TURKEY BRIEF

TURKISH – CANADIAN RELATIONS

May 2009

DIŞ EKONOMİK İLİŞKİLER KURULU
DEİK FOREIGN ECONOMIC RELATIONS BOARD

TÜRK - KANADA İŞ KONSEYİ
TURKISH - CANADIAN BUSINESS COUNCIL

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CHAIRMAN’S MESSAGE

Dear Readers,

DEİK/Turkish-Canadian Business Council’s mission is to enhance the economic bilateral relations between Turkey and Canada by promoting trade and investment between the two countries.

The relations between Turkey and Canada are based on common values and ideals with regard to democracy, freedom, human rights and a free market economy. We should take two important global developments into consideration as we consider the future of the relations between the two countries. First of them is the increase in the mutual dependence of nations. The destruction of rain forrests in Brazil has effects on the global climate. The SARS disease that originated in China could threaten both Canada and Turkey shortly after its first appearance. The increase in AIDS patients in Africa could become among the biggest problems of the world. The huge increase in the demand of Asian countries could make other nations endure higher energy and logistical costs. A terrorist group in a distant place in the world could commit attacks on the most powerful country of the world. It is for this reason that the countries sharing the same ideals and values should expand their existing cooperation.

The other important development is that relations between countries are becoming multidimensional. Civil society is taking an ever increasing role. The ties between nations are no more solely determined by their governments; the roles of the business community, the world of academics and arts, and non-governmental organizations (NGOs) in these relations are growing. Success in public policy making would be increasingly difficult, if one misses the meaning of this transformation. This is so because the NGOs are instrumental in shaping the global standards, in the gathering and dessemination of the information that feeds decision-making and problem-solving. For example, the sensitivity towards environmental problems has been developed by non-governmental organizations. Important developments such as the ratification of the “Universal declaration of human rights” and prohibition of land mines are all results of civilian initiatives. Most importantly, NGOs bring participatory democracy to life. Therefore, as the Turkish-Canadian Business Council and our Canadian counterparts, we have much to contribute to the development of Turkish-Canadian relations.

Turkey is a prominent actor in international trade as well as an attractive destination for foreign direct investment and this brief report on Turkish-Canadian relations aims to be instrumental in raising interest and awareness among readers and have a moving effect on Turkish-Canadian bilateral relations.

The primary objective of this report is to present the opportunities for further developing the partnership of Turkey and Canada in areas such as telecommunications, agribusiness, mining, automotive, energy and education.

Although Turkey is Canada’s biggest trading partner in Eastern Europe, and this position is strengthening every day, the current trade and investment figures still fall short of reflecting the true potential. As the DEİK/Turkish-Canadian Business Council, we are hopeful that the positive trend will continue in the future and we stand ready to take the necessary steps to strengthen further Turkey’s relations with Canada.

DEİK/Turkish-Canadian Business Council is a source of information and networking on bilateral business issues for both Turkish and Candian companies and acts to assist Canadian firms to view Turkey as a key partner and destination for direct investments in the region. The Business Council organizes annual conferences and visits to Canada and hosts ministers and top level delegations from Canada and is the sole institution with a manade to promote bilateral economic relationships. We believe that the report entitled “Turkey Brief: Turkish-Canadian Relations” will serve as a guide to those who would like to have a better understanding of the current state of affairs between Turkey and Canada.

Dr. Yılmaz ARGÜDEN

Chairman

DEİK/ Turkish- Canadian Business Council

I. COUNTRY PROFILE: INTRODUCING TURKEY

1.1 History, geography, population and economic developments

Turkey is a country on the go – a dynamic, fast industrializing country with a young population and a robust economy, often described as the "China of Europe."

It is a nation with a long history and a cultural life steeped in rich traditions. It is a realm of sprawling cities and enormous rural areas; of coastal towns and tiny fishing communities. It is a mountainous nation with mist-hidden plateau villages, combined with vast steppes and fertile, meandering river valleys.

Sixty percent of the country is located at altitudes of 3,300 feet above sea level or higher. Located in eastern Turkey, Ağrı Dağı (Mount Ararat) at 16,976 feet is the nation's highest peak and the biblical resting grounds of Noah's Ark.

More than 99% of Turkey's population is Muslim, but the nation is a secular state with a definite western perspective. Christian and Jewish communities also exist in Istanbul, Izmir and Adana, the country's big cities.

Conservative Sunni Muslims make up the large majority of the country's Muslim population. But about a sixth of Turkey's population is Alevi, an Anatolian offshoot of the Shiite branch of Islam.

Two continents

Located on two continents -- Europe and Asia -- Turkey has always served as a bridge between the Occident and Orient. The Silk Road, the traditional trade passage connecting Europe to China, began in the ancient cities of what is now western Turkey.

Eight countries border Turkey: Bulgaria in the northwest, Greece in the west, Georgia in the northeast, Armenia, Azerbaijan and Iran in the east, Iraq and Syria in the southeast.

Turkey is the third biggest nation in Europe and Eurasia in terms of territory after Russia and Kazakhstan -- nearly twice the size of the state of California. Three percent of Turkey lies in Europe. Known as Thrace, European Turkey forms the southeastern tip of the Balkans. Ninety-seven percent of Turkey is located in Asia and this landmass is known as Anatolia. A bulging peninsula resembling a mare's head, Anatolia is surrounded by the Black Sea, the Bosphorus, the Sea of Marmara, the Dardanelles, the Aegean and the Mediterranean and has been home to many civilizations, including the Hittite, and the Carian, Lydian and Phrygian empires. Anatolia served as the granary of the Roman and Byzantine Empires. Its loss to the Turks in the 11th century deprived the

Byzantine Empire of its agricultural wealth and led to its eventual collapse.

Turkey is a key member of NATO and has the second biggest standing army in Europe after Russia with more than one million men under arms. It is a member of the United Nations (UN), the Organization for Economic Cooperation and Development (OECD) and other international bodies. An associate member of the European Union, it began accession talks with the emporium in 2005.

The farming nation

Turkey is a huge agricultural country, one of the few nations in the world still largely self-sufficient in food production. It is the world's biggest producer and exporter of hazelnuts, figs and pulses. It also turns out large surpluses of wheat, tobacco, cotton, barley, oats, sugar beets, fresh fruit and vegetables. Wide use of fertilizers and farm tractors since the 1950s has led to a green revolution.

An ambitious $30 billion dams and irrigation project on the Euphrates and Tigris Rivers is turning the neglected region of Southeastern Turkey into a Middle East breadbasket and providing badly needed electricity. The undertaking is simply known as GAP and calls for the construction of 15 dams, 18 hydroelectric plans and hundreds of miles of irrigation tunnels and canals. Officials predict the project will produce $6 billion in food surplus annually in the next decade – most of it for exports to the arid Middle East.

The country is endowed with rich mineral resources. It is the world's largest producer and exporter of chromites, meerschaum and boron. It also produces large quantities of metals, and minerals such as aluminum, lignite coal, copper, iron ore and turns out sufficient amounts of sulfur, manganese and lead for exports.

Young population

Turkey is a nation of young people. More than half of its population is under the age 25. The country's population has grown from 13.6 million in 1927 to over 75 million in 2009. By the end of 2015, Turkey is expected to have 81.65 million inhabitants. It already has the third largest population in Europe after Russia and Germany and is expected to surpass Germany by 2015.

About 150 million ethnic Turks live outside Turkey, primarily in the Balkans, and in the former Soviet Caucasus and Central Asia, Iran, China, Cyprus, Iraq and Syria.

Nearly 3.5 million expatriate Turkish nationals work and live in the European Community. Turkish nationals make up about three percent of Germany's population.

Atatürk's reforms

Turkey was proclaimed a republic in 1923, emerging from the ruins of the Ottoman Empire which ruled the Middle East, North Africa, the Balkans and parts of Eastern Europe for over 450 years. The Ottoman Empire disintegrated after its disastrous World War One defeat as an ally of the Central Powers.

From 1923 to 1938, Kemal Atatürk, the founder and first president of the Turkish Republic, carried out sweeping reforms that transformed the country from a backward, feudal state to a progressive nation with a western outlook. The Sultanate was abolished. Atatürk replaced the *Shariah,* or Islamic holy law, with civilian, trade and criminal codes adopted from Switzerland, Italy and Germany.

In 1925, the fez and the turban, symbols of Islamic backwardness, were banned, replaced by the *şapka*, or western-style hat with a brim. Three years later, the Latin alphabet replaced the Ottoman script, allowing masses of illiterate Turks to learn to read and write.

Atatürk established state economic enterprises, or state-owned industries, as a solution to Turkey's economic underdevelopment. Enormous government-owned textile mills, mines and mineral processing plants, oil refineries and petrochemical complexes came into being. State banks with huge branch networks were also set up to help finance industrial growth and commerce.

Private Sector

Atatürk's successors encouraged the creation of private industry. Until the 1980s, authorities protected local industry from outside competition by imposing severe restrictions on imports, including steep duties and customs barriers. The motor vehicle industry, synthetic fibers and yarns manufacturing, ready-wear and apparel, home textiles, pharmaceutical products, military aircraft and armored vehicles, household appliances, home electronics were some of the sectors that thrived as a result of the liberalization of the economy.

In the past 23 years, the government has privatized many major industries that were originally established during the early years of the Republic, including, steel plants, pulp and paper mills, oil refineries, clothing and textile factories, and cement factories to make the economy more responsive to market forces.

1.2 Future Prospects

Challenges and Expectations

Turkey is one of the fastest growing large economies of the world. It has had high growth rates over the past four decades. But growth has come in spurts and stalls, resulting in high inflation, budgetary and current account deficits and political instability. From 1960 through 1980, the country had three military interventions.

During the past three decades, the nation completed a key part of its infrastructural development. New highways linking Europe with the Middle East, scores of new hydroelectric dams, power plants, modern telecommunication networks were constructed. Phone lines were installed in every village and hamlet in Anatolia.

Turkey's economy grew an average 4.1% in real terms between 1980 and 2001. The country's Gross National Product (GNP) growth averaged annual growth rates of over 6.2% frpm 2002 to 2007, making Turkey the fastest growing economy among members of the Organization for Economic Cooperation and Development (OECD).

Yet the country faces problems that will preoccupy the nation's economic planners and business leaders for many years to come.

The country in 2008 had a current account deficit of $41.416 billion, about 5.5% of the Gross National Product (GNP), a figure most economic analysts say can't be sustained.

At the end of January 2009, Turkey's unemployment rate stood at 15.5%, the highest in the 76-year history of the republic and the largest percentage of unemployed in Europe. *"In the mid and long term, unemployment is Turkey's main problem,"* Güler Sabancı, chairwoman of Sabancı Holding, one of Turkey's biggest industrial and trade conglomerates, told a news conference in Istanbul on April 17 2009 "*Unemployment in Turkey is a strategic difficulty. The country must determine where it is going and in which industries it most focus on*. *Parallel to this, we need to restructure the economy to solve unemployment.*"

The number of unemployed in Turkey increased from 9.9% in December 2007, as the impact of the global recession began to be felt throughout the country.

II TURKISH-CANADIAN ECONOMIC RELATIONS

2.1 LEGAL FRAMEWORK

Significant steps were taken in 2002 and 2003 in order to set the legal framework defining economic relations between Turkey and Canada in place. The initiative of the Turkish–Canadian Business Council in April 2006 within the Ministry of Finance on acceleration of the signature stage of the Agreement on Prevention of Double Taxation has been received for future consideration.

Bilateral agreements and initiatives so far include the following:

1995 Memorandum of Understanding for Administrative Cooperation in the Textile Sector.

1996 Memorandum of Understanding Regarding High-Level Trade and Economic Consultations.

1998 Memorandum of Understanding on Bilateral Cooperation in the Energy Sector. Expired in 2005.

2002 Memorandum of Understanding on the Establishment of the Business Councils of the two countries.

Memorandum of Understanding between Canadian Manufacturers and Exporters and the Turkish Union of Chambers of Commerce, Industry, Commodity Exchanges and Maritime Chambers.

2003 Framework Memorandum of Understanding on Relations between the government of Canada and the government of the Republic of Turkey covering political, economic, commercial, and cultural aspects.

Agreement on Prevention of Double Taxation — Initialized

2004 Air Transport Agreement between the Turkey and Canada – Initialized. The accord provides rights that will allow Turkish and Canadian airlines to operate passanger and/or all cargo services between the two countries.

Following initiatives are in various stages of progress:

- Prevention of Double Taxation - All outstanding negotiating issues were agreed in 2009 but the agreement is awaiting signature and certain procedural steps by both governments before it can come into force.
- Bilateral Air Agreement was negotiated in 2009, but certain procedural steps remain outstanding.
- Agreement on the Bilateral Promotion and Protection of Investment — Negotiations for the signing of this agreement have not yet started.
- Bilateral Assistance between Customs Offices — A draft has been prepared by the Turkish Customs Undersecretary and presented to the Canadian Ambassador.

2.2 TURKISH-CANADIAN BUSINESS COUNCIL

The Turkish-Canadian Business Council (TCBC) was established in 1995 with the initial Protocol of Intent signed with CME (Canadian Manufacturers & Exporters) in the context of the regionalization trend in North America, within the NAFTA framework. Its counterpart organization is the Canadian -Turkish Business Council (CTBC). The official founding agreement of the Turkish-Canadian Business Council was signed between the Foreign Economic Relations Board (DEİK) (1) and CME in June 2002, at a ceremony in Montreal. Currently the secretariat rests with the Atlantic Council of Canada for CTBC and the DEİK for TCBC. Foreign Economic Relations Board (DEIK) for TCBC.

The Business Council and its counterpart CTBC have been organizing a "Joint Annual Conference" every year in Turkey and Canada, alternating between the two countries. These conferences attract increasing number of participants each year, creating opportunities for member companies to participate in panel discussions, where views are exchanged and topics are explored such as trade and investment, telecommunication, finance, agribusiness, energy, construction and textiles. At these conferences, member companies also get a chance to discuss business opportunities with Canadian firms in "one-on-one" meetings, organized by the Business Council. In addition to the Joint Annual Conferences, trade and investment missions to London/Ontario, Toronto, Ottawa, Montreal and several meetings on the occasion of the visits of official and business delegations have taken place. During the conferences or visits, the Business Council may also arrange extracurricular meetings with business organizations for its member companies.

The Council also benefits from the synergy that is generated by the environment which the DEİK network of 81 bilateral councils creates. As well as pursuing its mission of enhancing bilateral economic relations, the Council identifies the regulations and practices that restrict trade and joint ventures and visits the pertinent parties to convey the opinion of the business world. In this sense, it takes initiative to present a stance at various levels for the betterment of bilateral relations.

Within this context, the Council:

- approached the Turkish Minister of Finance in April 2006 about the avoidance of the double taxation

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1 DEİK is a non-profit, private sector organization established in 1986 whose objective is to contribute to the efforts for improving Turkey's foreign economic relations through Business Councils. As of May 2007, 1348 representatives of 526 companies are members of the 77 bilateral business councils, including the Turkish – Canadian Business Council.

- wrote letters to the Canadian Prime Minister as well as other leaders about the concern of the business community on the statements made in 2006 supporting the so-called Armenian genocide allegations.
- upon submission of a draft legislation recognizing the genocide allegations in the Ontario Legislative Assembly in March 2007, wrote similar letters to the Canadian Prime Minister, chairman of the Assembly and directors of the companies with headquarters in Ontario. (2). The letters contained concerns that the stagnation in bilateral relations caused by the decisions of the Canadian Parliament three years ago would keep its momentum in the coming period.

2-3 HIGHLIGHTS IN 2008 AND 2009

Executed events:

- January 23, 2008: **Round Table Meeting.** Visiting Export Development Canada (EDC) Senior Vice President Benoit Daignault and Regional Manager Burak Aktaş held a round table meeting with representatives of Canadian companies with investments in Turkey. During the meeting, held at DEİK headquarters in Istanbul, the participants told Daignault of the legal and infrastructural problems they faced in Turkey.
- March 13, 2008: **Working dinner with Turkey's newly appointed Ambassador to Canada Rafet Akgünay**. At the Istanbul dinner, the board of directors of TCBC briefed Ambassador Akgünay about the activities of the council and the upcoming annual CTBC and TCBC Joint Conference, and urged the ambassador to help raise awareness of Turks living in Canada and strengthen Turkey's image in the North American nation.

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2) On April 26, 2007, the Turkish Foreign Ministry expressed regret over a statement by Canada's Prime Minister Stephen Harper, in which he referred to the World War I era killings of Anatolian Armenians as "genocide.." The Turkish Republic, established in 1923, refuses to take responsibility for the events that transpired in Eastern Anatolia during World War I. Turkish officials say that Armenians living in the region rebelled against the Ottoman state, provoked by Czarist Russia, Britain, France and Italy, which were at war against the Ottoman Empire, Germany, and Austria-Hungary. Equal numbers of Turks and Armenians were killed in the fighting between the two peoples during the uprising, Turkish officials say. "Especially in 1915, hundreds of thousands of Turks and Muslims were killed (by Armenian rebels in Eastern Turkey)," President Abdullah Gül, said on April 5 2009. "We must share the sorrow for all who lost their lives." Turks say that what happened nearly a century ago should be studied by Turkish and Armenian scholars working together and not be a constant thorn implanted by interventionist foreign powers with the aim of wringing economic and political concessions out of the Turkish state.

- April 17-18, 2008: **The Sixth Annual CTBC and TCBC Joint Conference.** The conference was held at the Park Hyatt Hotel in Toronto on The conference, titled "Expanding Markets and Opportunities for Canadian Companies in Turkey," came about with the collaboration of the Munk Centre for International Studies and the Atlantic Council of Canada. Alpaslan Korkmaz, chairman of the Investment Support and Promotion Agency of Turkey (ISPAT), gave a presentation on the investment environment of Turkey and opportunities for cooperation. Panel discussions on Turkey's automotive, information and communication technology and energy sectors were held as well as a tour of the nuclear research center of Atomic Energy of Canada Limited (AECL).

- May 13, 2008: **Round table meeting with visiting former Canadian State Minister for Trade Gar Knutson.** Knutson offered the services of Canadian law firm "Borden Ladner Gervais," of which he is a partner, to Turkish companies seeking representation in Canada.

- May 28, 2008: **Hosting of visiting Canadian Deputy Minister for Foreign Affairs Len Edwards** with a dinner in Istanbul. Edwards told TCBC board members that Canada was considering opening a permanent consulate in Istanbul that would have an office for Export Development Canada (EDC). He also said that positive developments had taken place over the prevention of double taxation agreement.

- June 11, 2008: The TCBC held a **meeting with Senior Canadian Trade Commisioner for Turkey, Mike Ward** in Istanbul. Ward told the TCBC that it was his intention to significantly raise the profiles of companies interested in Turkish-Canadian business ties.

- September 25, 2008: **The TCBC Board visited Canada's new Ambassador Mark Bailey at the Canadian Embassy in Ankara.** Particpating were Council Chairman Dr. Yılmaz Argüden, Vice Chairmen Süreya Yücel Özden, Banu Tesal, and Rüsen Çetin, and Council members Merve Kağıtçı, Kenan Saral and Business Council Coordinator Helen Topdağı. Dr. Argüden briefed the ambassador on the activities of TCBC and said that economic ties between the two states could increase with the signing of an air transport accord between Ottawa and Ankara and the ending of double taxation. He also told the Canadian ambassador that relations between the two countries could be damaged as Canada recognizes the deaths of Armenians in eastern Anatolia during World War One as "genocide."

- October 8, 2008: **Canadian Capabilities and Technologies Conference within the framework of CeBIT Eurasia.** During the conference, held in Istanbul, representatives of numerous Canadian firms held company presentations and had one-on-one meetings with Turkish companies.

- October 13, 2008: **Roundtable Meeting with Canadian Companies** at the DEİK/TOBB Plaza in Istanbul. Representatives of 19 Canadian companies with operations in Turkey took part in the meeting with the Turkish-Canadian Business Council and Canadian Embassy and trade officials, which was organized by the Canadian Embassy and Trade Commissioner. During the meeting, held at the DEİK/TOBB Center, the participants introduced their business projects in Turkey and urged the governments of Canada and Turkey to begin direct flights between the two nations, end double taxation, and open a Canadian trade Office in Istanbul, Turkey's business hub.

- May 12, 2009: **The Seventh Annual CTBC and TCBC Joint Conference.** The conference is to take place in Istanbul. The keynote address is to be delivered by Canadian Deputy Minister of International Trade, Mr.Louis Levesque. Alpaslan Korkmaz, Chairman of the Investment Support and Promotion Agency of Turkey, is expected to deliver a talk on investment opportunities in Turkey. There will be panel discussions on business opportunities in energy, information and communication technology, agribusiness and working with municipalities in Turkey. Joint venture opportunities in Georgia and Azerbaijan will also be discussed.

2.4 BILATERAL TRADE

Trade Volume

Both countries offer generous bilateral trade potentials and business relations and bilateral trade reached $1.929 billion in 2008, an increase of 56% from 2007, the Undersecretariat of Foreign Trade (DTM) reported.

Turkey is an important trading partner for Canada and represents a growing market, both domestically and as a springboard to the Middle East and Central Asia. In the last decade, bilateral trade between Canada and Turkey has jumped nearly five-fold. In 2008, Canadian exports stood at $1.428 billion, while imports from Turkey reached $501.4 million.

TURKEY'S TRADE WITH CANADA, 1996-2007 US$ Mn				
	Exports	Imports	Trade Volume	Trade Balance
1996	100	344	444	-243
1997	117	311	428	-194
1998	155	176	332	-21
1999	149	176	325	-27
2000	173	256	429	-83
2001	171	129	300	42
2002	239	321	561	-83
2003	221	244	466	-23
2004	346	368	715	-22
2005	364	447	811	-82
2006	378	674	1,053	-296
2007	369	866	1,236	-496
2008	501	1,428	1,929	-926

Source: Undersecretariat of Foreign Trade, Turkish Statistics Institute

The trade balance has long been in favor of Canada, except for the crisis effected year of 2001. The surplus of Canadian exports ranged between $23-79 million during the 2003-05 period.

Exports

In 2008, Turkish exports to Canada stood at U.S. $501.434 million, a 24% rise from 2006, according to the DTM. Turkey's exports steadily increased during the 1990s, with the exception of 2001 and 2003, when they dropped slightly. Main Turkish export items include passenger ships,ferry boats and cargo ships, processed natural stones (marble, etc), iron and steel products, electric transformers, ceramics, jewelry, fruit, apparel and textiles, olive oil, and refrigerators and freezers.

In 2008, passenger ships, ferry boats and cargo ships accounted for 11.4% of its exports with $57.494 million. This was followed by processed stones ($43.541 million) and hot rolled steel bars ($39.604 million).

Canadian safeguard investigation is a major risk for the Turkish iron & steel exports. Measures in force involve imposing a tariff rate of 10-29% for cold-rolled flat steel products and 8-21% for steel rebars since 1999. Canada recently decided to impose dumping duties averaging 17.5% on imports of structural hollow sections from Turkey. This has led to a 51.8% drop in Turkish iron and steel long product exports in 2008 to 39.604 million in 2008 from $73.361 million in 2006.

BREAKDOWN OF TURKEY'S MAIN EXPORTS TO CANADA, 2007 - 2008 US$ 000	2007	2008
Passenger &cargo ships and ferry boats	0	57,494
Processed Stones (marble) ua	36,213	43,541
Hot rolled steel bars	35,300	39.604
Electric Transformers	0,096	35,410
Ceramic products	34,184	29,970
Iron and steel tubes, pipes, hollow sections	12,536	17,858
Jewellery	14,454	14,478
Fresh and dried fruits	23,526	13,407
Women's/girls' dresses and apparel	11,428	11,007
Olive Oil	13,401	9,708
Grapes/Raisins	7,332	9,690
Home textiles**	9,412	9,208
Men's/boys' suits and apparel	6,111	8,451
Undergarments (woven)	9,141	8,352
Refrigerators, Freezers	0,614	8,028
Turkey's Total Exports to Canada	*369,870*	*501,433*

**ua: unavailable*
***qults,bed spreads, table cloths, kitchen cloths*
Sources: Undersecretariat of Foreign Trade

Imports

Turkey's imports from Canada continued a steady upward trend seen in recent years, increasing by 20.6% in 2005 and 35.5% in 2006, 43.8 % in 2007 and 73% in 2008.

The sale of Canadian services is largely attributable to energy and construction projects undertaken by Canadian companies in recent years. In addition, Turkey mainly imports raw materials such as ferrous waste, bituminous coal, and iron ore, processed nickel, woodpulp from Canada, and newsprint, construction equipment, aircraft, communications equipment, dry egetable pulses, pharmaceuticals, wheat and corn, and oriented strandboard, In 2008, Turkey's imports from Canada amounted to U.S. $1.427 billion, according to the Undersecretariat of Foreign Trade.

Deals signed between Research in Motion (RIM) with Turkcell and Avea launching the Blackberry in Turkey will add significantly to this amount and provide an excellent opportunity to raise Canada's commercial profile.

In 2008, ferrous waste, dry vegetable pulses, bituminous coal, newsprint, aircraft and woodpulp constituted 60.4% of Turkish imports with U.S. $862.256 million, followed by rape seed with $39.492 million.

Pharmaceutical imports totaled $37.808 million, while wheat imports stood at $37.579 million.

Turkey was forced to import large amounts of pulses, grains, and other basic agricultural products from Canada in 2008 because drought caused low crop production throughout Anatolia in 2006 and 2007.

BREAKDOWN OF TURKEY'S IMPORTS FROM CANADA, 2007 - 2008
U.S. $ 000

	2007	**2008**
Ferrous Waste (Scrap, slag, ash)	104,371	242,729
Dry vegetable pulses	14,534	221,658
Bituminous coal	183,691	182,793
Newsprint	79,298	104,643
Airplanes	20,548	56,758
Wood pulp	27,937	53,671
Rape seed	2,807	39,492
Pharmaceuticals	30,336	37,808
Wheat	0,014	37,505
Iron ore and concentrates	42,007	37,085
Corn	---	35,306
Refined and unprocessed copper	24,710	34,909
Unprocessed nickel	40,418	28,556
Turkey's Total Imports from Canada	*574,486*	*1,427,999*

Source: Undersecretariat of Foreign Trade

2.5 CANADIAN INVESTMENTS IN TURKEY

Acting as an export base to Europe for the Far Eastern companies and to the Central Asia as well as Middle East economies for American and European firms, Turkey has started to take its due place on the agenda of the Canadian companies. Canadian sources put Canadian direct investments in Turkey at over Canadian $1 billion at the end of 2008, mostly in the engineering, mining, telecommunications and transportation sectors, and recently diversifying into media, energy, agriculture and alcoholic beverages.

Canadian investment is expected to increase in the coming years after automotive manufacturing giant Magna International announced in winter 2007 that it was considering investing $500 million in an automobile plant in western Turkey. If carried out, the venture of the Aurora, Ontario-based automotive parts and components manufacturer would become the biggest Canadian investment in Turkey and one of the largest foreign industrial investments in the country.

Canadian business investors are showing a heightened interest in Turkey and Southeast Europe, seeing the region's potential as a new market and gateway to other economies. Turkey, with its economic structure rapidly coming closer to the European standards, offers increased comfort and opportunity to international investors in Turkey's longer-term outlook.

Selected Canadian corporations present in Turkey are Montreal-based Bombardier (transportation), Toronto-based Inmet (mining), Nortel Netaş (telecommunications), Ottawa-based Oz (fiber optics), Montreal-based SNC-Lavalin (energy and construction), Technomarine (marina), Calgary, Alberta-based Telvent (IT), and Four Seasons (hotels).

Nortel Netaş is the key player in telecommunications, especially in building infrastructure for operators and in the supply of enterprise as well as defense solutions. The company contributes highly to the development of the sector, mainly through the R&D investments, while many other Canadian firms are exploring opportunities in telecom and IT equipment sectors, which offer good sales prospects, especially for advanced technology products.

Research In Motion (RIM), based in Waterloo, Ontario, signed license agreements in 2005 with Turkish GSM operators Turkcell and Avea to launch Blackberry services in Turkey. Bombardier and SNC-Lavalin are also pursuing significant infrastructure projects in the transportation (aerospace and railway), energy and telecommunications fields.

2.6 EDC IN TURKEY

Export Development Canada (EDC) is Canada's export credit agency, working in partnership with foreign governments and the private sector to enhance the visibility and success of Canadian companies abroad and help Canadian exporters and investors expand their international business.

Turkey ranks amongst EDC's top 10 emerging markets. In 2008, EDC supported $875 billion worth of business transactions between Canada and Turkey. Recent projects include: participation in Avea Telecom's US1.9 billion syndicated loan in 2007, Electro-Motive locomotives to the Turkish State Railways, the Ankara Metro Project and various investments of Palmet Energy in conjunction with a Canadian company in local gas distribution systems in Turkey.

The EDC is considering opening a representative office in Turkey because of a rapid increase in business volume.

EDC's support to Canadian companies and their foreign counterparts in Turkey includes the following:

- More than 756 transactions underwritten over the last five years.
- EDC has seen a steady growth in the number of Canadian companies using EDC's financial services for Turkey.
- More than 207 Turkish buyers approved to date by EDC.

EDC AND TURKEY, 2004-08
Canadian $ millions

	2004	2006	2008
Contract insurance bonding	1.0	8.3	2.0
Financing	2.6	2.7	23.0
Political risk insurance	0	0	0
Short term insurance	234.7	432	850.0
Total EDC business volume	*238.3*	*467.3*	*875.0*

Source: EDC

III BUSINESS OPPORTUNITIES

As a converging economy, with a favorable population dynamics conducive to higher growth and prospects of continued economic reform, Turkey has never before had such potential to become a major centre for business and commerce. Canada's former Ambassador to Turkey Mr. Michael Leir stressed: "There is tremendous untapped potential to further expand our bilateral trade and investment relations between Canada and Turkey."

Turkey is a big potential export market for Canadian companies, which currently sell around $1.427 billion worth of goods to Turkey. As Turkey continues to move up in the ranks of largest economies of the world, the opportunities for further Canadian exports increase.

Canada and Turkey have both recently expressed intentions to strengthen bilateral relations. Commercial opportunities in Turkey match Canadian supply capabilities and each year, more Canadian companies are exploring export and investment opportunities in Turkey, a sign that the economic prospects are positive. Opportunities are particularly encouraging in sectors such as infrastructure, mining, tourism, media and telecommunications, as well as in consulting engineering and infrastructure equipment and services.

Mr. Şaban Erdikler, former chairman of YASED, the Foreign Investors Association, cites telecoms, tourism, mining and infrastructure as high priorities for investors. "Turkey cannot and does not want to compete on the basis of being a place for cheap labor. Instead, we want to prioritize the medium and high-technology sectors," he said.

Turkey is the 17th biggest economy in the world with a Gross Domestic Product (GDP) of $729 billion in 2008, according to the International Monetary Fund (IMF).

Canada ranked 10th, with a GDP of $1,510 billion. Canadian officials are not satisfied with the current status of economic relations between the two countries. As expressed on various occasions, Canada's recent strategy in connection with Turkey has three aspects:

• Turkey was designated as Canada's new strategic partner in 2003. EDC, Export Development Canada, lists Turkey as one of its top ten priority markets worldwide in terms of supporting Canadian export transactions.

• Canada seeks to cooperate with Turkey to reach regional markets. Turkey is Canada's largest trading partner in Eastern Europe. A regional power balancing East and West and a transit route for oil and gas from the Caspian and the Middle East to global markets, Turkey presents Canada a gateway to the markets and natural resources in Russia, the Caucasus and Central Asia.

• Collaboration opportunities exist in the lucrative Iraq market with Turkey, including significant room for oil exploration and, once stability is restored, tourism growth in the region.

Developments to pave the way for further collaboration include the following:

• The implementation of the Agreement on Double Taxation

Avoidance would facilitate further Canadian investments in Turkey.

• EDC continues to support Canadian firms for projects in Turkey.

• The enactment of the Mining Law in June 2004 further liberalized the sector. This made sector more accessible to foreign investment by streamlining permit requirements and procedures and removing limits on mining on certain types of land.

Opportunities are particularly encouraging in sectors like energy, agriculture and agro-food, transportation, mining, housing and information and communications technologies. But entrepreneurs can also find potential in Turkey’s aerospace and defense, environment, media, finance and education sectors. Promising areas for improving cooperation include:

- **Energy:** Power generation, distribution and privatizations. Turkey expects to realize investments worth $128 billion in the next 15 years. The three nuclear projects unveiled recently are estimated to be worth nearly $5 billion.
- **Healthcare**: Establishment of healthcare clinics and providing consultancy to hospitals. Private involvement in the sector grows rapidly, attracting both investors and patients from Western countries as well as Europe, Eurasia and the Middle East.
- **Telecommunications**: Estimated to worth about $18 billion in 2006, the sector is far from being saturated. Penetration rate is 26% in fixed line telephony services and about 70% in mobile telecommunications. Given the low penetration rates in all segments, the market is expected to continue to grow in the next decade as well, triggered by the commercialization activities.

