish government, as well as the possibilities of energy transport through the country. These possibilities exist as a result of the very strategic geographical location of Turkey, lying as a bridge between the resource regions of Central Asia and the Middle East and the consumer markets of Europe.

Traditionally, coal and oil has been the major energy sources, with hydropower as a third part. Today the use of natural gas is increasing rapidly, and it is a future priority area. In addition, the potential of the hydropower sector is not fully exploited, and other renewable energy sources, like solar and geothermal energy, are also under development.

MANUFACTURING INDUSTRY

Turkey has many factors which make the Turkish manufacturing industry highly competitive. Among these we find an abundance of natural resources, the geographical position close to the major export markets, a large domestic market, developments in the infrastructure and telecommunications systems, and low labour costs. As a final factor, the movement towards liberalization of the economic policies has recently made Turkey even more attractive.

This competitiveness must not just be maintained, but also increased. To achieve this, Turkey is working hard to close the technology gap with developed countries and to increase the quality of the products. Other tasks are diversifying the export markets and products and making Turkish trade marks acceptable in international markets.

The predominant manufacturing sectors are the textiles and clothing industries, but also the food industry, chemicals and plastics, glass, iron and steel, motor vehicles and parts, electrical, non-electrical machinery, electronics, and furniture are well established sectors with a significant share of the total export.

TRANSPORT

Communications and transport are now the key target sectors in the globalization policies of the Turkish government. Infrastructure investments are economically attractive because of Turkey's natural bridge position in the framework of the integration of Europe and new emerging markets of Caucasus and Central Asia.

ROADS & HIGHWAYS

The national road network length is 62 000 km, of which 1 726 km are expressways and 55 000 km are asphalt roads. This makes transportation through Turkey the most economical and fastest connection from Europe to the Middle East and Central Asia. With its modern transport fleet Turkey has 95 % of passenger transport and 90% of the transport of goods on roads and highways.



NTNU - the university of diversity

Creative, Constructive, Critical

The Norwegian University of Science and Technology, NTNU, is a centre for scientific and technological education and research in Norway.

NTNU is also a university with broadly based expertise in the humanities, architecture, medicine and the social sciences. It also has the widest range of higher education in music and the visual arts in Norway.

All these elements combine to make NTNU a thriving university community as well as Norway's best environment for students.

www.ntnu.no



Trondheim - technology capital of Norway

Creative, Constructive, Critical

NTNU educates 80 per cent of the graduate engineers in Norway and many of these hold senior positions in industry and the public sector. The university has focused on strong-point areas where technological expertise is necessary to successfully compete on international markets.

The other technological axis which brings Trondheim to the international forefront is SINTEF, one of the largest independent research institutes in northern Europe. NTNU and SINTEF work closely together in technological R&D.



NTNU
Norwegian University of
Science and Technology



REFERENCES

- Norwegian Trade Council. Market Prospects 2002.*
- Norwegian Trade Council. Report on Turkish IT sector. 2000*
- Oxford Business Group. Emerging Turkey 2003*
- PriceWaterhouseCoopers. Country Report Turkey 2001. November 2002*
- Ministry of Foreign Affairs, Republic of Turkey [Online]
URL: <http://www.mfa.gov.tr> [Cited January 2003]*
- Republic of Turkey, Prime Ministry, Undersecretaries of Foreign Trade, Export Promotion Center (IGEME) [Online]
URL: <http://www.igeme.org.tr/introeng.htm> [Cited January 2003]*

AIR TRANSPORT

Turkey has 72 airports of different sizes and quality standards open for civil air traffic. More than 300 international airlines have flights to Turkey, with daily routes from every major European city. Domestically air transport is handled by the state-owned Turkish Airlines, with daily flights to more than 36 domestic destinations.

RAILWAY

The Turkish 10 933 km long state-owned railway network is in need of modernization; only 2131 km was electrified by the year 2001. To meet the growing demand in railway transportation, the government is planning a total of 2000 km rail track renewal and 1300 km electrification over the next few years. Investments in modernization and improvements will be given emphasis so as to benefit from the existing railway network.

CONSTRUCTION

Turkish construction services are one of the major sectors, which contributes to the exports of the Turkish service sector. Turkey is one of the world's top countries who exports construction services, today working in 49 countries on 4 continents, using all the financial, managerial and technological instruments of international contracting standards. They have a reputation of reliability, creativity and cost effectiveness. Their share on a world basis is 2-3% and they are mainly organized under the Turkish Contractors' Association.

Part 2



FRAMEWORK FOR DOING BUSINESS

- Case: The Jotun Story
- Setting up business in Turkey
- The Legal Framework
- The Human Capital
- Support Facilities

The Jotun story

After a hilarious and breathtaking trip with one of the many taxi drivers in Istanbul, we finally stop outside a grey and quite ordinary office building. Not sure if it is the right building, we are walking around trying to find a sign or something, and after a while we see two paint buckets in a window. This must be the office of the Norwegian paint company Jotun. We are here to meet the man who is the creator of this Norwegian fairytale in Turkey, hoping to discover a recipe of their success. As we step in to the office a man in his best age meets us with open arms and a smiling face. "Welcome to Jotun", he says and shows us the way to his office.



Jotun Turkey is today the market leader in marine painting in Turkey, having a market share about 60%. And even if this is a decline from earlier years, they are definitely the largest player in the market. They have also entered the protective paint market, but here they are still quite small.

Jotun has got two factories in Turkey, one producing powder coating and the other producing paint. These two belong to different entities in Turkey, the one producing paint reached NOK 187 million in turnover last year.

Inside Sükrü's office with a panorama view over a part of Istanbul, we are quite impressed and a little bit surprised. Not because of the view, but this room is filled with hunting trophies and weapons from around the world, as well as a fox trap lying on the floor. Our first impressions are also telling us that Sükrü Ergün is a well educated and recognised man, at least if we count the diplomas hanging on the wall. After some small talk we take our seats and are eager to get the story from Sükrü. "This is quite a funny story", he says and smile. It all started with a friend in England...

The German Wolfgang Ziegler arrived Turkey in 1985, with one goal; setting up business for Jotun. But he had a hard start, getting only two customers who

would not pay. Ziegler could not understand why the money was held back, neither could he understand why they would not continue the dialogue they had started. Probably frustrated, Ziegler picked up the phone and called a number he had received from a friend in England. He had been told that if he had any problems he could just dial the number, and maybe this man could help him. The man picking up the phone was one of two partners running a small and bankrupt firm, importing spare parts to the shipping industry in Istanbul. His name was Sükrü Ergün.

Sükrü was willing to help and after some work and a meeting with one of these customers, they had a deal. Ziegler was very satisfied and asked if he would like to be Jotun's man in Turkey, but he politely rejected. This was not the job for him.

Some time passed and then, again the phone rang in Sükrü's office. Ziegler had a new problem and again Sükrü was willing to help. After a couple of days and not too much work he solved this problem as well, and a new contract for Jotun was signed in Turkey. After some days a pre-signed contract appeared in the mail box, offering Sükrü the job again. But once more he politely rejected the contract. Some time passed and it was first when the bank called, telling him that there had been transferred some money into his account, he changed his mind. Sükrü and his partner immediately signed the contract and sent it to Jotun. Sükrü Ergün was now Jotun's representative in Turkey.

What did Ziegler know about this Turkish man when he sent a pre-signed contract by mail? Did he know that Sükrü Ergün had studied and lived in Norway for a year, or that he was well educated? We do not know. But from the outside it all looks like a coincidence, and that Jotun was very lucky meeting the right man at the right time. Which underlines what Sükrü says; "you have to believe in luck in life".

From a small flat in Istanbul the two men and a part-time secretary started the business. Having nothing but a typewriter, knowing nothing about the paint or the

industry, the start must have been quite hard – or? A lot of information were sent from the head office in Sandefjord in Norway, and they spent some time studying this information. Then the two men walked from shipyard to shipyard trying to convince them that Jotun had a very good product and a good price as well. After these meetings they hurried back to the office, wrote a contract on the typewriter and the next morning they were back knocking at the shipyard's door. Many contracts were signed this year.

The door opens up and a man is entering the room, bringing Turkish tea. It is served in beautiful small glasses and is tasting really good. These pleasant interruptions are very common in Turkey, never a meeting without drinking tea.

There is no doubt that there are cultural differences between Turkey and Norway, but Sükrü can assure us that there have been very few difficulties between the two parts. The largest misunderstanding was maybe when he for the first time was visiting the head office in Norway. The joy of driving a limousine for the first time was quickly killed when the Norwegian boss told him that the contract they signed a year ago was not valid. Upset and angry he nearly left the office, but the manager smiled and stopped him. Told him that it was only because he wanted to sign a new contract. The years to come passed without any major trouble. This is maybe because the management in Norway did not get involved in everything Sükrü was doing. They trusted him and he could pretty much run the company the way he preferred. At last he is the one who knows the Turkish business culture best.

Some years past and Jotun wished to develop their involvement further in Turkey. Earlier Jotun had delivered the production facilities to another player in the Turkish paint industry, Polisan. So Jotun made a proposal to establish a joint venture between Polisan, Jotun and Sükrü Ergün. An agreement was reached in 1991, and everything was prepared for a stronger and better Jotun in Turkey. But at this point the difficulties appeared. The reason is maybe one of the greatest differences between Norwegian and Turkish mentality; the time perspective. When Jotun is speaking of short-term planning they are

thinking of a period on three to five years. But for Polisan even one year is long-term planning. This caused a serious problem and could not go on for a long time. After two years the parts agreed to cancel the joint venture. Instead Jotun made a new joint venture with Sükrü Ergün in 1993 and a new factory was also built. From that day there has only been one way for the company's results, upwards. From a turnover on NOK 13.7 million in 1993, they reached NOK 187 million in 2002. This great improvement in turnover is mostly because of the paint factory which was built in 1993.

It is hard to find a recipe about how to succeed in Turkey, there are several factors which have contributed to Jotun's success, pointing out one or two are very difficult.

But according to Sükrü one of the factors is to keep the focus.

All the time Sükrü and his employees have been focused on what they are good at and specialized in this area, marine painting. The fact that they entered the market at an early stage has also been important for their success.

Taking good care of their employees are also important for Jotun, Sükrü's aim has always been to create a family atmosphere in the company. Including everybody from the drivers to the top managers is important. The last thing which is very important in Turkey is knowing the right people, you have to make good relations if you want to succeed. Through all the years this has been, and still is, one of the most important things Sükrü is doing in his work – building relations.

Looking forward Jotun will face several great challenges. From their office in Istanbul they are trying to reach the markets in their neighbouring countries as well as becoming larger in the decorating paint market in Turkey. Not to forget, keeping track of the marine paint business.

As we walk out of the building, thinking of this impressive and sunshine story we have no doubt that Jotun will overcome these new challenges and continue to grow in Turkey. Knowing what Sükrü Ergün has created so far, and having met some of his closest employees we believe the fairytale will go on for many years. At least as long as they stay focused.

SETTING UP BUSINESS

Turkey has come to a point where a genuine leap forward in terms of international competitiveness may not be expected without skills upgrading, science and technology planning, enterprise technology support, R&D incentives, and an environment to attract FDI. There is an extremely high willingness to meet these demands, and foreign investors should therefore pay attention to the Turkish market. Our general perception is that a foreign investor should be willing to spend money and share risks with a Turkish partner. When this is done – be patient – the potential is enormous.

Foreign investors have traditionally been welcomed in Turkey. The government encourages foreign investment with the aim of supporting the establishment of a fully free market economy. A special law, codified in 1954, has been modified by new decrees to attract foreign investors.

In principal, local and foreign investments are treated equally. Companies may be formed freely and Turkish law permits 100% foreign ownership.

NEW INVESTMENT INCENTIVES TO ATTRACT FOREIGNERS

The investment policy of the Turkish government is to support domestic and foreign investors by means of tax and non-tax incentives. Based on this view, the Turkish investment incentive system can be classified under three main headings:

- General Incentive Regime
- Incentives granted to Small- and Medium- Sized Enterprises
- Granted to Less Developed Regions

Excluded some exceptions, it is an obligation to get the investment incentive certificate to profit from the measures of investment incentives in Turkey. Foreign and domestic investors submit their applications to the Foreign Investment Directorate and Incentive Application Directorate respectively. These official bodies review the contribution of the investment to the industrial and/or social development of the country before issuing the Certificate.

The Certificate defines the main characteristics of the investment, the incentives allowed and the requirements that the investor has to fulfil. The requirements can be illustrated such as due date of the investment, minimum foreign currency allocation, export commitments etc.

GENERAL INCENTIVE REGIME

The current legislation concerning investment incentives is shaped by the decree no 2000/1821 published on 28 January 2001, and its related communiqué published on 18 February, 2001. According to this legislation, the incen-

tive tools granted to investors are:

- Exemption from customs duties and fund levies
- Investment allowance
- VAT (Value Added Tax) deferral for imported and locally purchased machinery and equipment
- Exemption from taxes, duties and fees
- Subsidized credit facilities

To be qualified for these incentive measures, the minimum amount of fixed investment must be TRL 400 and TRL 600 billion for the normal and developed regions respectively, and TRL 200 billion for the first priority regions, together with the following minimum equity rates:

- Investments in the first priority regions 20%
- Investments in the normal and developed regions 40%
- Ro-Ro and air cargo transportation 20%
- Boat and yacht construction or boat and plane imports 10%

EXEMPTION FROM CUSTOMS DUTIES AND FUND LEVIES

This incentive measure ensures that the imported machinery and equipment for the investment can be brought to the country with the exemption from customs duties and fund levies. The machinery and equipment, which are to be imported under this measure, must be included in the import machinery and equipment list to be approved by the General Directorate of Foreign Investment (GDFI). Note that within this context, raw materials and intermediate goods cannot be imported.

INVESTMENT ALLOWANCE

The investment allowance is a corporate tax exemption applied to taxpayers. Of the expenses incurred within the scope of investment incentive certificate, those relating to buildings, machinery, equipment, freight and installation are entitled to benefit from the investment allowance. The current allowance rate is 100%, which means that an amount equal to the fixed investment cost can be deducted from the future taxable profits. For industrial investments worth more than USD 250.000.000, this rate

S IN TURKEY

may be increased up to 200% by a governmental decree. Investment allowance amounts are also entitled to readjustment for inflation.

These incentive measures are applicable to all types of investments in the normal and first priority regions, but for the developed regions only specific investments can be qualified for incentives¹.

HOW TO APPROACH THE MARKET

Foreign investors may have a range of various reasons for activity in Turkey; from selling to the expanding market to establishing a low-cost production base for exports into Europe. The most successful ventures are often those where the two partners' aims are complementary and well understood (e.g. where a foreign player has established a customer base abroad, and the Turkish company has production capacity, the relationship is usually clear). In such cases it may be unnecessary for the foreign player to hold shares because a margin can be arranged through price margins or royalties.

A shareholding indicates long-term intent. Very often this is accompanied by a significant injection of technical know-how into the Turkish operation. The various shareholding situations should be elaborated upon in more detail. First, in situations where the foreign player has a minority of shares one should be aware of the fact that minority protection in Turkish company law is weak. In such cases a separate shareholder's agreement can document an understanding of management or guard against abuses such as intra-group transactions by either side at non-market prices.

Second, true 50-50 joint ventures are usually undertaken on a project-by-project basis; otherwise, it is recommended that one of the parties is in charge.

Third, where financial returns from a Turkish company are the principle motivation for investment, a majority or even 100% ownership should be preferred. However, in such cases it is recommended that Turkish nationals still occupy key management positions due to market knowledge.

Finally, setting up a new 100% foreign-owned company as a greenfield investment is normally favoured by larger groups with substantial management expertise, and a clear vision of how their products can be distributed.

TYPES OF BUSINESS ORGANIZATION

The General Directorate is the government department concerned with the administration of foreign capital investments.

The Turkish Commercial Code recognizes two distinct types of business enterprise:

- Partnerships
- Corporations

The legal differences between the two concern the allocation of liability and the legal identity of the entity.

Corporations established by foreign joint venture partners with or without a Turkish partner are treated as Turkish corporations and are entitled to all rights available to Turkish companies under the Turkish commercial code.

According to Turkish taxation, joint ventures formed specifically to undertake construction contracts, repair works, and similar projects expected to require more than one calendar year for completion, are not considered as separate corporate bodies but as ordinary partnerships.

For foreign joint venture partners there is usually no requirement for either a permit or for a minimum capital. Partnerships and joint ventures should be constituted by deed executed by a notary. Court approval, trade registration and announcement are not required for partnerships and joint ventures.

Foreign investors may establish a corporation in either of these two forms:

- Limited Liability Company
- Joint Stock Company

These business types exist as separate legal entities and offer their shareholders limited liability. The most common type of business entity in Turkey is the joint stock company and generally foreign investors establish such corporations for doing business in Turkey.



¹ Electricity production (including autoproducers), infrastructure investments, investments under the BOT and/or BOO (Build, Operate Transfer/Own) scheme, investments related to R&D, design and producing new products or models, investments for environmental protection, priority technology investments determined by the Higher Council of Science and Technology, electronic sector investments, boat and yacht construction, shipyard investments, technoparks; information technology, education, health, tourism, telecommunications and certain service sector investments, capacity increase, modernisation, quality improvement and integration, projects which cost over 50 million USD with at least one of the following requirements; high-tech, increasing employment, high level of value added and increasing tax revenues.

A joint-stock company is preferred when shareholders with potentially conflicting interests come together, such as in a joint venture. A limited liability structure may be preferable when the objective is to establish a wholly owned subsidiary with minimum capitalization and administration requirements.

JOINT STOCK COMPANY

A joint stock company is defined as a corporation having its own trade name and a predetermined amount of capital divided by shares. The liability of the shareholder is limited to their capital.

The structure and organization of joint stock companies are subject to regulation by the Turkish Commercial Code. However, the founders of joint stock companies are afforded significant flexibility in drafting the articles of association, thereby serving the needs of the specific venture. Capital Market Board regulations also apply to joint stock companies whose shareholders' number at least 250, or which have issued bonds or whose shares are quoted on the Istanbul Stock Exchange.

A minimum of five shareholders, who may be either real persons or legal entities, is required for the formation of a joint stock company. The overall share capital must be a minimum of 5 billion TRL and the minimum capital contribution by each foreign shareholder is USD 50000.

The capital of a joint stock company is divided into shares of equal value, which are treated as negotiable commercial paper. The shares may be issued in either registered or bearer form. Registered shares are freely transferable subject to approval by the board of the company, unless prohibited by the company's articles of association. Bearer shares are freely transferable under the Code of Obligations, unless otherwise agreed by the parties.

Decision making in a joint stock company is by majority vote, but the Turkish Commercial Code includes certain provisions to protect minority interests. As mentioned before, minority shareholders may hence also request the appointment of a special auditor on their behalf.