- **Construction and infrastructure**: Projects in Turkey as well as joint ventures with Turkish contractors in Central Asia, benefiting from the background of Turkish firms that have built infrastructure, hotels, airports, etc. there. Turkey is attracting considerable foreign investment into the real estate sector with the enactment of mortgage law in early 2007. Petrodollar investors as well as European financial institutions and companies have plans to spend billions of dollars on property development in Turkey. Foreign concerns Rabobank, Fortisbank, Barclays Capital, GE Consumer Finance, Deutsche Bank and General Motors Acceptance Corp have all announced they will enter the Turkish mortgage market.
- **Transportation and modernization of railways and aviation**. With negotiations under way for Turkey's EU accession, the modernization of Turkey's infrastructure is presenting enormous opportunities for companies around the world. In particular, Turkey's transport and environmental infrastructures are seeing increasing amounts of private investment, public-private partnerships and EU funding. There are a series of large railway projects in the coming period. In aviation, Turkey sets to rank as the third largest fleet owner in Europe and a regional hub in maintenance and repair services soon.
- **Mining**: The mining industry is growing at a fast pace and, helped by the recently liberalized mining law, Turkey's natural wealth of resources attracts increased number of international companies.
- **Agro-food:** Turkey has a large agro-food market, and sales of packaged food only are estimated to reach about $30 billion in the next couple of years. Expanding and emerging opportunities for Canadian agro-food exporters include the following: grains and oil seeds, wheat, soybean, corn, pulses, processed foods, vegetable oils, gourmet seafood, sauces, wine, beer, confectionery products, frozen and baby and pet foods. There are also investment opportunities in stock breeding and artificial insemination.
- **Logistics**: With its potential size of $30 billion, logistics is also seen in the list of attractive sectors for FDI. Given that the country is located between the East and the West, while being well placed for links with both Russia and the Mediterranean, many businesses see it as a key location.

From Turkey's point of view, Canada offers one of the most attractive investment climates in the world. The KPMG Competitive Alternative studies, which compares after-tax costs of starting up and operating a business for a period of 10 years, have ranked Canada for the sixth consecutive time as the lowest-cost G7 country in which to do business.
Turkish corporations — following Turkish companies in Europe (Vestel, Beko, Eczacıbaşı) and a wide area from Central Asia and the Balkans to China (Koç, Çalık, Kent, Efes) — in search of an international setting and

globalization need to take a closer look at the Canadian option. Further, Canada is the third largest importer in the world. Considering the level of technology Canada has reached, Turkey is well placed to export consumer goods to this country, including textile, steel, ceramics, leather and jewellery. Turkey has also much to benefit from paving the way for the Canadian companies to export to the third countries via Turkey.

3.1 CONSTRUCTION AND REAL ESTATE DEVELOPMENT

Expansion Continues over GNP Growth

Turkey's construction industry contracted 7.6% in 2008, after three successive years of rapid growth, spurred by a robust housing market and major government spending on infrastructure, ranging from urban transport and intercity motorways to hydroelectric dams and sewerage systems, the Turkish Statistical Institute reported. But the market stumbled in 2008 as the global recession began impacting Turkey's economy.

Partly financed by the national government, local administrations and foreign financial institutions, public sector projects and the housing boom have helped revive the construction industry, severely hurt from the devastating earthquakes that battered north-western Turkey in 1999 and the recession that jolted its economy in 2001.

The sector grew 21.5% in 2005 and 19.4% in 2006, and 5.7% in 2007, after a flat average annual 2.4% growth from 1990 to 2004.

The construction industry had a market size of $63.7 billion in 2006, including activities in both Turkey and abroad, and accounted for 5.3% of the Gross National Product (GNP) according to the Association of Building Materials' Manufacturers (İMSAD).

"The construction and the building materials industries combined are the sectors that contribute the most to Turkey' economic growth," Can Fuat Gürlesel, an economist and consultant to İMSAD, told a news conference in Istanbul in January 2008.

Two Major Ongoing Infrastructure Projects

- **Marmaray Project**: Construction began in 2005 on the $4.1 billion **Marmaray Project,** one of the world's most ambitious urban rail commuter projects. Described by the Ministry of Transportation and Telecommunications as the "project of the century," **Marmaray** aims to upgrade the commuter rail system of Istanbul. The 76.3-km long rail line will connect Halkali on the European side of the city to with suburban Gebze on the Asian side and vastly reduce travel time between the two and help relieve the city of its growing traffic congestion, officials at the Ministry of Transport said. The rail system will carry 75,000 passengers every hour, and link up with the municipal light-rapid rail system and metro. Some 63 km of the system will be above ground, while 13.6 km will be underground, including a 1.4 km immersed tunnel crossing under the Bosphorus. Thirty-seven existing stations will be upgraded while three new underground stations will be constructed. Construction work, scheduled for completion on April 27, 2009, is being carried out by a Japanese-Turkish consortium, led by Taisei Corp. of Japan. Other members include Kumagai Gumi Co. of Japan, Gama Endustri Tesisleri İmalat ve Montaj A.S. and Nurol Construction and Trade of Turkey. The Japan Bank for International Cooperation (JBIC) has provided a long-term low-cost $950 million loan, while the European Investment Bank has provided a €650 million soft loan. The State Railroads, Ports and Airports Administration is overseeing the project.
- **Ilısu Dam:** Work is continuing on the controversial Ilısu Dam, despite a massive Internet campaign by pro-PKK environmentalists against the project. Turkey on August 15, 2007, signed a **euro (€)**1.277 billion credit package with a group of 14 western banks, government agencies and contractors and suppliers for construction of the dam. A consortium of banks and government export guarantee agencies under the leadership of Va Tech Finance, including Germany's **Deka Bank, the Austrian Bank** and **France's Societe Generale** provided the commercial €752 million in commercial loans. **German Hermes, Austrian OEKB** and **Swiss SERV** provided export coverage worth €525 million. Some €25 million was provided for the restoration of artifacts of Hasankeyf, a 2,000-year old city that will be flooded when the dam begins to operate. Construction of the barrage began in fall 2006 after a five-year delay. **Sulzer Hydro** of Switzerland and **V.A. Technology** of Vienna will build the 1,200 MW dam. But Britain's **Balfour Beatty**, Sweden's **Skanska** and Italy's **Impreglio** withdrew from the project in November 2001 because of strong pressure from the protestors who argued that up to 78,000 persons would be left homeless and that 80% of Hasankeyf would be come under waters. Proponents of the dam say the benefits outweigh the sacrifices of displaced people and the environmental impacts downstream. Turkey is using only one-fourth of its hydroelectric resources and plans to build 450 dams in the next 25 to 50 years.

Housing Market

Demand for public housing is continuing in Turkey's urban centers, particularly Istanbul, its largest city, because of an influx of rural migrants displaced from the countryside, rising income levels among metropolitan residents, and a booming young population.

The country's population is rising 1.4% a year, but in the cities of western and southern Turkey, the population is growing four percent annually because of the migration from the rural areas, according to Turkish Statistics Institute.

The State Planning Organization (DPT) estimated that Turkey entered this decade with a deficit of 2.5 million houses. Ata Investment's October 2006 report foresees this deficit to rise to 5.0 million by 2010. This requires a total investment of around $200 billion until the year 2010 (approximately $40 billion every year).

The need for urban renewal is also feeding demand for new housing, contractors said.

"Some 50% of housing in Turkish cities needs to be renewed, including 50-year buildings, to meet new construction standards," Teoman Metehan, chief executive officer of Teknik Yapi Yapilar Sanayi ve Ticaret A.S., a contractor and land developer, told FDI Magazine.

More than 60% of the homes in the cities are slum dwellings, known as gecekondu, or night landings, ramshackle structures literally built overnight on private or state property by rural migrants. These sprawling, dilapidated habitat communities, which encircle urban areas like Ankara, Izmir and Istanbul, need to be reconstructed because they have been shoddily built and would likely be levelled in a powerful earthquake, experts said. Ninety-five percent of the country lies along the Anatolian fault, one of the world's most active earthquake belts. Powerful tremors killed 20,000 people in northwest Turkey in August and November 1999 and left 500,000 persons homeless.

Istanbul is getting the lion's share of real estate development with more than 100 large housing projects (anywhere from 60 housing units to 7,000 apartment flats) under construction. The bulk of these projects will be finished in the next two years.

According to Istanbul's master plan, the city alone has 50 urban renewal projects that aim to create a new urban center, new green areas, and social infrastructure. The projects also aim to promote the city as a cultural center and as a hub for high technology industries.

"It is estimated that if the economic and spatial tendencies and policies do not change, the population of Istanbul will reach 23 million by the year 2023. However, according to the criteria related with environmental thresholds, infrastructure possibilities and quality of life, Istanbul can only bear 4 million more inhabitants. Therefore the population assumption of the plan is 16 million. This target can only be attained if the national and regional policies work in unison with the master plan of Istanbul," the Istanbul Metropolitan Municipality said in a report published about the city's master plan.

State Housing Administration leads construction drive

The State Housing Development Administration (TOKİ) is spearheading the drive for creation of social housing for middle and low income families in Turkey. In summer 2007, it began a massive campaign to build 275,000 social housing units at 745 sites in 81 provinces. Work is to be completed in 4.5 years. This is a major initiative in a country where 2 million to 2.5 million low-income people need immediate housing. The lands are owned by TOKI and its participations, Emlak Konut, Emlak GYO (Real Estate Investment Company) and Emlak Pazarlama, while the private companies build on them on a revenue-sharing basis.

TOKİ's subsidiary Emlak Konut has completed many residential and commercial construction projects in Turkey, including the 8,752 housing units in the Ataşehir project on Istanbul's Asian side, and the first two phases of the Mavişehir Project in Izmir with 5,321 housing units.

All of its projects are developed and constructed by private contractors on lands TOKİ and Emlak Konut own on a unique revenue-sharing basis. Emlak Konut has tendered construction of 25,000 housing units to private companies on lands it owns in various cities and building has begun. It plans to tender out an additional 40,000 housing units. Emlak Konut's housing projects under construction are for mid and upper mid income families. Revenues generated from the sale of the housing developments are used to finance construction of TOKI's social housing.

Foreign developers, such as Coldwell Banker of Parsippany, New Jersey, and Emaar of Dubai, have also entered the market. Coldwell Banker, the biggest U.S. real estate company, announced plans in February 2008 that it would invest $5 billion in Turkish real estate, including construction of studio apartment flats in Istanbul's Beylikdüzü district. Emaar, which has developed the $700 million "Toskana Valley" villas in Istanbul's Büyükçekmece district, said it was looking at investing in housing projects in other fast growing Turkish cities.

Mortgage Law

On February 22, 2007, Turkey's Grand National Assembly passed legislation establishing a legal mortgage system that will give middle and lower income families the opportunity to become home owners.

The law allows lenders to offer variable-rate mortgages that can then be turned into securities and be taken off bank's balance sheets.

Under the law, deposit banks, participation banks and leasing companies will be able to lease homes to customers. Lenders are allowed to borrow funds or create resources from institutions that operate on a wholesale basis, known as mortgage funding institutions.

The law also speeds up collection procedures in case the borrower goes bankrupt.

But with interest rates on housing loans hovering around 1.50% in March 2008, demand for mortgages is now limited to upper income families.

"We were foreseeing that interest rates would fall under one percent in the second half of 2008. But under these conditions this won't be possible this year," Fuat Erbil, deputy general manager of Türkiye Garanti Bankası responsible for consumer banking, said.

Nevertheless, housing loans reached an estimated record $43.5 billion in 2008, or 18.6% of all bank loans, nearly 17 times more than in 2004, the Banks Association of Turkey reported.

The Association of Real Estate development Companies (GYODER), which is expecting 6 million new homes to be built in Turkey by 2016, predicts that the Turkey's annual housing loan market could double to $60 billion annually when the mortgage system is operating in full swing.

CONSTRUCTION PERMITS ISSUED FOR RESIDENTIAL BUILDINGS, 1995-2006

	Dwelling units 000	Area Million m^2
1995	508	65
1996	454	58
1997	464	61
1998	433	56
1999	339	46
2000	315	45
2001	280	40
2002	161	24
2003	202	30
2004	330	31
2005	546	50
2006	600	57
2007	584	63

Source: Turkish Statistics Institute, Turkish Union of Contractors

Long-term housing loans are new to the Turkish banking system, introduced for the first time in 2003, and coincide with falling inflation. Plagued by high inflation for three decades, Turkish banks couldn't previously handle long-term, low-interest consumer credits.

Shopping Centers and Commercial Buildings

A surge is taking place in the building of new office offices and shopping centers in cities throughout Turkey, where new American-style suburbs are mushrooming.

Turkey had 142 modern shopping centers as of December 31, 2007, and some 167 others were in various stages of construction and planning, according to the Turkish Council of Shopping Centers, a trade group. Even once-sleepy eastern Anatolian cities, like Elazığ, Diyarbakır and Sivas now have thriving shopping malls.

SHOPPING CENTERS IN TURKEY AS OF DECEMBER 31, 2007			
	Istanbul	**Anatolia**	**Total**
Existing Centers	**58**	**121**	**179**
Under Construction	**47**	**30**	**77**
In Project Stage	**37**	**53**	**90**
Total	**142**	**204**	**346**

Source: Turkish Council of Shopping Centers

Some 3.5 million square meters of rentable space was available at the Turkish shopping centers as of the end of 2007.

All this is not strange in a country that introduced the concept of shopping centers to the world. The 15th century Covered Bazaar is still the world's biggest emporium with more than 4,000 shops on 58 streets in a labyrinthine structure of connecting markets in central Istanbul, selling mainly jewellery, furniture, garments, leatherwear, ceramics, carpets and other home textiles, and serving tourists and native customers who arrive on foot.

As a result of a building spree that began 22 years ago, Istanbul with its population of 12 million now has more modern shopping centers than most European cities -- 58 in all -- and 47 more are being built. New York City, a metropolis of far greater wealth, had only 57 shopping malls. By 2012, Istanbul was expected to have moree than 100 shopping malls, according to some projections.

Many of Istanbul's complexes are mixed use sites (a combination of shopping centers, office buildings, residences and hotels.)

Three major sites under construction in Istanbul are the Diamond of Istanbul, Istanbul Sapphire and the Trump Towers Istanbul. The Diamond of Istanbul is a 53-floor futuristic mixed use site that will include a shopping mall, a 308-room delux hotel and 44 residential apartments. The 270-meter building will be the tallest building in Turkey when completed in 2010.

The 64-story, 261-meter Istanbul Sapphire will include a 64-store shopping center, a residential complex, sports facilities and car park. Trump Towers Istanbul, a complex of two towers, one with 39 floors and the other with 37 floors, is being constructed by the Trump Organization of New York City, and Turkey's Doğan Group, Yeşil İnşaat and Taş Yapı. The buildings will include office space, residential flats and a shopping mall.

Foreign manufacturers are flocking to the shopping centers to open franchises. The newspaper Hurriyet reported that 40% of the stores in Turkey's shopping malls were either foreign-owned or were franchises of foreign companies.

Some of the well known international brands that are represented in the shopping centers with stores include Swatch, Samsung, DKNY, Quicksilver, Benetton, Stefanel, Karl Lagerfeld, Vodafone, Pierre Cardin, Zara, Mango, Samsonite, Tommy Hilfiger, U.S. Polo, Divarese, Harvey Nichols, Versace, Starbucks Café, Second Cup Café, and Gloria Jeans Café, Burger King, McDonald's, Kentucky Fried Chicken, and Pizza Hut.

Foreigners spent $1.34 billion on property in Turkey in 2005 and $ 2.9 billion in 2006. Both corporate and individual foreign investors are plunging into the housing market, developing large housing projects in Istanbul or buying summer homes on the Aegean and Mediterranean coasts, while many foreign companies are the big investors in the commercial market.

Shopping malls have become centers of attraction for institutional investors and pension funds. CGI, the real estate investment fund of Commerzbank, invested €80 million in a shopping mall project in Izmir. Major multinationals, such as Carrefour, IKEA, Bauhaus, Real and Metro Group, are constructing new shopping malls and hypermarkets, acquiring business offices and warehouses, and opening chain stores to sell their products in Turkey and neighboring countries.

Other foreign companies involved in shopping center investments include ECE Turkey (German) and MDC Turk Mall (Netherlands), General Growth of USA, Multi Turkmall and DIFA (Germany). Corio NV ((Netherlands), Merrill Lynch and Germany's MFI Management fuer Immobilien AG have recently announced that they plan to spend $2.4 billion to build malls in Turkey. German investment company Prime Development considered Turkey announced in April 2009 that it would make investments in the shopping mall and housing sector at a total cost of USD 1.5 billion, with the first shopping centers in Iskenderun and Antakya.

Turk Mall has earmarked a €1.3 billion project finance facility. European and Arab investors are developing skyscraper office blocks or acquiring properties to build large business centers and some of the world's leading hotel operators are building new hotels and holiday villages.

Dubai Properties International, for example, plans to invest $5bn in real estate in Turkey, including Europe's two highest office buildings in Istanbul, the spiral Dubai Towers, for $500m in partnership with the Istanbul Municipality, though the project has so far been halted by the Council of State, Turkey's supreme administrative court, for procedural matters Other developers from Gulf include Tamniyat Group, Eta Star of Dubai and Emaar Group.

There is a wide scope for the development of real estate market. "*The real estate market is still premature and the presence of financial* *institutions is still limited,"* says Hakan Kodal, chief executive officer of the Krea Group, a real estate development company.

Only German Aareal Bank and Eurohypo, specializing in real estate finance, have opened offices in Turkey and are providing long-term loans for the development of commercial properties. Senay Azak-Matt, general manager of Aareal Bank Turkey, says that any turbulence in Turkish real estate market won't affect business. "*We make certain that borrowers earn foreign currency to be able to repay their loans in hard cash. Thus our bank carries no foreign exchange risk."* she says. As of end-2007, the bank had a total portfolio volume of €900 million in Turkey.

Developments on the Turkish Coast

Massive real estate development is taking place on the coastal regions of the Aegean and Mediterranean, attracting both corporate and individual foreign investors, particularly from the northern European countries.

Allison Thornton, who's in charge of Turkish sales at real estate agency Headlands International, based in Irthlingborough, central England, said: *"There's been a huge increase in interest over the past few months. You get an awful lot more value for money in Turkey than other Mediterranean countries. A detached villa with sea views around Bodrum, where the Aegean and Mediterranean seas meet, costs about $129,000, similar to the cost of a small flat in coastal Spain*," Thornton said.

As of April 5, 2009, some 85,582 foreign nationals, individually or in groups, had acquired 74,542 plots of land and homes in Turkey, equivalent to 51,103,834 square meters, the General Directorate of Title Deeds and Cadastral Affairs announced on its web site. Properties in the coastal provinces of Muğla, Antalya, Izmir, Aydın, as well as Istanbul, were preferred by foreign nationals, it said.

Some 18,435 Germans had bought property, followed by 24,524 Britons, 10,937 Greeks, 5,844 Irish, 4,997 Danish, 4,641 Dutch, 3,497 Norwegians, 2,140 Austrian, 1,921 Belgian and 981 Russian citizens. Some 121 Canadians had acquired 134 plots of land and homes in Turkey, eqivalent to 37,480 square meters.

Spain and Portugal were the first choices for European homeowners, but these countries are now saturated. It's Turkey's turn to attract western homeowners," Erdinç Varlıbaş, chief executive officer of Varyap Varlıbaşlar Yapı, a Turkish contractor developing housing projects in Istanbul and a hotel in Bodrum, said in an interview.

In a magazine interview, Ali Ağaoğlu, chairman of the Ağaoğlu Group of Companies, Turkey's leading real estate developer and hotel operator, had this to say: "*We can sell 1 million homes to foreign nationals. France and Spain can serve as models for us, because Spain sold 1.8 million homes and the French sold 500,000 homes to foreigners. Turkey's target* *for the sales of 1 million homes would be equivalent of drawing $100 billion in foreign investment into the country. Our research shows that foreigners with homes in Turkey spend six months of the year here. In Spain these foreign homeowners spend €3,000 a month. In Turkey, this figure would be €2,000. Foreigners stay 10 to 15 days in the hotels we have built. But by owning homes, we can extend their stay to 180 days."*

In Didim, a resort town south of Izmir with 20,797 inhabitants, some 5,000 British citizens have bought homes, and the British population now outnumbers the town's Turkish inhabitants, a Didim municipal official told the real estate summit in Istanbul in May 2006. British citizens, he said, operate restaurants, have businesses, and produce an English language newspaper in Didim; the town's leading tax payer is a British woman realtor.

"Even London cab drivers own homes along the Turkish Coast," commented Haluk Kodal, chief executive officer of the Krea Group, a real estate development company affiliated with Merrill Lynch.

British and German citizens have also invaded the resort towns of Bodrum and Fethiye, Kaş and Kalkan, where they have acquired properties.

Some 10,000 Germans, Scandinavians and Dutch make the Mediterranean resort town of Alanya their year round home. Danish real estate investment company Keops operates a development and sales office in Alanya.

Britain's international property sales agent Parador Properties of Redhill, Surrey, in May 2006 opened a "real estate supermarket" in the up and coming coastal resort town of Güllük, south of Didim, to market freehold residential properties to purchasers in mainly in the United Kingdom, Germany and Ireland.

France's La Foret Real Estate marketing network was also planning to open an office in Istanbul, the Turkish real estate trade magazines reported.

Turkish Contractors Abroad

Since 1972, Turkish contractors' companies have undertaken over 3,500 construction projects in 65 countries abroad, worth an ultimate $84 billion, becoming the top third contender in overseas contracting, according to the Undersecretariat of Foreign Trade. These contractors aim to complete projects totaling $100 billion by 2010.

Some 23 Turkish companies were ranked among the world's top 225 contractors in 2008 by the industry magazine Engineering News Record (ENR).

The Turkish construction sector has accumulated the technological capacity and know-how over the years to meet domestic demand. Starting in the 1980s, it has also built up a significant presence abroad.

OVERSEAS CONTRACTING

Turkish firms are carrying out projects in dozens of countries in a wide geography extending from Ireland to Sakhalin Islands in the Pacific Ocean and from the African countries of Ghana, Mali, Sierra Leone and Cameroon to India. Turkish contractors currently concentrate the bulk of their worldwide presence in Russia, with contracts worth about $2.7 billion. Iraq ranks second in this respect with $1.5 billion.

Turkey's EU membership is expected to create a significant market for the overseas contracting sector.

3.2 DEFENSE

Turkish Defense Industry becomes regional powerhouse

In the shipbuilders' town of Tuzla, near Istanbul, private Turkish shipyard RMK Marine is constructing the first of four big search and rescue vessels for the Turkish Coast Guard. The Italian-designed vessels will each be 272 feet long, 33 feet wide and capable of 22 knots an hour.

Nearby, another shipbuilder, Yonca-Onuk, has developed high speed patrol boats for the Turkish Navy and Coast Guard. It has already delivered more than 25 fast intervention vessels for the Turkish Coast Guard, and exported several to Pakistan and the Turkish Republic of Northern Cyprus. Capable of speeds up to 60 knots, the boats are designed to protect the littoral of the three states.

RMK Marine and Yonca-Onuk are just two of scores of Turkish defense contractors that have emerged since the mid-1980s, producing military hardware for the Turkish armed forces and for export markets. Turkish defense products range from modern jet fighters and complex components for antiaircraft missiles to high speed patrol boats and frigates to armoured vehicles and sophisticated air defense and electronic command and control systems.

Heavy investments in defense industries in the past two decades have helped modernize Turkey's military into a crack fighting force while reducing the country's dependence on costly imported weapons. Its investments in defense also reflect Turkey's growing military might in a conflict-prone region stretching from the Balkans to the Caucasus and the Middle East.

Turkey's new defense procurement strategy**,** announced in 2004 and reaffirmed in 2007, seeks a greater contribution from Turkish firms in defense projects and aims to increase the rate of domestic inputs into defense purchases, presently 25%, to 50% by 2010. Defense Industry Undersecretary, Murat Bayar, said: *"An investment of $3-3.5 billion is being made - apart from logistics - on an annual basis. Twenty-five percent of this corresponds to manufacturing in Turkey and 75% is foreign. This ratio is a minimum of 50% in the countries similar to us."*

The turnover of the members of the Defense Industrialists Association stood at $2.010 billion in 2007, up from $1.720 billion in 2006, and exports climbed to $420.4 million from $351.989 million. Plans were underway to bolster exports to $1.5 billion by 2010. The country exports its products to a wide range of regions from the Middle East to Africa and from Europe to the Far East.

TURKISH DEFENCE INDUSTRY 2004- 2007
IN U.S. DOLLARS

YEAR	SALES	EXPORTS	R & D
2004	1,337,120,000	196,341,000	63,860,000
2005	1,591,162, 692	337,422,986	78,511,203
2006	1,720,405,000	351,989,000	80,089,000
2007	2,010,604,165	420,408,813	120,193,733

Source: Turkish Defense Industry Manufacturers' Association

An estimated 200 private and state companies operate in Turkey's defense industry. Most of the companies turn out products mainly for civilian use. But about 30 companies manufacture mainly for the armed forces. A number of foreign defense contractors, including Sikorsky Corp., General Electric, United Defense LP and Loral Corp. of the U.S., have direct investments in Turkey. Pratt & Whitney Canada has long been active in providing aircraft engines to the Turkish military as well as to civil aviation.

The need to develop a domestic defense industry came to a head during 1975-1979 American Congressional embargo on sales of military equipment to Turkey, the nadir in Turkish-U.S. relations. The U.S. slapped the arms embargo on Turkey, a NATO ally, because it used American weapons in its occupation of Northern Cyprus in 1974. During the arms embargo, half of Turkey's military aircraft were grounded due to the lack of spare parts.

Turkey has a long tradition in defense industries.

The **Taşkızak Naval Shipyard** along the shores of Istanbul's Golden Horn has been producing warships since 1455. Galleons constructed at the shipyard in the 16th century helped fleets commanded by Ottoman Grand Admirals Hayruddin Barbarossa and Turgut Reis (Dragut) to turn the Mediterranean into a Turkish sea. The **Taşkızak Shipyard** built the Ottoman Empire's first steamboat in 1828 and first submarine in 1886.

The shipyard has constructed more than 2,500 ships since its founding and 140 naval vessels since 1941, including landing craft, patrol boats, coast guard vessels, tankers and coasters. It also turns out cargo ships and small oil tankers for civilian use.

When Turkey launched its major military modernization plans in the mid-1980s, the task of developing indigenous defense industries was given to the Undersecretariat of Defense Industries (SSM).

Since its founding the SSM has started up two dozen defense manufacturers and more than 50 projects. It has financed projects through fixed levies paid by consumers on a variety of imported goods, cigarettes, alcohol and legal gambling.

Many of the industries have been established under government-to-government offset agreements, under which defense import procurements have been paid for by exports of domestically manufactured military and civilian products.

The SSM has insisted that large-scale exporters of defense products to manufacture their goods in country Turkey if they want to continue selling to the nation. Some of the investment projects it has encouraged are linked to all-NATO defense programs with the Turkish companies producing key components for assembly in other countries.

The country's defense budget was about $11.3 billion in 2006. From 1996 to 2000, annual defense spending averaged 4.48% of Turkey’s Gross Domestic Product (GDP). Annual per capita defense spending is around $143.

Turkey ranks the seventh largest country in Europe and second biggest in the Middle East in defense spending, according to the latest data of Stockholm International Peace Research Institute (SIPRI).

Among major players are Turkish Aviation Industry (TAI), and electronics manufacturers Havelsan and Aselsan. Some of the recent achievements of local producers include the following:

- ✓ Havelsan realized the first-ever CN-235 simulator export of Turkey. This was worth $30 million and destined to South Korea.
- ✓ Vestel and SSM agreed on the production of a €25.3 million simulator for radars.
- ✓ Eurofighter offered Turkey a $9 billion industrial contribution contract for 120 aircraft.
- ✓ Electrical design of the Patrol and Anti Submarine Warfare Ships Acquisition Project is being carried out by Anel. The program comprises up to 12 vessels, with the first 8 to be completed by 2008 at a cost of $1.6 billion.
- ✓ Kalekalıp signed a contract to realize the Mini Manless Air Vehicle Project.
- ✓ TAI agreed with Northrop to produce aircraft bodies under a 20-year industrial participation worth $4.3 billion.

- ✓ Commercial vehicle manufacturer and defense contractor Otokar signed a $500 million contract to design and build national “Altay” battle tanks.
- ✓ Italian Westland in 2007 signed a $2 billion contract TAI and the SSM to build attack helicopters.

The Turkish Armed Forces widely relies on the United States and NATO for equipment and technology. The rate of dependence is estimated to be 50-60% as far as the land forces is concerned. In the air forces, the rate goes up to as high as 80%.

Turkey has a growing involvement in the European aerospace sector. It has joined the Airbus A400M military transport consortium and has ordered 10 craft. Turkey is a partner in the US-led Joint Strike Fighter consortium, but a role in an alternative Eurofighter consortium is not ruled out.

Within this framework, the process of EU membership could lead to a cutback in the relatively high level of defense expenditure of Turkey. The reduction could be offset to some degree by Turkey’s goal of a smaller but better-equipped army, which may result in a higher proportion of defense expenditures going on purchases of equipment.

24 Major Projects to be completed in 10 Years

The Defense Industry Undersecretariat targets to finalize a total 24 projects in the coming ten years. The main projects include the following:

- Phoenix II program (the depot level maintenance capabilities of 30 Eurocopter AS 532 UL/AL Cougars);
- Purchasing of 16 Sikorsky S-70B Seahawk helicopters;
- Helicopter Electronic Warfare Suite (HEWS) Upgrade for 145 new attack helicopters;
- A $1.1 billion deal in April 2005 to upgrade F-16 fighter jets;
- Plans to buy nearly 120 F-35s to replace aging F-4 and F-16s after 2010 (about an over $10 billion deal);
- The upgrade of the second batch of 48 F-4 planes;
- Structural and avionic modernization of 50 NF / F-5 A/B;
- Replacement of SF-260D and T-37C by a T-X single primary and basic trainer aircraft.
- Participation in the Military Transport Aircraft (A400M), taking a 9% stake.
- Procurement of 12 light –middle class reconnaissance observation helicopters
- Procurement of 16 new patrol boats.
- Procurement of 1,441 reconnaissance, weapons carrier and special purpose tactical wheeled armored vehicles. The three-year contract

is expected to be signed by the end of 2008. Turkey's Otokar, FNSS, Nurol Makine, Uzul Şınlak and Hema have been invited to submit bids.

Major deals concluded in 2006 and early 2007 included the following:

- Modernization of 216 F-16 at $635 million – with Lockheed Martin.
- Procurement of 100 F-35 at $4.3 billion from Lockheed Martin

The 2023 Vision

The 2023 Vision study(3) of the Defense, Aeronautics and Space Industries Group recommends definition and implementation of programs under three main headings:

- Low altitude space vehicles and systems
- Manless land, marine and aircraft
- Technologies and components for joint use

A fund of $700 million has recently been allocated for the National Aeronautics and Space Project which was designed under this program. The Defense, Aeronautics and Space Industries Group envisage the following targets for 2023:

TARGETS FOR THE DEFENSE INDUSTRY

	2002	2023
Defense expenditure per capita ($)	130	534
Defense spending ($ billion)	9	48
Defense spending /GDP (%)	0.05	0.03
Ammunition, equipment spending ($ billion)	5	14.4
Local equipment and R&D spending ($ billion)	0.9	11.5
Production per employee in the sector ($/ man year)	50,000	250,000
Exports per employee in the sector ($/ man year)	10,000	58,500
Personnel employed in the sector	25,000	60,000
Defense R& D personnel	1,500	10,000

1 The "Vision 2023: Strategies for Science and Technology" project involves the first-ever national foresight exercise of Turkey, together with three more sub-projects that aim at collecting and evaluating data on the current science, technology and innovation capacity of the country. It is an ongoing project, which aims to build an S&T vision of Turkey, and to develop S&T policies for a time period of 20 years.

3.3 ENERGY

Turkey's production of primary energy supplies increased in 2008 to 27.5 million tons oil equivalent from 23.7 million tons in 2003, as a crash program in production of hard and lignite coal, natural gas, crude oil, wind and geothermal electricity and solar energy was underway.

But the country faces a rapid depletion of its oil and natural gas reserves, due to insufficient investments and repairs on existing power facilities and lack of new offshore oil fields. Additionally, low rainfall has resulted in a sharp drop in hydroelectricity output. These developments have forced the country to become more dependent on imported crude oil and natural gas for its energy requirements.

PRIMARY ENERGY PRODUCTION OF TURKEY 1990-2004 (TABLE 1)
BY SELECTED PRODUCTS (IN ORIGINAL UNITS)

Years	Hard Coal (1000 Tons)	Lignite (1000 Tons)	Asphaltite (1000 Tons)	Natural Gas (In Million Cubic Meters)	Crude Oil (1000 Tons)
1990	2,745	44,407	276	212	3,717
1995	2,248	52,758	67	182	3,516
2000	2,392	60,854	22	639	2,749
2001	2,494	59,572	31	312	2,551
2002	2,319	51,660	5	378	2,420
2003	2,059	46,168	336	561	2,375
2004	1,946	43,709	722	708	2,276
2005	2,170	57,708	888	897	2,281
2006	2,319	61,484	452	907	2,284
2007	2,462	72,121	782	893	2,134

Source: Ministry of Energy and Natural Resources

Table 2

Years	Hydro-Ele (GWh)	Geothermal Electricity (1,000 TOE*)	Wood (1000 Tons)	Biomass (1000 Tons)	Solar Energy (1000 TOE)	Total (Table 1+2) ** (1000 TOE)
1990	23,146	364	17,870	8,030	28	25,478
1995	35,541	437	18,374	6,765	143	26,719
2000	30,879	648	13,938	5,981	262	26,047
2001	24,010	687	16,263	5,790	287	24,676
2002	33,684	730	15,614	5,609	318	24,259
2003	35,330	784	14,991	5,439	350	23,783
2004	46,084	811	14,393	5,278	375	24,332
2005	39,714	926	13,819	ua***	385	ua
2006	44,465	1,081	13,268	ua	403	26,800
2007	36,007	914	12,932	ua	420	27,500

****Tons Oil Equivalent (TOE)***
*****Includes GWH from Wind Energy and Geothermal Heating in TOE***
******Unavailable (ua)***
Source: Ministry of Energy and Natural Resources

While its energy consumption rose four percent annually in the past decade, the percentage of the country's primary energy imports is expected increase to 80% by 2020, alarming economic planners, the country's traditional bureaucracy and nationalists in the government and the military.

Energy imports constitute one-fifth of the nation's import bill. In 2007, Turkey spent $33.9 billion on the import of energy supplies, including fossil fuels, lubricants and related materials, according to the Turkish Statistics Institute (TUİK)

Turkey's Energy Import Bill 2001-2007	
Year	**Amount in Million U.S. Dollars**
2001	**8,339**
2002	**9,204**
2003	**11,576**
2004	**14,407**
2005	**21,256**
2006	**28,859**
2007	**33,900**

Source: Turkish Statistical Institute (TUİK)

Turkey is attempting to diversify its sources of primary energy and supplies by expanding oil and natural gas exploration and hydroelectric production and output in other renewable energy sources as well as intending to build new coal-fired power plants to achieve sustainable growth in energy. Privatization is viewed as the key for Turkey's future energy development.

The government is also encouraging private companies to build power plants (auto producers) to meet their own needs, and construct larger power plants sell electricity to other neighboring companies and to the state and to take over existing government-run facilities to help maintain growth in energy.

Turkey privatized the first two of 20 regional electricity distribution companies in early 2009:

In January, Sabanci Holding-Osterreich Elektriztatwirtchafts Aktiengesellschaft (Verbund)-Enerjisa Enerji Uretim A.S. Joint Venture acquired Başkent (Capital City) Electricity Distribution Company for $1.225 billion. The power company distributes electricity in the provinces of Ankara, Kırıkkale, Zonguldak, Bartin, Karabuk, Çankırı and Kastamonu, in northwest Anatolia.

In February, AkCez, a joint venture between Turkey's Akkok Group and the Czech Republic's Cez, acquired Sakarya Electricity Distribution Company for $600 million. The power company distributes electricity in the provinces of Sakarya, Bolu, Duzce and Kocaeli also in northwest Anatolia.

In related developments in 2008, the Turkish group Alsim Alarko was the highest bidder for Meram Electricity Distribution Company, which supplies power to six provinces in central Turkey. It bid $440 million. The Turkish retailing and real estate development company Kiler Alışveriş Hizmetleri Gıda Sanayi was the highest bidder for Aras Electricity Distribution Company, which provides power to seven provinces in eastern Turkey. Kiler bid $128.5 million. Contracts for the two power companies are pending approval from competition and the Council of State.

The government's Privatization Administration invited bids for the Yeşilırmak and Coruh Elecrticity Distribution companies by October 20, 2009.

In addition to its power distribution companies, the government is planning to sell 26 large hydroelectric dams and coal-fired power plants and 56 small river dams that have completed their economic life span. It is encouraging private companies to build and operate new hydroelectric dams and natural gas-fired power plants, operate state coal mines and geothermal facilities. It privatized natural gas distribution rights in more than 154 cities, and began to transfer the multi-billion dollar natural gas import contracts of the state petroleum pipeline corporation Botaş to private operators.

Turkey also plans to privatize oil pipelines operator BOTAŞ and coal concern TKI. Botas is the state company responsible for importation, transmission and distribution of oil and natural gas. BOTAŞ currently operates 3,374 km of crude oil pipelines and 11,130 km of natural gas pipelines, carrying 130.2 million tons of crude oil and 88 billion cubic meters of natural gas each year. In 2007, BOTAŞ had a net income of $695 million on net sales of $1.281 billion. TKI, Turkey's 18th biggest industrial company in terms of sales, mines lignite coal at seven big mines in western Turkey. In 2007, it had a before tax income of $15.7 million on net sales of $1.431 billion. The company employs 10,842 persons.

In January 2009, the Municipality of Greater Kocaeli in western Turkey in sold the operational rights of the natural gas distribution company for the city of Izmit, IZGAZ, for a 25-year period to France's GDF Suez for $522 million, officials said. IZGAZ, which supplies 1 billion cubic meters of natural gas to subscribers in the city every year, posted $290.8 million in net sales in 2007.

A Russian-led consortium was the sole bidder for Turkey's first nuclear power plant. The state Turkish Electricity Trade and Construction company is continuing negotiations with JSC Atomstroyexport-JSC Inter Rao Uses- Park Teknik Consortium, for construction of the nuclear plant in Akkuyu, in İçel province on the Mediterranean Coast. Turkey also plans to construct nuclear power plants in Sinop, on the Black Sea Coast, Konya in central Turkey and Akkuyu by 2020. The three sites will have a total capacity of 5,000 MW.

Turkey also wants private companies to build new oil refineries, in addition to the existing private oil refineries concern, Tüpraş, which operates the country’s four oil refineries.

Turkey needs to spend $128 billion on energy investments by the end of 2020, including $91.276 billion on new power generation facilities, to keep pace with its rapid-growth economy, but the government can only set aside $500 million a year from its tight budgets, according to the Energy and Natural Resources Ministry. The total budget for the ministry in 2009 was a mere $2.116 billion.

INVESTMENT NEEDS OF THE TURKISH ENERGY SECTOR, 2005-20

Sector	**Investment, $ Mn**
Coal exploration & extraction	5,109
Oil	16,000
Natural resources	2,700
Water (DSI)	6,093
Generation (EUAS)	458
New generation facilities	91,276
Transmission	938
Distribution	6,000
Total	128,574

Source: Ministry of Energy (MENR)

“The state does not have the funds to sustain such a massive energy investment program,” former Energy and Natural Resources Minister Hilmi Güler told a meeting of the Economic Journalists’ Association in Istanbul in September 2006. *“The investments will have to be carried out by the Turkish private sector and foreign investors.”*

The companies acquiring the 20 distribution companies, which have a total 29 million subscribers, will be required to carry out a total $1.909 billion in investments in new lines and in upgrading of existing power facilities by 2010.

In 2006, Turkey met 33% of its general energy consumption from oil, 28% from coal, 29% from natural gas and 10% from hydroelectric power and other renewable energy resources.

Turkey’s general energy demand is expected to increase to 154 million Tons Oil Equivalent (TOE) by 2010 and to 282 million TOE in 2020 from 78 million TOE in 2001.

Oil and Natural Gas

Turkey, which isn’t self-sufficient in oil, at the end of 2006 had only 41.5 million tons of recoverable oil reserves, an amount that could meet only 1.5 years the nation’s demand for crude oil, forcing the state-owned Turkish Petroleum Corporation (TPAO) to carry out deep sea and tough mountainous terrain drilling, energy officials said.

But it is believed that the Black Sea Coast of Turkey contains 10 billion barrels (1.370 billion tons) of oil reserves and 1.5 trillion cubic meters of natural gas that could meet 40 years of the country’s requirement, TPAO officials said. But the oil and gas are said to be trapped 3,000 meters under the ocean floor and that drilling would have to take place where the sea is 2,000 meters deep.

The Turkish Petroleum Corporation (TPAO) plans to spend $750 million on five wells along the Black Sea Coast in 2009 and 2010. British Petroleum withdrew from a consortium with TPAO when oil drilling along the eastern Black Sea Coast off the town of Arhavi yielded no results.

TPAO signed an agreement with Brazil’s state Petroleo Brasileiro S.A. (Petrobras) U.S. Chevron Corp in 2006 and 2008 to explore for oil in the Black Sea on a 50-50 basis.

TPAO in 2008 also began drilling for oil and natural gas in Saros Bay, in the Aegean, north of the Dardanelles.

Turkey was also drilling for oil in areas along its borders with Syria, Iraq, and Iran. TPAO General Manager Mehmet Uysal said that the state company would explore for oil and natural gas in southeast Turkey with Exxon Mobile of Irving, Texas, and EOG Resources of Houston,Texas.

Crude oil production in Turkey in 2007 stood at a mere 2.134 million tons, almost entirely by TPAO and Shell’s Perenco. TPAO also produced 20.075 million barrels (2.75 million tons) abroad, mainly in the Azeri Caspian, in 2007.

Turkey imported about 23.446 million tons of oil in 2006.

It paid a total $9.374 billion for 19.718,825 million tons of imported crude oil in the first ten months of 2007, according to the Turkish Statistics Institute (TURKSTAT).

Local production meets less than 1/10th of Turkey’s oil demand. The rest is imported.

Yet oil officials believe that Turkey, which lies between the Romanian and Iraqi oil fields, has rich, but unproven, oil reserves, particularly in the mountainous southeast. But oil in the region, broken up by rugged terrain, high mountain ranges, and tectonic faults, would require drilling many wells as deep as 6,000 meters, and may be currently uneconomic.

State-owned Turkish Petroleum Corp. (TPAO) is Turkey's biggest producer of oil, accounting for 71% of the country's production, followed by Shell (Perenco) with 24% and Mobil - Dorchester produced about four percent. A host of smaller companies also produce oil.

Between 1935, when oil exploration and extraction began, and 2004, Turkish and foreign companies have opened 1,766 wells, totalling 3.800 million meters of drilling.

The Petroleum Law of 2007 is expected to increase exploration and production activities considerably.

TPAO is also drilling for offshore natural gas with Dallas, Texas-based Toreador Resources and its subsidiary Madison along the western Black Sea Coast of Turkey. TPAO believes it can produce 10 billion cubic meters of natural gas at this site each year. It currently produces 435,000 cubic meters of natural gas a day (158 million cubic meters a year) at three sites on the western Black Sea Coast near Akçakoca, but plans to increase production to 2 million cubic meters a day (730 million cubic meters a year).

Calgary, Alberta-based Stratic Energy Co. has a 12% share in the Akbaya and Ayazlı offshore natural gas fields operated by TPAO on the western Black Sea coast.

TPAO is also drilling for oil in Isparta, western Turkey, Mt. Cudi in Şırnak, Pervari Siirt, along the Syrian and Iraqi borders, at Tuz Gölü (Niğde) in central Turkey and Thrace.

Zorlu Enerji's Amity Oil Company announced discoveries of natural gas in several locations in Thrace in 2007. Although the strikes are economically viable, the reserves are of modest amounts.

Natural Gas has grown rapidly as a percentage of total primary energy supply in the past decade, now reaching 23%, which however is still lower than in EU and OECD countries.

Turkey's total natural gas demand is estimated at 31.4 billion cubic meters as of 2007, and has grown very rapidly at about 10% per annum over the last few years. This growth is expected to sustain in the medium term primarily due to growing urbanization, increased dependence on natural gas for heating and greater use of natural gas in electricity generation.

Other Canadian investments in Turkish oil and gas exploration are as follows:

- Vancouver-based Terasen International (TII) and Palmet of Turkey formed a joint venture in spring 2007 to support Palmet's natural gas distribution companies in Gebze, northwest Turkey, and Erzurum, under a $185 million gas project.

- Euromax Resources Ltd. of Vancouver, British Columbia, acquired 33.3% interest in the Iskenderun and Adana oil and gas exploration properties for a net holding of about 127,000 hectares Turkish oil and gas explorationcompany Genel Enerji and Canadian Addax Petroleum found oil in a second well drilled at Taq Taq field in Iraq. The well is expected to contribute with an annual gain of $605 million.
- Telvent realized successful natural gas, water and electrification projects, including turnkey SCADA system to Istanbul Gas Distribution Corporation and Ankara Electric, Gas and Bus Authority and expects involvement in larger projects in the coming years.
- Atomic Energy of Canada Limited (AECL) has been following the nuclear energy projects in the country since the mid 1980's. Currently, there are three nuclear plants in the planning stage, envisaged to become operational by 2013.
- There are a number of other Canadian companies including Major Drilling, Troy Engineering, CCM Group and Palmet, which work in the area of construction and energy in general. Palmet obtained finance from EDC in 2005 in order to realize its natural gas distribution projects.

TURKEY'S NATURAL GAS DEMAND
IN MILLION CUBIC METERS

YEAR	AMOUNT
2006	29,500
2007	31,400
2008	33,400
2010	42,100
2015	52,200
2020	61,000

Source: BOTAŞ Petroleum Pipeline Corp.

Consumption of natural gas in Turkey grew at 14.8% per year in the last decade, reaching 33.4 billion cubic m) in 2008. The state Petroleum Pipeline Corporation (BOTAŞ) estimates that gas demand will be 42.1 billion cubic meters in 2010, 53 billion cubic meters in 2015 and 61 billion cubic in 2020.

Turkey does not have sufficient natural gas reserves, and is supplied primarily from Russia through two pipelines, one through Bulgaria (Tursugaz) and one under the Black Sea (Blue Stream) to the port city of Samsun. It also receives natural gas by pipeline from Azerbaijan’s (Şahdeniz) fields and from Iran. Other major suppliers are Algeria and Nigeria (in the form of liquefied natural gas - LNG).

In 2007, BOTAŞ imported 34 billion cubic meters of natural gas and liquefied natural gas from six countries.

Turkey uses natural gas for both power generation and as an environmentally friendly, alternative energy source for heating purposes in the cities, where air pollution has reached levels endangering public health. The country has been using mainly lignite, a low-calorific, high-sulphur content coal which is abundant supply locally, for heating purposes but this has been the chief cause of air pollution.

The Energy Market Regulatory Agency (EPDK) concluded contracts for natural gas distribution rights in 154 cities and towns with private Turkish companies. BOTAŞ has laid 11,130 km of pipelines to date crisscrossing the nation and plans to supply natural gas to all 81 provinces by end 2009.

Turkey as an Energy Conduit

Due to its unique geographical location, Turkey is becoming a major natural gas and oil conduit from the Caspian into mainland Europe. Turkey is currently proceeding towards construction of large pipelines reaching countries in continental Europe. In addition to its growing domestic demand for natural gas, the role of Turkey as a transit country is likely to drive the economics of the natural gas market in the medium term. Turkey currently has long-term contracts for supplies significantly larger than its current domestic demand, and it is unlikely that in the foreseeable future, the demand will cross available supply.

Privatization

The liberalization of the sector has led to the privatization of distribution in scores of cities, while BOTAŞ, the state pipeline company, is set to be unbundled by 2009.

In 2007, BOTAŞ privatized 16 lots (4 billion cubic meters) of its of 64 lots (16 billion cubic meters) of natural gas import contracts to five companies: **Eurasia, Shell Energy, Bosphorus Gas** (a joint venture between Turkish businessman Ali Şen and **Gazprom of Russia**), **Enerco** and the **Aksa Group.**

TURKEY AS AN EAST-WEST ENERGY CORRIDOR

With the completion of numerous oil and gas pipelines running through Turkish territory, five percent of the world's energy resources will transit Turkey by the end of 2012, energy experts say. Projects are at various stages of completion for the transit of natural gas and oil across Turkey from suppliers in the Caspian region, Central Asia and the Middle East to southern and central Europe.

- **Baku-Tbilisi-Ceyhan (BTC)** crude **oil** pipeline ($4 billion). Hailed as the "New Silk Road for Oil," the 1,180 mile pipeline began operating in May 2006. It will transport 365 million barrels of Azeri crude annually to the Turkish Mediterranean terminal in Ceyhan for transshipment to Europe by tanker once in full operational strength. Turks say the terminal port of Ceyhan will become the "Rotterdam of the Mediterranean."
- **Iraq-Turkey Natural Gas Pipeline** – 10 bcm/year to Turkey. The twin pipelines have been operational since 1976. Feasibility studies are being carried out for a parallel natural gas pipeline.
- **Turkey-Greece Natural Gas Pipeline**. Completed in August 2007, the $300 million pipeline transports natural gas produced in Azerbaijan's Shah Deniz fields to western market. The 171-mile pipeline runs from Karacabey, in northwest Anatolia, to Komitini, in the Greek province of Western Thrace. Greece will acquire 3 billion cubic meters (bcm) of natural gas annually. Spurs from Greece will take the gas further west. Italy will acquire 8 bcm of natural gas each year from the pipeline.
- Enlarging 745-mile **Blue Stream Natural Gas Pipeline** from 16 bcm to 32 bcm a year is being considered. The Blue Stream, which runs from Beregovaya in Russia to Samsun on the Turkish Black Sea Coast has been in operation since 2003; The **Samsun-Ceyhan** crude oil pipeline. Ground-breaking ceremonies were held in 2007. The pipeline is expected to pump Kazakh crude oil, shipped to Samsun, to the Ceyhan, and relieve pressure on the Turkish Straits
- **Caspian -Turkey -Europe Shah Deniz** natural gas pipeline: 6.6 bcm/year to Turkey.
- **Nabucco Natural Gas Pipeline** project from Turkey to Austria, valued at $5.8 billion. Construction of the 2,200-mile pipeline is slated to begin in 2009 and is due for completion in 2012. The pipeline, named after a Verdi opera, will transport natural gas from the Middle East and Caspian region, including Iran, Azerbaijan and Turkmenistan, to Western Europe and to the countries long its path. The western end of the pipeline will be Baumgarten an der March, a major natural gas hub in Austria. The shareholders of the project are: OMV (Austria) MOL (Hungary), Transgaz (Romania), Bulgargaz (Bulgaria), BOTAŞ (Turkey) and Germany's RWE.
- **Turkey – Egypt Natural Gas Pipeline**: The pipeline will pump 2-4 bcm/year of gas from Egypt to Turkey and 2-6 bcm/year of gas from Turkey to Europe. A pipeline from Aleppo, Syria, to southern Turkey will deliver the Egyptian natural gas that is being pumped to Syria by sea from Egypt's El Arish township, in the Sinai Peninsula Turkey and Egypt also signed the agreement for the pipeline in 2007 and set up a joint venture to market Egyptian natural gas in Europe.

Oil Refining

Demand for petroleum products is rapidly rising in Turkey. The country's sole oil refineries' operator is Tüpraş. With four refineries, Tüpraş has a total annual refining capacity of 27.6 million tons. But demand for petroleum products rose to 29.5 million tons in 2006 and is expected to increase to 34.1 million tons in 2015 and 39.3 million tons by 2020, according to Tüpraş.

A former state company, Tüpraş processed 25.6 million tons of crude oil in 2007, and exported 2.2 million tons of leadless gasoline and 2.7 million tons of fuel oil and 587,000 tons of other products in 2007, earning $3.380 billion from foreign sales.

Petkim, the state petrochemical concern, also produces small amounts of liquefied petroleum gas (LPG), diesel oil and normal gasoline, as by-products of its chemicals output. Tüpraş produces a wide range of products, including fuel oil, diesel oil, jet fuel, gasoline, naphtha and asphalt.

Turkey is a net importer of refined oil products. In 2006, Turkey imported 7.6 million tons of finished products, including 6.166 tons of gas oil (diesel), while exporting 2.550 million tons, including 1.740 million tons of fuel oil and 810,000 tons of gasoline.

To meet the soaring domestic demand, it will be necessary to expand existing capacities and to construct new refineries.

Four groups have applied to the Energy Market Regulation Authority (EPDK) to build and operate oil refineries in Ceyhan, in Adana, on the Mediterranean Coast, near the terminal of the Baku-Tbilisi-Ceyhan Oil Pipeline and Iraq-Turkey Crude Oil Pipelines. Two have gotten their licenses:

- **The Azeri-Turkish Socar-Turcas Joint Venture** received a license to build and operate a $4 million, oil refinery, with a 10 million-ton a year production capacity**.**
- The EPDK in May 2007 approved **Çalık Enerji-Indian Oil Company's** received a license to build an oil refinery and petrochemical complex for $4.9 billion in Ceyhan.
- Oil products distributor **Petrol Ofisi Akdeniz Rafineri A.S.** in June 2007, applied to energy authorities to build a $3 billion oil refinery year in Ceyhan, but has yet to get a license to construct and operate the complex.
- **The Cevahir Group,** which owns 50% of the Cevahir Shopping Mall and the Grand Cevahir Hotel in Istanbul, also submitted an application to build an oil refinery. Its proposal is still under review.

TOP 20 TURKISH ENERGY COMPANIES IN 2007 IN TERMS OF NET SALES (IN MILLION U.S. DOLLARS)		
Name of Company	**Total Sales**	**Sector Involved**
1 Tüpraş Türkiye Petrol Rafinerileri	**19.264**	**Oil refining**
2 Petrol Ofisi	**11.475**	**Oil products retailing**
3 Enka İnşaat	**5.876**	**Electricity production**
4 Opet Petrolcülük	**5.092**	**Oil products retailing**
5 BP Turkey	**4,604**	**Oil products retailing**
6 EÜAS Elektrik Üretim A.Ş.	**3.955**	**Electricity production**
7 Aygaz A.Ş.	**2.729**	**LPG filling, distribution**
8 Türkiye Kömür İşletmeleri	**1.431**	**Coal Mining**
9 İGDAŞ	**1,828**	**Natural Gas distribution**
10 BOTAŞ	**1.281**	**Oil and natural gas pipelines operations, gas and oil imports and distribution**
11 Milangaz LPG Dağıtımı	**1.238**	**LPG distribution**
12 İpragaz	**1.136**	**LPG distribution**
13 Turkish Petroleum Corp (TPAO)	**838**	**Oil and gas exploration, extraction**
14 Çalik Enerji	**459**	**Natural Gas/Electricity distribution.**
15 Mogaz Petrol Gazları A.Ş.	**443**	**LPG distribution**
16 SEAS Soma Elektrik Uretim A.S.	**421**	**Electricity production, distribution**
17 Zorlu Elektrik Enerji Üretim	**402**	**Electricity production, distribution**
18 Enerji Petrol Ürünleri Pazarlama	**401**	**Petroleum products distribution**
19 Ak Enerji Electik Uretim A.S.	**387**	**Electricity production, distribution**
20 Shell Gaz Ticaret ve Sanayi	**387**	**LPG distribution**

Sources: Istanbul Chamber of Industry, Capital Magazine, and Ministry of Energy and Natural Resources

Oil Products Retailing

As of the end of April 2009, Turkey had 51 oil products retailers with 12,411 service stations and 2.405 fuel stations, according to the Energy Market Regulation Agency (EPDK). The country had only 17 retailers in 2002 with 9,800 service stations.

Turkey witnessed a boom in the opening of retailers and service stations after the government lifted restrictions on building in 1989 to help meet a growing demand for gasoline, caused by rising automobile ownership.

In the past, a distance of five km (3 miles) had to separate each station, a measure that was lifted in 1989 as part of the liberalization of distribution and importation of petroleum products.

"Now we have service stations at every step," said an analyst of petroleum markets with TABGIS, an Istanbul-based association of domestic petroleum products' sellers.

The former state-owned Petrol Ofisi with its subsidiary Erk is Turkey's biggest operator of service stations and has a 30% share in the sale of gasoline and other products. Major multinationals in the sector include

Shell, BP, Total, Elf and Lukoil. The top 11 service station operators controlled 67% of all the nation's service and fuel stations.

Turkey's Leading Service and Fuel Oil Station Operators
as of end of April 2009

Company	Number of Service and Fuel Oil Stations
1. Petrol Ofisi + Erk	3,438
2. Opet + Sunpet	1,509
3. Shell + Turcas	1,338
4 Lukoil+Akpet	816
5. BP	782
6. Total	625
7. Enerji Petrol	507
8. Can Aslan	458
9. Altınbaş (Alpet)	450
10. Termopet	466
11. Starpet Garzan	425
40 Others	4,918
Total	14,918

Source: Energy Market Regulation Agency(EPDK)

The market size for gasoline and other oil products in 2008 was around $49.6 billion, compared to $53 billion in 2007. This drop was due to reduction in consumption of oil products because of excessive rising oil costs, according to the EPDK.

The past boom has led to increased franchising of popular local and foreign brand name retailers.

But the opening of service stations, particularly in western Anatolia and Thrace, outpaced demand. Scores of service stations, providing only gasoline and diesel oil, are facing financial difficulties and are unable to pay their debts to large Turkish and foreign-owned retailers.

Major oil products retailers, represented by PET-DER, called for a consolidation in the business.

"There is an inflation of two things in Turkey," said Melih Türker, chief executive officer of Petrol Ofisi and former president of PET-DER. *"One is the number of service stations and the other is the number of pharmacies."*

This has led many service stations owners to provide additional services, such as opening grocery stores, coffee houses, fast food restaurants and shopping malls to attract customers, particularly buses carrying large numbers of passengers. These station owners are also providing a wide range of other petroleum products for sale and giving repair work and other services.

In addition to the service stations, about 44 companies with 4,000 outlets distribute liquefied petroleum gas (LPG) for cooking and water heating throughout Turkey.

Turkey's **Petroleum Markets Law** aims at liberalizing the petroleum market by rescinding the state monopoly in the sector and banning of low-quality contraband gasoline into Turkey from Iraq and other neighboring countries.

The law brings the sector under the control of the nine-member Energy Market Regulatory Authority (EPDK). All players, distributors, dealers and storage holders are required to receive licenses from the EPDK to operate. It requires all fuel (service) stations to be part of a distribution network, and not buy products from all sources.

A national marker, or chemical dye, was introduced on January 1, 2007, to gasoline and other products at refineries or at customs controls for registered products to prevent smuggled oil and gasoline from entering the country. EPDK inspectors carry out periodic checks of oil products at service stations throughout the country. Service stations selling contraband products are heavily fined and owners face up to five years imprisonment, and their operations could be permanently shut down.

Electricity

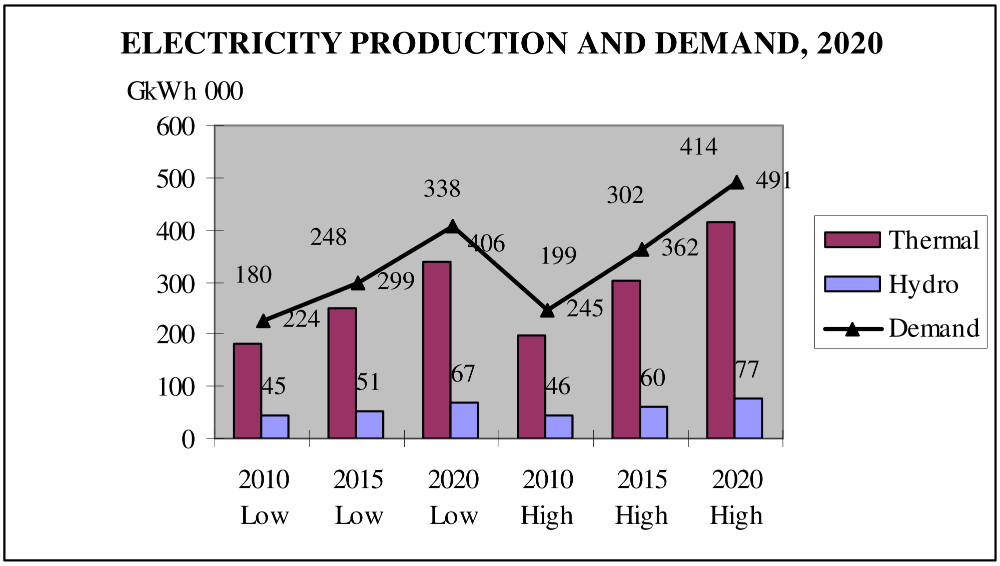
A crash program to develop power plants, with an increased role for private and foreign investors, is key to Turkey's continued economic growth, energy planners say.

Turkey will need a large infusion of foreign capital to increase its generating capacity 58% to 65,000 Megawatts (MW) by 2010 and raise 134% to 96,000 MW by the year 2020.

At the end 2008, Turkey's total installed power production capacity reached and estimated 42,000 MW, according to the Ministry of Energy and Natural Resources.

Turkey's electricity consumption was expected to rise 54.25% by 2010 to 290 billion Kilowatt hours (kWh), and 190% by 2020 to 546 billion kWh, according to state energy planners. Turkey produced around 203.4 billion kWh in 2008, up 8.2% from 2007, the Ministry of Energy and Natural resources reported.

Additional generation capacity will be required beyond 2009-2010 under most demand and supply scenarios made by the Ministry of Energy. The government is exploring alternatives for adding significant amounts of capacity in order to meet the probable shortage of supply in the medium term. Projections require installed capacity to increase about three fold – from about 38,820 MW in 2006 to 96,348 MW by 2020. Considering the projects under construction, this figure represents an additional capacity requirement of about 54,000 MW. State Planning Organization economists calculate that this will require a total investment amount of $84 billion. Investment requirement would be $13 billion during 2007-2010, $20 billion during 2011-15 and $51 billion during 2016-20. Deloitte breaks down the financing needed by 2015 for an additional capacity generation of 23,981 MW as $31.9 billion.

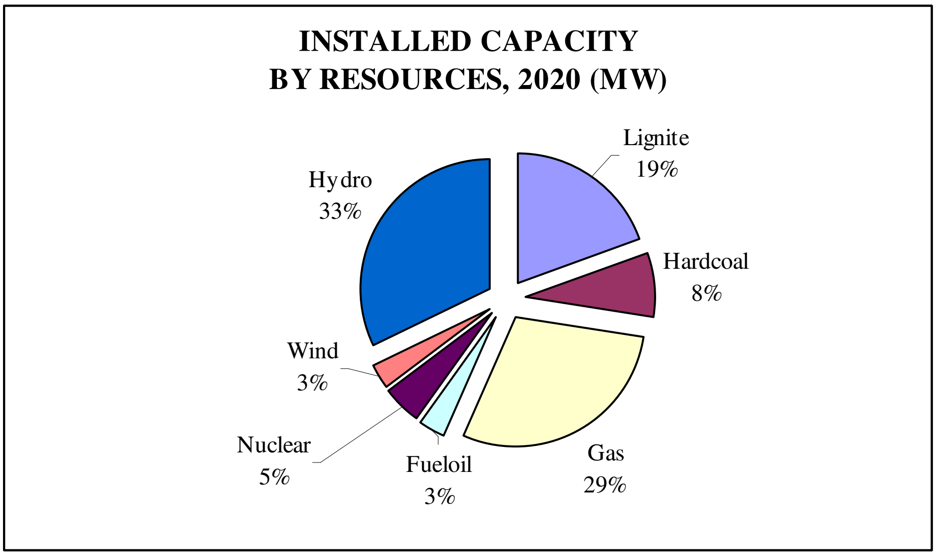


Source: SPO

Electricity demand in Turkey increased 8.4% in 2007, the world's second highest growth rate after China, confounding the nation's energy planners, who had projected lower rates, forcing them to make new long-term power consumption forecasts.

The government must spend about $4.5 billion annually on new power projects and $1 billion annually for power transmission to avoid an energy crisis. But it can only spare only $500 million.

"This situation, together with expenses for transmission lines, results in an investment profile that can't be met by public resources," former Energy and Natural Resources Minister Cumhur Ersümer declared.



Source: Ministry of Energy and Natural Resources

The government wants private and foreign investors to build the third and fourth thermal energy plants in Afşin Elbistan, in southern Turkey, with eight units of 300 MW and a total capacity of 2,400 MW

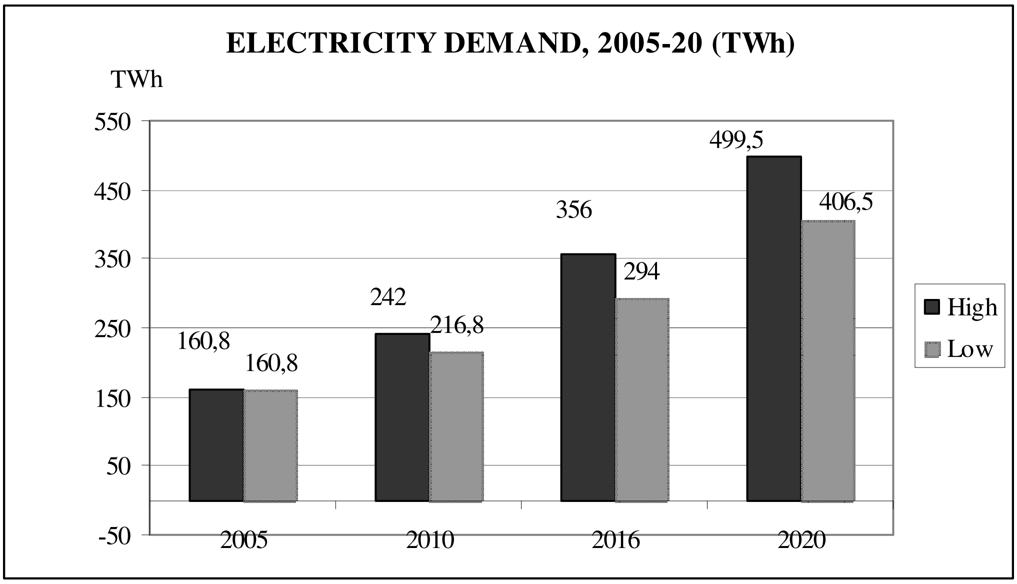
Blackouts are becoming a way of life in Turkey's big cities, forcing industry and businesses to install expensive power generators.