Certain types of business, for example banks, insurance companies, leasing companies, factoring companies, underwriting companies and publicly quoted companies, must by law be set up in the form of a joint stock corporation and may have special requirements as regards formation formalities, minimum capitalization and other issues.

Note that there are no restrictions on the nationality or country of residence of the founding members.

LIMITED LIABILITY COMPANY

A limited liability company differs from the joint stock company in that its capital is not divided into shares of stock nor represented by share certificates. There is no board of directors for a limited company. Instead, the appointed manager has authority to run the company.

Limited liability companies may be composed of real persons or legal entities and must consist of at least 2 and no more than 50 shareholders. The overall share

capital must be a minimum of 500 million TRL and the minimum capital contribution by each foreign shareholder is the TRL equivalent of US \$ 50,000. All shareholders are personally liable for the debts of the company up to a maximum of their contribution, however, shareholders are not held liable for the unpaid portions of others' contributions. They are also more directly exposed to the tax liabilities of the company, limited however to their own shares.

Shares held in a limited liability company are non-negotiable and may be transferred only with the approval of the other shareholders. Transfers must be approved by at least a 75% majority vote, with at least 75% of the total capital represented. Limited liability companies are also prohibited from engaging in banking or insurance business.

BRANCHES

It is possible to establish a branch office of a foreign entity to engage in commercial activity in Turkey. The procedure for formation of a branch office is no simpler than that for the formation of a corporation and there are some further disadvantages. For example the foreign parent is directly liable for the obligations of the branch office, there is no formal management structure and the investment incentives that are available to foreign companies are not automatically available to branch offices.

The income of a branch derived in Turkey is taxed in the same way as that of resident corporations.

LIAISON OFFICES

A foreign company may establish a liaison office for the purpose of business development, engaging in activities such as market research and project feasibility studies. Since liaison offices are not permitted to engage in activities that create any income or profit, all expenses must be paid for by foreign currency brought into Turkey from abroad. Liaison office activities are largely tax-exempt and salaries paid to all foreign and local staff are exempt from personal income tax. A liaison office is, however, required to deduct social security contributions.

SELLING TO TURKEY FROM ABROAD APPOINTING AN AGENT OR DISTRIBUTOR

Turkey offers a number of possibilities to foreign investors. The use of an agent is generally appropriate for a relatively small level of trade but as the level of trade increases, the establishment of a distribution network may be more beneficial to the foreign investor.

The TCC requires that written permission must be given by the principal to the agent to conclude and sign contracts. This permission is registered with the Trade Registry by the agent and published in the Trade Registry Gazette. However, failure to register such permission does not render sales contracts with third parties invalid. The registration of an agency agreement will not result in the foreign principal establishing a legal presence in Turkey.

As with agency agreements, distribution agreements are mainly governed by the principle of freedom of con-

tract which grants great flexibility to the foreign investor in the structure of the relationship. The distributor (unlike an agent who is remunerated by commission) sells the principal's products under its own name and for its own account.

Although there is no specific law relating to the regulation of distribution agreements, the provisions of the TCC in relation to agency agreements are applicable.

SUBCONTRACTING

Industrial subcontracting and outsourcing are modern and efficient ways to organize production, through cooperation between various complementary production units, e.g. a main contractor and various suppliers and subcontractors. This concept consists of an agreement between two parties, the main contractor and the subcontractor. The main contractor entrusts one or several enterprises with the production of parts, components or sub-assemblies and / or provision of the industrial services that are necessary for the manufacture of its final product. The subcontractor executes the work as per specifications provided by the main contractor. There is thus a division of work in the production systems in the industrial sector and the subcontractors become increasingly specialized in one or more technological processes.

Subcontracting as concept can emerge in almost all sectors. When the Turkish Subcontracting and Partnership Exchange (SPX) was established, they selected five main sectors: Metalworking, Plastics, Rubber, Electric and Electronics. Subcontracting of different kinds could also be of interest in the sectors analysed in this report: Energy, ITC, Maritime, Aquaculture and Healthcare. The size of the subcontractors can vary from small to very large enterprises, but according to a survey from SPX most of the subcontractors in Turkey are small- and medium-sized industries with less than 150 employees. These enterprises having specialized in certain processes and operations, are capable of supplying quality goods and at the same time offer advantageous economic terms for the main contractors. The main contractors, are often but not necessarily, large industries. They are often engaged in industrial manufacturing, which require a large amount of parts and components for final assembly.

There are several advantages of subcontracting in Turkey are several. First of all, there is a very large and young workforce in the country, the average age of the Turkish population is approximately 28. Labour is also very cheap compared with other countries at the same level of development. There is also a large group of well-educated people, many of them unemployed after the 2001 crisis. The competence of this group plus a satisfactory and already developed industry can be of great value for the industries which are interested in subcontracting in Turkey, as well as the inexpensive less educated workforce. In addition Turkey offers two-tiered global expansion opportunities to international companies engaged in manufacturing; first as an unsaturated domestic market and second as an export bridge to neighbouring developing countries. Such capacity also enables Turkish produ-



cers and parts manufacturers to become part of global procurement chain while exporting parts, components as well as finished products.

REGISTRATION PROCESS OF A JOINT STOCK CORPORATION

A foreign investor must apply first to the Foreign Capital Department (of the Treasury) for an investment permit, and then to the Ministry of Industry and Commerce for the foundation of a joint stock corporation in compliance with Turkish legislation.

The required documents to obtain the permission from Foreign Capital Department are:

- Certificate of activity for foreign shareholder,
- Last years balance sheet of foreign shareholder (if a corporation),
- Report of activity field for foreign shareholder (if a corporation),
- Passport copies of foreign shareholders (if person),
- List of fixed assets that will be brought to Turkey.
- Guaranty of %0.1 of total investment (in case of intention to obtain an industrial stimulation).

The required documents to apply to the Ministry of Industry and Commerce are:

- Articles of association (authorized by a notary public) consisting of : names of the founding members, nominal value and value of the shares issued to each founding Member, paid-up amount of the share capital, name of the company and its domicile (which must be in Turkey), the objects of the enterprise, the business year, amount of share capital, total number of shares issued, a statement as to whether the shares are bearer shares or registered shares, the number of members on the management board.
- ID copies and signature samples of shareholders (authorised by a notary public),

- Residence certificate for those residing in Turkey,
- The decision of the board of directors about participation in the new corporation (if shareholder is a corporation)
- The bank receipt of the amount transferred (USD 50 000 for each foreign shareholder, if any)
- Procuration proxy related to the person who will carry out the procedure.

The following organizations should also be informed:

- *The Municipality*
The title or rental agreement of the real estate, which the corporation is addressed in, must be presented to the Municipality. The local municipality can provide this document which will certify that the organizing corporation physically exists.
- *Tax office*
Informing the tax office about the organization of the corporation and the authorization of commercial books by a notary are also required.
- *Trade Register Office, Chamber of Commerce, and Trade Register Journal*
Registration at the Trade Register Office and the Chamber of Commerce and publication of the organization at the Trade Register Journal are the last steps of organization. After the conclusion of procedure, the receipt of publication will be sent to Foreign Capital Department. According to the new legislative decisions, the corporation must retain a fiscal counsel under oath. Counsel will supervise the books, and authorize the tax declaration forms.

MANAGEMENT

The shareholders may exercise their rights at the General Meetings of the company. With a few exceptions, such as the increase of share capital, mergers and liquidation, the approval of resolutions requires a simple majority of votes. In particular the following matters are decided upon at the General Meeting: appointment of the supervisory board and of the auditors; approval of the amount and the number of dividends and distributions; increase or decrease of share capital; and amendments to the statutes.

The Supervisory Board is required by law. It must consist of at least three members. The Supervisory Board has the power to appoint, remove, supervise and advise the Management Board, and presents the results of its review of the audit and reports of the Management Board to the General Meeting.

The members of the Management Board legally represent the joint stock corporation and are fully responsible for its management. In the case of foreign investment, the members of the Management Board need not be citizens or residents of Turkey.

Under Turkish banking law, if financial weakness is reported to the Treasury, the executives of the related bank (including members of the management board) may be dismissed by the Banking Supervisory Board.

Each year, 5% of the net profit of a corporation must

be set aside as the first legal reserve, until such time as this reserve reaches one fifth of the paid-up capital in value.

ACCOUNTING SYSTEM AND REPORTING REQUIREMENTS

At present, there is no set of generally accepted accounting principles that apply equally to all Turkish companies although over the past few years there have been some tentative steps in that direction. Instead, there are general rules that govern the aspects of accounting in the Tax Procedures Code and, in addition to these general rules, there are other rules that apply specifically to banking and insurance companies and to companies registered with the Capital Market Board.

Note that the most recent development has been the introduction of a Uniform Chart of Accounts, which prescribes certain fundamental accounting concepts, a code of accounts, and a format for the presentation of financial statements which, with the exceptions listed below, have been applicable to all companies in Turkey from 1994.

Banking and insurance companies, private finance institutions, leasing and factoring companies, mutual funds, institutions, and investment trusts, are the exceptions to this general rule.

RESTRICTIONS TO BE AWARE OF

There are restrictions for certain fields of activity, such as civil aviation, accounting and consultancy activities, the engagement by foreign nationals in merchant shipping activities in Turkish Waters is controlled, as is the ownership of real estate. In addition, there are some demands on the repatriation of liquidation surpluses, interest and technical fees, royalties and management fees.

As is settled in Banking Code, foreign banks may be active in Turkey, on a branch office basis. It is also required that permission must be obtained from the Council of Ministers. The foreign bank is to have the status of Joint Stock Corporation or equivalent, under the law of the native country.

Finally, foreign insurance companies may only be active in Turkey as a Joint Stock Corporation or on a branch basis.

on your risk agenda: deadlines

Be there on time, leave on time. No delays, keep ships and business running. It's a question of managing your business risks.

At the same time, stakeholders are making new demands and tolerance for failure is constantly becoming lower. It's a new risk reality. You need a class partner to help you stay ahead of tomorrow's challenges. Visit www.dnv.com to learn more.

MANAGING RISK



THE LEGAL FRAMEWO

Tax law is continually changing, and further developments may well occur with the new government. Turkey has implemented a corporate taxation system where residence counts. The Tax law in Turkey is continually changing in favour of foreign investors.

The Turkish legal system has profited from various continental European legal systems when making its laws and regulations; the main sources are the French, Swiss and Italian codes.

An independent judiciary supervises the conformity of laws to the 1982 Constitution by means of the Constitutional Court.

The legislation governing foreign investments in Turkey has been shaped by the Foreign Capital Law, which was enacted in 1954, and the Council of Ministers Decree and Communiqué which were last revised in 1995. The Law and the Decree draw the framework of general principles concerning foreign investment.

Foreign investors have the same rights to benefit from the investment incentives as local investors.

Investments are not only secured by the legislation regarding foreign investments, there are many other legal acts and international agreements which guarantee a stable and reliable investment environment.

CORPORATE TAXATION

For tax purposes, companies are grouped as limited liability companies (corporations and limited companies) and personal companies (limited and ordinary partnerships). Corporate tax applies to limited liability companies. State economic enterprises and business entities owned by societies, foundations and local authorities are also subject to corporation tax.

Whether a company is subject to full or limited tax liability depends on its status of residence. Residence is hence of considerable importance for corporate taxation.

A company whose statutory residence or place of management is established in Turkey will have full tax liability; in this case, worldwide income is taxable. For these resident corporations, tax is levied on worldwide income, but credit is given for foreign tax payable in respect of income from foreign sources (up to the amount of Turkish corporate income tax, i.e. 30%)

The basic corporate tax rate is 30%. With additional levies amounting to 10% of the tax for funds contribution, the effective tax rate is 33%.

If a non-resident company conducts business through a branch or a joint venture, it will have limited tax liability; i.e. fully subject to corporate tax on profits earned in Turkey on an annual basis. If there is no presence in Turkey, withholding tax will generally be charged on income earned; for example, for services provided in Turkey. However, if there is an avoidance of double

taxation treaty, reduced rates of withholding may apply.

Note that Norway has an avoidance of double taxation with Turkey.

From the non-resident's point of view, many payments abroad including those for professional services and technical assistance, royalties and rentals are subject to withholding tax at rates varying between 10% and 25%. In this regard, countries having avoidance of double taxation treaties with Turkey have considerable advantages. These countries can, in general, benefit from a reduction of withholding taxes in certain circumstances.

The accounting period for tax purposes is normally the calendar year. However, companies may have tax years other than the calendar year, appropriate to their business and subject to their prior approval of the Ministry of Finance.

INDIVIDUAL INCOME TAX

Generally, individuals residing in Turkey are responsible for personal income tax on all of their income obtained in and outside Turkey. Thus, Turkish residents are taxed on world-wide income, but they can receive a tax credit for taxes paid abroad. Personal taxes on income from foreign countries may be deducted from taxes due in Turkey on the same income, but only up to the amount of the Turkish taxes charged.

The income of non-residents is taxed at the same rate as residents, but non-residents are not entitled to deduct the general allowance and receive no credit for foreign taxes. The range of tax rates for individual taxes is 15-40%, but the salaries of the personnel working in foreign corporations' liaison offices are excused from the income tax if these offices do not deal with commercial activities in Turkey yet and the salaries of the personnel are paid by the remittances in foreign currency sent from abroad.

OTHER TAXATION

VALUE ADDED TAX

Deliveries of goods and services are subject to VAT at rates varying from 1% to 26% except deliveries of passenger vehicles with engine capacity higher than 1600 cc (40%) and tobacco products (120%) etc.

The general rate applied is 18%. Intercompany interest charges are subject to VAT at 18%. The VAT rate on most leased assets is 1% with the exception of 26-40% on leased passenger vehicles and 8% on other leased land transport vehicles. Lease contracts are exempt from all types of taxes, duties and stamp taxes. VAT is charged on imports at normal rates.

Goods and services that are exported from the country are not subject to VAT. A delivery of goods is considered an act of exportation if the delivery is made to a customer outside the country, and/or the goods delivered pass through Turkish customs.

Situations in which the manufacturer delivers goods to the exporter are also considered to be within the scope of this exemption. However, in this case, the exporter must actually export the goods within three months of their delivery to the exporter. A performance of services is considered an act of exportation if the service is rendered for a customer who is outside the country, and/or the benefit of the service is derived outside the country.

Additionally, the following are not subject to VAT

- Goods purchased by tourists
- Conveyances and petroleum exploration
- Investments within the scope of the Investment Incentive Certificate: The deliveries of machinery and equipment within the scope of the investment incentive certificate to the taxpayers who own an investment incentive certificate.
- Transport services: Transport services between Turkey and other countries and transit trade activities through Turkey
- Diplomatic personnel: Deliveries made and services provided to diplomatic representations and consulates of foreign countries in Turkey as well as to their members who possess diplomatic rights. The same applies to deliveries made and services provided to international organizations and their personnel that have been granted a tax exemption based on international agreements.
- Banking and insurance transactions (such activities are already subject to a five per cent banking and insurance transaction tax).
- Others: Deliveries of gold, silver, foreign exchange, cash, tax stamps, stocks, and bonds, movements of crude oil, oil, and oil-based products through pipelines, deliveries made and services provided by military factories and shipyards that are in accordance with the purposes for which they were established, delivery and leasing of assets which have been included within the scope of privatization.

BANKING AND INSURANCE TRANSACTION TAX

Banking and Insurance company transactions remain exempt from VAT, but are subject to a Banking and Insurance transaction tax (5% in general). This tax applies to income earned by the banks, for example on loan interest.

STAMP DUTY

Stamp duty applies to a wide range of documents, including contracts, agreements, notes payable, capital contributions letters of credit, letters of guarantee, financial statements and payrolls. Stamp duty is levied as a percentage of the value of the document.

INHERITANCE AND GIFT TAX

Items acquired as gifts or through inheritance are subject to taxes of between 4% and 30% of the item's appraised value. Tax paid in a foreign country on inherited property is deducted from the taxable value of the asset.

Inheritance tax is payable over the period of five years and in two instalments per year.

PROPERTY TAX

Property taxes are paid each year on the tax values of land and buildings at rates varying from 0.3% to 0.6%. In the case of the sales of property, both the buyer and the seller pay a 4.8% levy on the sales value. The rate is reduced to 2.4% if the property is contributed as capital-in-kind.

INCENTIVES TO PROTECT AND PROMOTE SMALL- AND MEDIUM-SIZED ENTERPRISES (SMEs)

Decree no 2000/1822 published in the official gazette of 18 January 2001 govern the incentives relating the SMEs. An SME is defined as an establishment operating in the manufacturing sector, employing at most 250 workers, and utilizing capital goods (machinery, equipment, vehicles and office stock - excluding land and buildings) of not more than TL 400 billion. The aim of this Decree is the protection and promotion of SMEs, improving their production and quality standards and enabling them to develop new products.

The incentive measures applicable to SMEs are exemption from customs duties and fund levies, investment allowance, VAT deferral for imported machinery and equipment, VAT refund for locally purchased machinery and equipment, exemption from taxes, duties and fees, and subsidized credit facility.

Note that the application procedure for the first five incentive measures is identical with that of the general incentive regime. The last measure, subsidized credit facility, is a fund financed credit to finance machinery, equipment and raw materials for the investment project.

THREE TYPES OF REGIONS

The general incentive regime that is applicable varies according to the location, scale and subject of investments. In terms of the application of general incentives, Turkey is divided into three types of regions:

Developed Regions

The city boundaries of Istanbul and Kocaeli, and the municipality boundaries of Ankara, Izmir, Bursa, Adana and Antalya.

Normal Regions

The remaining cities.

First Priority Regions

50 towns determined by the Council of Ministers.

PATENTS, TRADEMARKS AND COPYRIGHTS

Patents, trademarks and copyrights may be taken out in Turkey within the framework of reciprocity. The basic period for patents varies between 5 and 15 years, whereas for trademarks the period of protection is 10 years. Copyright is protected during the lifetime of the author and for 50 years after his death.

The renewal period for patents may be 5, 10 or 15 years for each renewal, while for trademarks the renewal period is 10 years. Licences can be granted both under patents or trademarks.

If a patent is not used by the person who originally takes it out, it is liable to be cancelled, or it may be subject to compulsory licensing under the following conditions:

- If not used in production within 3-4 years following the grant of the patent or the acquisition of the patent

rights, or for 2 years following cease of use in production, a patent may be cancelled. Thus the maximum period of non-use before cancellation is 6 years.

- If a trademark is not used within 3 years it also is subject to cancellation. In situations of force majeure, the right to cancellation before the prescribed period has elapsed is reserved.