Failure of Turkey to build enough power plants from 1990 to 2007 and insufficient rainfall to feed the major hydroelectric dam reservoirs are generally cited as the reasons for the country's present energy bottleneck. Electricity output from hydroelectric dams plunged 20% in 2001 from 2000 to 24.8 billion kWh due to the lack of sufficient rainfall, according to the State Institute of Statistics (DIE).

To meet the shortfall, the government is seeking private investors to build and operate new hydroelectric dams, thermal energy power plants and rehabilitate existing ones.

The government plans the sale of 16,000 MW of state generating plants, including 12,200 MW thermal plants and 3,800 MW of hydroelectric dams.

The government also wants the private sector to build 16 hydroelectric dams in mainly eastern Anatolia.



Source: MENR

Additionally, many of the 1,277 private sector hydroelectric dam projects, which the State Hydaulic Works Administration (DSİ) endorsed, have received licenses from the Energy Market Regulation Agency (EPDK) in 2008 and 2009, and have begun construction work. Most of these are small to mid-sized river dams (with an under 50 MW power generating capacity).

Special emphasis has been placed on the quick construction of power plants using imported, low-cost natural gas or liquefied natural gas. Industrial companies are being encouraged to produce their own electricity and heating through the development of gas fired, co-generation power plants (autoproducers) that turn out both electricity and steam.

"With Turkey facing an energy shortage, Turkey has opted for the quick-delivery natural gas power plants," stressed one executive with Entes Industrial Plants Construction and Erection Contracting Co., a Turkish contractor that built the Unimar power plant in Marmara Ereğlisi. "These are easier to build than costly, coal-fired power plants or hydroelectric dams."

The administration is also offering incentives, such as land grants and tax exemptions to companies investing in renewable energy sources, such as biomass, wind, solar and geothermal energy.

Several foreign companies, including Indian company GMR, which is a 40 percent shareholder in the company that acquired the operating rights to the Sabiha Gökcen International Airport in Istanbul, plan investments in thermal power plants in Turkey. GMR intends to build a 1,000 MW gas-fired power plant.

Germany's RWE Holding AS and Turcas Elektrik Uretim signed a joint venture agreement for the construction of a 800MW combined cycle gas turbine (CCGT) power plant near the city of Denizli , Turkey.

HYDROELECTIC DAMS TO BE BUILT AND OPERATED BY PRIVATE TURKISH AND FOREIGN COMPANIES		
NAME OF HYDROELECTRIC DAM	**CAPACITY IN MW**	**LOCATION**
Bayram	**81 MW**	**Şavşat, Artvin**
Bağlık	**67 MW**	**Artvin**
Artvin	**332 MW**	**Artvin**
Gursogut	**279 MW**	**Mihalcik, Eskisehir**
Kargi	**214 MW**	**Mihalcik, Eskisehir**
Alpaslan 2	**200 MW**	**Muş**
Hakkari	**208 MW**	**Hakkari**
Konaktepe 1-2	**138 MW**	**Tunceli**
Beyhani	**300 MW**	**Palu, Elazıg**
Doganli	**462 MW**	**Hakkari**
Kalekoy	**293 MW**	**Solhan, Bingöl**
Çukurca	**245 MW**	**Cukurca, Hakkari**
Eric	**170 MW**	**Kemah, Erzincan**
Pervari	**192 MW**	**Pervari, Siirt**
Durak	**120**	**Camlihemsin, Rize**
Mut	**91**	**Mut, Icel**

Source: Dünya Newspaper, State Hydraulics Works Administration (DSI)

The government hopes to carry out many of the projects under Build-Operate-Transfer (BOT) or Build-Operate (BO) models, where contractors would line up financing for power plants, and build and operate them as concessions for certain amount of time, such as 15 years, after which they would turn them over to the Turkish state. Some 22 BOT power projects with a total installed capacity of 2,288,000 MW are already in operation. Five BO projects have also begun to operate. The management of two existing state-owned power plants has been transferred to private companies.

INVESTMENT NEEDS OF THE POWER SECTOR, 2005-2015

Source	**Capacity MW**	**Cost per unit $ Mn/MW**	**Total cost $ Bn**
Hydro	6,811	1,500	10,217
Wind & other renewables	1,125	1,400	1,575
Nuclear	4,500	2,000	9,000
Lignite	4,520	1,300	5,876
Natural Gas	7,025	0,750	5,269
Total	**23,981**	**1,332**	**31,937**

Source: Türkiye Elektrik Enerjisi Piyasası 2007, Deloitte

Turkey does not provide sovereign guarantees under BOT projects, but offers to buy all the electricity produced. The late President Turgut Özal and his lieutenants first introduced the BOT concept in the early 1980s, but the country failed to liberalize its laws on concessions to allow foreign investment in energy projects. Many other developing countries in the Far East and Latin America adopted the Turkish model and attracted away large-scale foreign investment that could have come in Turkey's way.

Turkey's Top 20 Electricity Producers
In Terms of Power Generation Capacity

Ranking	Name of Company	Installed Capacity (in MW)
1	Elektrik Üretim A.Ş.*	23,355.9
2	Enka İnşaat	3,938.8
3	Sugözü	1,320.0
4	Baymina	798.0
5	Birecik	672.0
6	Ciner Holding	620.0
7	Çolakoğlu	571.8
8	Oymapınar	540
9	Unimar	504
10	Trakya Elektrik	498.7
11	Akenerji	443.7
12	Zorlu Enerji	410.5
13	Enerjisa	378.8
14	BİS Enerji	290.7
15	Habaş	255.5
16	Isdemir	220.4
17	Entek	197.6
18	Kartet	191.6
19	Cam İş	177.3
20	Petkim*	170
	Installed capacity of	35,599.7
	Turkey total installed capacity	40,161.0

EUAS and Petkim ares state-owned
Source: Para Magazine

Seven major BO or BOT projects involving partial or full foreign ownership have been built and are running:

- A Turkish, Belgian, German, French and Austrian contractors' consortium is operating the 672 MW Birecik Hydroelectric Dam, one of the country's biggest foreign investments to date, on the Euphrates River. The dam is part of the giant Southeastern Anatolia Project (GAP), Turkey's most ambitious development undertaking. Construction of the $1.4 billion Birecik was completed in 2001. A company formed by the contractors is operating the hydroelectric dam, and will eventually transfer it to the government after 15-year. The Turkish state-owned EÜAŞ has a 30% stake, Gama Endüstri A.Ş. of Turkey 19.4% and Germany's Philip Holzmann AG 16.4%, with smaller shares for other firms.

- Doğa Enerji A.Ş. operates a 180-MW natural gas power plant in Esenyurt, 30 km west of Istanbul, to provide electricity and hot water for new housing complexes under construction. Doğa Enerji, which built the plant, Turkish developers have a share in the joint venture company, 80% owned by Edison Mission Energy of Irvine, California. The power plant uses a combined cycle technology in a cogeneration mode. It cost $45.6 million in equity contributions from shareholders and $136.8 million in project financing and cover provided by the U.S. Overseas Private Investment Corp. (OPIC), a European government agency and bank loans. The consortium Enka and Intergen constructed a 700-MW natural gas-fired power plant at Adapazarı in northwestern Anatolia, a 700-MW natural gas power plant in Gebze, about 50 Km (30 miles) east of Istanbul, for $2.2 billion, and a 700-MW gas-fired power plant in Izmir in November 2003. Enka now fully owns and operates the three power stations.

- An American-led consortium established a company that built and is now operating a $600 million, 448-MW Liquefied Natural Gas combined cycle power plant at Marmara Ereğlisi, on the western shores of the Sea of Marmara, west of Istanbul. Trakya Elektrik, a joint venture involving Enron and Wing Corp., both of Houston, Texas; Midlands Generation of Britain; and Gama Endüstri of Turkey, operates the plant.

- A second 480 MW LNG power plant is also operating at Marmara Ereğlisi under a BOT contract. The company UNI-MAR, a joint venture between Belgium's Unit and Japan's Marubeni, developed the $600 million project.

- Mimag-Tractabel built and is now operating the 770 MW natural gas power plant Baymina Power Plant in Ankara. Baymina is 95% held by Belgium’s Tractabel and 5% by Turkish Mimag.

- German contractors Steag AG and Power AG constructed the $1.5 billion Sugözü Thermal Energy Plant in Yumurtalık, near the Mediterranean port of İskenderun, under a Build-Operate (BO) contract. It is the largest German investment and one of the biggest foreign investments in Turkey to date. The company, İsken İskenderun Enerji Üretim A.Ş., which Steag has a 51% share and Armed Forces Pension Organization (Oyak) of Turkey with a 49 % share, own and operate the 1,200 MW plant, which produces 9 billion kWh of electricity every year – 4.5% of Turkey’s national output. The plant uses high-calorific imported coal.

Renewable Energy

Turkey has been late in developing renewable energy projects. It was one of the very last countries to adopt the Kyoto Protocol, under which nations aim to reduce greenhouse gas emissions voluntarily to prevent global warming. President Gul approved the protocol on February 16, 2009. the trade magazine Enerji Dunyasi reported in its January-February edition.

Nevertheless major steps are being taken in various renewable energy fields in Turkey, including wind, solar, hydro, geothermal, and nuclear and hydrogen energy for electricity and for space and water heating, as viable environmentally friendly alternatives to fossil fuels, which cause no pollution and produce no greenhouse gasses.

A major international hydrogen energy research center was established in Istanbul in 2004, under an agreement signed by the Energy and Natural Resources Minister Mehmet Hilmi Güler and the United Nations Industrial Development Organization (UNIDO) in Vienna, in November 2003.

The International Center for Hydrogen Energy Technologies (UNIDO-ICHET) is helping to convert the world to the hydrogen energy system by financing research projects and applications in Turkey and throughout the world.

Scores of American and European companies have formed joint ventures with domestic companies to invest in renewable energy projects in Turkey:

- France's Perfect Wind Co. is building Turkey's biggest wind farm in Kirsehir province in central Turkey.The 150 MW windfarm would cost €210 million. Perfect Wind Co. is planning €550 million investments in wind energy projects in Turkey totaling 400 MW by 2011.
- In 2007, Izmir-based ALKE Construction and German SSC Montage formed formed a joint venture, AESSC Ltd., which installs wind farms throughout Turkey and Europe. Another company was established for maintenance of wind turbines and rotor blades called AESH Ltd. In 2008, ALKE's factory began producing composite rotor blades and steel towers for wind farms.
- Model Enerji announced it will begin producing wind tower and blades in 2009 under a license from American Superconductor Corp. A separate factory producing wind turbines is being constructed in Adapazari, in northwest Anatolia Nett Enerji Elektrik Uretim A.S. is establishing the factory. Production will begin in October 2009.
- France's Areva is investing €66 million to produce power transformers in a plant in Gebze, 40 km east of Istanbul.
- The Turkish company Tunçmatik and Japan's Kyocera announced that they will co-produce solar energy systems for homes.

- Italy’s Saif Enerji Kaynakları A.S. has begun production of organic fuels from waste edible oils in a plant in Mersin’s Organized Industrial Zone, the newspaper Dunya reported on February 18.
- Norway’s Statkraft acquired 95% of Turkish energy company Yesil Enerji from Global Investment Holding of Istanbul for an undisclosed sum. Yesil Enerji owns the majority shares of seven hydroelectric dams with a total 630MW capacity.
- Turkey’s Borusan Group and Germany’s EnBW AG in April 2009 formed a partnership to invest in €2.5 billion in energy projects in Turkey.

All these developments provide opportunities for Canadian companies to cooperate and develop renewable energy technology with Turkey.

Wind Energy

Turkey intends to increase its wind energy capacity seven fold to 1,048 MW by the first quarter of 2009 from 20 MW in 2005, despite some concerns over the inconsistency of power generation intensity, Turkey’s Wind Power and Hydropower Plants Businessmen’s Assocation said.

As of December 31, 2007, Turkey had 10 operating wind farms with a total power generating capacity of 146.6 MW. Work on eight other projects with a total capacity of 624.86 MW, including the 130 MW Zorlu Energy’s Rotor A.Ş. wind farm in the southern province of Osmaniye, were nearing completion. Construction also began on around 75 other wind farms in 2008 and 2009, the Energy Market Regulation Agency (EPDK) reported. By 2013, Turkey will have a power generating capacity of 2,163 MW from wind energy, meeting 4.1% of Turkey’s total energy demand from wind power, according to the State Planning Organization.

A half a dozen foreign companies are selling wind energy technology to Turkey, including General Electric, Venisys (Costa Rica), Furlander, Conergy, Nordex and Enercom of Germany and Vestas of Denmark. Turkey’s Demirer Group, which constructed the country’s first two wind farms in Alaçatı, near the resort town of Çeşme in western Turkey, and in the Aegean island of Bozcada, says it plans to invest in wind blades in Turkey, possibly with European partners.

The Ministry of Energy and Natural Resources in 2007 produced the country’s first wind energy map, showing areas of Turkey that are suitable for wind energy development. The provinces of Balıkesir, Çanakkale, Izmir, and Manisa in northwest Turkey, and Hatay on the Mediterranean Coast have the strongest and most consistent winds needed for the development of wind farms.

In 2007, hundreds of private companies applied for licenses to build and operate wind farms with a total capacity of 78,000 MW, nearly double Turkey's present total power generating capacity. The government decided to hold tenders for projects in areas where there is more than one application.

The Izmir-based Aegean Technology Association said that Turkey could install 40,000 MW of renewable energy power generating capacity by 2023, including 30,000 MWs of wind farms. This would represent 40% of all generating capacity to be added to the Turkish power grid in the next 15 years, it said, urging the government to give greater backing for renewables than it presently does.

The Association on its web site said that 77,481 wind turbines could be installed in Turkey, bringing about a "theoretical capacity of 116,000 MW. This is equivalent to a capacity of over 60 nuclear plants of 1,000 MW each."

Solar Energy

With an average 2,640 hours of sunny weather throughout the year, or 7.2 hours a day, "Turkey is luckier than many countries because of its location and its higher potential for solar energy," the state Electricity Affairs Research Administration (EİEİ) reported.

Turkey has been increasing its solar energy output every year since 1998. In 2007, it produced 420 tons oil equivalent of solar energy, an increase of 12% from 2004 and 110% more than in 1998.

Solar energy panels (collectors) are widely used in the Aegean and Mediterranean regions of Turkey, which have the most sunshine in the country

TURKISH SOLAR ENERGY OUTPUT IN TONS OIL EQUIVALENT (TOE)

Year	Amount
1998	**200**
1999	**236**
2000	**262**
2001	**290**
2004	**375**
2007	**420**

Source: EİEİ

Geothermal Energy

Turkey has the richest geothermal resources in Europe and seventh biggest in the world, with the "theoretical potential" for 31,000 MW of electricity generation capacity a year, according to the state Mineral Technical Exploration Agency (MTA).

Turkey has 1,000 known geothermal wells and mineral springs. Of these 184 have temperatures of over 104 degrees Fahrenheit. Some 13 have temperatures averaging anywhere between 266 degrees Fahrenheit and

467.6 degrees Fahrenheit and are suitable for electricity production, the EİEİ reported.

Some 77.94% of the country's geothermal resources are located in the Aegean region, while 8.52% and 7.43% are situated in Central Anatolia and the Marmara regions of the country while 4.77% are in Eastern Anatolia. Other areas of the country have insignificant geothermal resources.

Central heating from geothermal energy currently heats some 103,000 homes and 215 SPAs in Turkey, the EIEİ said. It said six percent of the country's geothermal energy is used to produce electricity, 55% for heating homes and 39% for other usage, including heating of SPAs and electricity for industrial usage.

Currently, geothermal energy is harnessed in producing electricity in Kızıldere, Denizli (20 MWe) and Salavatlı, Aydın (7.9 MWe). The Energy Market regulatory Agency issued production licenses for another 5.5 MW geothermal plant in Kızıldere and a 7.5 MW plant in Tuzla, Çanakkale. A 10 MW geothermal plant in a project phase in Simav, Afyon, in western Anatolia is also in the pipeline.

MTA wants to transfer the operating rights of 18 high temperature geothermal fields and three wells in ten provinces to the private sector.

Geothermal Electricity Production Projection

Name of Field	Temperature (^{0}C)	2010 Estimated (MWe)	2013 Estimated (MWe)
Denizli-Kızıldere	200-242	75	80
Aydın-Germencik	200-232	100	130
Manisa-Alaşehir-Kavaklıdere	213	10	15
Manisa-Salihli-Göbekli	182	10	15
Çanakkale-Tuzla	174	75	80
Aydın-Salavatlı	171	60	65
Kütahya-Simav	162	30	35
Izmir-Seferihisar	153	30	35
Manisa-Salihli-Caferbey	150	10	20
Aydın-Sultanhisar	145	10	20
Aydın-Yılmazköy	142	10	20
Izmir-Balçova	136	5	5
Izmir-Dikili	130	30	30
Total		**455**	**550**

Source: EİEİ

Nuclear Energy

Turkish energy authorities are holding talks with a Russian-Turkish consortium for the construction of the country’s first nuclear power plant. The consortium JSC Atomstroyexport-JSC Inter Rao Uses- Park Teknik Consortium, was the sole bidder for construction of the nuclear plant in Akkuyu, in İçel province on the Mediterranean Coast.

The State Planning Organization has also approved plans for the establishment of a large particle physics laboratory, similar to Switzerland-based European Organization for Nuclear Research (CERN), with a YTL 350 million investment. Energy officials said.

The Turkish Accelerator Center is to be located on the grounds of Ankara University’s Golbası Campus and will include a particle accelerator, or super proton synchrotron, to be used to develop nuclear technology and enrichment programs for Turkey and its allies in the Middle East, North Africa, and Central Asia.

CERN, located in Switzerland, is the world’s biggest nuclear research facility. The site was one of the main settings of Dan Brown’s thriller “*Angels and Demons*.”

The government wants the private sector to construct and operate three nuclear power plants by 2020 with a total generating capacity of 5,000 MW, despite strong opposition from Greenpeace and Turkish environmental groups, who fear the sites would be endangered by earthquakes. The country is crisscrossed by tectonic faults, including the Anatolian fault, one of the most active in the world.

The other two plants would be located in Sinop, on the Black Sea Coast, and Konya province in south central Anatolia, the areas of the country least susceptible to land tremors.

The only drawback in developing nuclear power plants in Turkey is how to handle wastes. The danger exists, energy experts said, that Turkey could become a disposal center for nuclear wastes, which would have to be stored in barrels deep inside caves of mountains. A spill could contaminate underground aquifers and spring waters with radioactive nuclear wastes.

Canadian companies have been active in Turkish electrification projects.

Canada's SNC Lavalin recently bid for the Electricity Distribution Corporation, TEDAS's electricity distribution networks improvement project (SCADA). The latter is known as the most important project in the process of the electricity distribution sector, which will constitute the first important step towards the restructuring of the electricity sector.

Canada's Telvent carried out the successful natural gas, water and electrification projects, including the turnkey Supervisory Control and Data Acquisition (SCADA) system to Istanbul Gas Distribution Corp (İGDAŞ). and Ankara Electric Gas and Bus Authority (EGO) and expects involvement in larger projects in the coming years.

3.4 ENTERTAINMENT AND MEDIA

Entertainment Sector Booms in Turkey

The entertainment and media sector in Turkey has been expanding rapidly since 2001. The gross volume was estimated to be $3.7 billion in 2006. According to the research of PriceWaterhouseCoopers, this will reach $5.7 billion by 2010. Considering that the size of the sector was only $1.5 billion in 2001, this represents a cumulative growth rate of 112% until 2005 and 75% until 2010.

MEDIA & ENTERTAINMENT MARKET , 2001-10

	2001	2005	2006	2010
Market size, $ billion	1.51	3.20	3.76	5.71
Broadband subscribers (000)	10	-	2,130 (1)	4,000

(1) As of June
Source: PriceWaterhouseCoopers, "Global Entertainment and Media Outlook 2006-2010, Turk Telecom

Digital Technologies Paving the Way

The boom in the sector is mainly driven by the fast moving digital technologies. The availability of legal digital alternatives coupled with rising incomes serves to expand the market. Digital distribution technologies are becoming established and are changing the way consumers acquire entertainment and media content. Broadband penetration, which is currently three percent is projected to reach 20% in 2010 and Internet penetration, currently 25.3% is expected to grow in the mid-term. In parallel to the increases in penetration rates, digital platforms, IPTV and video-on-demand mechanisms will expand the TV market through their impact on content provision. MUYAP, the music sector association, stated that mobile music market is currently about $60 million.

The developments in the Turkish wireless market will continue to have positive impacts on the media and entertainment market. In recent years, mobile operators have launched additional value-added services aimed at a young population receptive to new and emerging technologies. Value added services currently account for three percent of total GSM services. Mobile music and mobile video download services were launched a few years ago over WAP and SMS channels. Turkcell offered consumers full-track downloads from EMI's catalogue in Europe in 2006.

Given low penetration rates and continuing deregulation and commercialization in telecommunications and the launch of 3G in 2008, there is plenty of room for rapid growth for the entertainment sector. Mobile TV, music, video services appear to have the highest potential to grow and improve with the launch of 3G. Recent deals concluded between foreign and local companies geared towards launching new value added services in 2006 and early 2007 included those between Digiturk and WiderThan Co. for video-on-demand services and Skype and the local Internet firm e-kolay.

Foreign Investment pours in

The media and entertainment markets offer major opportunities for foreign investors. Long-term growth prospects on the back of low ad spending/GDP ratios are seen among the main reasons to attract the foreigners in. Annual advertisement growth stood at 25% in 2005 and 22% in 2006, and reached an estimated $2 billion in 2007 with an increase of 17%. Advertising has grown at 3-4 times more than GDP growth in the past and is expected to grow at a nine percent compound average growth rate (CAGR) in the period 2005-15. Media companies continue to benefit from the promising advertisement market in Turkey, which is still relatively underdeveloped.

Foreign investors are buying up media companies in Turkish broadcasting, entertainment and public relations companies, or forming joint ventures with Turkish companies:

- CNN and CNBC of the U.S. were the first companies to enter the Turkish broadcasting sector forming joint venture news channels with Turkey's Doğan Group and the Doğuş Group respectively in the early 2000s.
- Canadia's CanWest, in consortium with its Turkish partners, bought two radio stations in 2005 at $56 million. It bought another two radio stations in 2006, reflecting its focus on international growth. "We see Turkey as a market with considerable potential for CanWest as it moves forward in seeking membership in the

European Union and takes important steps domestically to expand the participation of the private sector in the Turkish economy." the company said.

- Australian media mogul Robert Murdoch’s NewsCorp acquired TGRT TV and Germany’s Axel Springer purchased a 25% stake in Doğan TV for $480 million.
- Nielsen Media Research acquired Bilişim, which measures ad spending in the media.
- Deutsche Bank acquired a 22% share in Doğan Gazetecilik A.Ş., publisher of four daily newspapers including the mass-selling Milliyet and shareholder of two news agencies, and an advertising company and an Internet publishing company, from the Doğan Group for $88 million.
- Germany’s advertising giant Wall AG acquired a majority stake in outdoor advertiser ERA Outdoor from the Kamicili family for an undisclosed sum.
- Italy’s Seat Pagine Gialle acquired a 50% stake in Katalog Yayın ve Tanitim from the Doğan Group for $7.6 million. The Doğan Group said the company would produce telephone directories in Turkey with its new partner.
- Los Angeles-based private real estate investment company Colony Capital acquired a 55% stake in Mars Entertainment Group, an operator of cinema houses and fitness centers.
- Turkish and Greek public relations firms Global Tanıtım and Civitas in January 2008 announced a merger.

3.5 FINANCIAL SERVICES

Banking

As of April 2008, some 45 banks operated in Turkey, down from 81 at the end of 1999, as a result of a consolidation in the banking sector. Four small Islamic-style participation banks that are subject to the same cash and reserve requirements as other banks also exist in the system.

The country has 32 commercial banks of which three -- T.C. Ziraat Bankası, Halkbank and Vakıfbank -- are state-owned, 11 are privately owned deposit banks, 17 are foreign banks, and one is controlled by the Savings Deposits Insurance Fund (TMSF), a state banking receivership fund. Turkey also has 13 development and investment banks of which three are state-owned, six are privately owned and four are foreign-owned.

Number of banks in the system *	Banks				
	1999 4Q	*2000 4Q*	*2001 4Q*	*2002 4Q*	*2007*
Commercial Banks	62	61	46	40	**32**
State-owned	4	4	3	3	**3**
Privately-owned	31	28	22	20	**11**
Banks in Receivership Fund	8	11	6	2	**1**
Foreign banks	19	18	15	15	**17**
Development and Investment Banks	19	18	15	14	**13**
State-owned	3	3	3	3	**3**
Privately-owned	13	12	9	8	**6**
Foreign banks	3	3	3	3	**4**
Sector	81	79	61	54	**45**

Excludes participation banks.
Source: Banks' Association of Turkey

The total assets of the Turkish banking system as of April 7, 2009 stood at $469 billion, down from $587.7 billion at the end of September 2008, due to a 27% slide in the value of the Turkish Lira against the dollar as the global recession began to bite into Turkey, the Banking Regulation and Supervision Agency (BDDK) reported.

Yet the Turkish banking system remains tiny compared to those of the U.S. and member countries of the European Union. The assets of the Turkish banking system in 2008 were equivalent to around 32.4% of that of the Bank of America, the biggest U.S. bank

The country's banking system has grown 3.7-fold since the end of 2002, when total bank assets stood at a mere $126.7 billion. Growth has run parallel with the robust performance of the Turkish economy, strength of the New Turkish Lira, record foreign investment into the banking system, and abundance of global liquidity, as the nation rebounded from the 2001 crisis -- the worst recession the country experienced since World War Two.

Bank deposits stood at $232.billion and loans totaled $297 billion as of April 7, 2008, the BDDK reported.

In terms of assets, the largest Turkish banks are state-owned T.C Ziraat Bankası and Türkiye İş Bankası (İşbank), the country's biggest private bank. Other big top tier banks include the privately-owned Akbank, Garanti Bankası, Yapı ve Kredi Bankası, and state-owned Vakıfbank and Halkbank.

Akbank is owned by Turkey's Sabancı Holding, the nation's third biggest conglomerate, and Citibank. Turkey's Doğuş Holding and General Electric GE Finance of the U.S. own Garanti Bankası. Yapı ve Kredi Bankası is 57.4% owned by a Koç Financial Services, a joint venture of Turkey's Koç Holding and Italy's UniCredito Group.

The Turkish banking system has remained relatively immune to the present global financial crisis, despite increased liquidity shortages and rising non-performing loans, because of its solid capitalization, lack of toxic assets, and the presence of regulatory body that tightly monitors the nation's banks.

The Banking Regulaltion and Supervision Agency (BDDK), Turkey's supreme banking authority, established after the economic crisis of 2001, ensures that high capital adequacy ratios and good corporate governance is maintained throughout the country's banking system.

TURKISH BANKING, 2006-2009

	2006 $ Bn	**2007 $ Bn**	**2008 $Bn**	**2009* $Bn**
Assets	347	498	484	469.
Credits	164	224	243	232
Deposits	211	305	ua**	297
Net Income	8	13	8	ua**
# of banks	46	46	45	45
# of branches	6,849	7,618	8,790	ua**
# of employees	143,168	158,559	171,598	ua**

* As of April 7.
** Unavialable
Sources: Banks Association of Turkey (TBB),
Banking Supervision and Regulation Agency (BDDK)

"Our banking system continues to bewilder financiers around the world and is being seen as a model for the future global financial market," Tolga Egemen, executive vice president of Garanti Bankası, a large private commercial bank, said in an interview with the Banker Magazine.

Free of the kinds of toxic assets that rocked and toppled some of the world's biggest banks, the Turkish banking system has kept a capital adequacy ratio of 17.9%, more than twice as high as international requirements.

Bank executives said that world financial markets today are facing the kinds of problems that Turkey's banking system encountered in 2001 and solved.

Turkey created a strong and resilient banking system in wake of the crisis in the economy in 2001, the worst experienced in the country since World War Two. Weak banks were eliminated. Turkish banking authorities took over, merged, privatized or shut down more than 20 financially tottering banks. Another dozen banks were merged with bigger affiliates.

The Central Bank was made independent and the BDDK was established to regulate the banking sector.

Scores of bank executives of collapsed banks were imprisoned on charges of fraud in causing huge losses to depositors and investors, for lending beyond legal limits to affiliate companies, and transferring funds to shady offshore financial institutions.

The BDDK raised the minimum capital adequacy ratios of Turkish banks during the bull market of the 2003-2007 to 12%, while international accords required only 8 percent.

"The banking authority squezed us in good times, not in bad times," Egemen said.

The watchful eye of the BDDK has also kept Turkish bankers on their toes about moral hazards when lending funds and buying securities.

"We have high standards of corporate governance in the Turkish banking system, and solid risk management practices, " Ömer Aras, vice chairman and group chief executive officer of Finansbank, a Turkish bank owned by the National Bank of Greece, said. "I can say that Turkish bankers are more prudent toward risks than their Western counterparts."

Consumer Banking Grows

During the heady growth years from 2002 to 2008, Turkish banks focused on the domestic market, opening new branches, hiring new staff and expanding in consumer finance, mortgages and lending to small and mid-size companies, previously untouched areas of business. The banks didn't acquire any collateralized debt obligations (CDOs) -- debt packages containing American junk bonds, loans or mortgages -- the main source for the present global economic meltdown, bankers said.

"There was no profit pressure on Turkish banks as there was among American and European banks," Zafer Kurtul, chief executive officer of Akbank, a large bank, reminisced. "The huge untapped domestic market was our prime target."

The number of bank branches in Turkey expanded from 6,106 in 2002 to 8,790 by the end of 2008, and the number of employees in the banking sector grew from 123,271 in 2002 to 171,598 in 2008, the Banks Association of Turkey reported.

Consumer loans increased from $16.5 billion, or only 16% of all bank loans in 2005 to an estimated $87 billion in 2008, or 37.6 percent of all bank loans of $243 billion. Nearly half of all consumer loans were mortgages.

In addition to direct consumer loans, credit and debit card usage is also on the rise. Turkey has been one of the fastest growing markets for credit card and debit card usage. Credit cards were first introduced into the Turkish market in the 1960s, but didn't catch on until the 1990s.

By the end of 2008, Turkey's banks had issued a total 43,394,025 credit cards and 60,551,484 debit cards, according to the Interbank Card Center (BKM).

TOTAL BRANCHES AND EMPLOYEES IN THE TURKISH BANKING SYSTEM 1995-2007		
Year	**Total Branches**	**Total Employees**
1995	**6,244**	**144,793**
1996	**6,422**	**148,153**
1997	**6,819**	**154,864**
1998	**7,370**	**166,492**
1999	**7,691**	**173,988**
2000	**7,837**	**170,401**
2001	**6,900**	**137,495**
2002	**6,106**	**123,271**
2003	**5,966**	**123,249**
2004	**6,106**	**127,163**
2005	**6,164**	**131,012**
2006	**6,849**	**143,168**
2007	**7,618**	**158,559**
2008	**8,790**	**171,598**

Source: Banks' Association of Turkey

The number of Automated Teller Machines (ATMs) in operation also ballooned to 21,970 at the end of 2008 from 4,656 in 1995.

The growth of Points-of-Sale (POS) terminals has also been brisk. The number of POS terminals grew to 1,632,639 on December 31, 2008 from 299,950 in 2000 and only 25,000 in 1995, the BKM reported.

STATISTICS ABOUT ON PLASTICS CARDS IN TURKEY	
	As of December 31, 2008
Number of credit cards issued	**43,394,025**
Number of debit cards issued	**60,551,484**
Number of POS machines	**1,632,639**
Number of ATMs	**21,970**

Source: Interbank Card Center

Fully 80% of these cards can be used internationally, and many are denominated in foreign exchange.

The Interbank Card Center (BKM) in Istanbul processes Visa, MasterCard and debit card transactions for member banks.

Major American and European networks have reciprocal arrangements with Turkey's banks. ATM cards are an accepted part of the Turkish consumer economy. Some banks have developed their ATM programs so that cardholders can use them to give, sell or buy orders on the Istanbul Stock Exchange, to obtain gold prices, stock exchange indices and foreign exchange rates, and to buy and sell travelers checks and mutual fund certificates.

The advanced nature of cash management common in the Turkish economy makes debit and credit cards attractive to Turkish consumers. Consumers use POS terminals at retail stores to debit purchases from their current accounts. An estimated 100,000 new POS terminals are added to Turkey each year, growing at an eight percent rate, bankers said.

PROJECTED GROWTH IN TURKISH BANKING 2009-2014

	2009* $ Bn	2014 $ Bn	CAGR %
Assets	469	960	14
Credits	232	520	17
Deposits	297	528	13
# of banks	45	20-25	-
# of branches	8,790**	11,000	-

* As of April 7
** As of end 2008
Source: Ergun Özen, General Manager of Garanti Bank

Outsourcing

The growth of the credit card market and wider use of ATMs in the Turkish banking system, the boom in consumer loans and the entry of foreign investment into the Turkish banking sector is likely to fuel demand for outsourcing, bankers say.

The market size for outsourcing of information technology and telecommunications services in Turkey was $391,007 million in 2007, and is growing at a fast rate, according to Interpromedya, Turkey's number one research organization on information and communication technology (ICT).

"Outsourcing service revenues are progressing with secure steps," Interpromedya said in a study of Turkey's top ICT companies. *"Companies are showing more and more interest in outsourcing services to reduce costs and increase productivity."*

Interpromedya said that 58 companies were providing a wide range of outsourcing services, including the operating of call centers for customers, providing billing services, printing of plastic payment cards and running of credit card and ATM operations. Only five of these companies do significant business in banking and financial services. Outsourcing for the banking and financial sector is believed to be only a small fraction of the total market.

Only midsize and small Turkish banks are using outsourcing services in credit card and ATM operations to cut down costs. Major Turkish banks, state banks included, have set up their own separate companies and centers to run credit card and automated teller machine (ATM) operations, and have established their own call centers. These banks jealously guard their own credit card and customer information and, it appears, they don't want to share this information with one another or with third parties, except for reporting cases of non-performing consumer loans and bad debts.

Yapı ve Kredi Bankası established a large banking operations center outside Istanbul as early as in 1998 to run its credit card and ATM operations. Denizbank and Garanti Bank have established separate technology companies to operate their credit card and ATM services. State-owned T.C Ziraat Bankası, Ziraat Bank Bosnia and Halkbank share card operations through a joint venture operation set up in Istanbul.

One major foreign company is active in banking outsourcing – Siemens – and it provides call center services for HSBC and Fortis Bank and Garanti Ödeme Sistemleri, the credit card operations of Türkiye Garanti Bankası, and some credit card and ATM services for Citibank and Fortis.

But as consumer banking becomes the main business line of the country's biggest banks, many will have to review their costly credit card and ATM operations, and may opt for outsourcing of these services to cut down overhead costs, bankers said.

"If new large, trustworthy, financially strong companies with proven track records of carrying out large-scale outsourcing emerge even the bigger banks will begin outsourcing their services," Pınar İşmen, director of the credit card and alternative payments channels of Fortis Bank, said in an interview.

First Data Corp, the world's largest provider of merchant processing services, opened offices in Istanbul in October 2007.

David Yates, chairman of Greenwood Village, Colorado-based corporation, in a news conference in Istanbul in October said: *"The banks in Turkey that issue credit cars and debit cards are among the world's leading institutions advocating change. We want to work with these institutions and to expand the market for card usage."*

Foreign banks join rush

Foreign banks joined the stampede into the consumer banking bonanza by acquiring Turkish banks or shares in Turkish banks after the 2001 crisis and now control about 42 percent of banking assets in Turkey.

Foreign financial insitutions are playing a pivotal role in Turkey's banking system in bringing in an infusion of much-needed capital, introducing new products and efficiency and healthy competition into the market. Foreign banks began entering the Turkish commercial banking sector in the early 1980s. Operating out of one or two branches, they came to dominate Turkey's foreign trade and exchange markets with their expertise and lower overhead costs, capturing market share from overmanned, undercapitalized, big Turkish commercial banks.

Turkish banks responded by introducing automated systems and offering almost every foreign trade or exchange product and banking service available.

Acquisitions of Turkish banking assets by Foreign institutions in Turkey in the 2000s were:

- HSBC Banking Corp. in 2001 acquired Demirbank, Turkey's 10th largest bank, from a state banking receivership fund for $350 million and named it HSBC Bank.
- Portugal's Millennium Bank acquired the small Sitebank from the Savings Deposits Insurance Fund for $35 million in fall 2001 and renamed it Millennium Bank.
- Italy's UniCredito Group acquired a 50% stake in Koçbank and in other six other Koç Holding financial companies in May 2002.
- In February 2005, France's BNP Paribas bought 50% of TEB Financial Investments A.S. from Turkey's Çolakoğlu Group for $216.8 million, gaining control of a 42.165 % stake in Turk Ekonomi Bankası (TEB), a midsize Turkish bank, and shares in seven other financial subsidiaries.
- In May 2005, Koç Financial Services, a 50-50 joint venture between Koç Holding of Turkey and UniCredito of Italy, acquired a 57.4% of Yapı ve Kredi Bankası for $1.495 billion. Koç Financial Services merged Yapı ve Kredi Bankası, Turkey's fifth biggest bank, with its Koçbank under Yapı ve Kredi Bankası's name in 2006. Koç Financial Services also gained control over a dozen financial companies owned by Yapı ve Kredi Bankası.
- Belgium's Fortis Bank in July 2005 acquired an 89.3% share in Türkiye Dış Ticaret Bankası (Dışbank) from Doğan Holding of Istanbul for $1.051 billion. Fortisbank also gained control over several non-banking financial subsidiaries of Dışbank, which specializes in foreign trade financing. It renamed Dışbank as Fortis Bank A.Ş.
- In August 2005, U.S. General Electric Consumer Finance bought a 25.5% share of Türkiye Garanti Bankası, Turkey's fourth biggest commercial bank, for $1.556 billion from Turkey's Doğuş Holding.

With the acquisition, GE Consumer Finance also gained shares in 27 financial subsidiaries of the bank. These included Garanti Securities, one of the leading brokerage firms of Turkey, Garanti Leasing, a leading Turkish leasing company with assets of $151 million, and Garanti Sigorta, a leading insurance company, and several foreign banks.

- Israel's biggest financial institution Bank Hapoalim (BH) in September 2005 acquired 57.5% share in Turkey's C Kredi ve Kalkınma Bankası (C Bank), a small investment bank, from business woman Damla Cıngıllıoğlu for $113 million, with the aim of breaking into the lucrative Turkish mortgage and project finance markets. The bank was renamed Bank Pozitif A.S. and was the first major Israeli investment in Turkey.
- The National Bank of Greece in April 2006 acquired a 46% stake in Finansbank from Fiba Holding for $2.8 billion.
- In the biggest banking transaction in Turkey to date was Belgium's Dexia Group's acquisition of 96.6% stake in DenizBank from Zorlu Holding and other shareholders for $3.161 billion in 2006.
- Citibank in January 2007 acquired a 20% stake in Akbank from Sabancı Holding for $3.1 billion.
- Greece's EFG Eurobank Ergasias acquired a 70% stake in Tekfenbank from Tekfen Holding in March 2007 for $182 million.
- Kazakhstan's Turan Alem Bank acquired a 34% stake in Sekerbank for $260 million.
- Lebanese Bank Med and the Jordanian Arab Bank, both owned by the family of former Lebanese Prime Minister Rafiq Hariri, purchased a 91% stake in MNG Bank and changed its name to Turklandbank.
- ING Bank of the Netherlands acquired Oyakbank from the Oyak Group in December 2007 for $2.67 billion.

All of the foreign banks are headquartered in Istanbul, Turkey's financial capital. U.S. banks with local branches include Citibank, and JP Morgan Chase Bank. European banks include ABN Amro Bank, Credit Lyonnais, Banco di Roma, Fortis Bank, BankEuropa, Deutsche Bank, HSBC Bank, Société Generale, and Westdeutsche Landesbank Girozentrale. Other foreign banks include the Arab Turkish Bank (a joint venture among the Libyan Arab Foreign Bank, the Kuwait Investment Co, Türkiye İş Bankası, Ziraat Bankası and Tekfen Holding), Habib Bank (Pakistan), Bank Mellat (Iran), and Taib Yatırım Bank.

Foreign banks or financial institutions with separate banking operations in Turkey or shares in domestic banks include HSBC Bank, Portugal's Millennium Bank, Italy's UniCredito Group, France's BNP Paribas, Belgium's Fortis Bank, U.S.. GE Consumer Finance, Israel's Bank Hapoalim (BH), the National Bank of Greece, Belgium's Dexia Group, Citibank, Greece's EFG Eurobank Ergasias, Kazakhstan's Turan Alem Bank, Lebanon's Bank Med and the Jordanian Arab Bank, ING Bank of the Netherlands, JP Morgan Chase Bank, ABN Amro Bank, Credit Lyonnais, Deutsche Bank, Société Generale, and Westdeutsche Landesbank Girozentrale, the Libyan Arab Foreign Bank, the Kuwait Investment Co, Habib Bank of Pakistan, Bank Mellat of Iran, and Taib Investment Bank.

Some 35 foreign banks have representative offices in Turkey, and are developing their correspondent relationships.

The Royal Bank of Canada opened a representative office in Istanbul, providing access to a wide range of services including trade finance, capital markets, and international estate planning and wealth management.

SCOTIABANK IN ISTANBUL

Scotiabank, Canada's leading interntional bank, in June 2008 received a license to start conducting business through its representative office in Istanbul, primarily focusing on trade finance (financing Turkish imports and exports) and correspondent banking (banking services for banks). The representative office is also facilitating the penetration of other Scotia business lines to enter the Turkish market, including ScotiaMocatta, the precious metals trading and finance company, and Scotia Waterous, the oil and gas mergers and acquisitions firm. Both units are part of Scotia Capital, the bank's global wholesale banking division.

"We are excited to receive this license and to begin coınducting business in Turkey, country with a young, dynamic and entrepreneurial population," said Alberta Cefis, executive vice president and group head, global Ttansaction banking of Scotiabank upon receipt of the license.. "Turkey has established itself as a major player in the region and we see many long-term growth opportunities for Scotiabank here. A representative offişce in Turkey will enable the bank to enhance revenue while also strengthening and building on our relationship in the region.."

Turkey, Central and Eastern Europe, the Bakans, Israel and the Commonwealth of Independent States (CIS), including Kazakhstan and Ukraine, are now served by Scotiabank's representative office in Istanbul.

Liquidity shortages

On the financial side, however, Turkey's banks were grappling with liquidity shortages -- caused by the higher cost in foreign funding -- and rising non-performing loans, as the crisis in the global economy worsened.

As late as August 2008, Turkish banks were able to access global money markets for syndicated loans with ease. Most of these deals were "securitization" transactions, by which the Turkish banks would receive short term loans by offering their credit card and export receivables as collateral.

But with the collapse of the American finance giant Lehmen Brothers in September, the securitization market came crashing, and interest rates on loans for Turkish banks soared from 0.75 percent above the London Interbank Offered Rate (LIBOR) to 2.5 percent above LIBOR, leading to increased funding costs and liquidity shortages for Turkish banks, Turkish bankers said.

The financial crunch prompted the Central Bank of Turkey to inject billions of dollars into the banking system by easing reserve requirements of the banks and lowering interest rates on overnight loans to by two percentage points to 9.75% on April 16, the lowest level in more than 40 years. Overnight interest rates stood as high as 20.25% in July 2008.

The Central Bank also inundated the market with dollars in March to halt a sudden skid of the Turkish Lira against the dollar. The Lira lost 20 percent value against the dollar in a matter of days in February and March, only to regain 16 percent value aften the Central Bank's intervention.

TOP 20 BANKS OF TURKEY IN TERMS OF ASSETS AS OF JUNE 30, 2008

Name of Bank	Total assets (In million USD)	Number of branches	Number of employees	Year when founded
1 TC Ziraat Bankası A.Ş.	72.977	1,262	20,427	1863
2 Türkiye İş Bankası A.Ş.	72.125	973	19,898	1924
3 Akbank T.A.Ş.	64.669	764	14,467	1947
4 Türkiye Garanti Bankası A.Ş.	60.854	676	15,923	1946
5 Yapı ve Kredi Bankası A.Ş.	47.642	791	14,821	1944
6 Türkiye Vakıflar Bankası T.A.O.	39.658	395	9,495	1954
7 Türkiye Halk Bankası A.Ş.	37,599	612	11,556	1938
8 Finans Bank A.Ş.	19,705	418	9,680	1987
9 Denizbank A.Ş.	14,645	359	7,311	1997
10 ING Bank A.Ş	12.043	352	6,108	1984
11 HSBC Bank A.Ş.	11,785	301	6,966	1990
12 Türkiye Ekonomi Bankası	10,829	299	5,989	1927
13 Fortis Bank A.Ş.	8,969	296	5,438	1964
14 Şekerbank T.A.Ş.	5,970	250	3,966	1953
15 İller Bankası	5,050	19	3,112	1933
16 T. Sınai Kalkınma Bankası	4,230	4	300	1950
17 Citibank A.Ş.	3,914	57	2,356	1980
18 Türk Eximbank	3,578	2	387	1987
19 Tekstil Bankası A.Ş	2,804	60	1,534	1986
20 Anadolubank A.Ş.	2,634	77	1,794	1996

Source: Banks' Association of Turkey, Banking Regulation and Supervision Agency (BDDK)

Non-performing loans

As of April 7, non-performing loans represented 4.39% of all bank loans in Turkey, up from 3.68% at the end of 2008, the BDDK reported on its web site.

"Non-performing loans are the biggest risks to the Turkish banking system,"Zafer Kurtul of Akbank, remarked. "By conservative estimates, it is projected that 6% to 7% of all loans in Turkish banking could become non-performing by the end of this year."

Bankers said some of the debt would have to be restructured, and suggested a program similar to the one that led to new terms on debt payments of hundreds of large corporations and mid-sized. companies after the recession in 2001.

Banking non-performing loans were accumulating mainly in credit card receivables, consumer loans and debt payments of small and medium size enterprises. At the end of 2008, some 7 percent of all credit card loans, 6.2% of car loans and 5.2% of loans to small business were non-performing.

Insurance

Turkey's insurance business, where foreign companies now control 46.33% of all insurance premiums and 51% of the market, is also rapidly growing. Insurance premiums in 2008 stood at $7.782 billion, down from $9.483 billion in 2007, the insurance trade newspaper Sigortacı reported. This was due to the impact of the global recession on Turkey's fragile economy, triggered by the collapse of the U.S. housing market.

Nevertheless, insurance premiums rose in 2008 represented an 11fold se from 1990, when the sector generated only $710 million. Still Turkey remains the low man on the totem pole among most European nations when it comes to insurance premiums.

As foreign banks have acquired Turkish banking assets, they have also come to own large slices of affiliate financial companies, including brokerage houses, factoring and leasing companies, and insurance firms.

Some 46 companies operate in insurance sector. Of these 16 are fully foreign-owned and 14 are majority foreign-owned.

INSURANCE PREMIUMS IN TURKEY BY SELECTED YEARS 1990-2008 (IN MILLION U.S. DOLLARS)	
Year	Amount
1990	710
2000	2,846
2003	3,585
2004	4,736
2005	5,815
2006	6,829
2007	9,453
2008	7,782

Sources: Sigortacı Newspaper,
Turkish Insurance and Reinsurance Companies Union

Major foreign companies that operate in Turkey's insurance sector or own Turkish insurance assets are: AXA, Coface and Groupama of France, Aviva of Britain, American Life and Liberty Mutual of the U.S., Ergo International, Alianz and HDI Gerling International Holding A.G. of Germany, Global Equities Management (GEM) of the Bahama Islands, TBIH and Eureko of the Netherlands, Mapfre of Spain, Fortis and Dexia of Belgium, Zurich Financial of Switzerland, Abraaj Capital of the United Arab Emirates, and Unicredito Group of Italy,

Capital Markets

In the first 11 months of 2008, investment in Turkish financial and capital markets stood at around $460.7 billion, including $101 billion in investment carried out by foreign individual and institutional investors, the Association for Turkish Capital Market Intermediaries reported.

Istanbul Stock Exchange

The Istanbul Stock Exchange (IMKB) has been one of the world's most volatile bourses with share prices yo-yoing.

On December 31, 2007, the benchmark IMKB-100 Index stood at 55,539 points, up 42% from 2006, as the Istanbul Stock Exchange was the fifth best performing bourse in the world after the Shanghai (China), Indonesia, Pakistan and Indian bourses last year.

But the index plunged 51.6% to 26,864 points on December 31 2008, as jittery investors fearing a global liquidity crunch and an economic slowdown due to the U.S. mortgage crisis sold their shares in Turkish stocks in a frenzy of profit-taking, as the IMKB took the worst beating among stock markets worldwide.

MARKET CAPITALIZATION OF THE ISTANBUL STOCK EXCHANGE IN SELECTED YEARS 1994-2008 (IN BILLION U.S. DOLLARS)	
DATE *	**Market Capitalization**
1994	**21.755**
1995	**20.782**
1996	**30.787**
1997	**61.897**
1998	**33.975**
1999	**114.271**
2000	**68.635**
2001	**47.189**
July 22 2002	**35.000**
2004	**100.000**
2005	**161.537**
February 27 2006	**201.017**
2007	**288.761**
February 29 2008	**232.190**
December 31 2008	**119.698**
February 27 2009	**100.462**

Unless specified, the closing date used is December 31.

Sources: Istanbul Stock Exchange,
Association of Capital Market Intermediaries of Turkey

Market capitalization of the Istanbul Exchange on February 27, 2009, stood at $100.462 billion, the lowest level since 2004.

Nevertheless, market capitalization on the IMKB grew five-fold from the end of 1994 to the end of February 2009, as a result of increased numbers of companies going public and share prices soaring.

Although more than 60 Turkish firms have applied to the Capital Market Board, the stock market regulatory agency, to go public, only ten companies, including two real estate investment trusts (REITs) and two general investment firms, went public in 2007. These were:

- Airports operator TAV Havalimanları Holding A.S.
- Sağlam REİT
- General investment company Oyak Yatırım Ortaklığı A.Ş.
- Securities investment company Merkez B Tipi Menkul Kıymetler Yatırım Ortaklığı
  Turkey’s second biggest state bank, Halkbank.
- Brokerage house İş Yatırım Menkul Değerler A.Ş.
- Sinpaş REIT
- Participation bank and Islamic finance house Albaraka Türk Katılım Bankası A.Ş.
- Tekfen Holding A.Ş. one of Turkey’s leading conglomerates.
- Turk Telekom, the country’s former fixed phone line monopoly.

Sixty-nine percent of the shares traded on the exchange in the first 11 months of 2008 were controlled by foreign institutional investors, according to the Association of Turkish Capital Market Intermediaries (TSPAKB). Foreign investors controlled 55% of the shares listed and 13% of all transactions on the stock market in 2004.

"We are seeing increased foreign investor interest in our capital market," wrote Gökben Altaş, a research analyst with TSPAKB, in a report on foreign investment in the Turkish capital market published in February 2008.

In the biggest initial public offerings in 2008, foreign institutional investors acquired $1.3 billion of the $1.8 billion in shares offered by state-owned Halk Bank and around 70% of the 15% share offer of Turk Telekom in 2008.

Numerous foreign institutional investors and banks trade actively on the exchange through subsidiaries and brokerage houses they own. These include Raymond James Securities, Morgan Stanley, Citibank and Merrill Lynch of the U.S., Bank Hapoalem of Israel, Credit Suisse International, Dexia, Deutsche Bank, EFG Eurobank Ergasias, the National Bank of Greece, Fortis Bank, Unicorn Investment Bank, Sbic Investment, Compagnie Financiere de Camondo, BNP Paribas, MCT International BV, UBS AG., Unicredito Group.

Some 317 companies and nine investment funds were listed on the IMKB as of February 27, 2009.

3.6 FOOD AND AGRICULTURE

AGRICULTURAL ASSETS

- Turkey's agricultural production is equivalent to 40% and 20% of EU-25 production of fruits and vegetables respectively.
- In arable crops, it is a major producer (in EU terms), while in other crops it is a competitive producer (in EU and world terms) of certain grain legumes such as chickpeas and lentils, of cotton, and of some qualities of tobacco and olive oil.
- About 39 million hectares devoted to agriculture represents 23% of the EU-25 agricultural area. Turkey has a far richer endowment of agricultural resources in terms of cultivable land and availability of water than any Middle Eastern country.
- Turkey boasts the largest land mass devoted to organically grown agricultural products in the Mediterranean region.

Market Trends

Turkey is a significant agricultural exporter. In fruit and vegetables in particular, it is a major world producer and net exporter. Its levels of production currently amount to around 40% and 20% of European Union (EU-27) production of fruit and vegetables respectively. In the arable crops it is a major producer (in EU terms) and for other crops. It is a competitive producer (in EU and world terms) of certain grain legumes such as chickpeas and lentils, of cotton, and of some qualities of tobacco and olive oil.

During the global recession, triggered by the collapse of the U.S. housing market, agriculture has been Turkey's strongest sector, despite lower government support programs for farmers. The country witnessed increasing production in 2008 in most major crops, except for some selected items, such as red lentils, as the nation's farm economy began gradually recovering from the drought and global warming that hampered output in 2007. Prime Minister Recep Tayyip Erdoğan's government has earmarked TL 5.9 billion ($3.901 billion) for agricultural subsidies in 2009, including support for purchases of diesel for tractors, seeds for farming, animal husbandry and certain crop purchasesa, the magazine Kobi Girişim reported.

Agricultural output has ranged between $40-43 billion in recent years. The bulk is accounted by plant products. According to the Food and Agriculture Organization of the United Nations, Turkey ranks among the top 10 countries in terms of vegetable and fruit production per capita as well as total output. Turkey's great advantage is the conjunction of ample land with a variety of climatic conditions. All temperate-zone and Mediterranean climate crops can be grown in the country, as can a number of subtropical crops.

In 2008, Turkey's most important agricultural products were cereals (29.2 million tons), followed by various types of vegetables (27.2 million tons) and fruit (15.6 million tons). The bulk of cereals is wheat with 17.8 million tons and barley, while grapes ranked first in fruits, followed by citrus fruits and apples.

Overall agricultural production increased in 2008. The sharpest rise was seen in fruit output, which climbed 8.8% over 2007. Vegetable output was up 6%, but production of cereals was up only 0.1%.

With ample rainfall in the fourth quarter of 2008 and first quarter of 2009 throughout Turkey, agricultural output will expand further, although International Monetary Fund experts are projecting that Turkey's economy will contract by at least 5.5% in 2009.

AGRICULTURAL PRODUCTION, 2005-07

Production	2006 000 tons	2007 000 tons	2008 000 tons
CEREALS	**34,364**	**29,000**	**29,200**
Wheat	20,010	17,234	17,800
Barley	9,551	7,306	5,900
Maize	3,811	3,535	4,300
Rice	696	648	753
Others	671	277	1,200
PULSES	**1,606**	**1,236**	**ua**
Cotton	2,550	2,275	1,800
Tobacco	98	80	100
Sugar beet	14,452	12,415	15,500
Potatoes	4,397	4,228	4,200
Sunflower	1,118	854	992
FRUITS	**14,990**	**14,400**	**15,600**
Grapes	4,000	3,613	3,919
Olive	1,766	1,076	1,410
Hazelnut	661	530	801
Tea	1.121	1,145	1,100
VEGETABLES	**23,988**	**23,600**	**27,200**

Source: Turkish Statistics Institute

Main export items are fresh fruit and vegetables, which account for around 46% of all Turkey's processed food and agricultural exports. The shares of vegetable oils and confectionary and chocolate products are increasing in total exports.

In 2008, Turkish agricultural and processed food exports stood at $8.4 billion. A large part of its food and agricultural exports go to the European Union countries. Food and agricultural imports, including residues and wastes from the food industry, stood at $7,7 billion in 2006. Oil seeds, fruit, animal fats and vegetable oils were the biggest import items, accounting for 34% of imports.

Turkey: The Sleeping Giant Awakens

I first visited the cherry production regions of Turkey in 1995. At that time I found evidence of generally high quality fruit being produced with little understanding of sound horticultural principles. When I returned in 2005, much had changed in the 10 years since I was there last. In 1995 Turkey was just starting to impact the European market in such a way that European cherry growers were fearful of the competition. Due to very low wages, they knew that Turkish growers could produce cherries at a fraction of the European cost. In an article that I wrote on Turkey for Good Fruit Grower magazine in the June 1996 issue, I predicted that within a few years Turkey would overtake the United States as the largest cherry producer in the world. That prediction came true within a few short years.

By 1996-1999, the average cherry production in Turkey was 215,000 tons surpassing the 180,000 ton U.S. average. Good soils, a perfect climate and the fact that sweet cherries are native to this area means that Turkey has perfect conditions to grow sweet cherries throughout the country. Although Turkey is, for the most part, a one variety producer, their production region extends over such a vast area, through changing climate and elevation that their production season continues for 60 to 70 days. With the introduction of new early varieties from California and late varieties from Canada, the potential is an April through August harvest.

The most impressive thing about the orchards was that some of these were EUREP GAP certified, meaning that they had met strict environmental, labor and safety standards, allowing the fruit to be imported to Europe unimpeded.

Source: Lynn E. Long, Oregon State University Extension Horticulturist

The size of the Turkish agro industry market, as a combination of demand for food, beverages and tobacco, is estimated around $60 billion. Cereals and cereal–based products accounted for 38% of food production according to the latest analysis by the State Planning Organization. Turkey is also an important producer in the following areas: It ranks 5th in olive oil production just after Spain, Italy, Greece and Tunisia, while it is a top contender in dairy with a milk market of about 11 million tons.

Official estimations foresee that the food market alone will be $35.4 billion, food exports $4.4 billion and food imports $2.3 billion by 2013.

Impact of EU Harmonization Process

Turkey is reshaping its agriculture in preparation for the EU membership as well as in line with its commitments to the IMF and the sector holds the promise of making Turkey a major player in EU and world terms. The comprehensive agricultural reform being executed since 2000 creates a more competitive agricultural sector and reduces state involvement. The World Bank contributes to these projects under a $600 million in loans.

The agricultural reform program puts emphasis on the creation of a rural development strategy aimed at modernization of subsistence and semi-subsistence farming, leading the way to commercially viable entities, while its pre-accession economic programs set the following targets for the agriculture:

- Short-range: Modernization of land registry system, food controls, and animal and plant health services.

- Middle range: Setting agricultural and rural development projects, increasing food processing institutions, hygiene, public health and food health test institutions.

- Long range: Determining quotas and credits and donations from the European Union budget.

The issue of food safety has been a priority area since the launching of the customs union with the EU in 1996. Harmonization of Turkey's food legislation with the EU acquis started in 1995. The pursuit of these reforms and alignment works will create profitable opportunities for the initiation of new projects for foreign as well as local investors.

European Union Harmonization in Food

Safety and quality measures constitute an area of major importance. State Planning Organization 9th Development Plan (2007-2013), expects yearly 3.1% growth in agro industry production, 3.8% in exports and 3.5% in imports .The most important developments are those foreseen in hygiene, quality and standards. The 9th Plan expects that out of 19,021 registered companies around 17,000 will make technology investments to improve hygiene standards and quality level.

Feyhan Kalpakçıoğlu, former chairwoman of the Yaşar Group, regards the impact of the EU on the Turkish agro industry very positive, drawing attention to the upgrading and managerial requirements of the industry: "*The integration process with the EU will force consumption of packaged food products subject to hygienic processes. Currently, only 15% of production is packed.*"

Trends & Opportunities

- The sector is developing fast in volume as well as in product variety and quality. Domestic demand is driven by increasing income levels and the changing demand patterns of the new generations. Integration with the EU as well as Turkey's increasing globalization are spurring exports. In the longer term Turkish accession can be expected to lead to an increase of trade in both directions as the EU membership would mean an end to the protectionist measures against EU products.
- Foreign investors' success with merchandising the same products that dominate Turkish agricultural output means that there are major opportunities for companies interested in the low-cost output possible in Turkey. Opportunities exist in animal products (meat and milk), fishery products, fruit and vegetable processing, confectionery products, pasta and pastry production, herbal foods, processed organic foods as well as vegetable oil (especially olive oil) and viticulture. There is a new focus on organic farming techniques and the government is especially very supportive of organic food manufacturing projects. Turkey boasts the largest organically grown area in the Mediterranean region. The impressive advantage it has is that organic agriculture can easily be applied with low cost in the country.

- As a consequence of the trend to more commercial and capital-based production, major Turkish companies have been investing in animal husbandry projects and fruit and vegetable production. Foreign companies have the know-how and experience to improve processing techniques and create value by stimulating the integration of Turkey’s rich agricultural base into the EU. As the quality and safety problems are solved, integration and mergers between agriculture and industry will increase and the sector will achieve rapid growth.
- GAP (The Southeastern Anatolia Project), Turkey's largest regional development scheme, offers much to the investors. It is a gateway to the Middle East which represents an import market of over $200 billion. The region, with its 210.3 million sqm area particularly available for organic farming, presents unprecedented advantages for organic agriculture and hence for organic textile and an excellent location for the food and beverages manufacturing industries.

Views on Agro industry Opportunities in Turkey

The views of Feyhan Kalpakçıoğlu, former chairwoman of Yaşar Group, include the following:

* In the dairy and meat sector, the major issue is to improve the quality and quantity of raw material. The upgrading requirement in the dairy sector will lead small dairies to possible partnerships with other companies. Foreign direct investment could play an important role in diffusing new technologies in rural areas.

* Leasing of the state farms could be another opportunity for further co-operation with foreign companies. The total size of the 22 farms slated for private involvement is 491 million sqm. Ceylanpinar in particular is unique in both size and product variety wise with its 180,000 ha.

Ethem Sancak, CEO of the Sancak Group, which controls over half of the pharmaceutical wholesale activities with its 50% stake in Hedef Alliance, puts emphasis on the timing: “*When the prices decline with the EU accession, only those with lower cost will survive and there will be ample opportunity for them to exploit*”. He added: “*Dairy and meat markets are untapped to a great extent. The dairy industry, with 20% net profit rate, and meat industry, with sale prices two fold of that in the EU – €3.0 /kg, poses great opportunities for investors*.” He sees other promising areas for co-operation as land and animal registration, environment and animal health protection and food safety.

Flemming Morgan, Danone's Middle East and Africa regional director, said that Turkey is among Danone’s first five priority markets for investment purposes. The company, he said, expected the market to grow 60% by 2010.

Canadian investments and agriculture and poultry:

- Cuddy Farms of Ontario invested in a turkey breeding facility with a capacity of around 10 million eggs a year in order to serve its Turkish customers and supply emerging markets, the Middle East and surrounding areas. The company has seen the country’s turkey requirements increase from three million to seven million eggs over the last four years.

- In 2005, Pilar Agriscience Corp. of Burnaby, British Columbia bought 40% stake in Tar-San, an Antalya- based agricultural products company.

3-7 EDUCATION

Educational Profile

Reforms and increased spending on education in Turkey are generating some positive impact on educational attainment, but weaknesses in quality and accessibility of higher education remain significant. The U.S. is the number one destination for the Turkish overseas students. Around 25% of an estimated 50,000 overseas students went to the US in the academic year 2005-06. Of this, some 7-8,000 are estimated to be at the tertiary level.

Both the public and the private sectors offer education at the pre-school, primary, Lycée/high school and higher levels, as well as vocational education. State education is free, but suffers from a lack of resources, both human and physical. The recent education reform program aims to correct these weaknesses, but its successful implementation will require major levels of funding, as well as consistency in planning. The private sector is expensive. The cost varies from $5,000 to $15,000 for high schools and is higher for the respected universities with grades comparable to quality overseas education. The costs of high-profiled Turkish private high schools and universities are almost the same as overseas education.

The total number of students during the 2007-2008 school year was 17,189,790 at all levels of formal education in Turkey, including 10,870,570 enrolled in primary schools. There were 2.372,136 students enrolled in universities and the number of students enrolled at private institutions is rising, accounting for 5% (over 160,000) of students at the tertiary level at the end of 2006. There are 97 universities, of which 30 are private. Five military academies, one police academy, and one foundation school also provide higher education in Turkey for students in the military and security forces.

As of February 2008, only eight provinces out of 81 lacked universities or institutions of higher education: Yalova in western Turkey; Bartın and Artvin, on the Black Sea Coast; Iğdır, Gümüşhane and Tunceli in eastern Turkey; Şırnak and Hakkari in southeast Turkey.

BREAKDOWN OF STUDENTS IN FORMAL EDUCATION IN TURKEY, 2007-08

Academic Level	Number of Institutions	Number of Students
Pre-school	22 506	701,790
Primary Education	34 093	10 870 570
Secondary Education	3 830	1 980 452
Vocational and Technical High Schools	4 450	1 264 870
Higher Education	97*	2 372,136*
	66 268	17 189 790

*Excludes military and police academies and one foundation school
Sources: Ministry of National Education, Higher Education Council

Drawbacks in the Tertiary Education

- ✓ Entrance to graduate and postgraduate courses is handled through a single national university entrance examination. Competition for university admission is fierce. Around 1.6 million students take the exam each year.
- ✓ The schooling rate at tertiary level is 27%. The number of candidates taking the university entrance examinations (ÖSS) has been rising every year. Students require a minimum grade to pass the exam. Generally, no more than 30-35% of applicants pass the multiple choice exams. University enrollment rates in Turkey have increased during recent years, but are still below those of most European countries. This rate is 27% in Turkey, 53% in Portugal, 59% in Spain, 44% in Hungary and 60% in Poland.

Schooling Rates in Turkey, 2007 -2008

	No of pupils, 000	Schooling rate, %
Kindergarten*	550	19.9
Primary	10,870	97.3
High Schools	3,980	58.5
Universities, total	2,372	21.06

*Kindergarten figures are for 2005-2006 school year
Source: Ministry of Education, YÖK, TUİK

- ✓ The number of students eager to attend university far exceeds capacity in both public and private institutions and a great majority of the students who passed the exam could not be assigned places because of a lack of space. Those who pass the exam, but with lower scores, can only attend two-year colleges. Students with the highest scores are admitted to the university and faculty of their choice. Other less successful applicants must settle for one of their alternate choices.