International conventions on patents and trademarks to which Turkey is a signatory are as follows:

- Paris Convention of 1925
- London Act of 1957
- Stockholm Act of 1976
- European Convention Relating to the Formalities Required for Patent Applications of 1953
- European Convention on the International Classification of Patents for Inventions of 1954
- Hague Agreement establishing the International Patent Institute of 1947
- Act of The Hague of 1961
- WIPO Convention in 1976



HUMAN CAPITAL AND

A remarkable young population packed with energy and with openness for changes and progress will be important criteria for success in the transformation process the country has to go through. During the stay in Turkey, the International Business Project had the privilege of meeting highly professional and action-oriented management, competent and acknowledged professors and researchers, and hard working and curious students.

Turkey has always had problems in creating new job opportunities for its rapidly growing population. The problem is exacerbated by the continuous immigration from rural areas to the cities, and from the east and south to the western parts of the country. It is estimated that with economic growth of at least 6%, the unemployment rate can be kept steady at around 10%.

Although Turkish education standards are generally below European levels, due to the flow of emigrant Turkish workers returning from abroad – especially from Germany – skilled labour is readily available.

Low labour costs are definitely as a competitive advantage for Turkey. The average salary in Turkey is equal to approximately one fifth of the Norwegian average salary. Availability of cheap, skilled labour is one of the most important factors attracting foreign investment to Turkey.

IMPROVED LABOUR RIGHTS

In July 2002 significant changes were made to the Turkish Labour Law. The changes, which strengthen labour rights, will come into effect in March 2003. The International Business Project had the pleasure of meeting both representatives from the labour side and representatives from the employers' side. Some representatives from the employers' side had difficulties in accepting these new rights, and promised new debates. Their main argument was that the firm had to be the focus in order to make industry competitive, not the labour rights.

Labour unions were relatively powerful in the public sector during 1970s and 1980s. During the liberalization process the unions have however lost this power, but due to the national restructuring programme labour rights have increased.

The changes primarily concern the area of employment termination, re-employment, compensation in the



EMPLOYEE REGULATIONS

case of illegal dismissal, and consultation procedures when large-scale downsizing is planned.

EMPLOYMENT REGULATION

Relations between employees and employers are now comprehensively regulated by law, by agreements between trade unions and employers' organizations, and by individual employment contracts. Legislation provides safeguards for the employee in his or her terms of employment, as well as in general working conditions.

The legal working week is 45 hours in Turkey. Overtime may not exceed 3 hours a day or 90 days a year and is not allowed in underground work. Usual overtime rates involve a 50% daytime premium on weekdays and Saturdays and 100% on Sundays and public holidays.

The government sets a minimum wage, but actual wages are higher than the minimum wage rate. Salaries are normally reviewed on a half yearly or quarterly basis. The review of wages depends on whether there is a collective bargaining agreement with a union and how long this is valid for.

Fringe benefits cost employers about 30-40% of blue-collar workers' gross wages and 25-30% of white-collar salaries. The most common fringe benefits are meals, transport, and yearly bonuses of two or four months' salaries. In addition, cash benefits payable in the event of births, marriage, etc. and heating and clothing allowances are provided through union agreements.

Under the current labour law, a company is required to make lump sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Severance pay is calculated at one month's salary up to a maximum amount per year of service. This limit is adjusted four times a year. The employer has no obligation to provide severance pay if the employee resigns.

Legislation also requires that all employees should be covered by the social security system and pay social security contributions. The system includes benefits for industrial accidents and sickness, health insurance, maternity, disability, old age and death. It also covers almost all the costs in a modest level of medical care.

Contributions as a percentage of gross salary are payable by individual employees and employers. The contribution rate for the employer and employee is around 19.5-25% and 14% of the gross salary respectively. For citizens of countries with which Turkey has bilateral social security agreements, it is possible to stay within their own national social security schemes.

Employment law currently allows people to retire after fulfilling 7000 premium days or 4500 premium days with carrying insurance for 25 years, in condition to attain ages 58 for women and 60 for men.

The employment of foreign personnel is also possible in Turkey. In order to be able to work and reside in Turkey, all non-residents must first obtain a work permit from the General Directorate of Foreign Investments and parallel

with this permit, a residence permit from the Ministry of Internal Affairs.

The main areas governed by labour law include the following:

- Protection of young persons, older workers and pregnant women
- Maximum weekly working hours
- Minimum paid annual leave
- Minimum notice periods on termination of employment
- Employment of disabled persons and immigrants
- Employee participation in the form of certain rights of co-determination in larger businesses and the role of trade unions
- For companies over a certain size, the construction of sport centres for employees. Disputes between employee and employer are subject to the jurisdiction of labour courts. Trade unions and confederations are organized according to the Trade Union Law.

UNIONS AND CONFEDERATIONS

Both employees and employers have formed unions and confederations in Turkey. Membership of trade unions is unrestricted. However it is not permitted to be a member of more than one union. According to the Turkish Constitution, trade unions and their confederations may not take part in political activities.

Collective bargaining agreements are subject to official arbitration in order to end disputes rapidly, and are made between the labour union and the employer or the employers' confederation.

A labour union may be set up by employees in a branch of activity if it can show support representing 10% of the countrywide employees of this branch. The Ministry of Labour is authorized to decide whether or not this figure has been achieved. Collective bargaining agreements are made within an industry on a company-by-company basis. It is not compulsory for a worker to belong to a trade union.

There is no employee control over management in Turkey, except for some companies and banks of which trade unions or employees' aid funds are shareholders. Strikes following disputes arising during collective bargaining in pursuit of improvements in social or economic conditions, or conditions of employment, are considered legal strikes. All other strikes, such as general, solidarity and political support strikes, occupations of plants and factories, slowdown actions and similar kinds of resistance are considered illegal strikes.

Similarly, lockouts for political or solidarity purposes, and lockouts in general are considered illegal. The Council of Ministers is authorized to postpone strikes or lockouts under certain conditions.



JOTUN

**For selfsmoothing and
selfpolishing performance
from a TBT-free antifouling**

SeaQuantum

The world's best solutions

Ready to convert to a TBT-free antifouling?

Jotun has solutions that don't soak up your money.

Most other TBT-free antifoulings are selfpolishing-only.

SeaQuantum is selfsmoothing and selfpolishing.

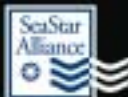
Some of the backbone of these other selfpolishing-only paints remains after the soluble components are absorbed by seawater. This increases the roughness of the hull.

Over time, the sponge-like build-up affects the antifouling process – soaking up your money in extra fuel costs.

Whichever selfsmoothing, selfpolishing SeaQuantum solution you choose, we guarantee it will reduce the roughness of your vessel's hull and, hence, your fuel costs.

**SeaQuantum
saves you money**

Jotun A/S
P.O. Box 2021
N-3248 Sandefjord, Norway
Tel: +47 33 45 70 00
Telefax: +47 33 45 79 00
www.jotun.com



Jotun Marine Coatings

One of the worlds leading paint supplier

Exceeding customer expectations

Norwegian shipping and whaling activities laid the foundation for the establishment of Jotun's paint production facilities in Sandefjord, and marine coatings continue to be the backbone of Jotun even today. Now far and away one of the world's largest paint suppliers to the marine market, Jotun has accompanied the Norwegian merchant fleet on voyages to every corner of the world and is among the Norwegian companies with the largest international market. While the link between Norwegian shipping and Jotun's international position is obvious, the size of the company's domestic market is only part of the reason for its success. Norwegian ship-owners have always been, and continue to be, exceptionally discerning in terms of quality and service. They understand what the concept of service must include if the final result is to be satisfactory. Accordingly, it has been a challenge to be the largest supplier of marine coatings to the Norwegian merchant fleet. And maintaining this position is no mean feat. Challenges help strengthen individuals and organisations, when they are addressed correctly. In the 75 years since Odd Glødestad founded his paint factory in Sandefjord, collaboration with Norwegian shipowners has been essential for achieving the global position Jotun enjoys on the marine coatings market today. The Jotun staff is therefore grateful to Norwegian shipowners for consistently posing the most stringent requirements, because meeting their high standards has enabled us to compete on the international market.

What does Jotun supply to the Norwegian merchant fleet? Many people would say 'paint', but that answer is only partly right. Protection against corrosion and fouling

would be the more correct answer, and protection consists of far more than a few buckets of paint.

Knowledge is a prerequisite for achieving good results. Continuous research is done to determine how to prevent destructive corrosion and costly fouling in order to meet the challenges of tomorrow. The development of new types of paint and other protection systems is part of these efforts, which also include the longterm testing of new products. Such tests require years, often many years, to conduct since vessels owned by shipping lines cannot be used as painted pigs. Research and testing constantly add to Jotun's store of knowledge.

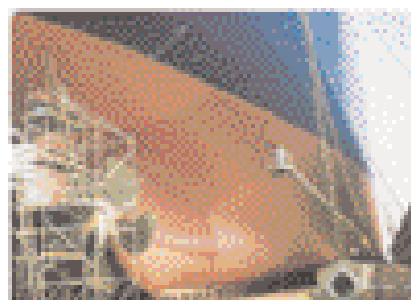
TBT-free antifoulings providing solutions to every need.

SeaQuantum:

- Out performs all other TBT-free self-polishing antifoulings
- No fouling
- Reduction in hull roughness
- Reduction in fuel costs

While other manufacturers so far have introduced TBT-free antifoulings based on alternate mechanisms, none can match the lasting performance of SeaQuantum. With these other products, the hull roughness increases adding significantly to the cost of fuel - SeaQuantum conversely, reduces hull roughness, leading to decrease of the fuel consumption.

In recognising that for some owners these alternative TBT-free products meet their needs, Jotun's SeaQuantum products are complemented by a range of other TBT-free self-polishing antifoulings, each an example of the most advanced of its type. Within the Jotun product range there is a TBT-free antifouling to provide the solution to virtually any need - the complete answer to the antifouling puzzle. SeaQuantum is recognised as the world's most advanced TBT-free antifouling.



Jotun's range of TBT free antifoulings provides a comprehensive choice of different solutions, each designed to meet certain performance criteria.

Applied as a pure system or in combination, the range enables an antifouling system to be specified that meets your exact needs whilst offering substantial savings when compared with systems based on film thickness only.

Vessel type and design, trading patterns, speed, dry-docking intervals and annual sailing period are analysed by Jotun and a product, or combination of products, is selected to satisfy the specific requirements of the vessel.

Firstly, amongst large vessels, it is pitch black beneath a ship's bottom, devoid of the light that gives life to fouling organisms. Secondly, a slight vacuum between the flat bottom of a hull and the water flowing past reduces the polishing of the antifouling during trading. Lastly, water flows faster around the side bottom than the flat bottom.

These influences apply, to a smaller degree, to side bottoms where conditions are more favourable to fouling organisms. The Jotun Paints range meets these differing needs. They give a reduction in costs because lower film thickness means less paint, less waste, less application time and a shorter period in dry dock.

The only TBT-free self-polishing antifouling providing total protection for up to 60 months, SeaQuantum smoothes the way to long term fuel savings whilst also meeting the requirements of regulations designed to restrict the global prohibition.



Jotun AS, JOTUN MARINE COATINGS
P.O. Box 2021, N-3248 Sandefjord, Norway
Tel.: (+47) 33 45 70 00 Fax: (+47) 33 46 46 13
Website: www.jotun.com

SUPPORT FACILITIES

NATIONAL RESOURCE CENTRES AND THE EMBASSIES

THE NORWEGIAN TRADE COUNCIL

The Norwegian Trade Council (NTC) is the national resource centre for private enterprises and the authorities in the fields of exports and internationalisation. The NTC provides consultancy services to individual companies and organizes joint promotional programs. It assists its customers through the entire export and internationalization process, acting as a strategic adviser, door opener and problem solver. Joint promotions include exhibitions, delegations and campaigns to promote Norway and Norwegian trade and industry abroad.

NTC has been active in Turkey for the past 13 years. NTC – Istanbul was established in 1997 to strengthen the trade relations between Norway and the rapidly growing Turkish market. The local presence has led to the development of close, personal long-standing relationships at the highest levels of the Government, with Senior Members of the Turkish Administration, as well as with nearly all major Turkish corporations and financial institutions.

Process consultancy

All companies can make use of NTC services: small and medium-sized enterprises or major corporations; companies with limited experience in exports and experienced exporters entering new markets. The NTC consultants customize services based on the needs of each company.

Market information

The NTC's Market Information service is the easiest way for the Norwegian business community to access information on foreign markets. The NTC Market Information provides basic information on export markets and information on practical business matters.

Trade delegations

Participation in the NTC's trade delegations to foreign countries gives Norwegian business and industry an opportunity to make important contacts. The delegations are organized in close co-operation with the Government. The purpose is to promote Norwegian business and industry towards foreign governments and business environments.

International trade fairs

Each year preparations are made for joint participation in 30-40 trade fairs. This is done in close co-operation with the participating companies and includes press initiatives, invitations, customer events and market information prior to the fair.

Networking Projects

- Oil and gas technology
- Maritime sector (ships' gear, fishing gear, aquaculture)
- Fish, seafood and agricultural products

The NTC collaborates with companies, industry federa-

tions, research institutions and authorities to develop long-term goal-oriented networking projects for exports and internationalization.

Short information on NTC – Istanbul

Norwegian Trade Council – Istanbul Office operates on the following principles:

focus on customer satisfaction, broad service offer, maximum sales and profitability for Norwegian companies.

The building block of NTC Istanbul's sales and marketing approach is a pragmatic organization that places particular emphasis on business development while constantly working towards greater precision.

The greatest strength of NTC lies in its multi-disciplinary skill-based organization. While developing technical expertise in specific sectors, it actively seeks to identify new opportunities for Norwegian companies in the Turkish market and foster strong relations between the parties, which it believes is the key driver for successful transactions.

NTC's Business Development Approach:

NTC – Istanbul has adopted a pro-active approach whereby it identifies the potential in the local market and seeks the best possible Norwegian company that matches the opportunity. The result is short lead times, less risk, lower cost and higher chances of success for all parties involved.

THE ROYAL NORWEGIAN EMBASSY, TURKEY

The Royal Norwegian Embassy in Turkey is situated in Ankara. The Embassy maintains and nourishes the official contacts between the Norwegian and Turkish governments, and keeps the home authorities informed about the political and economic situation in Turkey. In addition to the political work, the Embassy promotes economic and cultural co-operation between the two countries and supports Norwegian and Turkish business communities and citizens in various ways.

The Embassy takes active part in promoting visits to and from Turkey at political level. In connection with such visits, close consultations are held with trade and industry. The Embassy is also a proper arena for Norwegian companies to interact with the Turkish Government or other Turkish contacts.

THE TURKISH EMBASSY, NORWAY

The Turkish Embassy in Norway is mainly engaged in bilateral governmental negotiations with Norway. The Embassy supports Turkish business affairs, but also supports Norwegian business people on request. Some of the services the Embassy is offering is, providing of commercial information about Turkey, help Norwegians finding Turkish business partners for regarding sale or purchase of Norwegian/Turkish products and providing information about the investment situation in Turkey.

EXPORT FINANCING AND INSURANCE

THE NORWEGIAN GUARANTEE INSTITUTE FOR EXPORT CREDITS (GIEK)

The Norwegian Guarantee Institute for Export Credits

GIEK) is the central governmental agency responsible for furnishing guarantees and insurance of export credits. The primary function of the Institute is to promote export of Norwegian goods and services and Norwegian investment abroad by furnishing guarantees that reduce the credit risk borne by the individual exporter in transactions with foreign partners. GIEK is today an important player on the Norwegian market for short-term customer credit insurance through the subsidiary, primarily servicing exporters who are unable to secure satisfactory offers on the private market.

GIEK underwrites exports to over 150 countries of all types of goods and services ranging from fruit and berries to ships to consultancy services. The guarantees may encompass a single transaction or a series of transactions and cover not only commercial risk, i.e. bankruptcy on the part of the debtor or non-payment for other reasons, but also political risk, i.e. war, expropriation and actions by the public authorities which prevent payment.

EKSPORTFINANS ASA

Eksportfinans offers a wide range of financial schemes for both small and larger companies. All loans must be secured by a guarantee, either from GIEK or from Norwegian or international banks. Norwegian exports of capital goods may be financed through government-supported loans or strictly commercial loans. International investments are financed on commercial terms only. The support schemes are handled by Eksportfinans on behalf of the Norwegian Ministry of Trade and Industry, and the loans are offered on a line with international regulations set by the OECD. Eksportfinans works in close co-operation with Norwegian and foreign institutions while supporting Norwegian companies.

Close co-operation with Norwegian and foreign governments, banks and institutions is important in order to

- Promote sale of Norwegian export products through good financial solutions.
- Communicate relevant knowledge of Eksportfinans and Norway to investors who consider investing in the company's bonds and commercial paper.

On behalf of the Government, Eksportfinans handles government supported export financing including ships, and the ship's support scheme that has been terminated for new contracts. In addition to this Eksportfinans actively seeks to handle new relevant tasks on behalf of governments, banks and other institutions.

ECONOMIC SUPPORT THROUGH FUNDS THE NORDIC FINANCE GROUP

The Nordic Finance Group consists of four multilateral finance institutions owned by the five Nordic countries and located in the same building in Helsinki. The institutions within the finance group are Nordic Investment Bank (NIB), Nordic Development Fund (NDF), Nordic Environment Finance Corporation (NEFCO) and Nordic Project Fund (Nopef).

The finance group builds on solid experience of financial assignments virtually all over the world. The institutions have financed projects as, for instance, cross-border investments in the Nordic countries, telecommunications projects in the Baltic countries, environmental programmes in Central and Eastern Europe, water supply projects in Africa and power generation facilities in Asia and Latin America. Environmental investments have a high priority in the finance group's lending. All projects should be of mutual interest to the Nordic countries as well as to the recipient country.

The Nordic Finance Group has an extensive co-operation with other financial institutions within and outside the Nordic countries with Nordic and multilateral financial institutions, banks and regional sources of finance.

THE NORDIC INVESTMENT BANK (NIB)

The Nordic Investment Bank (NIB) is a multilateral finance institution that finances private and public projects both in and outside the Nordic countries. NIB offers its customers long-term loans and guarantees on competitive market terms. The bank finances up to half the total costs of a project thus supplementing loans from other banks and finance institutions and/or the customer's own funding.

NIB grants loans to companies, local authorities and public institutions for the financing of projects supporting the economic development in the Nordic countries and to investments in different parts of the world that are of mutual interest to the Nordic countries and the recipient country. NIB also grants loans to Nordic companies' investments, e.g. joint ventures and company acquisitions, in the OECD countries.

NIB also finances projects in the emerging markets in Asia, the Middle East, Central and Eastern Europe, Latin America and Africa.

THE NORDIC DEVELOPMENT FUND (NDF)

The Nordic Development Fund, NDF, is a multilateral Nordic development financing organisation.