- ✓ The skills of university graduates also do not meet the needs of the private sector. Tertiary education in Turkey encompasses all post-secondary programs of at least two years. For example, Turk
- ✓ ey needs 70,000 IT graduate annually, and this requirement will add up to 213,000 by 2013, according to a study of Turkey IT Foundation. On the other hand, Turkey ranks as the 30th country in advanced networks technology with 23% in Europe.
- ✓ Turkish business executives and entrepreneurs consider the quality of science and engineering schools rather low. The university entrance examination drives what most young people study and learn.
- ✓ Other critical issues for the Turkish tertiary education system include the administrative and financial rigidity of the public university system, inadequate communication between universities and the private sector and lack of specialized technical or professionally oriented undergraduate degrees.

Implications and Opportunities

As a fast-growing and converging country, Turkey needs to improve its higher education and offer increasing opportunities for investors and service providers. All indications point to the government welcoming financial and advisory resources in all areas.

- With the economy continuing to grow, Turks will have more money to invest in private education. Some of the private universities, which are founded by Turkey's wealthiest families, are very prestigious and their success shows the dynamism of this section of the educational market place.
- In recent years increasing number of Turkish universities, both public and private, have formed close links with universities abroad. Such collaboration has upgraded their curriculum and teaching methods and facilitated academic exchange.
- Turkey is a target for overseas education with an average 1.6 million students taking the examination for university entrance and only one third of them passing the examination. Turkey ranks sixth in the number of its students abroad.
- The overall ratio of foreign-language speaking population is a low 1.5% of the total population and there is still room in Turkey for foreign language education as Turkey's business world gives high importance to knowledge of a foreign language. Today, a few state universities are entirely English, or French medium, and a German-medium university is about to be established.
- Employers in Turkey, like their international peers, are increasingly concerned about problem solving, creativity, confidence and

communication skills than about specific technical skills. Turkey needs higher education institutions to develop differential missions and strategies, with a different balance of effort across the functions of teaching, research and service provision.

- The weaknesses in high school education and the intensely competitive university entrance examinations have spawned more than 4,000 private cram schools (dershane) that prepare students for the exams. These schools are located all over the country and often offer better education than existing secondary schools. Additionally, hundreds of private foreign language schools have opened in the cities to train students, adults and professionals in foreign languages, particularly in English, as Turkey links to the global economy.

Canadian-Turkish education cooperation

Wastopower Manitoba International Education Branch started Canadian high school program in collaboration with the Zeynep Mutlu Educational Foundation Kemer Schools in 2006. This is the first and only high school level educational cooperation between Turkey and Canada, providing graduates with a universally-valid Canadian high school diploma.

Lasalle College of Lasalle, Quebec, has operated a school of clothing design and textile merchandising in Istanbul since the mid 1990s, training hundreds of young Turkish men and women in computer aided design and manufacturing and helping domestic companies develop apparel collections, create brands and find new foreign markets.

3-8 HEALTHCARE

Health Indicators

Although per capita health care expenditure has increased 49% since 2002, health indicators show that there is much room for growth in Turkey. Public health expenditures, totaled $15.9 billion in 2008, represent 5.2% of GDP, compared to 8-18% for the EU. The Economist Intelligence Unit estimates the healthcare spending to be $27 billion in 2005, and foresees this to rise to about $41 billion in 2010. About one third of SPO data and one quarter of EIU data relate to the drug expenditures.

Turkey's health indicators are not satisfactory considering its level of socioeconomic development. Though improving over the years, the health status of the population is poor, both in absolute terms as well as in comparison with other countries at the same income level. Life expectancy is nearly 10 years below the OECD average and infant and maternal mortality rates are very high. The country suffers inequality with regards to access to healthcare services. Health spending in Turkey lags far behind the EU average of 8-10% with only 2.1% of GDP in 2008.

TURKEY'S HEALTH STATISTICS, 2006-2013			
Indicators	**2006**	**2007**	**2013**
Population growth rate, per thousand	12.4	ua	10.10
Crude birth rate	2.18	2.17	2.07
Infant mortality rate, per thousand	22.6	21.70	18.50
Life expectancy at birth, years	71.5	71.70	79.0

Source: State Planning Organization, Ministry of Health, Turkish Statistical Institute

Per capita health expenditure on purchasing power parity basis stands at $452, while this is $5,635 in the U.S:, $3,003 in Canada, $2,258 in Italy and $1,835 in Spain. The State Planning Organization foresees 3.8% annual growth in health spending until 2023 and the share of health expenditures in GDP is expected to gradually converge at the low end of the EU range, at eight percent. Bed capacity is quite low compared to the OECD countries.

Private Hospitals

The private sector, taking a 26% share in total health expenditure compared to an average of 38% in OECD countries, still has room for growth. A substantial portion of health care services is provided by the public sector. The Ministry of Health operates 849 of Turkey's 1,318 hospitals with 135,000 of 200,983 total beds.

Turkey has a generous incentive system for health investments. Hospitals can import all required machinery and equipment listed on their incentive certificate free of customs duty and related charges, and can make deferred payments on value-added tax. The private sector began to take advantage of the incentive system in recent years. Supported by the increasing demand for private health care services, the number of private hospitals increased from 1993 onwards, rising from 141 in 1995 to 365 in 2007 and to more than 400 in spring 2009. The private sector operates 27.7% of Turkey's hospitals and accounts for 9% of beds.

The Ministry of Defense in 2007 ran 42 hospitals with 16,000 beds and municipalities had six hospitals with 1,389 beds.

MEDICAL HOSPITALS AND BED CAPACITIES IN TURKEY IN 2007

Organization	No. of Hospitals	Number of Beds
Ministry of Health	**849**	**135,240**
Private	**365**	**17,995**
Universities	**56**	**29,700**
Ministry of Defense	**42**	**16,000**
Municipalities	**6**	**2,048**
Total	**1.318**	**200,983**

Source: Ministry of Health, Turkish Statistical Institute (TUİK)

In 2007 and 2008, Abraaj Limited of the United Arab Emirates acquired a total 57.86% stake in Acıbadem Sağlık Hizmetleri, one of Turkey's leading private healthcare companies and hospital operators, for $605.3 million; the Global Environment Fund of the U.S. purchased dental care company DentIstanbul for an undisclosed amount; Greece's Hygeia purchased 50% of the private Şafak Hospitals for $48 million.

Other foreign involvements are Memorial Sloan-Kettering, Johns Hopkins and Harvard Medical International. IFC has recently provided long-term loans to the Acıbadem Healthcare Group in Istanbul and Mesa Group in Ankara to finance their expansion and construc tion of three hospitals.

Recent developments in the healthcare policy will have further positive effects on the development of private healthcare services. As a result of successive health reforms partly supported by the World Bank, the health sector has been undergoing a significant restructuring, whereby a greater reliance is being put on private sector funding. The IMF-sought Social Security and General Health Insurance Law, which was adopted by Parliament, increased the retirement age, unified all social security beneficiaries under one umbrella and established a universal health insurance fund.

The new health policy expanded the base for private hospitals, allowing more people to benefit from private health services. Mehmet Ali Aydınlar, CEO of the Acıbadem private hospital in Istanbul, which is associated with the Harvard Medical Foundation, said the new provision had already made a drastic impact on the private sector and private hospitals were under construction all over the country in anticipation of growing demand. Aydınlar said leading hospitals such as his are not developing fast enough to serve the number of patients who come to them for care.

Public-Private Partnership

In March 2006, the Ministry of Health unveiled a public-private partnership model hospital project. Accordingly, various medical centers will be built in three major cities and preliminary projects are being prepared for the construction of the health facilities in 13 separate regions throughout the country. The project allows private companies to build campuses on predetermined state lands and to rent them to the state. The campus will include a hotel, cafeteria, bank and shopping center. Companies from the UK, Spain, Germany, Dubai and US have presented their proposals to the Ministry for this $4 billion project.

Private Investments in Health Care

Private health care investments, which stood well below the level of public health care investments in 1980s, started to exceed the public figures after 1991, and even doubling it after 1998.

Benefiting from investment incentives, the share of private sector in total health investments increased from about 15% during the 1980s to 70% in 2003. This ratio is set to increase further due to the current health policies of the government.

Major opportunities for foreign companies include investments in health care facilities and software and application development services.

The Turkish private health sector has also developed the capacity to transfer knowhow for establishing hospitals in the countries in the region and is open to collaboration in this area.

Source: Meri Bahar, Acıbadem Health Group, Marketing Director

Medical Supplies

The medical equipment market has gained the status of an industry in the last two decades, in line with the increased investment in total health facilities, and the trend towards privatization. The market is estimated to grow 12-14% annually in recent years, and reaching around $3 billion in 2005. The growth has been mainly fuelled by the increase in imports rather than production.

Ninety percent of all medical equipment is imported. Demand is especially strong in sophisticated laboratory and computerized equipment and items for nuclear medicine, cardiovascular surgery, X-ray, anesthesia and intensive care, including ultrasonic scanning apparatus, magnetic resonance imaging apparatus, patient monitoring systems, computed tomography apparatus and apparatus based on the use of alpha, beta, gamma radiation, according to the U.S. Department of Commerce.

Local production of medical equipment is now quite extensive. Thousands of products, ranging from the simplest of disposables to complicated medical equipment are now manufactured in Turkey. But local production is negligible in terms of high-technology products.

Basic items such as utensils or syringes, which do not require high technology, are produced, both for domestic consumption and for export.

Major medical supplies and devises produced in Turkey and exported include:

- Medical textile products: nonwovens, impregnated, coated or uncoated, covered or laminated.
- Instruments and appliances used in medical, surgical, dental, or veterinary sciences, including scintigraphic apparatus, other electro-mechanical apparatus and sight-testing instruments.
- Wadding, gauze, bandages and similar articles impregnated or coated with pharmaceutical sciences.
- Orthopedic appliances, including crutches, surgical bells and trusses.

- Medical, surgical dental or veterinary furniture.
- Mechano therapy appliances, massage apparatus, artificial respiration or other therapeutic respiration units.
- Sterile surgical catgut, similar sterile suture materials and blood-grouping reagents.

The Turkish government is encouraging foreign companies to invest in this field. Germany's MAQUET, for instance, produces sophisticated surgical operating tables and cardiopulmonary equipment, including catheters, in the Antalya Free Zone, along the southwest Mediterranean coast of Turkey. However, local industry is beginning to move into production of electronic medical equipment, such as electroconvulsors, electrocardiograph (ECG) monitors. In 2008, Denmark's Alvimedica acquired 85% of medical equipment manufacturer Turkey's Nemed Tıbbi Ürünler for $6.8 million.

The main suppliers of high-tech electro-diagnostic equipment are: GE Medical Systems, Picker International, DuPont, and Hewlett Packard of the U.S., Siemens of Germany, Philips of the Netherlands, Simatsu, Hitachi, Keymed Ltd. and Toshiba of Japan. South Korea, Taiwan and Hong Kong have been supplying a significant amount of equipment to Turkey, mainly for physical therapy. A French firm, Trophy, has a joint venture agreement to produce X-ray equipment in a plant in Bolu (western Anatolia - on the Ankara/Istanbul highway) with a capacity of 1500 units per year.

In the field of diagnostic imaging equipment, the United States is among the top four suppliers, with Germany, Japan, and the Netherlands. Germany has traditionally been Turkey's prime supplier, and is expected to continue to enjoy this position, because of the customs union with the European Union.

Prospects

- The demand for health care services and equipments is predicted to continue to expand in the next several years due to:
  - ✓ The high population growth rate.
  - ✓ An aging population.
  - ✓ Increasing per capita income.
  - ✓ Rapid urbanization.
  - ✓ The increasing potential in health tourism, and
  - ✓ Improvements in the health insurance system.

- The trend toward privatization of health services coupled with increasing demand of private hospitals for advanced technology paves the way for modern and specialized health facilities and a larger health care market. Private sector health care services are expanding, with its share in total fixed capital health investments on the rise - from 48% in 1993 to over 60% in recent years.

- As growth in the health care sector is expected to continue and restructuring of the health financing system is on the agenda, Turkey will remain an attractive market for exporters of equipment and supplies, as well as medical consulting services and knowledge transfer. Being an import-dependent sector, the emphasis put on privatization in the health sector will increasingly mean easier sales and higher technology products for foreign equipment suppliers. This growth would be driven by the recently introduced private insurance as well.
- In addition to its growing internal market, Turkey also offers opportunities for health care service and equipment providers as a stepping-stone to the markets in the Central Asia and North Africa.
- There is an enormous potential for growth in private health care services
- With the coming into force of the much-sought Social Security and General Health Insurance Law as of 2008, private hospitals are under construction all over the country in anticipation of growing demand for medical care.

INCOMING FOREIGN PATIENTS

Turkish hospitals enjoy costs 3-4 times lower compared to Europe and have been investing significant amounts in state-of-the-art medical equipment in recent years. Hence, an important trend is towards receiving incoming patients European, North American and Middle Eastern, African and Central Asian countries and some arrangements have been made for patient exchanges from various European nations, including the Netherlands and Britain. The most promising areas include ophthalmic, cosmetic surgery and dentistry. For example, the new hospital, Dünya Göz Hastanesi (World Eye Hospital), which opened in 2004 as the world's biggest eye hospital, attracts patients from more than 40 countries. In 2008, Acıbadem Health Services, one of Turkey's top private hospital operators, attracted 2,500 foreign patients. The health group's new Maslak Hospital specializes in cancer treatment. In 2005, almost 165,000 foreign tourists out of 20 million, entered the country to take advantage of Turkey's low-cost treatment centers. This represented a 23.7% increase from 2004.

3.9 INFORMATION AND COMMUNICATION TECHNOLOGIES (ICT)

Market Size Doubles in Four Years

Turkey's information and communication technologies (ICT) market reached a size of $25 billion in 2008, an increase of 12.4% from 2006, according to the Turkish Informatics Industry Association (TÜBİSAD). The market, which more than doubled from 2003, has had double-digit growth over the past five years in contrast to the single digit expansion in the U.S. and the European Union. Telecommunications accounted for $19.3 billion of the market, while information technologies corresponded for $5.7 billion.

Over the past decade, Turkey's telecommunication industry has been booming, driven by the market liberalization designed to enhance competition. As the new fixed-line backbone companies and ADSL systems are extended and 3G established, the telecommunications market is expected to grow.

Breakdown of the ICT market in Turkey 2006-2008
In Billion $

Market	2006	2007	2008
Telecommunications	15.4	18.0	19.3
IT	5.5	5.5	5.7
ICT total	20.9	23.5	25.0

Source: InterPro Marketing Services and Research Group, Turkish Informatics Industry Association (TÜBİSAD)

Although great momentum has been gained in recent years, the share of ICT in GDP remains around 3.4% compared with eight percent to 10% in the European Union. ICT imports widely exceed exports and average spending per person on ICT is around $40 compared to $500 in Western Europe and $1,200 in the USA.

Telecommunications

On January 1, 2005, authorities lifted Türk Telekom's monopoly on telephony. Türk Telekom itself was partially privatized at the end of 2005 through sale of 55% shares to Oger Telecoms, owned by the family of the slain former Lebanese Prime Minister Rafiq Al-Hariri, for $6.5 billion. The Turkish government plans to sell its remaining stake in 2008 through a public offering.

Key players, which merged with the world's leading mobile operators, are now closely watching the competition and appraising the quality of their services. With the entry of giant global players, the market is expected to continue to grow through introduction of new services and products.

Recent mergers and acquisitions (M&As) pose significant growth opportunities in almost all segments of the market over the next 10 years. Much of the past infrastructure upgrade has been in network digitalization and modernization. Future upgrades are expected to focus on increasing bandwidth and introduction of next generation networks to cater for growing broadband usage and broadband services. With number portability launched in 2008, 3G licenses awarded in April 2009, new legislations regarding mobile virtual network operator (MVNO) and new Electronic Communications Law are hot topics on the Telecommunications Authority's agenda this year.

Within the liberalization and deregulation efforts, telecommunications players are entering into different segments of the market. As of February 2008, the operators licensed by Telecommunications Authority (all of which have not necessarily launched service provision) totaled 220. These included:

- ✓ Authorization agreement:
  - Satellite and cable TV services 1
  - Maritime communication and course 1
- ✓ Concession agreement:
  - GSM services 3
  - Various telecommunication services 1
- ✓ 2nd type telecommunications license
  - Satellite Communications 33
  - Satellite Platform 4
  - GMPCS Mobile Telephony 8
  - Data Transmission over Terrestrial Lines 27
  - Long Distance Telephone Services 45
  - PMR/PAMR Service License 68
  - Infrastructure Operation Services 15
  - Cable platform services 5
- ✓ General authorization
  - Wired and wireless Internet services 162

Mobile versus fixed

As opposed to the slow growth in fixed-line services, the mobile sector has grown dramatically in the past decade. The number of mobile phone subscribers, which stood at 15.1 million in 2000, rose to 65.92 million in 2008. The incumbent telecom operator Turk Telekom has gradually lost ground to mobile operators with increasing GSM penetration. Turk Telekom has been aggressively marketing ADSL, which reached 5.5 million subscribers at the end of September 2008. The mobile market is poised for substantial growth over the next five years, with penetration reaching over 90% by 2010.

TURKEY'S GSM MARKET AS OF DECEMBER 31, 2008		
Name of Operator	Number of Subscribers (in Millions)	Market Share
Turkcell	37.00	56.12
Vodafone	16.72	25.36
Avea	12.20	18.51
Total	65.92	100.0

Sources: Avea, Vodafone, Turkcell

Turkey has three main cellular phone service operators:

- **Turkcell İletişim Hizmetleri:** Turkey's number one cellular phone services operator, Turkcell is a joint venture between Sweden's TeliaSonera, Turkey's Çukurova Holding and Russia's Alfa Group and businessman Murat Vargı. Listed on the Istanbul Stock Exchange, Turkcell had 37 million subscribers at the end of 2008 and a 56.12% share of the GSM market. Turkcell also provides cellular phone infrastructure services in Azerbaijan, Kazakhstan and Georgia and the Turkish Republic of Northern Cyprus, and Moldova and Ukraine either on its own or through subsidiaries and local partners.

- **Vodafone:** The British mobile phone services company acquired Telsim, the country's second biggest GSM company in 2006 from a state banking receivership fund for $4.5 billion. The company's name was changed to Vodafone Telsim and the last name was dropped altogether in April 2007. Vodafone had 16.72 million subscribers at the end of 2008, and a 25.36% market share.

- **Avea:** Turkey's third GSM network operator, was founded in February 2004 as a merger between Türk Telekom's Aycell and İŞ-TIM's Aria GSM networks. Oger Telecom took a 67% stake in Avea after acquiring a majority stake in Turk Telekom for $6.550 billion in November 2005. The government owns a 13% stake in Avea, and İşbank and affiliate companies control 20%. Avea had 12.2 million subscribers at the end of 2008. It controls 18.51% of the GSM market.

IT Market

Though relatively small with a $5.7 billion market size in 2008, Turkey has one of the fastest growing IT markets of the world. The IT market is dominated by hardware sales, with 53% of the market being made up of hardware and 33% by services in 2006.

Nearly 3 million personal computers (PCs) were sold in Turkey in 2007, a fivefold increase from 2002, when only 600,000 PCs were sold, Izi Kohen, general manager of Arena Bilgisayar, one of Turkey's top distributors of PCs, told IT-Business magazine.

There has been a remarkable increase in notebook sales in recent years due to the high interest for internet/PC and sustained growth of the economy. When compared to developed countries, Turkey still has a very low internet penetration ratio of around 25.3%. The population segment ages 15 to 44 offers a high potential in terms of consumption of technology products and accessories. Accordingly, growth of computer sales in Anatolian cities has been remarkable over the recent years.

Internet Subscriptions By Years

Years	Number of Subscribers
1999	2,000,000
2000	2,500,000
2001	3,500,000
2002	4,000,000
2003	6,000,000
2004	11,279,000
2005	14,844,000
2006	16,406,000*
2007	17,851,000*
2008	19,052,000*
2009	20,104,000*
2010	20,957,000*

***Estimated**

Sources: Ministry of Transportation and Telecommunications, SPO and Pyramid Research, and Economist Intelligence Unit

The IT market is expected to continue its expansion after 2008 as well, triggered by investments both in public and private sector. Currently, finance and public sectors are top two verticals in terms of IT services expenditures.

Turkey's IT equipment manufacturing capability is modest and software is largely imported. Local manufacturing activity is limited to assembly. The current share of software in total market is 15%, which is far below worldwide averages. The IT sector views software as its strategic growth segment for exports and, Turkish software companies have started to direct their expertise to exports, to almost 90 countries. In 2005, the total value of registered software exports exceeded $15 million. This figure, however, does not reflect the real value of sector exports, because software products are often a part of other products and services such as machinery, electronics, electronic machinery, engineering, medical equipment, etc. The main export markets for Turkish made software are the USA, Germany, Iraq, Kazakhstan, the Netherlands, Ukraine and Greece.

One major development has been the announcement on March 5, 2009, of Foxconn, a Hewlet-Packard (HP) affiliate based in China, that it plans to turn out 2.4 million desk top computers a year in a factory in the industrial town of Corlu, in Thrace, 200 km west of Istanbul, with a $60 million investment. The products are for both the domestic market and for exports.

Opportunities

- The Turkish ICT market will be shaped by stronger and more global players in the coming periods. All the new entrants in 2005 including Oger Telecoms and Vodafone as well as Turk Telekom, which is aggressively pushing ADSL investments, unveiled significant amount of investment plans for the next few years. This suggests that the new era will be one where quality of services and new infrastructure, rather than price-cutting, will be the main drivers on the market.
- The sector is far from being saturated. Penetration rate is 26% in fixed line telephony services is one of the lowest in Europe. Internet penetration rate as of end-2007 is a low 25.3%. Although Turkey shows a doubling of broadband lines from 2003 to 2004 and further on, it is still well behind most European countries. With the expected introduction of 3G, possibly in 2008, the range of telecommunication services will diversify to a great extent to include broadband communications services, WiFi, Wimax and value added services. Given that and continuing progress in deregulation and commercialization activities, the Turkish wireless market provides plenty of room for growth, offering opportunities for exporters and existing and new players.
- Many issues including 3G, WiMax. WiFi, the authorization of broadband wireless access services and of mobile virtual network services wait to be clarified during 2008. These are areas which will attract many local and foreign investments into the sector in various capacities.
- The convergence in voice and data transmission and the integration of software into new dual-mode mobile devices are likely to put pressure on mobile operators while paving the way further for IT companies.

- As the voice market becomes saturated, value-added services will be the main way for operators to maintain competitiveness. There is room in all segments of the services market, including software and application development, hosting, system integration, content aggregation, content creation and creation of mobile community sites.
- E-Transformation Turkey and e-government projects, which are being executed as part of the European Union (EU) convergence, will create a lucrative demand for ICT companies, paving the way for large e-Government projects with large amounts of public funding and fueling internet use and content creation. The enactment of the Law on Electronic Signature, which took effect in July 2004, and the draft Law on the Electronic Communications will further enhance e-government as well as e-commerce applications. Cisco's investment plans worth $275 million, which was announced in September 2006, involves supporting Turkey's e-transformation agenda by providing networking technology and prototypes to support pilot programs targeted towards rural broadband for education, as well as connectivity for small and medium businesses, municipalities and local communities.
- There are long-term prospects for Turkey becoming strong in software exports. The IT sector views software as its strategic growth segment for exports and a great deal of Turkish software companies is on the way to obtain CMMI, SPICE: ISO 15504, ITIL, and COBIT. The Silicon Valley Project, which started under the auspices of the Ministry of Industry, is expected to give a push to these efforts. Meanwhile, Oracle opened its "Istanbul ISV Migration Centre" in mid 2006 to meet the software requirements of the EMEA region. YASAD (Software Industrialists Association) has set its target as software exports worth $2 billion during the next five years.
- In addition to the mounting demand from local companies, Turkey has substantial strengths to be the location for offshore outsourcing services, including European calls.
- Growth of technology supermarkets, such as Smile, Bimeks, Vatan Bilgisayar and Teknosa are also fueling retail sales.

Telecommunications Equipment Manufacturers

The country has 33 big telecommunications equipment manufacturers, producing a wide range of products, including PTT type and private office telephone exchanges, serial telephone systems, analog and digital multiplex systems, telephone sets, telephone machines, radio link systems, optical fiber line equipment, data modems, mobile and fixed wireless phones, copper and fiber optic telecom cables, telephone change analyzers, and analog, digital and multiplex equipment.

Three major foreign-controlled manufacturers dominate Turkey's telecommunications equipment market:

- **Siemens Sanayi** manufactures telecommunications equipment and cables, IT and software and unlimited power supplies (UPS).
- **Nortel Networks Netaş Northern Electric Telekomünikasyon A.Ş.**, a joint venture between **Nortel Networks** of Canada and Turkish shareholders, produces network solutions and communication infrastructure.

At a glance: Nortel Netaş R&D

Nortel Netaş, based in Istanbul, serves as one of the global technology research and development centers of the Canadian telecommunications company Nortel Networks.Nortel Netaş R&D Department, the only R&D capable of developing comprehensive solutions for service providers in Turkey, has a software export of more than $ 10 million annually and the total export for the last 10 years amounts to $500 million. The company has invested to become the first SDH laboratory in Turkey.

Coinciding with its 40th anniversary in Turkey in April 2007, Nortel opened its new Global Operations Center of Excellence in Istanbul to help provide enhanced technical support services to Nortel service provider customers around the world. "This is an important milestone in the Nortel story," Mike S. Zafirovski, Nortel Chief Executive Officer, said. "This Center is vital to improving customer support as we enter a new era of communications driven by the convergence of three powerful megatrends we believe are significantly changing the industry – hyperconnectivity, communications-enabled applications and true broadband." The Global Operations Center of Excellence in Istanbul provides technical and operational support to Nortel customers deploying next-generation mobile, converged, metro Ethernet and optical networks. This includes product support for global customers, network technical support for customers in North America, and network integration and technical support for customers in Europe, the Middle East and Africa. Nortel has already recruited more than 300 graduates from Turkish universities to staff the Center as it progresses through 2007 to full operational capacity.

Nortel Netas Turkey was chosen as the CoE for a number of reasons:
* Nortel's established operations in Turkey
* Strong labor pool
* Cost competitiveness
* Proximity to major customers based in these regions
Source: Nortel Netaş

- Alcatel Teletaş, a joint venture between Alcatel of Belgium and Turkish shareholders, produces wireless and wireline solutions, including switching systems.

TIPS FOR DOING BUSINESS IN TURKEY

Manufacturing of high technology products in sectors like ICT and building materials may offer an opportunity for the Canadian investors, but sector experts argue only if it involves transfer of the related technology and know-how. In the experts' view, manufacturing should be complemented with R&D and product development, and local personnel should be utilized in all the phases.

Nortel is a prime example in this respect; it has over 600 R&D personnel in Turkey, which with Mexico, has become one of the two centers of excellence to serve global customers in mobile, integrated, metro Ethernet and optical network areas. The company has invested $180 million in R&D in the last ten years and plans to increase its R&D personnel by 300 in early 2007.

Based on 39 years of experience, Nortel states tips for doing business in Turkey as follows:

* Work with a local partner
* Transfer latest technologies, invest in R&D
* Jointly address opportunities in Turkey & neighbouring countries
* Benefit from EDC expertise & resources
* Cooperate with Canadian Embassy Trade Section in Ankara
* Don't be intimidated by:time zone differences and local business culture

Source: Nortel Netas

3.10 MINING

The Turkish government is attempting to revive mining, long dominated by state-owned Eti Maden İşletmeleri Genel Müdürlüğü (Eti Maden), formerly known as Eti Holding, by encouraging private and foreign investment.

It has privatized or leased out most of the mines and mineral processing plants owned by Eti Maden, including chromate mines in Elazığ, in eastern Turkey, and Muğla, on the Aegean Coast and a modern ferrochromium complex in the Mediterranean resort city of Antalya. It also sold its interests in an aluminum complex in Seydişehir, central Turkey. Only the country's boron mines and processing plants and phosphate mines remain under Eti Maden.

Established in 1935 as Etibank, a bank, to finance Turkey's mining industry and exploit Turkey's mineral resources, the sprawling conglomerate once carried out 60% of the country's mineral extraction and processing.

Although Turkey ranks 10th in the world in terms of mineral wealth, it stands in 28th place in the world mineral production. Turkey is richly endowed in mineral resources, but the importance of mining in the country's economic life has steadily declined since the 1940s, when it accounted for 40% of the Gross National Product (GNP). In 2007, it accounted for only 1.4% of the GNP. The market size for Turkey's mining sector is restimated at around $5.892 billion.

Turkey is the world’s biggest producer of boron, borax and boric acid, and trona (natural soda), and second largest producer and processor of chromate and chromium. It is also a leading producer of sulfur and sulfuric acid and tincal concentrate, aluminum, phosphate, colemanite, lead and zinc and copper, which are used in various industries in Turkey and abroad.

Chromite and chromium are corrosion resistant metals used in the production of motor vehicles, aircraft and household appliances. Some 710 known chromate deposits exist in Turkey. Guleman-Elazığ is the major chromate mine of eastern Turkey. Main regions in western and southern Turkey for chromate mining are Fethiye-Köyceyiz, Denizli, Bursa, Eskişehir, Kayseri, Adana, Kopdağ and İskenderun.

Boron, a chemical element, is used in the metal industries. Boron compounds are also used in the manufacture of glass, detergent, ceramics, paper, plastics and leather.

Turkey is also one of the world’s leading producers of marble, granite, travertine and other natural stones.

The country also has large reserves of iron ore, bauxite, meerschaum, wolfram, manganese, mercury, zinc, magnesite, perlite, cinnabar and emery.

Excluding oil and coal resources, the country had about 4,400 mineral deposits. Some 53 different kinds of minerals and rocks are commercially mined in Turkey.

The nation exports mainly boron minerals, natural stone (marble, travertine, granite), magnesite, chromium ores and concentrates, copper and concentrates, feldspar, zinc ores, pumice stone, kaolin, barite, and other clays and perlite.

In 2005, Turkey’s total mineral and metal exports stood at $2.715 billion, accounting for 2.6% of the nation’s total foreign sales, according to the Turkish Exporters’ Assembly (TIM).

The biggest importers of Turkish mineral and metals are the United States, Italy, Japan, Austria China, Germany, Belgium, England, Holland, Spain, Norway, France, Russia, South Korea and Ukraine.

As part of the privatization drive, the banking operations of Eti Maden (Etibank) were split off into three separate banks during the early 1990s and completely privatized in 1997 and 1998.

Eti Maden also turned the various mining operations and mineral processing plants into separate corporations, and attempted to rehabilitate them. Many of these companies were either shut down or turned over to the Privatization Administration and sold off or leased.

In addition to Eti Maden, state-owned Türkiye Kömür İşletmeleri (Turkish Coal Enterprise- TKİ), slated for privatization possibly in 2010, operates the country’s big lignite and hard coal mines, increasing lignite coal production every year. The government turned over the Çöllolar lignite mine, the country's biggest lignite coal mine, to private Çiner Group in 2007.

Dedeman Holding is the largest private producer and exporter of chromate in Turkey. Other large private mining companies are the Turkish firms Birlik Madencilik and Bilfer Madencilik. Hundreds of small private companies are also involved in mining various metals and minerals including meerschaum, tungsten, manganese, iron ore, cinnabar, coal and emery.

Türk Maadin Şirketi, a German-owned group, produces and exports chromium in western Turkey.

Koza Madencilik of Turkey operates a gold mine in Ovacık, near the ancient ruins of Pergamum in western Turkey, which it acquired from Australia's Normandy Group, and has begun producing gold, despite strong opposition from environmentalist groups because of its use of cyanide-leaching in the process.

In 2008, Greece's Halcor acquired copper mining company Sega Bakır for an undisclosed sum.

Some 23 foreign companies were involved in mining in Turkey in 2007.

Canadian companies are active players in the Turkish mining sector; Canadian investments include gold, silver, copper, and zinc mine operations, and Canadian firms have exploration rights to develop further operations in the future. Recent major developments in mining investments are set below:

- Vancouver, British Columbia-based El Dorado Gold Mining Company, through its subsidiary Tuprag, has invested $50 million in the gold mine in Kışladağ, Uşak province, in western Turkey, and plans a total investment of $167 million. The gold mine is the biggest in Europe and one of the biggest reserves found in the last ten years in the world. Tuprag plans to produce 95.8 tons of gold at the mine, which has a 15-year economic life span. The company has located 600 tons of gold reserve in various parts of the country and obtained operation licenses for four of these.

- Anatolia Mineral Developments has increased its interest in the Copper inferred gold resource to 100%. The company also controls 1.1 million hectares in Turkey, including five properties (gold and copper mainly) under joint exploration with Rio Tinto.

- Odyssey Resources Ltd. of Toronto, Ontario, which acquired mining license, entered into an agreement with Teck Cominco Mining to acquire a 100% interest in the Tavsan Gold property, in western Turkey, an advanced epithermal gold project. The mine is believed to hold 11,728 tons of gold reserves.

ÇAYELİ COPPER-ZINC MINE

The Çayeli Copper-zinc mine, owned by Inmet Mining of Toronto, Ontario, has been one of the most successful Canadian investments in Turkey in recent years. Inmet Mining, which owned a 55% stake in the Çayeli copper-zinc mine, in Rize province, bought out the state's 45% stake for $49.2 million in 2004, taking full control. This increased the company's base metal production from the Çayeli mine as well as increased their interest in the Cerattepe development property in neighboring Artvin province. The Çayeli mine, which will operate until at least 2016, employs 503 persons. In 2008, it produced 32,700 tons of copper and 47,600 tons of zinc.

- Teck Cominco Mining of Vancouver, British Columbia, together with Çayeli Copper, has been operating the Cerattepe gold and copper ore reserves. Teck Cominco also has a 60% interest in the Halilağa, Çanakkale, copper-gold development. Frontier Development Group has a 40% stake in the mining operation.

- As of February 2007, Silvermet of Toronto, Ontario, is planning to establish a Turkish company for the purposes of the development of the Tufanbeyli, Adana, zinc carbonate-hosted zinc, lead, silver mineralization project. Current planning is evolving into the project having two parallel Waelz kilns with total production capacity of 150 million pounds per year of zinc metal as 65% zinc in oxide condensate. Silvermet and SNC Lavalin engineers have cooperated in conducting the tests.

3.11 TRANSPORTATION

With a radical shift in policy involving private sector involvement and with the ease of the IMF restrictions on the investment budget, all modes of transportation regained their places in the investment agenda, offering enormous opportunities for local and foreign investors. These mainly include the modernization of railways, technical consultancy services for metro and airport projects and port management services. In aviation, Turkey sets to rank as the third largest fleet owner in Europe and a regional hub in maintenance and repair services soon.

Construction of new airports, ports and highways, and continuing or planned urban transit projects of several municipalities offer opportunities for Canadian companies for building products, construction machinery, automotive parts, service equipment, architectural/construction/ engineering services, and travel and tourism infrastructure. Ongoing modernization of Istanbul's transit system to cope with increasing *amounts of commuter traffic require new investment and demand for engineering and civil works as well as the supply and installation of related electro-mechanical and electrical systems.*

Reactivated with emphasis put on private sector involvement

As a rapidly developing country, the demand on Turkey's transportation sector has grown significantly over the past several decades. Turkey places special emphasis on improving its transportation infrastructure, including highways, airports, ports, and urban transit systems.

Global comparisons point out to the room for growth in all modes of transport. The low number of total passengers in Turkey (only 4 fold of total population in Turkey versus 10 fold in the EU countries) is an indication of the potential the sector has.

INTERNATIONAL COMPARISONS, 2000

Country	Area Sq km	Population Million	Roads km	Railway km	Passenger Railway
Turkey	**779.5**	**67.4**	**354.3**	**8,697**	**76,993**
U.K.	244.0	59.2	372.2	17,052	1,027,200
Portugal	92.1	10.4	72.4	2,818	132,911
Germany	357.0	82.6	644.0	36,054	1,681,779
Italy	301.2	57.2	479.7	16,288	548,521
France	547.0	59.8	981.8	29,269	879,449
Hungary	93.0	10.1	158.7	7,950	125,959

Source: 2004 Annual Report, State Railways Administration

The infrastructure investments of Turkey, which stagnated because of the tight fiscal policies of the IMF program in operation since 1999, was reactivated in 2005 and, in spite of monetary strictures, scores of grand projects were launched. Against a 4.6% growth in 2004, the construction sector expanded 21.5% in 2005 and 19.4% in 2006, and 4.5% in 2007. Transportation projects obtained the highest share in the investment programs. Having recently completed a transportation master plan strategy and the EU-funded TINA (Transportation Infrastructure Needs Analysis) study, Turkey is now preparing detailed investment plans covering the next ten years. The focus point of the plan is that, due to the imbalanced development among modes so far and low number of people traveling, all three modes will continue to grow.

The Turkish construction industry contracted 7.6% in 2008, as the global economic crisis began ramming into Turkey.

Railway Investments

Turkey has a modest 8,697 km railway network, of which 85% was built before 1940. The railway system is owned entirely by the loss-making state railways, TCDD. Only a few suburban lines are commercially successful. Rail transport has declined steadily in Turkey since 1950, when 78% of all freight and 42% of all passenger traffic was carried by rail. In 2007, 7.1% of all freight and 3.5% of all passengers were transported by rail.

A radical shift was made in the railway strategy in April 2005 and the new railways strategy mainly involved the following:

- Emphasis was put on construction of high speed lines. (Three lines are in progress).
- Existing lines and wagons will be improved and upgraded (to increase the current line capacity by 30%)
- Domestic production of wagons, locomotives and rails is being encouraged.
- The State Railways Administration (TCDD) is planning to lease out its 904 train stations and terminals in 57 provinces to the private sector, and earn $500 million annually from these transactions that would allow the private sector to build restaurants, cafés, cinema complexes, shopping centers and hotels at the sites. The Haydarpaşa Terminal Project, at the main railway terminal on the Asian side of Istanbul, is a prime example. The project, which is planned to be leased out on a Build-Operate-Transfer (BOT) method for 49 years. The project foresees an investment of around $5.1 billion. Also planned for privatization is the Sirkeci Rail Terminal, where new high rise hotels are planned. A new central railway hub under construction in Aksaray district will replace the two terminals after completion of the Marmaray Project.
- Steam engine locomotive trains are being chartered to travel groups.

A number of projects have recently been devised to increase the role of rail. Branch lines are to be built to industrial zones, private train operators are to be permitted, and some high speed train projects, which will increase travel speed to 250 km/h, including Ankara-Istanbul, Ankara-Konya and Ankara-Izmir, Ankara-Sivas and Bandırma-Osmaneli lines are at various stages of planning and development. The Istanbul-Ankara line is a major project on the agenda. The other major project is the Marmaray Project that will pass under the Bosphorus at a project cost of about $4.1 billion. This project expects to carry 1 million passengers a day following completion in 2009. Istanbul-based Yapı Merkezi İnşaat in 2007 won the contract to build the 212-km Ankara-Konya High Speed Train project.

Developments in the light rail system projects of the municipalities are in parallel with the railway policies of the government. In order to combat the acute traffic problems in the cities due to the expanding population / urbanization, rapidly increasing car park and inadequate road infrastructure, municipalities are developing many light rail system projects and compete with each other to secure loans. German, French and Italian companies are known to be quite active in these projects.

Several municipalities have built or are building metro systems. Turkey needs some 2,000 wagons only for the rail projects currently under construction. As the projects in the planning and construction stages, which belong to the 16 metropolis municipalities, are commissioned during the next decade, the requirement will increase to 3,000, representing a purchase of railway equipments worth $10-12 billion.

Currently, a €4.2 million European Union (EU) funded twinning project is being carried with Deutsche Bahn AG on in order to prepare an action plan for the Railway Administration. This study is based on an analysis made in 2003 for the legislative harmonization of the Turkish railway sector with the EU acquis.

Canada has been a very active participant in the development of Turkey's railroad infrastructure. Bombardier's transportation division has been at the forefront of Canadian involvement with projects in various cities. Other projects with Canadian input include: Ankara and Izmir Metro projects; Marmaray tunnel project; and feasibility and design for Istanbul, Trabzon and Eskişehir light rail systems. metro and environment project:

- Bombardier - Having realized Izmir and Ankara metro projects and Eskişehir light rail system, it bid for the Marmaray commuter lines construction project, which has an impressive scale involving transportation of 1 million passenger/day. This is an integrated investment with the Bosphorus Tube-Tunnel Crossing Project, which is regarded as the "project of the century." The tube tunnel, first part of the project, was financed by a $2.5 billion loan from the Japanese Bank of International Co-operation (JBIC) and up to 65 million euros from the European Investment Bank (EIB), and is due to be completed by the end of 2008. One of the five tunnel boring machines is being manufactured in Canada. Among other projects Bombardier offered bids for recently were the Mersin-Adana signalization facility project, the tender to purchase 70 tramcar vehicles and the $216 million train deal for the high speed Ankara-Istanbul line. The company was shortlisted in the State Railways Administration's bid for 60 electrical locomotives.

- ADtranz – As a subsidiary of GM Canada and Bombardier, it has a strong presence in Turkey, with involvements in Ankara, Adana and Izmir metro and light rail projects as consortium leader, member or main contractor. It has also provided wagons and diesel-electricity locomotives for the public transportation systems of Istanbul and Eskişehir.

- General Motor's Electro-Motive Division has supplied 89 mainline diesel locomotives, upgrade kits and related parts to the Turkish State Railways.

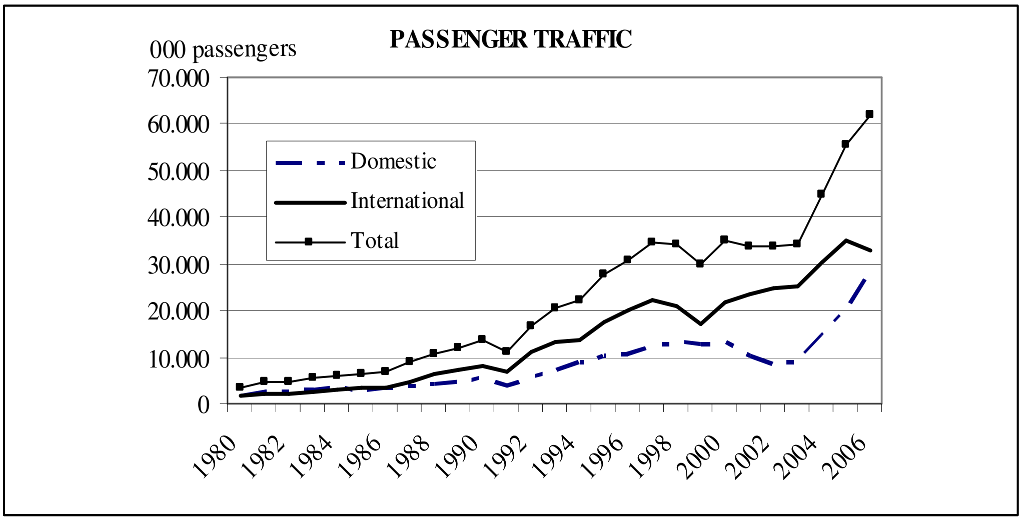
- SNC Lavalin, in addition to a number of successful industrial modernization and SCADA projects, has been involved in transportation projects as well, including the feasibility study of the Trabzon light rail system and, together with Bombardier, Ankara Metro project. It withdrew from the tender for the operation of the Ataturk Airport, which was won by TAV in June 2005 with its bid of $2.9 billion. Its project portfolio includes some metro projects in Pakistan and Central Asia together with Turkish contracting firms. Among recent projects the company completed is the first phase of the feasibility study on the Aliaga Recycling Project (ARP).

Air transportation and aviation services

During the past two decades, air passengers increased about ten fold – growing from 6.3 million to 61.7 million. During the same period, domestic passengers grew 6.5 fold and international passengers grew about 11 fold. Total number of air passengers increased 31% in 2004, 22% in 2005 and 34% in 2006.

The civilian air transportation market has been stimulated recently by the following:

- ✓ With the liberalization of domestic routes in 2003 and entry of private carriers, a dozen of low cost private operators carried 11 million passengers in 2005.
- ✓ Rapid growth of tourism, with a 25% growth in 2004 and 21% in 2005, and excellent prospects for increasing arrivals to 50 million by 2010.
- ✓ After the public offering of 23% shares of Turkish Airlines, now the Government is preparing to sell an additional tranche of shares of the state airline.
- ✓ Rapid growth in tourism and commercial and passenger air traffic and capacity expansion plans of current fleet owners and service providers.



Meanwhile, with an emphasis on transport, the government has also focused its energies on building and upgrading airports. Istanbul, Ankara and Antalya airport terminals are build-operate-transfer (BOT) projects. All airports are owned and run by the state, though some terminals are privately operated.

Investments in airport capacity expansion and modernizing air traffic control services include

- ✓ A supplemental facility to the Atatürk Airport International Flights Building (Istanbul) was constructed and capacity was raised from 14 million passengers per annum to 20 million. Operation of Atatürk Airport Terminals was awarded to Tepe-Akfen Ventures (TAV) at $2.9 billion.
- ✓ TAV constructed the new domestic and international terminals at the Ankara Esenboga Airport -- at a project cost of $250 million -- and now operates it. With new terminals, Ankara Airport increased its passenger capacity to 10 million.
- ✓ Expansion work at the Antalya Airport International Terminal and the Dalaman Airport International Terminal, each with 5 million passenger capacity, was finalized in 2005 and 2006.
- ✓ The GAP International Airport with 2.5 million passenger capacity was commissioned in 2007 to serve the developing economy of the south east of Turkey.
- ✓ The State Airports' Authority gave a 17-year management contract for the terminal of the Antalya International Airport to the joint venture of Turkey's İbrahim Çeçen Holding and Germany's Fraport AG, the operator of Frankfurt International Airport, for $3.197 billion.
- ✓ The Undersecretariat of Defense in 2008 concluded a 20-year management contract for the international terminal of Istanbul's Sabiha Gökçen Airport, Istanbul's second international airport. The new airport management company is expected to raise the capacity of the terminal to 10 million passengers a year from the current 3 million and build a new international flights terminal and other facilities. A Turkish-Indian-Malaysian consortium, led by the Limak İnşaat, won the tender for the management rights to the international terminal of Istanbul's Sabiha Gökçen Airport with a $3.5 billion bid on July 8, 2007. The winning consortium was Limak İnşaat A.S. (Turkey), GMR Infrastructure Ltd (India) and Malaysia Airports Holding Joint Venture. The Sabiha Gökçen Airport is located on Istanbul's Asian side and is used mainly for local and international charter flights.
- ✓ Tepe Akfen Ventures Airports Holding (TAV) gave the best bid for leasing the underused Antalya Gazipasa Airport for 25 years from the State Airports Administration. Gazipasa Airport is located in Gazipasa,

in eastern Antalya province, near the boom town resort of Alanya, and is one of two airports in the province. The airport is being opened to international flights to serve the Mediterranean tourist boom towns of Alanya and Anamur.

Industrial analysts forecast 7% annual growth in demand for air transport and air cargo in the next decade and estimate that Turkey needs to increase the number of aircraft to 300 by 2010 in order to serve – and drive – the forecast increased tourist traffic. Studies conducted by THY, the state owned carrier, forecast that demand for maintenance and repair services will grow an average five percent per year in the next decade. Triggered by growing domestic market and new investments, Turkey has the potential to become a service hub for the region. THY estimates to obtain $470 million revenue in 2010 and $1 billion in 2014, of which 40-45% is due to services given to Middle East, Central Asia, Russian Federation and Europe.

Considering the investments planned by THY and private airline operators, Turkey is expected soon to rank third in fleet size among the EU countries after Germany and France. The senior Vice Pesident of Airbus said that Turkey needs over 260 planes worth $24 billion in the next 20 years and added that aviation in Turkey grew double of the overall growth rate of the economy.

Bombardier has also signed deals with two airlines to deliver about regional passenger jets One of these is a $107 million contract to supply three, 90-seat CRJ900 regional passenger jets, to Turkey's Atlas Jet Company. Bombardier also started skyjet aircraft leasing services for Turkish businessmen.

Roads

The length of the state and provincial road network is 63,731 km and 1,987 km of motorway. This figure has increased little for many decades. But in spite of monetary strictures, the government has pushed ahead with the expansion of Turkey's sprawling road network, with the construction of the twin South Black Sea Highway (560 km) and the Ankara-Samsun route (402 km).

Also, a consortium composed of Akbank, Garanti Bank and İş Bank has extended an $831 million loan for a highway project connecting the Caucasus region, Central Asia and Europe. The total vehicle stock (excluding motorcycles and tractors) has risen from around 1.4 million in 1983 to 3.9 million in 1994 and 10.692 million at the end of 2007. Urban congestion and pollution are also significant problems. Major projects awaiting financing include a road crossing of the Gulf of İzmit, cutting journey times between Istanbul and the Aegean region, and a third Bosphorus Bridge, as well as a bridge across the Dardanelles.

As a recent development in April 2007, Privatization High Council's decision has been obtained for the privatization of Bosphorus and FSM Bridges and connection roads and 6 motorway connection roads on TOR method until end-2008.

Ports - More privatization is planned

Sea transport accounts only 0.01% of total passenger transportation and projects are on the agenda to improve this situation. The establishment of private ports and the trend towards private management of state-owned ports have gone some way towards mitigating overcrowding and inefficiency in recent years. The operational rights of the Port of Mersin were sold for $755 million

The Privatization Higher Council (OYK) approved the sale of the State Railway's (TCDD's) Port of Derince, in the Gulf of İzmit, along the northeastern shores of the Sea of Marmara, for $195.250 million. Türkerler Investment Enterprise Group was the highest bidder for the transfer of the operating rights of the port. The port is located close to key industrial regions of Istanbul, İzmit and Adapazarı and is operated by the TCDD. Under the tender specifications, the winner will operate the port for 36 years, and will have to carry out $250 million in new investments. A contract will be signed pending approval from competition authorities.

Çelebi Joint Venture placed the highest bid for Turkish State Railways Administration's (TCDD's) Port of Bandirma, along the Asian shore of the Sea of Marmara with a $175.5 million offer. Six companies or groups bid for the Port of Samsun, along the Black Sea Coast.

But the Council of State, Turkey's supreme administrative court, indefinitely blocked the sales of the Port of Iskenderun, on the Mediterranean, and the Aegean Port of Izmir. Global Holding, Hutchison, Deutsche Bank and Aegean Exporters' Association Port Services Joint Venture was the highest bidder for the Port of Izmir with a $1.275 billion bid.

Many commuters in Istanbul use the mainly municipally owned steamers and ferries. The operation and rehabilitation of Galataport, Istanbul's passenger liner gateway, was tendered in September 2005. The winner of the tender was Royal Caribbean Cruises with its bid of $.4.3 billion. Cancelled by the Council of State, the port is to be retendered.

Ege Ports Announced Plans to Construct a Third Port in Kuşadası

Ege Ports Company has invested $20 million in Kuşadası Port since 2003, when it was given the operational rights of the port. On the occasion of the hosting of Emerald Princess in early April 2007, the biggest cruise ship ever to come to Turkey with 3 thousand passengers aboard, Gregory M. Kiez chairman of the board of Ege Ports, said that the company started to earn back on its investment, made in 2003, and that Ege Ports has become an important port for cruise ships. He also said that they expect 32 new ships to start cruises within the next three years. "We will invest another $10 million to enlarge the port by 100 square meters," said Kiez.

He also added that Ege Ports is a model for all other Turkish ports because it owns the ISPS Code, which is unique in Turkey. The company secured routine voyages of world's first class cruise ships by offering international standards in its port.

According to Kiez, investments had a positive effect on traffic because the number of passengers increased from 275,000 in 2004 to 360,000 in 2005 to 425,000 in 2006. He expected the number to increase to 650,000 with 626 voyages planned for 2007.

Ege Ports also own 40% of the Antalya Port, in which it plans to invest $5 million in 2007.

Royal Caribbean Cruises, the second largest cruise company, owns 27.5% of the shares of Ege Ports. The remaining shares belong to Global Investment Company of Istanbul.

3.12 TOURISM

The "Florida of Europe," *Turkey attracts tourists from all over the world

Construction is continuing on hundreds of new luxury hotels and holiday villages along the Turquoise Coast, the highly indented southwest corner of Anatolia, which will cement Turkey's place in the big leagues of world tourism in the next five years.

In addition to the hotel and resort construction boom, drinking water and sewage systems are being overhauled, and new marinas and golf courses are being built to attract rich foreign tourists to coastal areas, characterized by miles of long, unpolluted beaches, ruins of magnificent cities of antiquity, and long warm summers and mild winters. New hotels are also springing up in Istanbul and other big cities to encourage convention and business tourism across Turkey.

Turkey has been the world's third fastest growth travel destination, behind China and Russia, throughout the past two decades, according to the World Tourism Organization (WTO).

The number of tourists visiting Turkey swelled 20.3-fold in the past three decades, from 1,523,000 in 1979 to a record 30.929 million in 2008, according to the Turkish Statistics Institute. In 2008, the country had a 3.34% share in the global tourism market share, up from 2.7% in 2005.

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* ARGE Consulting

By 2013, Turkey aims to attract 38 million tourists annually and earn $34.4 billion a year from tourism, according the State Planning Organization's Ninth Five Year Economic Development Plan.

Yet Turkey has barely even scratched the surface in terms of potential from its travel and leisure industry, the World Travel and Tourism Council says. As the nation is so vast and diverse it has the opportunity to develop alternatives including eco tourism, incentive and convention tourism, adventure travels, ski holidays and culture tours, and there is almost immeasurable potential for growth and profit in the travel and tourism industry in Turkey.

Turkey is also looking to expand upon its traditional summer tourism appeal with the development of new out-of-season incentives to visitors, including thermal and health tourism and archaeological tours. Turkey has one of the world's richest cultural heritages, and sites of historic interest are becoming of increasing value as tourist destinations in their own right. Opening up new tourism sites in the country's interior will have a significant effect on the economic development of these areas.

In 2006, Turkey ranked 11th in the world in the number of tourist arrivals and ninth in terms of tourism receipts with $16.9 billion, the WTO reported.

Tourist Arrivals in Turkey (2003-2007)

Tourists (million)	Revenues (billion dollars)
14.0	13.2
17.6	15.9
21.1	18.2
19.8	16.9
23.3	18.5
30.9	21.9

Visitors to Turkey from Top Ten Countries (2007)

Country	Number of Tourists
Germany	4.148.252
Russia	2.465.481
Britain	1.916.015
Bulgaria	1.239.666
Iran	1.058.270
Holland	1.053.669
France	768.168
USA	646.376
Georgia	630.923
Ukraine	593.302

Source: Culture and Tourism Ministry

The high value of the euro against the U.S. dollar, low-cost, all-inclusive travel packages, and direct charter flights from major European cities to the country's main resorts contributed to Turkey's success in tourism, particularly in attracting travelers from the European Union nations and the former Soviet Union.

In 2007, Germany led with the most visitors to Turkey with 4,148,252 tourists, followed by the Russia with 2,465,481.

Some 128,500 Canadian visited Turkey in 2006, the Tourism Ministry reported.

Turkey's tourism earnings also grew from a modest $280 million in 1979 to a record $21.9 billion in 2007, according to the Ministry of Culture and Tourism.

To catch up with the tourism boom, the government began a crash hotel, motel, and holiday village building program that aims to increase hotel bed capacity to about 1.2 million, a whopping 113% increase from its 1998 capacity.

INTERNATIONAL TOURISM RECEIPTS, 2005-06
$ billion

Rank	2005	2006	Change, % 2005	Change, % 2006
United States	81.7	85.7	9.6	4.8
Spain	47.9	51.1	5.8	5.6
France	42.3	46.3	3.5	5.3
Italy	35.4	38.1	0.7	6.7
United Kingdom	30.7	33.5	8.7	7.8
China	29.3	33.9	13.8	15.7
Germany	29.2	32.8	5.6	11.3
Australia	15.0	17.8	9.6	12.4
Turkey	18.2	16.9	14.2	-7.2
Austria	15.5	16.7	0.9	3.1

Source: World Tourism Organization

Hotels

At the end of 2006, Turkey had 3,344 hotels and holiday villages with a total bed capacity of 783,319, according to the Association of Turkish Travel Agencies. This is an enormous expansion since 1966, when the country had only 456 hotels with a bed capacity of just under 40,000. In

1979, the country had fewer than 90,000 beds – about the same as the Greek island of Rhodes.

The chairman of the Tourism Investors Foundation said that $8 billion investments were expected by 2010 for hotels, marinas, golf courses and shopping centers only, excluding infrastructure work requirements. He noted that Istanbul, in particular, needed to increase its current 5-star bed capacity considerably.

The April 2006 report of GYODER (the Association of Real Estate Investment Companies) also stated that Istanbul needed an additional 91,325 beds by 2015. Assuming that this requirement is met through five and three to four star hotels, some 60 five-star and 276 three-star hotels are needed just in Istanbul. Istanbul topped the list of hotel occupancy rate list in 2005, a study by Deloitte Moscow stated. In income per room, Istanbul ranked second after Moscow. Further, more new bed capacity is needed in Central Anatolia and Black Sea, while Antalya region desperately needs investments to lengthen the tourism season, such as golf, health, shopping and entertainment facilities. The government extends generous incentives for tourism investments, including allocation of land.

An emerging trend in the past few years is the boutique hotels. Their number has reached 500, of which 150 being in Istanbul. The chairman of the Turkish Hotel Owners Association said that tourists coming for Istanbul and other historical places would increase to a great extent if their number increases.

Some 255 foreign hotel operators have direct investments in Turkey, including America's Hilton, the Ritz Carlton Hotels and Resorts and the Sheraton, and Canada's Four Seasons Hotels and Resorts, Germany's Kempinski and Iberotel and France's Novotel Hotels and Club Mediterranean

Major tourism projects

Development of marinas, protection of the environment, incentives for winter sports, mountaineering, adventure and religious tours and golf tourism are among the major projects of the Tourism Ministry. These projects aim to expand the tourism season in Turkey into a year-round affair and attract wealthy tourists to the country.

One big project is the **Çeşme Tourism City Project**, an ambitious tourism, real estate development and golf and yachting sports undertaking on 2,058 hectares of land along the Alaçatı Bay, near the town of Çeşme, on the Aegean coast. The land is located adjacent to one of the world's best windsurfing sites, and one of Turkey's biggest wind farms. The project will include hotels and holiday villages with a total

70,000 bed capacity, 14 golf courses, and several marinas. The Tourism Ministry is seeking foreign investors for the project.

Government Incentives and Initiatives in Tourism

Investment Incentives

Tax exemption on imported items.

VAT exemption on local machinery and equipment.

Tax duties and charges exemption on local purchases.

Land allocation on 49 year lease base (75 years in tourism cities)

Electricity and water consumption at the lowest available price (during investment and operation periods)

Land Allocation

The Ministry of Tourism provides public land to investors under 49 year lease contracts on BOT basis for building accommodation facilities. Until now more than 100 thousand beds were built on public lands allocated to tourism investors, consisting 20% of the total bed capacity of Turkey. According to lease contracts, tourism establishments pay 0.5 -1 % of their annual revenues to the Ministry of Finance.

Public-Private Sector Partnership Practices

There are several laws concerning PPP, and currently there are many facilities operational under BO, BOT, TOOR and similar models. Consequently, the private sector has gained considerable experience in infrastructure projects.

Tourism Cities Project

Recently the government has started a plan for setting up new tourism cities consisting of accommodation establishments, marinas, shopping centers, golf courses, congress centers, etc. Since large capital (about 3-5 billion US$ for each) is needed for building such tourism complexes (cities), land allocation will be made to consortia rather than individual firms and priority will be given to consortia with foreign partners. For tourism cities land will be allocated to investors for 75 years.

The project is to be promoted in Europe, USA and Gulf countries and call for proposals were announced in 2007.

Development, Protection and Restoration of Historical Assets

The government allocated a budget to 150 restoration projects across Turkey in 2007, giving momentum to the reconstruction and preservation work of cultural heritage sites in 50 provinces. (The works anticipate the realization of 39 projects in 28 provinces including Konya, Kars, Tokat, Malatya, Adıyaman and Bursa)

Thermal Tourism Cities Project

Started in 2006 with the aim of increasing tourism receipts and increasing diversity, this project selected the following as the priority regions: Southern Aegean (Izmir, Manisa, Aydin, Denizli), Phrygia (Afyonkarahisar, Kütahya, Usak, Eskişehir, Ankara), southern Marmara (Çanakkale, Balıkesir, Yalova) and central Anatolia (Yozgat, Kırsehir, Nevsehir, Aksaray, Niğde) are the priority regions.

Another big initiative is the Ağaoğlu Group-Net Holding revenue-sharing joint venture, known as the Bodrum-Milas Real Estate and Tourism Development Project (or the Halicarnassus Project). The undertaking is to be located on 2,625 acres of land near the small Aegean port community of Güllük, 200 km south of Izmir and only 12 km from Bodrum International Airport. The Halicarnassus Project will include a new resort town to service a population of 30,000 inhabitants year-round. It will have four five-star hotels, several apart hotels, 5,000 luxury villas, hundreds of time-share housing units, a Turkish bazaar, an 18-hole golf course and country club, an aquapark, an equestrian club and other sports and recreational facilities. Within the property is the necropolis of the ancient Carian town of Bargylia, which will be maintained as an archaeological site. Construction will cost at least $500 million. The project will create a pleasant alternative to Bodrum, an overdeveloped resort town favored by low-budget Britons, only 22 km to the south, and attract wealthy foreign travelers to Turkey. Only the Costa Smeralde on the Italian Mediterranean island of Sardinia, the Algerve on the southern tip of Portugal, and El Conquistador Resort and Country Club in Las Croabas in Puerto Rico are of the same size and scope of the Halicarnassus Project, says Haluk Elver, a senior executive and urban planner with Net Holding who prepared the project. Net Holding acquired the property in 1989 and prepared a detailed project in the 1990s, but could not get sufficient financial backing to start construction. At one point, Hungarian-born billionaire financier George Soros and Mark Mobius' Templeton Emerging Markets Fund were said to be interested in the Halicarnassus Project, but eventually bowed out due to the then severe fluctuations in Turkey's economy and the financial difficulties faced by Net Holding. Ağaoğlu will carry out the construction and share the revenues from project with Net Holding.

Yachting

The ministry also wants to have 12 marinas constructed on the Mediterranean Coast with berths for 6,000 yachts. The new marinas would run from Antalya to the Syrian border and make Turkey the biggest yachting center in the Mediterranean. Major new marinas are also planned as part of the Haydarpaşa Project in Istanbul that will transform the city's main railway terminal into a tourism hub.

Many of the marinas would be constructed on a Build-Operate-Transfer (BOT), or Build-Operate-Own (BOO) basis. Under these schemes, private contractors would line up financing for each project, construct the sites, own and operate them for a specified period of time, say 25 years. At a mutually agreed date, they would sell the marinas back to the state. Or they would own the marinas permanently.

The only hitch to the BOT or BOO systems is that the government does not provide any sovereign guarantees should the contractors run into financial difficulties and fail to meet debt payments to banks.

Turkey has several marinas that were built on a BOT basis and are privately operated, including the Kalamış Marina in Istanbul and the Marmaris Marina, in southwest Turkey, and the Turgut Reis Marina, near Bodrum, on the Aegean Coast. Turkey has 22 marinas. The country earns over $1 billion a year from yachting.

In the mid 1990s, several marinas on the Aegean and Mediterranean coast were privatized.

Sailing along Turkey's southwest corner, known as the Blue Voyage, is extremely popular among Canadian tourists who want to experience the Turkish coast, visit untouched beaches and bays, fringed by pine forests, swim and dive and go spear fishing among sunken ancient cities.

The government is also turning over state-owned marinas to the private sector.

The administration is also now beginning to encourage yachting along the rugged Black Sea Coast of Turkey by holding regattas from Istanbul to the Georgian border.

Officials predict there will be a boom in yacht tourism in the Black Sea region after many European waterways are connected to the Danube, Europe's second longest river.

The Danube, which has many tributaries and extends 1,800 km from its source, rises in the southern German Black Forest Mountains and flows in a southeasterly direction through Austria, Slovak Republic, Hungary, Serbia, Bulgaria and Romania before emptying into the Black Sea. Newly built canals now actually link the North Sea and the English Channel to the Danube, allowing sailboats and yachts and small boats to go directly to the Black Sea from Northern Europe instead of circumventing the Atlantic and the Mediterranean.

Tourism officials say that other countries with shores on the Black Sea, including Bulgaria, Romania, Ukraine, Russia and Georgia stand to benefit from the coming yachting boom.

Officials said the Turkish government improved hundreds of fisherman jetties and ports on the Black Sea Coast and would allow foreign yachts to anchor in them.

The Turkish Black Sea coast is one of the country's least developed tourism regions, despite its miles of spectacular coastline and empty beaches, Alpine-like mountain ranges and historic churches and monasteries. It has very few hotels where tourists can stay.

Golf Investments

Turkey currently has 16 operating golf courses, three in Istanbul and 13 in Belek, near the Mediterranean resort city of Antalya. Most of the golf courses are linked up with resort hotels. The nation also has several driving ranges.

The country earned a mere $20 million in 2005 from golf tourism, compared to $6.5 billion earned by Spain, which attracted 2.8 million golf tourists. Even small Portugal has 72 golf courses.

But a massive building of golf resorts are planned in the Aegean and Mediterranean regions is expected to transform Turkey into a key golf destination. New golf links are also planned for Istanbul, Ankara, Muğla, Aydın provinces. Turkey has 31 golf clubs, including several in eastern provinces.

By 2010, Turkey may well have three dozen operating golf courses, and several major international tournaments are likely to take place in the country.

Within the "100 golf courses in 4 years" project developed by the Turkish Golf Federation, an additional income of $1 billion is expected to be generated, and some 100 golf courses are expected to be built in the mid-to-long term. Many foreign real estate and institutional investors have been looking for places in the Mediterranean and Aegean regions suitable to combine golf facilities with the residential units on one site.

Winter Tourism

Many officials and leading sports figures believe that the economic underdevelopment of snow-swept Eastern Turkey can be overcome by developing winter sports facilities, and encouraging tourism, rather than building industrial factories. Describing snow as "white petroleum," they say that the harsh winter conditions and terrain in the area could be turned into an economic advantage.

Ski lifts, ski, snowboard and toboggan trails, and ice rinks should be built at each town and city located on the slopes of mountains in the region, they say. Local youth would also be trained in all winter sports categories, as they will eventually earn their livelihood from sports.