NDF grants very long-term credits on concessional terms to poor developing countries. The credits are granted for high-priority projects, which promote economic and social development. NDF's lending strategy is governed by the principles of the Nordic countries' international development co-operation with particular focus on poverty reduction.

NDF only grants credits that are co-financed with other sources of funding - primarily other multilateral financial institutions such as the World Bank Group and the major regional development banks. Co-financing is also undertaken with the Nordic Investment Bank (NIB) and with Nordic bilateral development assistance agencies.

NDF is also able to participate in the financing of private sector activities in development countries without government guarantee.

THE NORDIC ENVIRONMENT FINANCE CORPORATION (NEFCO)

Nordic Environment Finance Corporation (NEFCO) is an international financial institution that finances environmental projects in Central and Eastern European countries. The purpose of NEFCO's activities is to generate positive environmental effects in the project country and thereby also for the Nordic area. Priority is given to the neighbouring areas of the Nordic countries, i.e. the Baltic countries and the Barents region.

THE NORDIC PROJECT FUND (NOPEF)

The Nordic Project Fund (Nopef) grants Nordic companies favourable loans and grants for feasibility studies for project export deals and internationalisation projects in countries outside the EU and EFTA. The loans can be granted for the working up of a business plan, own investments, co-operation agreements, joint ventures and project export studies.

As regards project exports, the loan is max. 50 per cent of budgeted expenses. If the feasibility study suggests that the project should not be implemented, the loan can be made into a grant providing the requirements for reporting are fulfilled and the expenses have been audited. If the project is implemented the loan is to be repaid. The loans are interest free.

For internationalisation projects, the loan can be up to 40 per cent of expenses for a feasibility study. The loan can be made into a grant even when the project is not implemented. Successful projects in the neighbouring areas to the Nordic countries (the Baltic Sea area) can receive an additional 20 per cent grant. The loans are interest free.

NORFUND

Norfund makes risk capital investments through profitable private enterprises in most countries in Africa, Asia, Latin America and the Balkans. Any country with a GDP under USD 5295 per capita is eligible for our investments.

It can provide equity and debt financing for new business ventures, expansions, management buy-ins and buy-outs. Norfund can invest in most sectors of the economy as long as the investment offers opportunities for growth, profitability and local development.

Norfund also works closely with Norwegian organisations such as the Norwegian Trade Council (Norges Eksportråd), the Norwegian Guarantee Institute for Export Credits (GIEK), the Norwegian Agency for Development Cooperation (NORAD) and Eksportfinans AS (provider of export financing and credit).

THE NORWEGIAN INDUSTRIAL AND REGIONAL DEVELOPMENT FUND (SND)

The Norwegian Industrial and Regional Development Fund (SND) has played an important role in the value-creating process of Norwegian trade and industry. SND offers expertise and funding to companies in their early stages of development, and is prepared to take a greater risk than other funding institutions.

SND promotes economically viable business development all over Norway by

- contributing towards developing, modernising and readjusting Norwegian trade and industry
- forming a basis for product development and new establishments throughout the country
- supporting measures that will give long-term and profitable employment in regions with special employment problems or a generally weak economic basis

As the government's main motive power for the development of the national and regional economic policy, SND promotes new and innovative business development by finding, refining, funding and following up interesting projects and enterprises. This also entails developing and carrying out regional and national projects and programmes.

REFERENCES

Emerging Turkey 2003, The Oxford Business Group

Interview with Erik Wiken, Nizamettin Derbil and Vidar Smînes, representatives of the Norwegian Trade Council

Interview with Sükrü Ergün, General Manager Jotun Turkey

Interview with Özlem Ergün, President of Boyden Istanbul

Prime Ministry, Undersecretariat of Treasury [online]
<http://www.treasury.gov.tr/indexe.htm>

Prime Ministry, State Institute of Statistics (SIS)[online]
<http://www.die.gov.tr/ENGLISH/>

Norwegian Trade Council [online]
<http://www.ntc.no>

RAND [online]
<http://www.rand.org/publications>

Sepers Consultancy Group

TUSIAD, The Turkish Industrialists' and businessmen's Association

YASED, the Foreign Investors Association of Turkey [online]
<http://www.yased.org.tr/>

GIEK, Garanti-Instituttet for Eksportkreditt [online]
<http://www.giek.no>

EKSPORTFINANS [online]
<http://www.eksportfinans.no>

NORFUND, Norwegian Investment Fund for Developing Countries [online]
<http://www.norfund.org>

SND, The Norwegian Industrial and Regional Development Fund [online]
<http://www.snd.no>

NORAD [online]
<http://www.norad.no>

CONTACTS

THE ROYAL NORWEGIAN EMBASSY, TURKEY

H.E. Mr. Hans Wilhelm Longva, Ambassador
Mr. Haakon Svane, First Secretary
Mr. Thomas Finstad, Attaché
Address:
Royal Norwegian Embassy,
Kelebek Sokak No.18,
Gaziosmanpasa, Ankara
Turkey
Telephone: +90 312 447 8690
Fax: +90 312 447 8694
E-mail: emb.ankara@mfa.no

THE NORDIC INVESTMENT BANK

Address:
HEADQUARTERS
Fabianinkatu 34
P.O. Box 249
FIN-00171 Helsinki
Finland
Telephone: +358 9 18 001
Fax: +358 9 1800 210
OSLO
Dronning Mauds gate 15
N-0119 Oslo
Norway
Telephone: +47 2201 2201
Fax: +47 2201 2202

NOPEF

Norway
Zølvi Pedersen
Regional Manager
zolvi.pedersen@nopef.com

THE NORDIC DEVELOPMENT FUND

Address:
NORDIC DEVELOPMENT FUND,
P.O. Box 185,
FIN-00171 Helsinki
Finland
(Office address: Fabianinkatu 34)
Telephone: +358 9 1800451
Fax: +358 9 622 1491
E-mail: info@ndf.fi
or see: Management and Staff

THE NORDIC ENVIRONMENT FINANCE CORPORATION (NEFCO)

Address:
NORDIC ENVIRONMENT FINANCE CORPORATION
Fabianinkatu 34
P.O. Box 249
FIN-00171 Helsinki
FINLAND
Telephone: +358 9 18001 / 1800344
Fax: +358 9 630 976
Telex: 124 704 nib fi

THE NORWEGIAN TRADE COUNCIL

Address:
The Norwegian Trade Council,
Aytar Cad., Aydin Sokak,
Aydin is Merkezi, A Blok No: 2, D:7,1
Levent, 80620 ISTANBUL
TURKEY
Telephone: +90 212 2844 362 / 63 / 65
Fax: +90 212 2844 364
E-mail: istanbul@ntc.no

THE TURKISH EMBASSY, NORWAY

Address:
Tyrkias Ambassade
Halvdan Svartes gate 5
0244 Oslo
Norge



Norske Skog

SELMER

SKANSKA

TINFOS
TINFOS JERNVERK A/S

A NAME TO TRUST

Supplying the world with

- Manganese Alloys
- High Purity Pig Iron

We are represented with offices in:

Düsseldorf Milano
Helsingfors Luxembourg
Madrid Sheffield
Ohio Taipei

Tinfos Jernverk AS
P.O. Box 103, 1325 Lysaker, Norway
Ph: +47 67103400 Fax: +47 67103410
E-mail: sales@tinfos.no www.tinfos.no



- Energy
- Maritime
- Aquaculture
- Healthcare
- ICT

- Energy
- Maritime
- Aquaculture
- Healthcare
- ICT

ENERGY & THE ENVIR

Turkey has a very strategic location when it comes to energy, lying close to approximately 70% of the world's energy resources. This makes the country a natural energy bridge between European consumer markets and the production regions of the Middle East and around the Caspian Sea. Also, the domestic energy market of Turkey is growing fast, producing new challenges and opportunities.

GENERAL SITUATION

GROWTH

Due to the rapid industrialization process and the fast growing population in the past two decades, Turkey has become one of the most dynamic energy markets in the world. The domestic demand for energy has increased significantly, and even through the economic crisis the energy sector was robust enough to stay out of the worst effects. The country's energy production has not been able to keep up with this increase in consumption, so Turkey today has to import 67% of its energy requirements. This share will most likely rise to 75% within a period of 15 years, due to expected increase in domestic demands of an annual average of 8%.

Faced with this situation of import dependency, mostly from a region not noted for its stability, Turkey is following a strategy of diversification both in primary energy sources and in suppliers. Traditionally, Turkey's suppliers of energy have been Saudi Arabia, Iran, Iraq, the UAE, Libya, Algeria, Syria, Egypt, and Russia. But during the latest years, the Central Asian countries Turkmenistan and Azerbaijan have become important for Turkey, especially because of the large discoveries of natural gas.

In the energy sector, the political issues are also of great conceit, both because of the importance of the energy itself and the many conflicts in the region in the past. Therefore, the establishment of balanced international cooperation to increase the stability of the region and acquire more reliable energy supply is of great importance for Turkey.

2002

The year 2002 has been a landmark, for the first time in over a decade, Turkey has become self-sufficient with electricity. One of the main reasons was the significant drop in the total energy demand, due to the 2001 economic crisis. Also important in this year was the creation and empowerment of the Energy Market Regulation Agency (EMRA), which has taken over the function of organization and regulation of the newly created energy markets.

During the next couple of years there will be effects from the free market reforms that Turkey is obliged to accomplish according to the agreement with the IMF and World Bank. This includes the new Petroleum Law, Natural Gas Market Law and Electricity Market Law.

Unfortunately, these reforms have suffered repeated delays because of political opposition both inside and outside of the government. The government has so far hesitated to establish the necessary framework conditions, involving the restructuring of the distribution sector, trading mechanisms and transporting and distribution charges. This is quite unfortunate for Turkey because of the need for foreign investments, which will probably not take place without the necessary changes. Hopefully, the newly elected government will keep up the processes started by the IMF program.

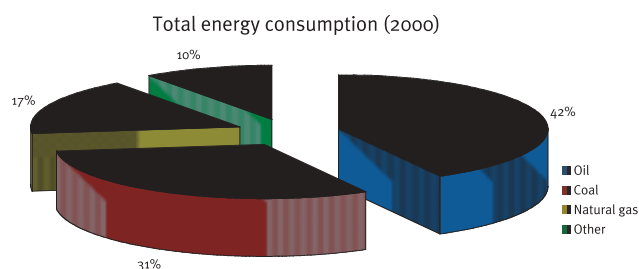
OPPORTUNITIES

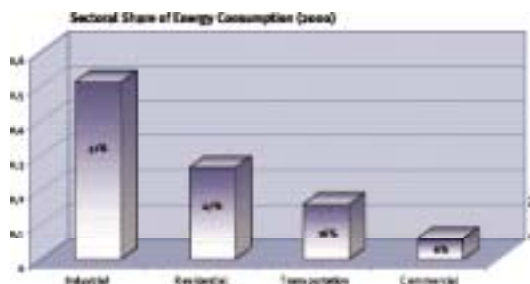
When further privatisation takes place, government companies and production facilities will be sold, and there will be opportunities for foreign investments. Examples are buying into existing contracts between governmental and private investors, and joint ventures with Turkish companies already knowing the development in the markets. Also, a company with high technology competence and knowledge in energy market control and regulations should find promising opportunities.

RESOURCES AND CONSUMPTION

The natural energy resources of Turkey are quite diversified, and the list consists of coal, lignite, asphaltite, oil, natural gas, hydropower, geothermal, wood, animal and plant wastes, solar power. Secondary energy resources like briquettes and coke are also produced and consumed.

Coal, lignite and oil are historically the most important energy sources, but since the late 1980's natural gas has been increasing, and will be of further importance in the future. Also in the hydropower sector, in which Turkey is at the same resource level as Norway, there has been a quite substantial exploitation. But there is still potential of significant increases.





OIL

Turkey's domestic production of oil only counts for about 10% of the country's oil needs. The rest has to be imported. Traditionally, these imports come from Iran, Iraq, Saudi Arabia and Libya, but Turkey has also turned to Russia and Central Asia.

The main oil production company in Turkey is the Turkish State Petroleum Company, TPAO, which produces 80% of the total production (about 56 000 bbl/d). The rest are shared between foreign operators Royal Dutch Shell, Exxon Mobil and smaller companies such as Petrom of Romania and Aladdin Middle East.

Due to the economic crisis of the last years, the consumption of crude oil has gone down. In 2001, it was 26 million tonnes. Of this, 22.5 million are imported. In 2000, this number was 32.5 million, so there has been a significant drop.

The consumption of refined petroleum products in Turkey was in 2001 28.5 million tonnes. The main part of this, about 25.3 millions, was refined in the five refineries in Turkey (capacity of 720 000 bbl/d). Four of these are owned and operated by T_PRA_, the state-owned oil refining company, which accounts for almost 85% of the capacity in Turkey.

T_PRA_ is today protected by a law allowing near monopoly over crude oil imports and refining. But this will now change due to the new deregulating petroleum markets law. First, the government is obliged by the IMF to privatize large parts of T_PRA_, as much as 50% within 2002. Second, this deregulation opens the way for others to start importing. POA_, which distributes the oil products, can now find products elsewhere. This could seriously threaten the position of T_PRA_.

The possibilities for Norwegian companies in the oil market are relatively small. This is because it is well established and because there are no expectations for a future growth. Turkey is instead planning to increase the use and transport of natural gas.

NATURAL GAS

The amount of natural gas traded across international borders is growing. The economics of transporting natural gas to demand centres currently depend on the market price, and the pricing of natural gas is not as straightforward as the pricing of oil. More than 50% of the world's oil consumption is traded internationally, whereas

natural gas markets tend to be more regional, and prices can vary considerably from country to country. As the use and trade of natural gas continue to grow, it is expected that pricing mechanisms will continue to evolve, facilitating international trade and paving the way for a global natural gas market.

The Turkish gas market does not have a very long history, and the current gas market is at the same stage today as the European gas market in the early 1970s. The first Sales and Purchase Agreement was signed in 1986 with Gazexport of the Russian Federation, and gas sales started at 500 million cubic meter in 1987. Since then gas consumption in Turkey has expanded sharply. Dynamic economic growth, industrialization, population growth and rapid urbanization are the basic factors. In addition, environmental issues and policy of diversifying of energy sources have brought the natural gas use into the energy scene in Turkey.

The demand for natural gas in the power generation sector is the major driver for growth in gas consumption in Turkey. With a projected 5% per annum GNP growth rate and an increasing population, Turkey forecasts natural gas demand to reach 50 bcm in 2010 and 80 bcm in 2020.

As mentioned, 2002 was a very important year. This year the government finally moved ahead with the plans to deregulate the energy sector. The new Energy Market Regulation Agency (EPDK) has taken over the function of regulating and organizing Turkey's newly created energy markets.

What is special for the Turkish energy sector and especially the market for natural gas today is that the deregulation takes place at such an early stage. The Turkish market for natural gas is still in what is called the "take off" stage. This creates a situation of simultaneous market growth and deregulation. Turkey is in fact the first country to deregulate at this stage, something that indicates critical importance of investments aimed at market building and at the same time a commitment to a process of deregulation. There is no precedence in western European countries, where most markets were built as monopolies and deregulated past the growth stage.

Due to this early stage of the market, Turkey seeks private sector involvement in the infrastructure projects in order to keep up with the rapidly growing demand. Historically the Turkish Treasury guaranteed these infrastructure projects. The new law eliminates this guarantee and this is forcing the parties to engage in a whole new way of thinking.

Botas is the national gas company in Turkey. As a result of the ongoing liberalization of the energy sector Botas is supposed to sell shares. By 2009, the company is to cover only 20% of the gas contracts. This is called the "release gas program". As a result of different pricing of the contracts there is a crucial need for some sort of pricing mechanism. It is obvious that no investor wants to have the most expensive contract. It can therefore beco-





A sea of energy

Statoil ranks as one of the world's biggest traders of crude oil and one of Europe's largest suppliers of natural gas. We have experience from operating the world's largest network of offshore gas pipelines, which brings clean energy to consumers in ten countries.

The Caspian Sea is one of Statoil's core regions, and Turkey is a growing gas market. We participate in some of the largest oil and gas discoveries and pipeline projects in the area, and we are one of the largest suppliers of LPG to Turkey.

We have entered into an important partnership for energy in Turkey with the KOÇ Group. Together with our partners and through our experience, competitive technology and marketing skills, we will contribute to the future development of this region.

You are welcome to visit our web site:
www.statoil.com



Statoil Turkey,
Büyükdere Cad.
195 Büyükdere Plaza, Third Floor,
Levent Istanbul, Turkey.
Tel. +90 212 317 9830, fax +90 212 317 9831
Statoil ASA,
N-4035 Stavanger, Norway.
Tel. +47 51 99 00 00, fax +47 51 99 00 50
www.statoil.com

me a difficult task to balance this takeover in a way that is satisfactory for all the parties involved.

The success of the ongoing deregulation in other words still depends on the willingness of the politicians to implement further much needed reform. The Turkish energy sector's long-term goal is a well-designed structure that generates cash income.

The problem of oversupply of natural gas to the Turkish market came onto the agenda in March 2002. Analysts warned that official prognoses for growth in demand for natural gas were at least 20% too high. According to current prognoses the years 2006-2012 are expected to be a period of oversupply.

The problem has in fact decreased slightly due to delays on the part of the suppliers. The government has also managed to renegotiate several contracts. The long-term solution for the country on the other hand is first of all to increase its own domestic consumption. This is going to happen, but it will still take some time to catch up with the rest of Europe.

Turkey is located at the strategic crossroads between the oil and natural gas reserves of the Middle and Near East and primary consumers in Europe and America. The role as the "Energy Bridge" is strategically important, and at the same time a solution for Turkey to overcome some of the oversupply problem. The idea is to sell the excess gas to neighbours in Europe. While developing projects to meet domestic energy demand, Turkey also wants to serve as the most feasible route on the way to the world markets.

In April 2002 Turkey signed an agreement with Greece to link the two country's pipelines of natural gas. This project has received financial aid from the EU. There are also further plans to link Greece with Italy. This will complete the long planned "Southern European Gas Ring". The project will bring about a much-needed alternative to pipelines bringing gas from Russia. Greece also has had talks with Iran and Azerbaijan regarding potential supply contracts. If this is realized it will give Turkey the possibility to transit gas from even further a field.

The Turkish energy sector's long-term goal is as mentioned a well-designed structure that generates cash. The need for foreign investments is of critical importance for further development. As in any sector in Turkey, the involvement of foreign investors depends on a stable investment environment.

One aspect that might give Norwegian companies a competitive advantage is their experience with Norwegian deregulation. The newly created market indeed depends on commitment and understanding of Turkey's unique deregulation process.

With Turkey's gas market entering a new phase of liberalization and growth, foreign companies' options are broad and promising

HYDROPOWER

Turkey has one of the largest economic hydroelectric potentials in the world. Nevertheless, it only utilizes a fraction of its potential.

The oldest dam in Turkey is the Cubuk I dam that was

constructed during the Republican era and designed to meet the water requirements of the capital, Ankara. The next major dam construction programme was implemented at the end of World War II - since then there has been an increase in the construction of dams and hydroelectric power plants around Turkey. At the start of 2002, the construction of 203 dams had been completed and put into operation. Currently, there are 129 hydroelectric power plants (HEPPs) in operation in Turkey, with an average of 44 billion kWh per year being generated, together with an installed capacity of 12 176 MW. This figure is equivalent to 35% of the total economic hydroelectric potential of Turkey.

The General Directorate of State Hydraulic Works (DSI) is responsible for overall water resources development in Turkey- including both water resources development projects and hydroelectric energy projects. The total capacity of the HEPPs is 9 912 MW, with an average energy generating capacity of 25.7 billion kWh.

DSI has an investment plan that includes 93 HEPPs with a total generation capacity of 38 billion kWh. One of its main projects is GAP (the South-eastern Anatolia Project). With its 22 dams and 19 HEPPs, it is one of the largest water resources development projects in the world. When completed, it will generate a total of 27 billion kWh.

Type of structure (1 January, 2002)	In operation		Under construction/ In program	
	By DSI	By other organizations	By DSI	By other organizations
Dams	495	9	100	6
HEPP	48	81	60	33
Small dams	66	589	138	N.A
Irrigation area	2.7 mha	2.2 mha	0.7 mha	N.A
Water supply	2 026 hm ³	562 hm ³	1 539 hm ³	N.A
	3 535		984	
Flood control	1.2 mha	N.A	0.5 mha	N.A

Source: DSI in Brief

From a commercial aspect, there could be possibilities for exporting components for generators and turbines to Turkey. However, for Norwegian companies the best approach to enter this sector would be as a joint venture, where the Norwegian companies supply funding to the Turkish companies.

Since only 35% of Turkey's economic hydroelectric potential is utilized, there should be great opportunities for this sector; but there are several barriers. As the primary state agency for Turkey's water resources development, DSI controls the future of the industry. There is also a key political issue - no government is willing to initiate a project that does not show results during its period of office. As far as the State is concerned, it takes about 5-6 years to construct a good HEPP, but since the election occurs every 4-5 years, the government is more willing to invest funds in ventures that show results within its actual period in office.

ELECTRICITY

Turkey's need for electricity has been increasing rapidly (up to 9-10% annually) in the last two decades, and forecasts by the Turkey's Electricity Generating and

Transmission Corporation (TEAS, generates 91% of Turkey's electricity by 15 thermal and 30 hydroelectric plants) indicate a similar growth in the next 15 years. Today, electrical shortages, brownouts and blackouts are common in most parts of Turkey, resulting from underinvestment and generation and distribution losses that can be up to 30%. Thus, increasing the capacity of electricity generation is a top priority for the energy officials in Turkey. But this requires investments of about USD 4-4.5 billion, much of which would have to come from the private sector.

Also the electricity market faces large changes due to the new Electricity Market Law of 2001. To achieve a free market in the power generation and distribution, these things are to be done: 1) divide TEAS into separate generation, distribution and trade companies; 2) privatize the trade and generation companies, but keeping the distribution part in the hands of the State; 3) set up a new regulatory board which will oversee the market, issue licenses, set tariffs, and prevent uncompetitive practices. Also, distribution grids and power plants will be sold. Totally, Turkey has plans to almost double its power generation capacity of 26 000 MW by 2020.

RENEWABLE ENERGY

In addition to hydroelectric power, Turkey also has other renewable energy sources of interest. Wind power is a priority area, with a goal of deriving 2% of the country's electricity from it. The estimated capacity is about 20 000 MW, and if private investment is found, rapid growth is expected.

Other areas of interest are geothermal energy and solar energy. Geothermal energy is expected to increase substantially in the coming years, by projects financed by the Ministry of Environment. The overall estimated potential is 4 500 MW. Because of Turkey's suitability in terms of solar radiation solar energy could provide a considerably amount of power, but today is only used for hot water production.



REFERENCES

- Ministry of Foreign Affairs, Republic of Turkey [Online]
URL: <http://www.mfa.gov.tr> [Cited January 2003]
- Turkish State Petroleum Company [Online]
URL: <http://www.tpao.gov.tr> [Cited December 2002]
- Norwegian Trade Council, Turkey Energy Summary 2001.
- PriceWaterhouseCoopers. Country Report Turkey 2001. November 2002
- Oxford Business Group. Emerging Turkey 2003
- Republic of Turkey, Prime Ministry, Undersecretaries of Foreign Trade, Export Promotion Center (IGEME) [Online]
URL: <http://www.igeme.org.tr/introeng.htm> [Cited January 2003]
- Energy Information Administration. Turkey Country Analysis Brief. [Online] July, 2002
URL: <http://www.eia.doe.gov/cabs/turkey.html> [Cited December 2002]
- CMI Capital Ltd. Amity Oil Ltd, Turkish Gas Markets. [Online] 2001
URL: <http://www.cmi-capital.com/amity-oil/turkey-gas-markets.htm> [Cited December 2002]
- Meeting with Statoil, Istanbul 20 January 2003
- DSI in Brief (folder from the Ministry of Energy and Natural Resources)
URL: <http://www.dsi.gov.tr>
- Hydroelectric Energy in Turkey (folder from the General Directorate of State Hydraulic Works)
- Dams and Hydroelectric Power Plants in Turkey -2002 (Folder from the Ministry of Energy and Natural Resources)
- Meeting with The General Directorate of State Hydraulic Works (DSI), Istanbul 20 January 2003

WAVE ENERGY RESEARCH ACTIVITY AROUND TURKEY

1Abdusselam ALTUNKAYNAK and 2Mehmet OZGER

1Research Assistant, Istanbul Technical University,
Civil Engineering Department, Hydraulics Division,
Maslak, 80626, Istanbul, Turkey,
e-mail: altunkay@itu.edu.tr

2Research Assistant, Istanbul Technical University,
Civil Engineering Department, Hydraulics Division,
Maslak, 80626, Istanbul, Turkey,
e-mail: ozgerme@itu.edu.tr

Although Turkey has a poor preliminary energy sources like petroleum and natural gas, most of its energy production depends on these elements. In case Turkey could not supply these sources, it needs more renewable energy sources. Wave power is one of the suitable sources among the other renewable energy sources like wind power, solar energy, and hydropower.

Turkey's shore length is nearly 8210 km except Marmara Sea. However wave measurements are still not available for all Turkish seas. Recent studies have been made for Black Sea by the Nato-TU-Waves project. It has been estimated that the total annual average power along the Turkey ranges from less than 10 GW (equivalent to 87 TWh year⁻¹) at the shoreline to about 30 GW (equivalent to 260 TWh year⁻¹) in deep water.

Turkey is surrounded by a modest wave climate. However the Black Sea located in the northern part of Turkey has a considerably wave energy potential and it is suitable for the deployment of both shore-mounted and offshore wave energy converters. Research in Turkey may concentrate on OWCs (Oscillating Wave Column). (See Figure 1).

Currently Turkey has the most substantial wave energy research program in Istanbul Technical University. The most interesting new development involves the use of focusing devices, consisting of two shaped plates on the mean sea surface level, pool and shaft gear (Figure 2). The designed converter's first motion is gained by the wave that hits the pre-plate. The plates moves forward and then return its first location by means of equivalent weight. This motion initiates the shaft gear. The other plate is moved by the rest of wave. The next step depends on taking the advantage of the pressure difference caused by the wave. A sled initiated by the waves that fill the device pool contribute the total motion.

Studies in Turkey are still at the level of academic research. No sea trial has been held yet. Government support has been modest, but commercial organizations have promoted several concepts as far as preliminary design and model testing stage.

Since the annual average wave power density along the west and south coast of Turkey is only 5 to 10 kW per meter, it is perhaps surprising to see such research and development activity. However, many more harbours are planned on the Turkish coastline and this led to consideration of the potential application of OWC wave energy converters. The TAPCHAN (Tapered Channel) system and shore-mounted OWCs are simple and easily maintained.

They could be economically attractive in north part of Turkey where diesel fuel supplies are expensive. In longer term, a major contribution from wave energy could probably come from arrays of floating offshore or near-shore devices if the development of new low-coast concepts is successful. Additional research and development work will be needed, however, to bring these to the prototype stage. The size of the Turkey wave energy resource is such that it is likely to be of importance in the longer term.

ENVIRONMENTAL ISSUES

Because of the economic development and energy growth the environment has been put under great pressure. The effects have been a general increase in pollution in the country, with increasing air pollution in the large cities and increasing water pollution as the main subjects. There are especially great concerns about the risk of a marine disaster in the narrow Bosphorus Strait (which goes right through Istanbul), the Dardanelles and the Marmara Sea because of increased oil transport by huge tankers and generally an increased shipping business.

Turkey is not a member of the UN Framework Convention on Climate Change (UNFCCC) or the Kyoto Protocol. Therefore the country has no binding requirements to cut their carbon emissions by 2012 as the other members of the International Energy Agency have. But Turkey has established a National Climate Coordination Group (NCCG) which will carry out national studies similar to those done by the countries of the UNFCCC. Additionally, with pressure from the EU, studies for a National Climate Programme are underway, and Turkey is considering accession to the Kyoto Protocol.

As Turkey looks towards possible EU membership, the demand to focus more on the environmental issues is crucial. The future intention is to utilize more of their renewable resources, particularly hydropower, and to replace coal in power generation with cleaner-burning natural gas. Also by the means of energy efficiency Turkey has a great degree of potential, which will be a key factor in the country's environmental strategy.

MARITIME SECTOR

Substantial developments have been observed the recent years in the Turkish shipbuilding industry, accompanied by strong growth of the country's merchant fleet. The developments have significantly increased the capabilities and competitiveness of Turkish shipyards, a fact endorsed by increased output of newbuildings. Moreover, the export share is presently above 50 %, and steadily rising, underlining the ability to deliver vessels and services to the international market.

SHIPBUILDING INDUSTRY

BARRIERS TO ENTRY

Absolute cost advantage

Turkish yards have low costs in steel work and labour. The price for steel work is between USD 1.25 to 2.5kg, depending on the work to be done. These prices are really competitive with the Far East and Central and Eastern Europe.

Furthermore, the suppliers are situated in Tuzla-Bay (Istanbul), which results in low logistics costs and close cooperation. The tendency is that more suppliers establish office and factory in the vicinity of Istanbul, due to the increasing shipping activities in the area.

Access to distribution

There is a limited production of ships' equipment in Turkey. As a result, Turkey is heavily dependent on imported equipment.

Lately a number of worldwide companies have established business in the vicinity of Istanbul to provide the shipyards with equipment. This generate better flexibility regarding supplying the shipyards, which is beneficial for both parties.

Economies of scale

All knowledge is concentrated by Tuzla-Bay (50 kilometres from Istanbul).

Knowledge and methods of how to work are spread through the bay and the development regarding efficiency is increasing rapidly, which cuts costs.

Government policy

The Marine Sector in Turkey is under the Minister of Transportation. There is no Minister of Marine Activities and affects the shipping business. It has not been given the focus it deserves.

The present Minister of Transportation, Mr Binali Yildirim, is aware of that the sector has been carrying out its operations unanimously that they will make the legal arrangements that will broaden the sector's horizon in an environment where there is such an infrastructure. Lack of State incentives (direct or indirect subsidies), as has been common in most of the world, is a drawback, but Turkish shipyards have extended their capacity and been able to increase output of newbuilding during recent years.



Brand Identity

The world shipbuilding industry, however, has shifted to the Black Sea region. Given that, Turkey must be ready to make a jump. Preparing for this process in full cooperation, it can create a "tsunami" in the region. The Turkish Marine sector has started to turn into a brand name. To fulfil this, the government has to provide the equal conditions to be able to compete with the whole world. It means that they have to give subsidies (indirect or direct) to the industry.

BUYER POWER

Buyer volume

The present merchant fleet under Turkish flag is 10 million dwt., amounting to approximately, 1/3 of the Norwegian flagged fleet. Even though if Turkey has seen a slight decline in her merchant fleet the last years, due to market conditions, the fleet has still risen fourfold in the last two decades.

There is an overall consensus that, the Turkish fleet should continue to play a vital role in the future freight to/from domestic ports. Due to Turkey's rapid economic growth, the goal is therefore to double the merchant fleet within this decade to retain the existing market share.

- As of 2001, Turkish ship owners had 69 vessels on order, totalling 2.1 million dwt.
- More than 80 % of ships less than 10 years old are built in Turkey, totalling 170 ships
- The increase in the number of RO/RO ships, chemical tankers and containerships has been remarkable.

Product Differentiation

The shipyards originally built wooden boats and steel construction came later. Now, the private sector shipyards build, repair and maintain all types and sizes of steel, plastic, aluminium and wooden ships. These vessels are approved internationally and are in compliance with international standards. During the last 8 years, the shipyards built a total of 196 Turkish and foreign flag vessels, including petroleum and chemical tankers with epoxy-coated steel and chrome nickel tanks, besides, large cargo ships, container ships, multi-purpose ships, naval ships, fishing boats, in various sizes that comply with the international rules and standards.

SUPPLIER POWER

The central location is beneficial both for shipyards and suppliers of ship's equipment and services. Both parties have excellent access and infrastructure compared to many other low cost countries. The main asset for ship equipment suppliers is easy access to a considerable market. Jotun AS is a good example in this respect. Since starting operations in the shipyard zone in 1989, they are now manufacturing the paint locally, and have attained an impressive market share in excess of 90% for the new-buildings and 60% for the drydock and ship-stores market.

WORKFORCE

For the shipyards the central location in Tuzla is beneficial. They gain flexibility by having access to versatile workforce in the shipyard zone. Instead of having a permanent staff they are instead to a great extent hiring teams of skilled craftsmen from contracting companies working within the shipyard zone. These people are specialized within disciplines like steel, piping, machinery, painting, carpentry et cetera and are alternating between the yards and thus very experienced. In this way the yards can be cost effective by lowering their fixed costs, as well as being able to provide a competent workforce, provided that, they have the skills and contacts necessary to hire the right people at the right time.

CONCLUSIONS

At the moment Turkey does not have a maritime policy. Although, the government is becoming more focused on the maritime business, which probably will generate a clearer strategy

Besides the difficulties in finding attractive financial possibilities and the counter guarantees which most likely will be solved in near future, the shipbuilding industry has many advantages, such as;

- Very short distance to European Shipowners as well the machinery/equipment suppliers
- Calm climatic conditions which are very suitable for shipbuilding
- Low cost steel material supplies from the neighbouring Black Sea countries

- Low labour costs
- Low cost and increased quality sub industry products

Sound financial support is necessary to enter the business, due to high entry costs. Turkish financial institutions are more open to lend money to foreign investments now than before.

Foreign investments should try to work with a local partner. A local partner usually leases yard capacity and does subcontracting and procurement to the extent requested by the shipowner.

The industry will most likely increase in form of more shipping yards and then more ships will be built.

SHIPPING

The shipping sector has suffered in the past from not being recognized by Turkey. Its importance was not understood. After the election of 3 November 2002 and the change of government, the shipping sector is about to enter a new period of existence.

SITUATION

Turkey is a sea country at the centre of the seaway transport routes. It has the Istanbul Strait (the Bosphorus) and the Canakkale Strait (the Dardanelles) that both are of great strategic and economic importance. Along its 4 500 sea miles (8 500 km) of coast sixty per cent of its population and 80 per cent of its industry are concentrated. These are just some advantages of maritime transport for Turkey.

The shipping sector employs one fifteenth of the Turkish workforce. This sector, which generates high added value taxes and where a large proportion of the





FRANK MOHN AS is a leading supplier of pumping systems for marine and offshore applications. The company was founded in 1938 and is located outside Bergen in Western Norway. Own subsidiaries established world wide are responsible for after sale services. Total number of employees is today about 1000.



FrAMO cargo pump

MARINE

Frank Mohn AS pioneered the development of hydraulically driven submerged cargo pumps, whose innovative design has changed the way in which tankers are built and operated. Our records show that about 28.000 cargo pumps are in service on board more than 1.750 vessels comprising barges, chemical carriers, product tankers and large crude and OBO carriers. Our range of products for marine use also include transportable emergency off-loading pumping systems and anti-heeling systems.



Test dock for offshore

OFFSHORE

The oil and gas division within the Frank Mohn group is a supplier of different pumping systems for offshore installations/floating production and storage units. The range of products comprises complete firewater pumping systems, seawater injection pumps and cable-free electric driven seawater pumps. Crude oil transfer pumps for large caverns are also manufactured. Delivery of environmental protection equipment is another field of production comprising oil recovery skimmers for offshore and coastal areas.

Subsidiaries abroad:

- | | | |
|--------------|------------------|-------------|
| • Rotterdam | • Houston | • Singapore |
| • Pusan | • Yokohama | • Shanghai |
| • Gothenburg | • Rio de Janeiro | |



Frank Mohn AS

P.O. Box 98 Slåtthaug, NO-5851 Bergen, Norway
Tel: + 47 55 99 90 00 Fax: + 47 55 99 93 80
E-mail: marine@framo.no www.framo.no

revenue stays within the country, has been the sector that was least supported by the government since the foundation of the republic in Turkey. While Greece has fewer geographical advantages, it has attained its current economic position due to the importance it gave to its shipping sector. The forceful nature of Greece's shipping made a large contribution to its membership of the EU. Today, though only conducting 20 per cent of international maritime trade transport, Greece generates more than USD 60 billion in revenue. By adding the other shipping activities this revenue surpasses USD 100 billion.

Whereas Turkey, by not using sea transport in its domestic transport, fails to utilize its resources. The level of domestic sea transport cargo is 5 per cent and for passenger transport it is 0.3 per cent. Despite this negative and unsupported picture, the Turkish shipbuilding industry makes an incredible contribution to the country. The shipping sector today with its some 9 million dwt of vessels, its more than 400 coastal facilities, shipyards, sea, tourism and resources brings approximately USD 9 billion in revenue to the Turkish economy. In 2001, 168 million tonnes of cargo were directed to Turkish ports. Within that 168 million tonnes of cargo movement the cabotage transport had a share of 26 million tonnes and transit shipment remained at 28 million tonnes.

Whereas if Turkey has switched its transport to the coast it would achieve inconceivable economies in its resources, the heavy passenger and cargo traffic on the roads would diminish and consequently road maintenance, repair and renewal expenditures would decrease. If it makes use of its advantages of being located at the central point of the maritime transport lines, it has the potential to do incredible well out of its increasing transit transport. By activating the dynamics of the shipping sector, it has the potential to generate resources of USD 20-25 billion in the medium term. In order to activate the dynamics to a great degree there is need for the State to give financial support. If the public administration accepts shipping as being a state policy and with administrative regulations enacted under the guidance of expert personnel this potential would immediately be realized.

One of the most important regulations is to have measures implemented in order to firstly have public cargo and Turkey's export and imports being transported by Turkish flagged vessels. At this point only 30 % of the Turkish export and imports is transported by Turkish flagged vessels. Consequently, the remaining 70 % is transported by foreign flagged vessels, at an annual cost of more than USD 3 billion for freight services. Shipping brings in an annual revenue of USD 300 billion around the world, and the Turkish share is about 1 %.

ADVANTAGES

Doing business in the shipping sector in Turkey has several advantages, both generally advantages for Turkey and special advantages for the sector. Investments in Turkey will pay off as competitive advantages.

- Located in the centre of the seaway transport routes, with strategic and financial benefits.

STATISTICS REGARDING SHIPS PASSING THROUGH TURKISH STRAITS
(ACCORDING TO THEIR FLAGS)

Istanbul Strait						Canakkale Strait					
Countries	Total ship	Less than 200m	200m and above	Less than 500 gt	500 gt and above	Countries	Total ship	Less than 200m	200m and above	Less than 500 gt	500 gt and above
Turkey	12174	12074	100	1822	10352	Turkey	12174	12074	100	1822	10352
Russia	4670	4591	79	79	4591	Russia	4670	4591	79	79	4591
Ukraine	4355	4348	7	66	4289	Ukraine	4355	4348	7	66	4289
Romania	294	291	3	8	286	Romania	294	291	3	8	286
Bulgaria	833	807	26	8	825	Bulgaria	833	807	26	8	825
Greece	1144	628	516	8	1136	Greece	1144	628	516	8	1136
S.Cyprus	970	842	128	1	969	S.Cyprus	970	842	128	1	969
Syria	1798	1798	0	2	1796	Syria	1798	1798	0	2	1796
Honduras	244	243	1	20	224	Honduras	244	243	1	20	224
Lebanon	388	388	0	6	382	Lebanon	388	388	0	6	382
Malta	5065	4262	803	9	5056	Malta	5065	4262	803	9	5056
Antigua	387	387	0	1	386	Antigua	387	387	0	1	386
Bahamas	333	301	32	0	333	Bahamas	333	301	32	0	333
Liberia	404	340	64	0	404	Liberia	404	340	64	0	404
Panama	1042	921	121	6	1036	Panama	1042	921	121	6	1036
Norway	479	328	151	26	453	Norway	479	328	151	26	453
Other	8057	7635	422	93	7964	Other	8057	7635	422	93	7964
Total	42637	40184	2453	2155	40482	Total	42637	40184	2453	2155	40482

- The safest transport in the shortest time without crossing borders in one trip is conducted by sea.
- Maritime transport is the least expensive form of transport: it is 22 times less expensive than by air, seven times than land and 3.5 times than by rail.
- 60 per cent of the Turkish population lives on the coast and 80 per cent of the industry is located by the sea.
- It does not require investments in infrastructure.
- Turkey transports 90 per cent of its exports and imports, in other words 130 million tonnes of cargo, by sea.
- Labour costs in Turkey are less expensive than in other countries, sometimes up to five times lower.
- Foreign investments are welcomed and needed in the Turkish economy, and in the shipping sector specially.

LOCATION

Turkey is divided between Europe and Asia. Being situated on two continents and surrounded by sea on three sides, it serves the markets of the Middle East, Europe and North Africa. It also has access to open seas through the Mediterranean, that makes the rest of the world reachable by sea.

In the Tuzla area in Istanbul, where over 95 % of the shipyards in Turkey are located, new vessels are being built and existing vessels being repaired. This makes a platform for close relation between the shipping offices and the shipyards. Distributors of spare parts are also located in the same area close to the shipyards.

TRANSPORT

The shipping business serves its customers with safe transportation of products, raw materials, passengers and so on, and the costs of these service is less expensive than alternative transportation forms, such as by air, land and railways. The government focuses more and more on the shipping sector, and they know Turkey has the opportunity to grow large in the shipping business. Railways will be improved to serve the industry more satisfactorily, with better and more effective transportation to and from the harbours.

THE BLACK SEA

The Black Sea is probably the most attractive market nowadays. Activity is increasing, and the demand for ships and shipping offices is getting higher. But the market has already been shared to a certain degree, so the parts get smaller when new firms enter the arena. At this point, it would be very profitable to approach this specific market. The regional developments should be monitored closely, and future investments should be planned as early as possible to get a share of this market. Investments would pay off in short time, when a company would have the possibility to capture large market shares if it starts investing in this upcoming market. The trade volume of the Black Sea countries that are considered as a paradise for raw material increases day by day.

Turkey is investing money in the ports connected to the Black Sea, the ports being built out to allow super Post-Panamax types of ships to utilize the ports will improve Turkey's position in the Black Sea region. The Derince port of ENKA and P&O Partnership possesses an important position in Izmit Bay as another port called Belde. Upon commissioning of these two ports transit container operation services shall be initiated in parallel to import and export containers to/from Turkey. Consequently, this situation will create great advantages for Turkey within the developing Black Sea market.

THREATS

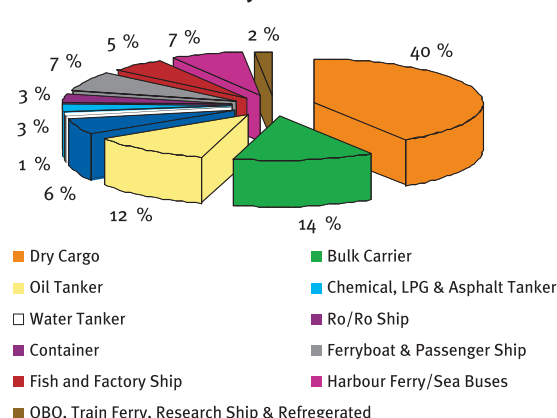
The competition in the Black Sea region is a threat or a barrier for new firms. There are some large firms operating in Ukraine, Russia, Romania, Bulgaria and Georgia. Firms established in Turkey should carry out necessary investigations and attempt to find powerful partners in the region. Such a partner would be of great importance for a new firm, and foreign companies would see the benefits of having a partner located in Turkey controlling the Bosphorus and the Dardanelles, and also being connected to the Mediterranean. The possibility of growing strong in a partnership is higher than struggling alone in this market.

FRAMEWORK FOR DOING BUSINESS IN THE SHIPPING SECTOR

Foreign investment is welcomed in any area of the sector. Turkey has a young and strong workforce, and the infrastructure is good but the lack of money has been the greatest challenge for companies involved in the shipping business. The banks have not been able to give the companies credit, so expansion has been very difficult. Turkey has struggled with its economic situation, and the banks has been a big issue in this case. The Government has neither supported the sector over the last few years, nor has it set up barriers for foreign or domestic entries. Money is the key to succeed in the sector, many are waiting for the investments to reveal the opportunities for expansion of the industry in Turkey.

As Barbarossa said: "They who rule the seas, rule the world".

Turkey's Float



AQUACULTURE

Turkey has a major advantage in the fisheries and aquaculture sector. Being situated on two continents and surrounded by sea on three sides, it serves the markets of the Middle East, Europe and North Africa. This location also enables Turkey to have access to a wide range of water resources including the sea, lakes and rivers. In addition, the species of fish and fishery products in the seas are different from each other because of the dissimilarities like temperature and salt contents of each sea. This means that almost any kind of fish products have growth potential in Turkey.

FISHERIES

The types of fishing, which are being used commonly in Turkey, are short distance fishing and coastal fishing. Deep water fishing is in the process of getting started. Fishing boats in Turkey are generally small that are only suitable for coastal fishing. In 2002, there were 165 fishing harbours, 39 shelters and 70 slips. There are 8846 fishing boats in total and 83% of these are vessels of 5-12 metres which are engaged in fishing.

Anchovy, small mackerels, bonito and tuna fish are the most common fish. What comes to inland fishing, the major freshwater fish are carp and trout. Besides fish, mussels and shrimps are also abundant.

Seafood catches

87% Black Sea
7% Marmara Sea
4% Aegean Sea
2% Mediterranean Sea

FISH FARMING

The subject of modern fish farming is very new in Turkey. The natural structure is very suitable, and it seems that Turkey will achieve substantial developments in this area. The current fish farms are located in the central Anatolian, Aegean and western Black Sea regions. The number of fish farms has increased over the past few years, leading to production surplus that has caused an increase in the exports of Turkish fishery products. The products consist mostly of trout, sea bream and sea bass.

Key figures

As Turkey is in need of foreign investments to reach financial growth, the government has promised to create more areas to be used for fishery purposes. The export of fishery products started growing significantly in the end of the 90s and reached USD 100 million in 1999. This is an increase of 13% when compared with previous years.

Markets and expansion

The main export markets for Turkish fishery products are the European Union, the USA and Japan. Most imports to Turkey originate from Singapore, Vanuatu, Panama and Norway. Turkey offers a two-tiered global expansion opportunity to international aquaculture companies; an unsaturated domestic market and an export bridge to neighbouring developing countries as well as to the EU due to the Customs Union Agreement.

POTENTIAL

Despite Turkey's strategic location for aquaculture, the marine resources are not utilized to the best advantage. Fish and crustacean consumption is minimal outside of coastal areas and a few major cities.

Very primitive techniques and equipment are used in the fish farming sector. Modern technology and know-how will change the potential enormously, and respond to the increasing demand for seafood.

Fish farming is seen to be the part of the Aquaculture sector where Norwegian companies can have the greatest impact and success. Turkey is an emerging market for Norwegian seafood exports. The imports have shown a steady growth especially for salmon both processed and frozen. The geographic location of Turkey and trade relations with the European and Middle East countries are the advantages that promise steady growth for the fisheries of Turkey.

REFERENCES

Turkish Shipbuilders' Association Catalogue, Istanbul 2002

Turkish Shipping Sector Report 2001, Istanbul 2002, Chamber of Shipping

Turkish Shipping World, 2002 January- 2002 December

Exposhopping, 2002 Istanbul, Conference in Istanbul, October 2002

Norwegian Trade Council, Sector Report 2002

Turkish Shipping World (Deniz Ticareti) September' 2002, October' 2002, November' 2002, December' 2002

Export Promotion Center of Turkey [online]
<http://www.igeme.org.tr>

Department of Commerce - National Trade Data Bank [online]
<http://www.tradeport.org/ts/countries/turkey/sectors.html>

<http://www.chamber-of-shipping.org.tr>

Turkey's demographics, combined with rising income levels and a dramatic increase in private health insurance, are fuelling a major growth in demand for health care services and health care products. Not only is the population growing in numbers, it is also growing in its expectations of health care. This means that the market is huge as well as promising for international companies, and investors who intend to enter into joint ventures and other forms of mutually beneficial cooperation with their Turkish counterparts.

BACKGROUND

Since 1984, when the privatization programme was initiated, investments of foreign capital have been increased. After 1990, 19 international firms have entered the Turkish pharmaceuticals market. Turkey today has reached a technological level which can almost be compared to European Union countries except in biotechnology and a few brand-new pharmaceutical production technologies. Pharmaceuticals groups which are not produced locally are restricted to a few high-tech or biotechnology products. However, in classical basic production techniques there is no difference between EU countries and the industry in Turkey.

In recent years, the Government of Turkey has allocated more funding to healthcare improving most of Turkey's healthcare standards substantially. Nevertheless, healthcare services are still inadequate to cope with the rapidly expanding population. Health expenditure represents approximately 5 per cent of GNP. This is about 2 per cent points lower than in most countries at Turkey's stage of development.

The economic crisis in February 2001 adversely affected the pharmaceutical industry. The industry experienced a 3% contraction in sales volume as of the end of 2001. The most pronounced impact of the crisis was observed in import companies where prices are controlled by the State. The Ministry of Health unilaterally slashed companies' gross profit margin in April 2001 from 37% to 17%. Despite these unfavorable circumstances,

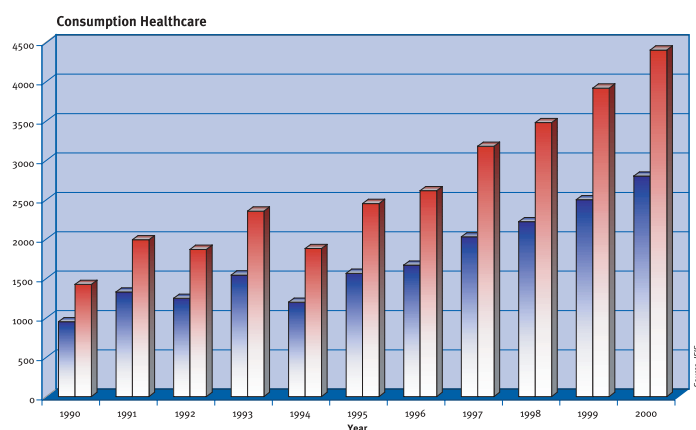
we believe that the Turkish healthcare and pharmaceuticals market offers viable business opportunities to Norwegian pharmaceutical companies who are interested in accessing (the region) in the long term.

POPULATION AND HEALTH STATUS

Turkey's population of about 65 million, has an annual growth of nearly 2%. With approximately 75% under the age of 30 this represents a huge potential. Life expectancy at birth is approaching 68 for men and 72 for women and is increasing. Turkey is also ideally situated for companies who are interested in accessing other markets in the Caspian region and Central Asia. Azerbaijani, with its expanding oil and gas economy, are increasing their demand for high-quality healthcare and therapies. By adding the former Soviet, states the amount of consumers reaches 250 million.

In 2000, sales of pharmaceuticals in Turkey were USD 2.7 billion at manufacturers' prices. The consumption per capita was USD 40 which is much lower than in the EU and other developed countries. Norway had an average consumption of USD 190, and North Americans top the list with USD 567 per capita. Antibiotics and analgesics are the most widely consumed drugs in Turkey, accounting for 34% of the total market. Then follows common cold treatment pharmaceuticals, anti-rheumatismals and vitamins. The positioning of antibiotics in the first rank is common in countries with less advanced preventive medicine systems.

The privatization of the health sector, and significantly increased investments in health facilities are also influencing the consumers' behaviour and attitudes. The trend in developed countries is that people are reading health books, subscribing to health newsletters, joining fitness centres, stopping smoking and buying nutritional supplements. Consumers are becoming more aware of the importance of preventive healthcare. In Turkey, 57 % of the adult population smoke. The lack of knowledge and mental barriers, concerning changes in lifestyle, offers a challenge and hopefully a possibility for future profit. The Nordic countries enjoy a very clean reputation, linked to descriptions like: honesty and quality. Consequently we believe that there should be viable market opportunities



PHARMACEUTICALS

for preventive nutritional food supplements/pre-medication for Norwegian companies in Turkey.

MARKET CHARACTERISTICS

HEALTHCARE PROVIDERS

The health sector is under the overall control of the Ministry of Health. Hospital services are provided by five main groups:

- The Ministry of Health
- The Social Insurance Organization
- The Ministry of Defence
- University medical schools
- Private sector

Ministry of Health is the largest provider of healthcare in Turkey and accounts for over 60% of hospitals in Turkey and for about half of the hospital beds in the country, approximately 84 000 beds. The other government agencies, including certain ministries, public organizations, State economic enterprises and municipalities account for an additional 70 000 beds.

The Social Insurance Organization for blue-collar and white-collar workers provides healthcare coverage for 32 million workers and workers' family members, about half of the population. Though private health and life insurance is rising, it still covers less than 2% of the population. As of 2001, 13 million of the population was not covered by any medical insurance scheme. Bringing everyone under such scheme is one of the key goals of the Government of Turkey's health reform project announced in February 1993.

However, the numbers of private hospitals have been increasing steadily over the last eight years. In Istanbul alone, there are more than 120 private hospitals. The private sector, including foreign organizations and various associations, operate a total of 15 000 beds. The majority of the hospitals are located in Turkey's three largest cities, Istanbul, Ankara, and Izmir. The rising demand for higher-quality care, especially from the upper and middle-income groups, has led to a boom in private health facilities. Investments by the private sector in buildings and equipment totaled USD 650 million in 1998, three times those of the public sector that year. Clinics, laboratories, hospitals and physicians are changing the criteria they use in selecting medical equipment and products, with far more emphasis on high level technology and quality.

PRODUCTION & TRADE

The Turkish pharmaceutical industry constitutes today 96 entities, 85 are engaged in the production of pharmaceuticals while 11 are producing pharmaceutical raw materials. All together these entities supply nearly 90% of the pharmaceutical products marketed in the country, although the share of finished products has been rising in recent years. Imports of raw materials, active ingredients and finished products amounted to USD 1.511 million in

2000, and slightly more in 2001. As of 2000, 34 foreign companies among them leading multinationals such as Glaxo, Novartis and Roche have invested in Turkey, nine of these have their own production facilities, while others rely on local manufacturers or imports.

FINISHED PRODUCTS

International firms which have their own production facilities in Turkey are:

1. Bayer
2. GlaxoSmithKline
3. Aventis
4. Pfizer
5. Roche
6. Sanofi - Do_u
7. Novartis
8. Eczaciba_ı - Baxter
9. _lsan

But matters like problems in the pricing system in Turkey, high VAT rates, issues faced within last few years in distribution channels, are preventing the profitability of the pharmaceuticals industry. This is of major concern in an industry, where competition is increasing as is the cost of applying technology in order to be successful, one needs to make both technological and marketing investments and continue to make these investments.

Another factor, which greatly influences the competition, is the appearance of firms from India and China. These have extremely low cost production and State support (China) and thus have prices which may not even cover the production costs of the industry. Following the cancellation of import funds due to the Customs Union with EU, raw materials production and exports had been negatively effected and there is surplus capacity in the industry.



RAW MATERIALS

The major characteristics of pharmaceutical raw materials industry are that most investments are made by privately owned companies. Also the production capacity can be easily shifted to various production possibilities. Due to current problems foreign companies have withdrawn from the industry. So far no patents have been granted for a pharmaceutical raw materials in Turkey. Consequently the industry has to operate with very low profit margins.

A limited number of raw materials like morphine, its derivatives and paracetamol are in quantities that cover the local and foreign demand. In the case of other raw materials, the industry has not the ability to compete in terms of capacity and production. After the introduction of Customs Union with the EU, the little support from importing funds was abolished.

IMPORTS

As already mentioned in the Turkish pharmaceuticals industry is supplying about 90% of the pharmaceuticals demand in the domestic population with local production.

However the country needs to import products, pharmaceuticals that need new and high technologies, biotechnological preparations, implanted pharmaceuticals, new pharmaceutical transport systems (e.g. TTS), vaccines, blood factors, pharmaceuticals with controlled secretion system, insulin, cancer drugs, several hormones, radionuclides, some ophtalmic preparations and antidotes. But after the Customs Union with EU, the more liberal behaviour of the Ministry of Health in the imports of pharmaceuticals and imports permits given by Ministry of Agriculture the imports of similar products (e.g. Multivitamin preparations and analgesics) is increasing day by day

Imports Year	US\$ (Millions)		
	Raw Materials	Finished Pharmaceuticals	Total
1997	667 728 360	314 225 111	981 953 471
1998	769 378 609	411 213 585	1 180 592 194
1999	784 631 891	552 347 188	1 336 979 079
2000	828 000 000	683 000 000	1 511 000 000
2001	835 893 561	698 443 146	1 534 336 707

EXPORTS

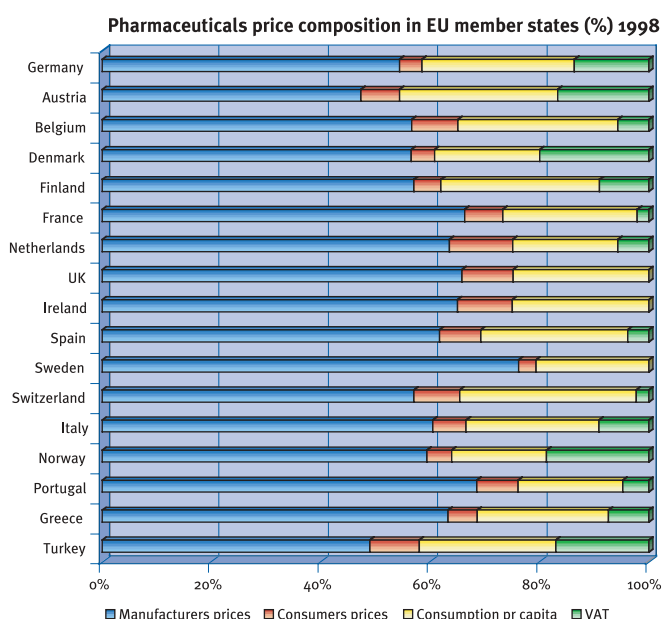
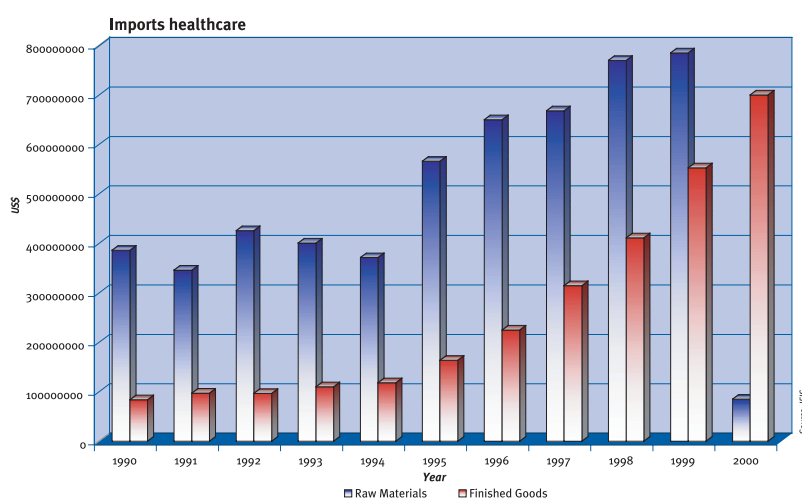
The total value of exports in 2001 was USD 149 million, approximately 48% were raw materials and the remaining 52% finished goods. Among the 50 countries exported to are: Germany, the USA, Austria, Belgium, Finland, Netherlands, the UK, Switzerland, Italy and Japan. It is worth mentioning that Afyon Alkaloids Factory is producing enough to cover 20% of the world's total morphine consumption.

MARKET ACCESS

PRICING SYSTEM

Pharmaceuticals prices are under the control of the Ministry of Health. The Ministry performs this controlling authority basing on Price Decreases, which determine the principles of pricing, published by the Council of Ministers.

The Decree of 2002 suggests a system based on commercial costs. According to the system, the retail price which is the same all over the country is determined by the addition of producer's and distribution channels' profit margins and the VAT to the total costs formed by adding sales, marketing, financing and management costs to the industrial costs. The distribution of the components of the prices of pharmaceuticals in EU member states are as follows:



Although the profitability ratio of the industry is restricted by 15% on company basis and 20% on pharmaceutical basis, the industry could never reach those ratios due to the effects of the high inflationary environment and the restrictions of the Ministry, and has been making a loss for last five years. (Inflation in 2000- Turkey: 54.9/ EU average: 2.8) EFPIA

REGISTRATION

Information and documents required for registration have been harmonized to a large scale with EU registration files. The number of licences granted in

2001 were 178 out of a total of 237 applications (Ministry of Health).

The steps of the registration are not determined in time intervals as in the EU. The Pharmaceutical Manufacturers' association (IEIS) is aiming to change this. It is recommended that the Turkish importer/distributor is the one who manages this process. Strong ties with the relevant contacts within the Ministry of Health might be helpful in limiting the time, which differs depending on the situation. However, getting a licence through the Ministry of Agriculture, which is sufficient for the imports of products such as nutritional supplements is much easier, and faster. Additionally these products are not restricted by the price and advertisement legislation like medication registered through the Ministry of Health.

PATENTS

A new period has started in Turkey with the patent application on pharmaceuticals and pharmaceutical processes as of 1 January 1999. That same year 4 of the 487 patents granted were Turkish. An important step for a country which has long been criticized for using counterfeit products, so that Turkey is now becoming a region where research potential can be evaluated.

CLASSIFICATION OF PHARMACEUTICALS

Almost all of the pharmaceuticals which are supplied to healthcare services are prescription pharmaceuticals. But, in practice, nearly all of the pharmaceuticals except narcotics and psychotropes may be purchased without prescriptions from pharmacies. Public advertisement of non-prescription pharmaceuticals is as already mentioned permitted. However, the promotion of medicinal products should be directed only to doctors, dentists and pharmacists.

TRENDS & OPPORTUNITIES

As we have seen investments in health facilities have increased significantly within the last eight years in Turkey, supported by a strong trend towards privatization. However, more than 90% of the country's total hospital bed capacity still belongs to government agencies, and the largest purchaser of medical devices in Turkey is the Ministry of Health and its healthcare facilities.

This significant growth is driven by a combination of socio-economic factors, including population growth and ageing, rising health care expectations, improved treatment and technological progress. These factors suggest that the share of total health expenditure as part of overall gross domestic product should rise over time. In addition, the surrounding countries offer emerging markets with a total of about 250 million consumers. These market conditions present business opportunities for Norwegian pharmaceutical companies and investors interested in accessing new markets.

Though local production supplies nearly 90% of the demand for pharmaceutical products in the country, the share of finished products imported has been rising in recent years. Due to losses the funds for R&D are very restricted. Due to great competition in the raw materials and finished products market we believe that the best opportunities are within nutritional supplements. These products are not restricted by the price and advertisement legislation like general medication.

Moreover the development within the global health industry indicates prospects for a substantial growth in preventive healthcare. The clean image of the Nordic countries, should give a good position to teach, and market these luxury products. The seemingly irresistible expansion of healthcare demand makes governments acutely aware of the widening gulf between such demand and what they can do to meet it, given the constraints on their social security budgets.

In addition to further privatization of such services, the Ministry of Health might also be expected to launch campaigns and other initiatives to increase awareness about health, and preventive actions. The demand for preventive healthcare products has not reached its potential by far. With enough time and money spent on mass advertisements and marketing, Turkey offers considerable business opportunities for Norwegian companies.

REFERENCES

- Trade Partners UK [Online]*
Healthcare & Medical Market in Turkey
<http://www.tradepartners.gov.uk/healthcare/turkey/>
- Pharmaceutical Manufacturers` Association [Online]*
<http://www.ieis.org>
- The U.S. Commercial Service [Online]*
Turkey Country Commercial Guide FY 2002
<http://www.usatrade.gov/Website/ccg.nsf/ShowCCG?OpenForm&Country=TURKEY>
- Canada`s Business and Consumer Site [Online]*
Medical and Surgical Equipment – Market Access
<http://www.strategis.gc.ca>
- Country indicators [Online]*
<http://www.tradeplan.com>
- Republic Of Turkey Ministry Of Health Web Site [Online]*
<http://www.saglik.gov.tr/>



HAR DU HØYE AMBISJONER?

BI SANDVIKA GRADUATE SCHOOL TILBYR:

Siviløkonomstudiet (5-årig):

Siviløkonomstudiet gir deg en allsidig utdanning innen økonomi, administrasjon og ledelse. Studiet kombinerer det fremste innen teori og praksis i et unikt læringsmiljø. Siviløkonomtittelen står for kvalitet, handlekraft og relevans.

Bachelor i revisjon (3-årig):

Revisorstudiet er et spesialiseringsstudium med fokus på regnskap og revisjon. Enkelte forbinder revisorer med mennesker som bare er opptatt av tall, men det er langt fra sannheten. Som revisor jobber du vis-à-vis kundene hele tiden.

Master of Science:

Med en Bachelorgrad innen økonomi, markedsføring eller ledelse kan du søke opptak til Master of Science-studiene. Masterstudiene går i hovedsak på engelsk og tiltrekker seg søkere fra hele verden. Studiene krever mye, men gir deg enda mer tilbake.

Å velge utdanning betyr å velge muligheter!

For mer informasjon:
www.bi.no/sandvika
tlf: 06600



BI

The global downturn in the telecom industry in addition to the February 2001 financial crisis have both affected the Turkish telecom sector badly. GSM operators face problems paying back USD loans on their investments, although the sector is growing rapidly. Despite these problems, Turkey's large and young population makes the market very interesting for the future. The strategic location close to the less developed region of Caucasus, the Middle East and Central Asian Republics makes Turkey an ideal starting point for future telecom investments in the region.

After a tough period following the February 2001 financial crisis, the IT sector has been one of the first to experience an upturn in 2002 with bright expectations for the future. The combination of Turkey's young well-educated IT workforce and low wages compared to western standards makes Turkey a very attractive location for research and development facilities.

BACKGROUND

During the early 1990s, the monopolist on fixed line operations, State-owned Turkish Telecom (TT), faced problems dealing with both demands for more advanced technology and keeping up with rapidly increasing numbers of subscribers. In 1995, the fixed line penetration rate was only 4.4%. By 2001 it was 28% with 18.5m subscribers – this increase came from constant economic growth and a rising investment in infrastructure.

Beside the fixed line operations, Turkish Telecom, also has interests in cable TV, the Internet, maritime communications and the Turkey Packet Switching Network (Turpak). Later TT began operating its own GSM network, Aycell.

The first sector specific regulator in Turkey known as the Telecommunication Authority was established on 29 January 2000. The Authority is engaged in a reform process and works under the Ministry of Transportation. Their responsibilities are supervision and regulation of the telecommunications and radio communications sector. The Authority's purpose is to create a free and fair market economy in a dynamic and strong telecommunications sector.

Although it has been a candidate for privatization since 1993, this took until 2001, when in return for a USD 16bn IMF loan, the government agreed to sell off Turkish Telecom in order to recuperate some money. TT is thought of as one of Turkey's most valuable assets and therefore it is not easy to please all parts involved in the sale – both the military and the powerful nationalist politicians have been hampering the attempts to sell. Recently Arthur Andersson recommended that TT's different operations were split into separate companies under one parent holding company, this also included cutting the workforce by 20 000 unskilled staff and hiring 10 000

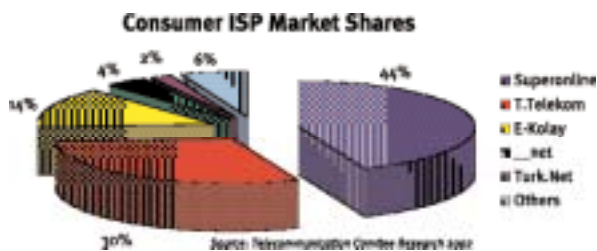


skilled staff. Rothschild Ernst & Young was hired to prepare a strategy for the sale of TT and to put a value on the company – but so far only Oyak, a semi-autonomous military pension scheme, has indicated an interest in buying the former monopolist Turkish Telecom.

WIRELESS COMMUNICATIONS OPERATORS

In 1986, Turkish Telecom launched an analog Nordic Mobile Telephone (NMT) network, and since then Turkey's mobile market has grown tremendously. In February 1994, Turkey entered the "European Cellular Digital Mobile Telephone Network". The network had 30 000 subscribers after two months, and by the end of 1995, Turkey had 330 000 subscribers.

At first there were only two licenced companies operating services on the 900 MHz network – Turkcell and Telsim. They both had a sharing agreement with Turkish Telecom, which gave TT the right to 70% of the revenue. These high tariffs led to slow market penetration, only



2.7% by the end of 1997. At the beginning of 1998, the first step towards deregulating the mobile phone sector was taken when Ministry of Transport sold 25year GSM 900 licenses at a cost of USD 500 million each to both Turkcell and Telsim. Under this agreement they only had to pay 15% of the revenue to the State and 10% to TT for call charges for its PSTN network.

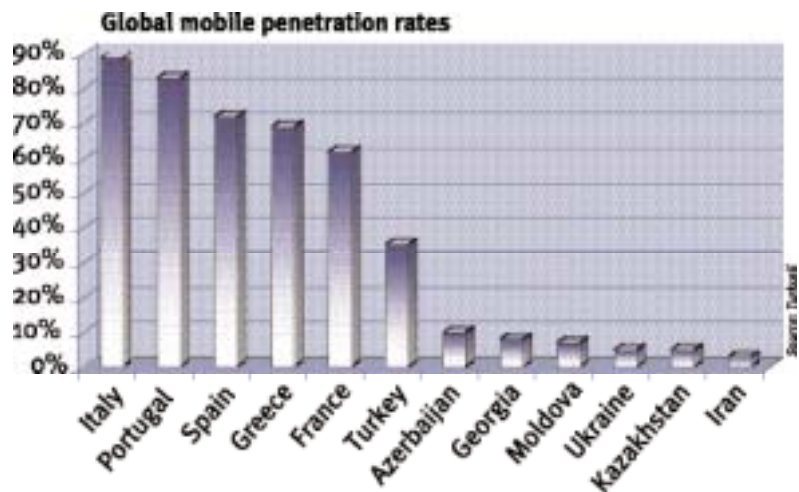
Many international companies have seen the promising potential of the GSM market in Turkey. Turkcell was formed in 1993 as a joint venture between Cukurova Group, Sonera, a Finnish telecom operator and Ericsson, who later pulled out. Today Turkcell is the leading operator controlling 60% of the market with almost 16 m subscribers. The company has been successful because of its ability to keep pace with the rapidly changing technology. Turkcell has developed an international relationship with other GSM companies. Fintur owns and operates all GSM and ISP operations outside Turkey. The company has telecom interests in Azerbaijan, Georgia, Kazakhstan, Moldova and northern Cyprus. Turkcell owns 41.45% of the Fintur Holding.

Telsim, which is fully owned by Uzan group, has a 29% market share and 7 m subscribers. Telsim has not experienced the same success as Turkcell. They were losing their market share to Turkcell and saw therefore saw the need to expand their network and services in agreement with the US equipment supplier Motorola and Finnish Nokia.

In the 2001, the sector was hit by two surprises – one being the economic crises and the second being the arrival of two new competitors. Through a TV auction the consortium Is-Tim, a joint venture between Turkey's then biggest private bank, Is Bank, and Telecom Italia bought their network licence for USD2.5 bn, the second licence was awarded to Turkish Telecom. Is-Tim launched its Aria GSM 1800 mhz service in March 2001 and TT launched Aycell in December the same year. The growth of the entire sector was severely affected by the economic crises, making it especially hard for the newcomers to survive.

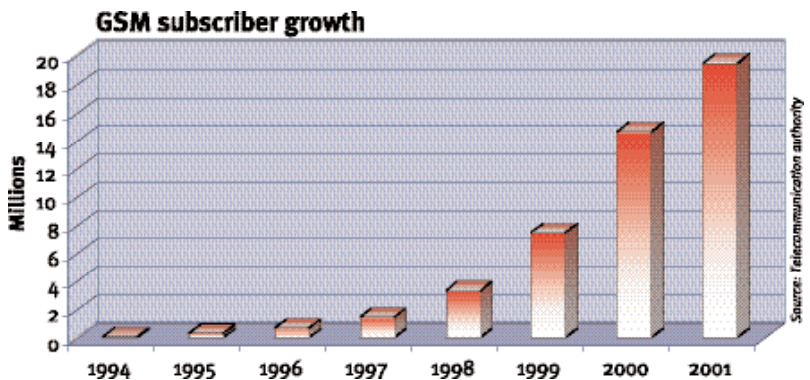
COMPETITION

The number of firms in the mobile communications sector was now raised to four. The newcomers, Aria and Aycell, were interested in roaming agreements with the two established networks. Spending much of 2001-2002 in failed negotiations, they both had to complete their own network expansion. One of the main objectives of the



Authority is to create a liberalized and a competitive environment in the telecommunications sector. A competitive market contributes to economic growth and employment, increases investments and introduces new services using foreign funds.

Beside new operators in the market, the Mobile Virtual Network Operator (MVNO) is stimulating the competitive environment. MVNO contributes to decreased costs and increased profit margins in the market. It makes it possible to use the networks capacity and resources efficiently.



With market penetration at 31% in late 2001 the sector was on its way to recovery, with both higher use and new subscribers. Turkcell and Telsim had market shares of around 65% and 29% respectively, while the newcomers Aria and Aycell were competing with a mere 4% and 2% of the market shares. Total number of subscribers was around 21.7m by mid 2002.

TECHNOLOGY

Turkey had a late entry to ICT sector but incorporated modern and advanced technical systems. Ericsson has played an important role in Turkey's telecommunications history. It started in 1980s when Ericsson connected

Dolmabahce Palace, the primary residence of the Ottoman sultans, to a telephone line. Ericsson was also the introducer of the GSM system in Turkey.

A later generation for mobile communication systems after second-generation GSM is General Packet Radio Service (GPRS) and was launched in 2000. Telsim was the first operator in Turkey and the third operator worldwide to upgrade GPRS technology. Compared with GSM which runs at speed 9.6 kbps, GPRS has a faster access speed up to 115 kbps.

Implementing GPRS is a first step towards a third-generation wireless communications technology, UMTS. Universal Mobile Telecommunication System will deliver voice and data, as well as audio and video to wireless devices anywhere in the world.

In May 2002, Turkcell signed a contract with Ericsson for a system to handle Multi Media Messaging System (MMS). With this system it is possible to send messages comprising a combination of text, sounds, images and video to MMS compatible handsets.

THE FUTURE OF ICT IN TURKEY

The Turkish telecommunications sector is still at an early stage in its development, but has great potential and opportunities in the future. The total market size is growing and it is assumed to continue in the same way. The mobile service sector is expected to have the greatest increase in the total growing market.

Because of the excellent location of the country, many companies have used Turkey as a base for further expansion of telecommunications systems to the less developed Caucasus, the Middle East and Central Asian Republics. Turkey is a crucially important market, not only with respect to its location but also its characteristics. The open-minded and young population of Turkey makes it interesting for technological innovations and attractive for foreign investment. As the income per capita is expected to rise, the demand for telecommunications services will also increase to the same level as other European countries.

INTERNET ACCESS

For the time being TT has the right to operate selected value added services. Law No. 4502 stipulates that TT shall execute telephone services including national and international voice transmission over telecommunication networks as a monopoly until 31.12.2003 and that the establishment and operation of all telecommunication infrastructure shall be within the scope of this monopoly. Because of this TT has control over international access lines to the Internet, but is allowing the private sector to establish service providers (ISPs). TT's continued control of access, despite its ongoing investments in a new access line has been an obstacle for further growth.

Although Turkish Telecom is the 12th largest operator in the world with more than 18 million subscribers, the network it possesses is mainly PSTN and the majority of its incomes are funded by voice transmission services. In recent years TT has executed several large infrastructure

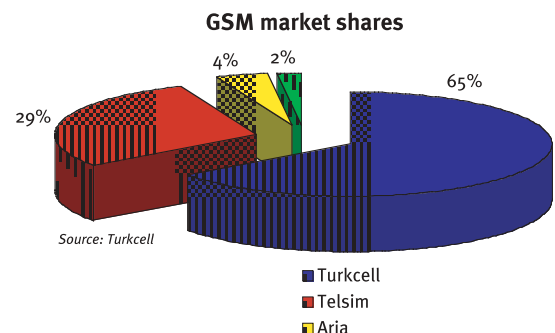
projects to modernize their network, to meet the increasing needs for data transport. But only a small percentage of the subscribers are served by these new infrastructures today.

The trend is that modern technologies such as ISDN and especially ADSL (Asymmetric Digital Subscriber Line) are rapidly expanding in order to provide high speed data transport over the existing PSTN (Public Switched Telephony Network) infrastructure. The use of xDSL technology in Turkey is important for the development of the sector and society due to the possibilities for efficient use of current investments made in copper line capacity which exceeds 32 million potential subscribers. A large part of this existing infrastructure supports broadband communication by using DSL technologies without large technical changes in the physical network layer.

The typical Turkish Internet user is a male with university education in his late 20s. Although estimates vary, on average, Turkey now has about three million Internet users. The PC penetration rate is 6%; which is very low compared to western standards. Compare, for example, the 55% penetration in the US. The small number of computers is largely due to the economical crisis Turkey has been going through during the last couple of years, and for this reason there is expected to be a high growth in the IT market when the economy eventually gets back on track.

Today most of Turkey's large enterprises have access to the Internet, so the future growth potential lies in the small- and medium-sized business sector as well as the consumer market segments. Because of the large and young population there is expected to be a high growth in the consumer market, from today's low Internet penetration rate at only 1.25%. A recent projection from Superonline, Turkey's leading ISP, anticipates more than a doubling of Internet customers in the consumer market in the coming five years.

Besides TT there are about four main players in the ISP market, with a total market share of more than 90%. Most of these private companies are owned by the large Turkish industry conglomerates, like Superonline owned by Cukurova Group and Turk.Net controlled by Sabanci Holding Inc. These ownership structures give them a solid financial backing and enhanced market access to associated companies in their group.



In early 2002, Parliament in Ankara passed a new media law that sought to establish the same strict laws of censorship over Turkish Internet sites that there are in TV and print. But the president vetoed this after pressure from the IT-industry that argued ISPs would simply set up abroad to avoid the possibility of being prosecuted in Turkey. The industry feared that ISPs could be held responsible by the government censors, the Radio and Television Supreme Board, for anything the board judged subversive, even messages posted at an Internet chat room.

IT MARKET

Finance and banking have historically been the main sectors investing in IT technology in Turkey. Because of this the February 2001 financial crisis hit the Turkish IT industry extremely hard. Companies cancelled projects and froze their investments because of the extensive economic problems; which resulted in a sharp downturn in the sector of more than 60% in just one year. After this period the IT sector has been one of the first to experience an upturn in 2002, partly thanks to a large government project to purchase more than 70 000 computers for Turkish schools and campaigns allowing for instalment payments when buying computers.

The upturn in sales is also due to higher investments from companies, a lot of projects that were postponed in the last few years are now being carried out. Despite their problems even banks are now investing more in new IT technology than before, because of their change in focus from funding the government budget deficits to retail and consumer banking. GarantiBank one of Turkey's largest banks, is in the forefront of this development and has been internationally awarded for its innovative and user friendly solutions.

With a growing demand for Turkish language material the software business is a sector with a large growth potential. Although imports of packaged US software, dominates the market, there are several large local producers like Link and Logo. Despite the government attempts to tighten legislation software piracy is still a large problem, which makes the revenues from software sales only account for a small 10% of the total IT-market. However the trend is for the better, with an estimated drop in the piracy rate from 97% in 1999 to around 84% today.

Turkey has a young and well-educated IT workforce, and despite the recent improvements in the sector there is high unemployment amongst highly qualified professionals sector wide. This combination of competent workers and low wages compared to western standards makes Turkey a very attractive location for research and development facilities. Large multinational companies like the Swedish company Ericsson has already seen this potential and made large investments in R&D activities in Turkey. Well-developed infrastructures and a high level of English language skills compared to other low cost countries, also makes Turkey a good choice investments in research facilities.

REFERENCES

- Turkish Telecommunication Authority 2001 Annual report [Online], URL: <http://www.tk.gov.tr>, [Cited January 2003]*
- International Telecommunication Union, [Online], URL: <http://www.itu.int>, [Cited February 2003]*
- Ericsson Turkey Homepage, [Online], URL: <http://www.ericsson.com.tr>, [Cited February 2003]*
- Dr. Abdüsselam Altunkaynak, Istanbul Technical University. Istanbul, Turkey, meetings in January 2003.*
- As_m Özgür, Ceo Office, Head of Strategies & Strategic Business Development, Turkcell. Istanbul, Turkey, meeting 23 January 2003.*
- Alaaddin Alpay, Strategic expert, Head of Strategies & Strategic Business Development, Turkcell. Istanbul, Turkey, meeting 23 January 2003.*
- _lter Terzio_lu, Business Development & Technology, SuperOnline. Istanbul, Turkey, meeting 22 January 2003.*
- Ca_ri Poyraz, Business Development & Technology, SuperOnline. Istanbul, Turkey, meeting 22 January 2003.*
- Telsim Homepage, [Online], URL: <http://www.telsim.com.tr>, [Cited January 2003]*
- YASED, Foreign Investors Association of Turkey, [Online], URL: <http://www.yased.org.tr>, [Cited February 2003]*
- "Emerging Turkey 2003", The Oxford Business Group, 2002.*
- Hitech-News.com, [Online], URL: <http://www.hitech-news.com>, [Cited January 2003]*
- GSM World, GSM Association, [Online], URL: <http://www.gsmworld.com/index.shtml>, [Cited February 2003]*
- Cellular-news, [Online], URL: <http://www.cellular-news.com/>, [Cited February 2003]*

Project members



Brita Fladvad Nielsen

(22) is from Bergen in western Norway. She will receive her Master of Science degree in Industrial Design from the Norwegian University of Science and Technology in June 2005.

Areas and sectors of responsibility:
Aquaculture, Marine

Alf Inge Stiansen

(28) is from Grimstad in southern Norway. He will receive his Masters of Science degree in Strategy and International Business degree from the Norwegian School of Management in June 2003.

Areas and sectors of responsibility:
Framework for doing Business, Economy



Aysegül Cin

(21) is from Rælingen in eastern Norway. She will receive her Master of Science degree in Industrial Economics and Technology Management from The Norwegian University of Science and Technology in June 2005.

Areas and sectors of responsibility:
ICT, Hydropower

Ola Hansson

(25) is from Oslo in eastern Norway. He will receive his Master of Science degree in Business studies from the Norwegian School of Management in June 2005.

Areas and sectors of responsibility:
Aquaculture, Marine



Kristian Kragerøe Andresen

(22) is from Bærum in eastern Norway. He will receive his Master of Science degree in Industrial Economics and Technology Management from The Norwegian University of Science and Technology in June 2005.

Areas and sectors of responsibility:
ICT, Hydropower

Hilde Maren Schjager

(21) is from Skien in eastern Norway. She will receive her Master of Science degree in Business studies from the Norwegian School of Management in June 2005.

Areas and sectors of responsibility:
Healthcare



Christian Berntsen

(22) is from Sandefjord in eastern Norway. He will receive his Masters of Science degree in Industrial Economics and Technology Management from The Norwegian University of Science and Technology in June 2005.

Areas and sectors of responsibility:
Oil & Gas, Technology

Lars Erik Refsahl

(23) is from Oslo in eastern Norway. He will receive his Master of Science degree in Business studies degree from the Norwegian School of Management in June 2003.

Areas and sectors of responsibility:
Aquaculture, Marine, Society





Anniken Marika Esbensen

(21) is from Røyken in eastern Norway. She will receive her Master of Science degree in Business studies from the Norwegian School of Economics and Business Administration in June 2005.

Areas and sectors of responsibility: ICT, Hydropower

Inger Lise Lindland

(24) is from Stavanger in western Norway. She will receive her Master of Science degree in Business studies from the Norwegian School of Economics and Business Administration in June 2004.

Areas and sectors of responsibility: Oil & Gas



Thor Christian Olsen

(25) is from Kongsvinger in eastern Norway. He will receive his Master of Science degree in Business studies from the Norwegian School of Economics and Business Administration in June 2004.

Areas and sectors of responsibility: Oil & Gas, Politics

Lene Eltvik

(24) is from Bergen in western Norway. She will receive her Cand. Merc degree from the Norwegian School of Economics and Business Administration in June 2004.



Special thanks to

Name	Position	Company	Contribution
<i>Sükrü Ergün</i> <i>Gavsi Özarpak</i>	CEO Deputy General Manager	Jotun Jotun	Background on the Jotun story, information about the marine sector. Arrange meetings
<i>Hakan Peksen</i>	Finance Manager	Jotun	Background on the Jotun story, information about the marine sector. Arrange meetings
<i>Erik Wiken</i>		NTC	Support throughout the whole project, and introducing us to the office in Istanbul
<i>Nizamettin Derbil</i>	Station Manager	NTC Istanbul	Support throughout the whole project, in depth knowledge on the Turkish market and its opportunities, and arranging meetings with interesting companies
<i>Vidar Smines</i>	Market Advisor	NTC Istanbul	Support throughout the whole project, in-depth knowledge on the Turkish market and its opportunities, and arranging meetings with interesting companies
<i>Per Lindberg</i>	Vice President International Gas & Power General Manager Statoil Turkey	Statoil	The Turkish energy and power sectors and overall development of the Turkish economy.
<i>Geir Løken</i>	Manager Power Statoil Gas & Power Turkey	Statoil	The Turkish energy and power sectors and overall development of the Turkish economy.
<i>Demet D. Derbil</i>	Commercial Manager	Statoil	The Turkish energy and power sectors and overall development of the Turkish economy.
<i>Zita Márákó</i> <i>Daatland</i>	Senior Market Analyst	Statoil	The Turkish energy and power sectors and overall development of the Turkish economy.
<i>Dr. Abdüsselam</i> <i>Altunkaynak</i>		Istanbul Technical University	Introduction to the education system, article on wave power, overwhelming hospitality and kindness. Good luck with your research.
<i>Hasan Anlar</i>	Vice President Correspondent Banking	GarantiBank	The underlying causes of economic crisis, banking restructuring program and trends in the banking sector
<i>Meltem Temel</i>	Vice President Delivery Channels	GarantiBank	The underlying causes of economic crisis, banking restructuring program and trends in the banking sector
<i>Ismail Alakoc</i>	General Manager	NutriFarma	Understanding of dynamic and potential in the healthcare industry
<i>Murat Vural</i>	Marketing and planning manager	NutriFarma	Understanding of the dynamic and potential in the healthcare industry
<i>All employees</i>		Grand Hotel de Londres	Superb hospitality and kindness
<i>Özlem Ergün</i>	President	Boyden Global Executive Search	Human capital and work regulations

<i>Hüseyin Bayraktar</i>	Research Assistant	Yildiz Technical University	Introduction to the education system, article on wave power, overwhelming hospitality and kindness. Good luck with your research.
<i>Metehan Sekban</i>	Director MBA Programs	Istanbul Bilgi University	Development and challenges of the education system, the economic situation, and business related topics.
<i>Deniz Merdanoglu and Canan Kraosmanoglu</i>	Students	Bogazici University, Political Science and International Relations	EU – Turkey relations and historic development
<i>Öner Güncavdi</i>	Professor	Faculty of Management, Istanbul Technical University and Department of Economics, University of Nottingham	Underlying causes for the financial crisis in 2000/2001.
<i>Per Leikvang</i>		The Norwegian Polytechnic Society	Arranging the presentation of the report in The Polytechnic Society
<i>Hasan Allici</i>	Student	NHH	For all the information on mail
<i>The Turkish Embassy in Norway</i>		Oslo, Norway	For meeting with us in April
<i>Turgut Atagün</i>		Kalkavan	Information about Marine sector
<i>Bekir Emiral</i>	Ship. Opr. Manager	Kalkavan	Information about Marine Sector
<i>Mustafa Mazlum</i>	Production Manager	Fribal	Information about Aquaculture
<i>Acilay Koc</i>	Public Relations	Chamber of Shipping	Provided us with information about all the Marine Sector
<i>Eda Güney</i>		Chamber of Shipping	Provided us with information about all the Marine Sector
<i>Boray Konuksever</i>	Secretary General	Turkish Shipbuilding Association	Information about the Shipbuilding Sector
<i>Burak Kiliboz</i>		Jotun	Sightseeing in Tuzla Bay and information about Marine Sector
<i>Johan Lindqvist</i>		Swedish Trade Council	
<i>As_m Özgür</i>	Ceo Office	Turkcell	Information about the telecom sector.
<i>Alaaddin Alpay</i>	Strategic expert	Turkcell	
<i>_lter Terzio_lu</i>	Technology expert	SuperOnline	Information about the ISP sector.
<i>Ca_ri Poyraz</i>	Strategic expert	SuperOnline	
<i>B_lent Bayram</i>	Assist. Professor	Yildiz Technical University	Information about the Turkish education system.
<i>Stewart Clark</i>	Adviser	The Norwegian University of Science and Technology	English language advice and help with editing this report.
<i>As_m Özgür</i>	Ceo Office, Head of Strategies & Strategic Business Development	Turkcell, Istanbul	Meeting 23 January 2003
<i>Alaaddin Alpay</i>	Strategic expert, Head of Strategies & Strategic Business Development	Turkcell, Istanbul	Meeting 23 January 2003

<i>_lter Terzio_lu</i>	Business Development & Technology	SuperOnline. Istanbul	Meeting 22 January 2003
<i>Ca_ri Poyraz</i>	Business Development & Technology	SuperOnline. Istanbul	Meeting 22 January 2003
<i>Porsgrund Porselen</i>		Porsgrund	Gifts
<i>Murat Kilic</i>	Businessman – Foreign Trade Specialist		Introduction to the education system, article on wave power, overwhelming hospitality and kindness.
<i>Ismet Ucarli</i>	MBA student	Bilgi University	Help to arranging meetings and local guiding. Overwhelming hospitality and kindness!
<i>Dilek Ucarli</i>	Student	Istanbul, Technical University	Help to arranging meetings and local guiding. Overwhelming hospitality and kindness
<i>Pynar Ikiz</i>	Student and TV-star		For excellent help with lots of small problems and for taking care of us in Turkey
<i>Taxi Drives</i>	Professional drivers	Istanbul	For taking us on sightseeing every time we just wanted to go from A to B, and for taking extra paid for driving tourist.
<i>Isteml Unsal</i>	Prof. Dr	Istanbul Technical University (Hydropower Professorship)	For an excellent overview over the current situation on the Energy sector in Turkey
<i>Berna Sevinc Kasnakli</i>	Third secretary	The Turkish Embassy	For help with information and for meeting with us in April 2002

International Business 2003/2004

Finding market opportunities in

Russia

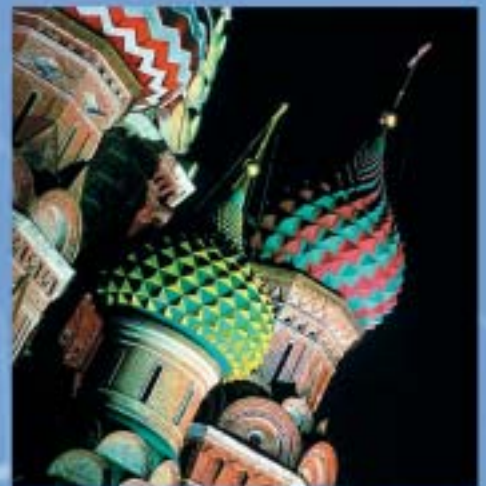
In cooperation with the Norwegian Trade Council, IB has chosen Russia as the project country for our group of 2003/2004. There are several good reasons for this decision.

Russia has the largest land area in the world. The country extends 9000km from east to west and 4000km from north to south facing the Arctic Ocean in the north and Asian country as China and Mongolia in south.

The country has a tremendous wealth of natural resources. 45% of the world's gas reserves exist in Russia. The country also has 13% of the world's oil reserves and a considerable share of iron ore, coal and other noble and rare minerals.

The fall of the Union of Soviet Socialist Republics in 1991 transferred the Russian economy from a socialist to a market-oriented economy. Today Russia is an emerging and developing country, with great opportunities for the future. The number of commercial banks, concerns, enterprises, consortiums and associations is growing and contribute to an increasing GDP. The continuing privatization has added varieties of ownership patterns.

The Government's economic program is expected to give a steady economical growth with positive structural changes in the economy and to ensure an increase in the population income. The main motivation for this work is the negotiations for WTO membership.



What is International Business?

International Business (IB)
is an annual project carried out by
a group of twelve students
attending the Norwegian University
of Science and Technology (NTNU),
the Norwegian School of Economics
and Business Administration (NHH)
and the Norwegian School of
Management (BI).

**In cooperation with the Norwegian Trade Council,
International Business 2002/2003 has chosen to
focus on the emerging market of Turkey.**

**Over the years, all the world's continents
have been examined. From its conception
in 1984, IB has maintained an ever-increasing
level of quality and recognition.**

main sponsors