Altitudes in the rugged region, which accounts for 20% of Turkish territory and is three times the size of the Alps, reach an average 2,000 meters (6,600 feet). The Palandöken and Sarıkamış ski resorts in Eastern Turkey have already become magnets for tourists from Russia and other countries of the former Soviet Union.

Turkey's sparsely populated eastern provinces are among the most neglected in the country, where per capita income is one-fifth of Turkey's average. Highways, airports and new hotels would also have to be developed.

Snow blankets the region for at least seven months of the year, isolating and paralyzing entire towns and villages in the mountainous areas throughout the winter.

The planned holding of the 2011 University World Winter Games (Winter Universitade) in Erzurum, in eastern Turkey, when more than 15,000 athletes and trainers and staff from around the globe will participate, is expected to spur growth in winter tourism in the country. New hotels and sports facilities have to be constructed in the city, including two Olympic ice rinks – one for figure and the other for speed skating. Five ski jump towers and a curling rink -- the first ever in Turkey -- will also be built. The nearby Palandöken Ski resort will be used for Alpine skiing and cross country and biathlon events.

Turkey already has 20 ski resorts, but only three where international skiing events can be held -- Sarıkamış, in Kars province, and Palandöken, both in eastern Turkey, and Uludağ, in the western province of Bursa, 250 km (150 miles) southeast of Istanbul. Many of the resorts either lack lodgings or ski lifts.

Uludağ, due to its closeness to Istanbul, is the most developed of the country's ski resorts with 14 hotels and total bed capacity of 7,000. Construction work and planning of 11 new hotels in the resort is at various stages of development, and several new facilities have opened.

The Istanbul-based Üstündağ Group took over the unfinished Kartepe Resort, near the lake town of Sapanca, 150 km east of Istanbul, and developed it into a modern facility with a hotel with 250 rooms, 52 apartment flats, and a dozen ski runs. The resort opened in 2004. Other hotels are planned in Kartepe.

Extensive investments in ski resorts have also been made in Kartalkaya, Bolu province, as well as at Mount Erciyes, in central Turkey near Kayseri, and at the Ilgaz Ski Resort, northwest of Ankara, and in a number of other sites across the country.

Health Tourism

In the recent years, Russian, British, German and Dutch tourists have been flocking Turkey’s spas and thermal baths for treatment of rheumatism and arthritis. The country is also becoming a popular destination for health care tourism.

Turkey has Europe’s third biggest number of spas and thermal springs after Italy and Germany with a total 270 facilities, the weekly financial magazine Para reported. Some 385 hotels provide spa/wellness facilities.

In 2006, 300,000 foreign tourists spent holidays in the country’s spas, making up 60% of the visitors to the country’s thermal baths. Forty percent of the visitors to the Spas were Turks, 30% were Russians, 15% were British, 10% were German and five percent were Dutch. Tourism officials believe that the centers could attract as many as 1 million tourists a year.

The Ministry of Health plans to privatize Turkey's best known spa, the historic Yalova Thermal Baths, located in northwest Turkey. Under the plan, private companies would rent out, or restore, operate and transfer (ROT) the old baths back to the state. The baths have been a popular spa since Roman times. Kemal Atatürk (1881-1938), founder and first president of the Turkish Republic, built a summer home at the spa and had the leading landscape artist of the country build public parks there.

The Thermal Tourism Cities Project

A new initiative by the Turkish government could soon be bringing an estimated £8 billion-worth of potential revenue into the country. The TTCP, launched in January 2007 by the Ministry of Tourism, aims to establish the country as one of the world's leading thermal tourism destinations.

According to the Turkish Geothermal Association (TGA), Turkey has the world's seventh-largest (and Europe's largest) thermal resources with over 1,300 sites of thermal interest across the country. Despite this abundance of thermal riches, however, the Turkish thermal tourism market is near-virgin territory: only 10,000 foreign tourists visited Turkish thermal sites in 2005, compared with the nearly 12 million visitors who made the trip to the Japanese spa city of Beppu last year alone. The TGA estimates that the country's thermal resources could cater for over 30 million visitors annually.

"*The thermal waters of Turkey are better than those of Europe because of the flow and heat of the Turkish waters, as well as their various physical and chemical features*," said TGA president Orhan Mertoglu. These areas will receive extra government funding both to develop thermal sites and to promote new and existing facilities at home and abroad.

Commercial interest in the thermal potential has already made itself known in the form of a £25.6-million investment by French and Turkish firms and governmental bodies into the city of Denizli, some 200 km north of Dalaman. The Pamukkale Thermal Cure Center, due to be completed in approximately seven years, will eventually be able to handle some 1,500 visitors per day.

Turkey as a Growing Health Tourism Destination

Going in hand with the thermal facilities is also the wider possibility of establishing retirement or residential health complexes which have proved profitable elsewhere in Europe. "*This could be the beginning of a very interesting and lucrative shift in an already dynamic market*." said regional property expert Pik Greune.

An important new development is towards receiving incoming patients from European and Middle Eastern countries for treatment in Turkey. The country has raised its profile as a destination for health tourism. The health and medical tourism has the potential of making important contributions to the economy. Some arrangements have been made for patient exchange on a private basis from various European countries including the Netherlands and UK.

The most promising areas include ophthalmic, cosmetic surgery, cancer treatment and dentistry. For example, the new hospital of Dünya Eye Hospital, which was opened in June 2004 as the world's biggest eye hospital, attracts patients from more than 40 countries. Progress towards the EU accession will further help this potential to materialize.

Dr. Hakan Yılmaztürk from Hayat Hospitals said on the issue: "Treatment expenditures are three-to-four fold in Europe compared with Turkey, while Turkey ranks in top positions regarding the level of health technology and skill. Equipped with millions of dollars worth of equipments, many hospitals have significant expectations regarding the tourist flow, in particular from Europe. This potential is a fact which is recognized at global platforms as well." Regretting about the losses Turkey has been incurring in this area, Gracy Kohen, GM of Richmond Wellness-Nua in Sapanca, commented: " Resources Turkey has for health tourism are far above the world standards and we will not be surprised when a mass of people flow into Turkey for health tourism very soon."

Cultural Tourism

Cultural tourism and faith tourism are increasingly gaining recognition as areas of strong potential and present further scope for development. But this requires improving access and infrastructure and hence considerable future investments. Meanwhile, historical sites will now be opened to investors through a build-operate-transfer (BOT) model – bringing private capital into the preservation, renovation and marketing of these attractions.

Some 38 civilizations, ranging from the Hittites and Lycians to the Lydians and Romans, made Anatolia their home in the past. Turkey has an estimated 20,000 monuments and sites of archaeological significance, registered with the Ministry of Culture and Tourism.

Although Turkey is a country where more than 99% of the population is Muslim, it contains many holy sites of early Christianity and Judaism, making the country interesting for religious tours.

Since the global 2000th anniversary celebrations of the birth of Jesus, Turkish travel agencies have begun offering "tours of faith" to a combination of Jewish, Christian and Islamic shrines and sites in Turkey.

"The philosophy on which our tours of faith are based is to convey to the world that we are keeping the traditions of our ancestors alive who enabled all the communities to live together in tolerance," a senior tourism official said.

Christianity spread west from the Holy Lands in the Eastern Mediterranean through Anatolia to Europe. Christianity came to Anatolia seven centuries before the Islamic faith.

Many sites of Christian pilgrimage are located in Turkey, such as the last House of the Virgin Mary, near the ruins of Ephesus, a Roman city in western Turkey. The Seven Churches or early Christian communities, mentioned in the New Testament's "Book of Revelations," are located in

Turkey: Laodicia (near Pamukkale), Sardis (east of Izmir), Philadelphia (Alaşehir -- not to be confused with the American city), Thyatira (Akhisar), Ephesus, Smyrna (Izmir), and Pergamum (Bergama).

St. Paul the Apostle was born in Tarsus, along the Mediterranean coast and journeyed the length of the southern and western coast of Anatolia from Antioch-on-the Orientes (Antakya) to Alexandria Troas (Odun İskelesi) during the middle of the first century as part of his missionary travels to spread the Gospel.

Many of the first consuls of Christianity gathered in Turkey, including İznik, the ancient Nicaea, where the first Ecumenical Council met in AD 325 to promulgate the Nicene Creed, one of the major statements of Christian belief.

Saint Nicholas, the bearer of gifts, was born in Myra (Demre), and a festival is held every year in the Turkish Mediterranean town in his honor every year.

The country also has many old Jewish sites, including the remains of the third century Synagogue at Sardis -- the world's largest known Jewish shrine, as well as the Ahrida Synagogue in Istanbul, which existed long before the Turkish conquest of the city and is still in operation.

Meanwhile, Turkish Airlines has finished the integration process to become the Star Alliance's 21st member carrier. Canadians and Turkish travellers may now look forward to direct flights between Canadian airports to Turkish ones and connecting Eastward to Turkic Republics in Central Asia. Turkey and Canada on March 20, 2008, also signed an air transport accord that allows scheduled direct fights between the two countries. For passengers, these agrements mean more frequencies, a wider choice of destinations and better connections.

3.13 AUTOMOTIVE

Motor vehicle production takes nose dive after record output in 2008

Turkey's motor vehicle industry, which was one of the fastest growing in the world, went into a tailspin in the first quarter of 2009, because of the recession in the European Union, its main export market. Nearly 80% of Turkey's motor vehicles are exported.

The country in 2008 produced a record-smashing 1,171,917 motor vehicles, including 621,567 automobiles, a three percent increase from the same period in 2007 and more than a fivefold increase from 1990, the Automotive Manufacturers' Association (OSD) reported.

Turkey manufactured a total 1,024,987 motor vehicles in 2006, 914,315 motor vehicles in 2005, 430,947 vehicles in 2000 and 209,150 in 1990. It produced only 3,000 vehicles in 1963 – all farm tractors. Today, 14 out of every 1,000 motor vehicles produced in the world are manufactured in Turkey.

But in the first three months of 2009, Turkish motor vehicle output stood at only 145,833 units, a 59% drop from the same period in 2008. Motor vehicle production has been falling since last August. Motor vehicle exports also plunged 56% in January-March 2009 to 121,478 units. Experts say the skid is likely to continue until the fourth quarter of this year when the decline will level off. But it may take several years before full recovery takes place and last year's levels of output are once again reached.

Three major manufacturers have gone out of business in the past two years: commercial vehicles producers Otoyol, Askam and tractor manufacturer Uzel Makine. The global economic meltdown has left hundreds of small size Turkish suppliers in financial straits, requiring a restructuring of bank debts.

All major foreign automotive companies have operations in Turkey, including Ford, Toyota, Mercedes Benz, Hyundai, MAN, Renault and Fiat. Turkey has 16 large motor vehicle manufacturers. Most of these companies in the sector are either foreign-owned or joint ventures with foreign manufacturers. Some produce under license agreements with foreign manufacturers. In addition to passenger cars, farm tractors, trailers, light and heavy-duty trucks, pick-up trucks, passenger buses, mini and midi buses are produced in Turkey. The country also has thriving components, parts and tire industries.

Many of the vehicles produced in Turkey are now domestically designed and manufactured only locally and nowhere else.

TURKISH AUTOMOTIVE PRODUCTION 1990-2009

YEAR	TOTAL VEHICLE PRODUCTION	AUTOMOBILE PRODUCTION
1990	209,150	167,556
1995	282,440	233,412
2000	430,947	297,476
2001	270,685	175,343
2002	346,565	204,198
2003	562,466	294,116
2004	862,035	447,152
2005	914,359	453,663
2006	1,024,987	545,682
2007	1,132,932	634,883
2008	1,171,917	621,567
2008*	358,331	187,348
2009*	145,833	91,155

January-March

Source: Automotive Manufacturer's Association (OSD)

The automotive industry has developed spectacularly since the launching of Turkey's customs union with the European Union (EU) in 1996, with most of world's major manufacturers deciding to establish production bases in Turkey for sales both to domestic and export markets. A boom in exports has driven production increases.

TURKISH MOTOR VEHICLE PRODUCTION IN 2007-2008 IN UNITS			
	2007	**2008**	**% Change**
AUTOMOBILES	**634,883**	**621,567**	**-2**
COMMERCIAL VEHICLES	**464,530**	**525,543**	**13**
--Midsize Trucks	28,388	28,904	2
--Light Trucks	6,156	7,896	28
--Pick up Trucks	391,737	449,434	15
--Buses	6,945	7,896	8
--Minibuses	21,299	21,123	-4
--Midibus	9,305	10,660	15
FARM TRACTORS	**33,538**	**24,807**	**-26**
TOTAL MOTOR VEHICLE PRODUCTION	**1,132,951**	**1,171,9**	**3**

Source: Automotive Manufacturers' Association (OSD)

TURKISH MOTOR VEHICLE EXPORTS IN 2007-2008 IN UNITS			
	2007	**2008**	**% Change**
AUTOMOBILES	**504,353**	**525,301**	**4**
COMMERCIAL VEHICLES	**316,017**	**384,969**	**22**
--Pick up Trucks	295,585	366,646	24
--Minibuses	2,695	851	-67
--Trucks	9,398	9,742	4
--Midibuses	2,987	2,180	-27
--Buses	5,352	5,510	3
FARM TRACTORS	**9,509**	**10,493**	**10**
TOTAL MOTOR VEHICLE EXPORTS	**829,879**	**920,763**	**11**

Source: Uludag Exporters' Associations (UİB)
Central Anatolian Exporters' Associations (OAİB)

TURKISH AUTOMOTIVE INDUSTRY EXPORTS 2007-2008 (IN U.S. DOLLARS)			
Sector	**2007**	**2008**	**% Change**
Motor Vehicle Exports	**12,782,627,326**	**14,872,403,452**	**16**
-- Passenger Cars	6,849,650,057	7,495,704,534	9
-- Buses	1,099,543,073	1,239,947,457	13
-- Others	4,833,434,196	6,136,751,461	27
Total Side Industry Exports	**6,320,762,302**	**7,016,601,111**	**11**
--Spare Parts and Components	5,225,898,830	5,807,139,074	11
--Tires and Tire Tubes	895,748,611	976,029,024	9
--Batteries	102,269,786	127,902,222	25
--Auto Glass	96,845,075	105,530,791	9
Total Automotive Expor	**19,103,389,628**	**21,889,004,563**	**15**

Source: Uludag Exporters' Associations (UİB) and Central Anatolian Exporters' Associations (OAİB)

The nation in 2007 ranked seventh biggest motor vehicle manufacturer in Europe and 16th largest in the world, according to the Paris-based International Motor Vehicle Manufacturers' Association (OICA). In Europe, only Germany, France, Spain, England, Russia and Italy manufactured more vehicles than Turkey in 2007.

Turkey is Europe's third biggest producer of light commercial vehicles (LCVs -- pick up trucks and minibuses) after Spain and France, and the largest manufacturer of passenger buses. It was expected to become the largest producer of light commercial vehicles in Europe and move up a couple of scales in car production by 2010 as a result of new massive investments.

A major project in this field is the development of the Minicargo vans by automaker Tofaş. Under this project, the company is spending $410 million to design and produce the commercial vehicles for Fiat, PSA Peugeot and the Citroen Group. It plans to turn out 135,000 commercial vehicles a year for eight years, starting in 2008. Ninety-five percent of production would be exported, one-third to Fiat, one-third to PSA Peugeot and one-third to Citroen.

Turkey's biggest motor vehicle manufacturer, Ford Otosan, a joint venture between Ford and Turkey's Koç Group, plans to export its Ford Transit LCVs to the U.S. starting in 2009. The motor vehicle industry is export-oriented – nearly 80% of all automobiles and 69% of all commercial vehicles are sold abroad. About 70% of all of its vehicle exports are destined to the nations of European Union.

The OSD has set a target to double production by 2012 to over 2 million vehicles and make the automotive industry the biggest sector of Turkey, overtaking the combined apparel and textiles, carpet and leather industries. According to the OSD, the industry could employ 600,000 people, three times more than it does today and earn $60 billion annually from exports. It earned a record $21.889 billion in exports in 2008, a 15% jump from 2007, according to the Uludağ Exporters Association, a trade group.

"If someone had told me 15 years ago that we planned to produce 2 million vehicles a year in Turkey, I would have fainted. Now, I believe it is a distinct possibility," Toyota Turkey's Chief Executive Officer Tamer Ünlü, speaking at the First International Istanbul Automotive Congress (Automotivist) in November 2007, said.

DEVELOPMENT IN THE AUTOMOTIVE MARKET, 2001-2008
000 Units

	2001	2002	2003	2004	2005	2006	2007	2008
Production	286	357	562	862	914	1,024	1,132	1,171
Exports	202	262	360	518	561	706	828	920
Sales	195	175	401	754	763	670	641	526
Imports	94	83	223	436	438	384	359	306
Share of Exports, %	71	73	64	60	61	69	73	79

Source:**(Automotive Manufacturers' Association (OSD)**

Canada's Magna plans to manufacture automobiles in Turkey

Turkey's rapid growth in the motor vehicle industry has attracted the attention of Canadian automotive giant Magna, which is considering investing $500 million in an automobile plant in Tekirdağ province, 120 miles west of Istanbul, Turkish Industry and Trade Ministry officials said.

Magna, which is capable of producing all the parts of motor vehicles, also produces complete vehicles for BMW, Mini Cooper, Steyr, Chrysler, Mercedes Benz and Saab at its plants around the world.

Özlem Gürsen, secretary general of the Association of Automotive Parts and Components Manufacturters, told the newspaper Milliyet, that Magna, controlled by Austro-Canadian businessman Frank Stronach and Russian oligarch Oleg Deripaska, planned to initially produce 80,000 passenger cars a year in Turkey.

Added Erdem Durmaz, Magna's representative in Turkey: *"Magna has great plans for Turkey. It intends to build an automobile factory in Turkey, but hasn't decided as yet which brand to produce. It could be a BMW or a Mini Cooper."*

TURKISH MOTOR VEHICLE PRODUCTION IN 2008 BY COMPANIES (IN UNITS)				
Companies	**Passenger Cars**	**Commercial Vehicles**	**Agricultural Tractors**	**Total**
Oyak-Renault	**286,695**			**286,695**
Ford Otosan		**268,761**		**268,761**
Tofas	**76,688**	**190,748**		**267,436**
Toyota	**126,521**			**126,521**
Hyundai Assan	**81,590**			**81,590**
Honda Turkey	**50,073**			**50,073**
Turk Traktor			**22,102**	**22,102**
M. Benz Turk		**20,800**		**20,800**
Karsan		**11,230**		**11,230**
Temsa		**10,542**		**10,542**
Anadolu Isuzu		**10,007**		**10,007**
B.M.C.		**8,736**		**8,736**
Otokar		**3,023**		**3,023**
Uzel			**1,786**	**1,786**
MAN Turkey		**1,696**		**1,696**
Hattat Tarım			**919**	**919**
TOTAL	**621,567**	**525,543**	**24,807**	**1,171,917**

Source: Automotive Manufacturers' Association (OSD)

The main strengths of Turkey's automotive sector include:

- ✓ Existence of capacity suitable for the economies of scale
- ✓ Strong auto parts industry with a diversified product portfolio
- ✓ Strong cooperation with foreign partners and development in R&D capacity
- ✓ Growth potential in the domestic market
- ✓ Proximity to developing and developed markets
- ✓ Alignment with international technical legislation and quality system and perspective for EU accession
- ✓ Qualified and relatively cheap labor.

Prospects for the Automotive and Component Industries

Despite increasing exports, domestic demand is crucial for future investments in the automotive industry. In this framework, the level of income, interest rates and consumer confidence are critical determinants in the development of domestic demand. Due to its low saturation level, there is a high potential in domestic demand for automotive products.

AUTOMOTIVE PENETRATION RATES, JUNE 2007	Turkey	EU
Vehicles/1,000 persons	176	556
Passenger cars/ 1,000 persons	88	476

Source: Turkish Statistics Institute

The high quality of the industry in terms of production technology, innovation capacity and human resources is appreciated worldwide. Geographical position and logistic opportunities make Turkey an attractive location for automotive investments. Turkish companies are aware of the importance of these factors for global competition. Turkey is also showing good progress in harmonizing its legislation and regulations on the automotive sector with those of the EU in matters such as fair competition, consumers, patents, machinery directives etc. The country's legislation is generally in line with international rules of free trade within the context of the Customs Union and WTO (World Trade Organization).

"It has become much too costly to produce motor vehicles in western Europe. European Union motor vehicle manufacturers are outsourcing their production to the new accession countries of Hungary, Slovakia, Poland, and Romania and to candidate country Turkey," Ercan Tezer, secretary general of the OSD, said in an interview with FDI Magazine. *"The present day success of Turkey's motor vehicle industry is the result of investments made in the past. If the nation wants to maintain its position and to make new moves it must make new investments. Foreign direct investment is the key in this area."*

Automobiles

Turkey has five automobile manufacturers:

- Oyak Renault, a joint venture between Turkey's Armed Forces Pension Fund (OYAK) and France's Renault.
- Toyota;
- Tofaş, a partnership between Italy's Fiat S.p.A. and Turkey's Koç Holding.
- Honda Turkey.
- Hyundai Assan, a joint venture between South Korea's Hyundai and Kibar Holding of Turkey.

The domestic market is dominated by imports – about two-thirds of all cars sold in Turkey in 2007 were imports.

Foreign carmakers have been more successful in marketing their vehicles in Turkey than domestic producers because they offer a wider variety of automobiles than produced in the country. The continued strength of the New Turkish Lira (YTL) combined with low cost bank loans often makes imported passenger cars affordable. Many middle and upper class Turks also prefer imported cars to locally manufactured vehicles as status symbols.

Renault, Hyundai, Toyota, Ford, Fiat, Opel, and Volkswagen (VW), were the top automobile sellers in Turkey in 2008. Some 47 manufacturers sold cars in Turkey in 2008. Ford, Opel and VW sell only imported cars

Commercial vehicles

Some 10 major companies, led by Ford Otosan, produce commercial vehicles in Turkey, including light trucks, mid-sized trucks, pickup trucks, buses, minibuses, midi buses.

Other manufacturers are Tofaş, Hyundai Assan, BMC, (owned by the Çukurova Group), Karsan, Mercedes Benz, MAN Turkey, Otokar, Temsa, Anadolu Isuzu.

Some 45% of all light commercial vehicles sold in Turkey are imports.

LEADING AUTOMOTIVE EXPORTERS OF TURKEY IN 2007 IN MILLION U.S. DOLLARS		
Company	**Amount**	**Business Area**
1 Ford Otosan	**3,413**	**Commercial vehicles**
2 Toyota Otomotiv Sanayi	**2,859**	**Automobiles**
3 Oyak Renault Otomotiv Fabrikalari A.S..	**2,589**	**Automobiles**
4 Tofas Türk Otomobil Fabrikalari A.S.	**1,529**	**Automobiles, commercial vehicles**
5 Bosch Sanayi ve Ticaret A.S.	**932**	**Auto parts**
6 Mercedes Benz Turk	**932**	**Passenger buses, commercial vehicles**
7 Hyundai Assan Otomotiv Sanayi A.S.	**728**	**Automobiles**
8 Goodyear Lastikleri	**420**	**Tires**
9 Kordsa Global End. Iplik ve Kord Sanayi ve Tic. A.S.	**267**	**Tire Cord Fabric**
10 Delphi Automotive Systems	**213**	**Auto Parts**
11 MS Jant ve Makina Sanayi	**185**	**Wheels**
12 Temsa San. ve Tic. A.S.	**184**	**Commercial Vehicles**
13 Turk Traktor	**147**	**Farm tractors**
14 Federal Mogul Segman ve Gomlek Uretim Tesis A.S.	**144**	**Auto parts**
15 Honda Turkey	**133**	**Automobiles**
16 Autoliv Cankor	**132**	**Seat belts**
17 Toyota Motor Europe Adap Branch	**132**	**Automobiles**
18 Brisa Bridgestone Sabancı I ve Tic. A.S	**117**	**Tires and tire tubes**
19 BMC San. ve Tic. A.S.	**98**	**Commercial vehicles**
20 Veleo Otomotiv Sis End. A.S	**88**	**Auto parts**
21 Heyes Lemerz Jantas San. ve Tic. A.S.	**87**	**Wheels**

Source: Turkish Exporters' Assembly (TIM), Istanbul Chamber of Industry

Farm Tractors

Turkey has two producers of large agricultural tractors: Türk Traktor, a joint venture between Koç Holding and New Holland; Hattat Tarım Makineleri turns out American Universal and Massey Ferguson tractors farm tractors under license. The company Erkunt produces small Turkish-designed tractors.

TOP 20 AUTOMOTIVE COMPANIES IN NET SALES IN 2007 (IN MILLION U.S. DOLLARS)	
Company Name	**Net Sales**
1 Ford Otomotiv Sanayi A.S.	6,198
2 Oyak Renault Otomobil Fabrikalari A.S.	3,697
3 Toyota Otomotiv Sanayi Turkiye A.S.	3,432
4 Tofas Türk Otomobil Fabrikası A.S.	3,107
5 Mercedes Benz Turk A.Ş.	1,849
6 Hyundai Assan Otomotiv San. Ve Tic. AS	1,422
7 Bosch Sanayi ve Ticaret A.Ş.	1,224
8 Temsa Sanayi ve Ticaret A.S.	950
9 Honda Turkey	776
10 BMC Sanayi ve Ticaret A.S.	730
11 Goodyear Lastikleri T.A.Ş.	689
12 Brisa Bridgestone Sabanci Lastik A.Ş.	656
13 Turk Pirelli Lastikleri	563
14 Delphi Automotive Systems Ltd. Co.	535
15 MAN Turkey	506
16 Turk Traktor	439
17 Kordsa Global	394
18 Componenta Doktas Dokumculuk	375
19 Otokar Otobus Karoseri Sanayi A.S.	369
20 Uzel Makina Sanayi A.Ş.	323

Source: Istanbul Chamber of Industry

Parts and components

The country has 800 components and parts and tire manufacturers. Eighty percent of the components used are locally manufactured.

The companies turn out a wide range of products including air brakes, agricultural equipment, air compressors, air filters, radiators, chassis frames and parts, springs, alternators, piston rings, tires, stabilizers, seats, shafts, hydraulic and pneumatic systems. They also produce suspension systems, body panels, fuel tanks, body parts, batteries, bolts and nuts, ball bearings, mirrors, engines, transmissions, windshield wipers, wheels, various aluminum and plastic parts, tires, and head lamps and electrical systems.

Some of the foreign companies with investments in the auto components industry include Magnetti Marelli (Italy), Mando Corp. (South Korea), Mecaplast (Monaco), Autoliv (Sweden), Bamesa Group (Spain), Robert Bosch (Germany), Hanil E Hwa (South Korea), Arcelor Auto (France), and Bosal Holding (Belgium). Federal Mogul (U.S.), Teksid (Italy), Heyes Lemmerz (U.S.), Arvin Meritor (U.S.), H.P. Chemie Pelzer (Germany), Exide Corp (U.S.), Faurecia (France), Sango Co. (Japan), Yazaki (Japan), Michelin Kronprinz (France), Goodyear (U.S.), Bridgestone (Japan), Toyoda Iron Works (Japan), ZF Lemförder (Germany), ZF Friedrichshafen (Germany) also have investments in Turkey.

> *"The components' industry,"* according to the Export Promotion Center of Turkey (İGEME), "*possesses a high technology and vertically integrated industrial infrastructure installed through investment incentives and foreign investments, know-how and licensing agreements with the most reputable companies of the world.*"

Tires

The Goodyear Tire Company; Brisa, a joint venture between Japan's Bridgestone and Sabancı Holding of Turkey; and Türk Pirelli, the Turkish subsidiary of the Italian Pirelli Tire Co., produce vehicle tires and tire tubes. The three control about 70% of the domestic market. A fourth company, Petlas, turns out aircraft tires as well as tires for commercial vehicles, cars and farm tractors and has a five percent market share.

Imported tires controlled one-fourth of the market. Some 100 brands, led by Michelin, are imported.

IV. HIGHLIGHTS OF TURKEY

4.1 BEYOND THE GLOBAL ECONOMIC CRISIS

Turkey was one of the fastest growing large economies of the world until it was roughed up by the global recession, sparked by the the U.S. mortgage morass and collapse of some major western financial institutions. The International Monetary Fund projects that the Turkish economy will contract 5.1% in 2009, and that its recovery will only begin in the second half of 2010.

The crisis, which began to hit Turkey's economy in the last half of 2008, has led to severe shortages in funds in the business world, a sharp drop in exports and increased unemployment. In the first quarter of 2009, Turkey's exports fell 32.9% to $21.009 billion from $31.326 billion in the same period in 2008. Export-oriented industries, such as automotive and textiles, have been the hardest hit sectors of Turkey's economy.

But the nation's banking and financial services, tourism industry and huge farm economy have proved to be resilient. A new standby agreement with the International Monetary Fund, some business leaders and bankers suggest, could help cushion Turkey from further global turbulence and help the nation come out of the economic crisis quicker.

As host of this year's annual World Bank and IMF general assembly meetings in Istanbul in October, Turkey is likely to serve as a role model for other emerging economies.

The country has had high growth rates over the past four decades. But growth has come in spurts and stalls, resulting in high inflation, budgetary and current account deficits, enormous public and private sector debts and political instability. The country had three military coups from 1960 to 1980, and a postmodern military-civilian intervention in 1997.

Robust growth marked Turkey's economy from 2001 to mid 2008. Driven by a surge in foreign trade, rising income levels and increased foreign investment, Turkey was one of the the fastest growing economies among the OECD countries. From the recession of 2001, the worst experienced in Turkey since World War Two, to the last quarter of 2008, the nation had 27 consecutive quarters of uninterupted growth. Signalling a break free from past practices, this performance was achieved in a disinflationary environment.

The GNP stood at $741.8 billion at current prices in 2008, nearly five times the $151 billion of 1990, after a new method of calculating national accounts was introduced. The new methodology takes Turkey's large unregistered economy into account. The CAGR (compound annual growth rate) from 1990 to 2006 was 6.3%. However, this period covered one of the worst periods in the Turkish history with two major financial crises in 1994 and 2001 and devastating earthquakes in the Marmara Region, the industrial heartland of Turkey. The CAGR realized as 8.1% during the 1995-2006.

A Leader in European Quality Initiatives

Turkish companies and institutions are known for their quality production, services and business
2007, Turkey was awarded the largest number of European Quality Awards. The Turkish winners have

Company/Organization	Parent Company/ Organization	Industry or Area of Activity
BRISA	Bridgestone/Sabancı	Tires
BEKO	Koç Group	Consumer durables
BOSCH	BSH	Automotive suplies
BEKSA	Bekaert	Tire steel cords
VITRA	Eczacıbaşı	Building materials
ARÇELİK	Koç Group	Consumer durables
NETAŞ	Nortel Networks/ Turkish Armed Forces Reinforement Foundation	Telecommunications
KOCAELİ CHAMBER OF INDUSTRY	Business Chamber	Nongovernmental Org.
ECA	Elginkan Group	Heating Elelments
SKF	SKF	Rollings

Source: ARGE Consulting

Turkey’s foreign trade booms

In the past three decades, Turkish leaders have adopted free market policies designed to integrate Turkey with the world economy. Under the late President Turgut Özal and his successors, the government encouraged Turkish companies to do business abroad.

In 2008, Turkey exported motor vehicles and automotive parts and components to more than 187 countries and autonomous regions and 14 free zones on five continents.

Exports of textiles and apparel, iron and steel, chemical products, electrical appliances, color television sets, textiles and textile raw materials, nonferrous metals, mineral products, grains, pulses, oil seeds, cement, ceramic tiles and sanitary ware and jewelry, have also boomed. Imports, chiefly in crude oil, natural gas, boilers and machinery, iron and steel, motor vehicles, electrical machinery, plastics, valuable metals and stones, organic chemicals, pharmaceutical products and optical equipment have also rocketed.

Turkey’s foreign trade increased 48-fold in the past 29 years from a mere $7 billion in 1979 to $333.8 billion in 2008, according to the Turkish Statistical Institute. Exports have risen from about $2 billion in 1979 to $132.003 billion in 2008. Imports have ballooned from $5 billion to $201.823 billion in 2007.

Many imported items previously banned in Turkey, such as computers, foreign-made automobiles and commercial vehicles, mobile phones, furniture, and food stuffs, are now available on the market and compete with domestic products.

Turkey’s increased economic clout has helped the country extend its political and economic influence in the Balkans and in the Turkic Republics of the former Soviet Caucasus and Central Asia since the breakup of the USSR and Yugoslavia. Turkish companies are among the biggest foreign investors in Romania, Bulgaria, Russia, Egypt, Ukraine, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan, Iraq and Syria.

Demographic window of opportunity

Turkey offers a demographic window of opportunity for Canadian investors.

The country is a nation of young people. More than half of its population is under the age 25.

The nation's population has grown from 13.6 million in 1927 to over 75 million in 2008. By the end of 2013, Turkey is expected to have 79 million inhabitants. It already has the third largest population in Europe after Russia and Germany and is expected to surpass Germany in the next eight years.

Prime Minister Recep Tayyip Erdoğan has urged Turkish families to have at least three children each to maintain the nation's young population. Most of the industrialized nations of the West are now grappling with aging populations.

Inflation continues to drop

International Monetary Fund-backed programs have helped Prime Minister Recep Tayyip Erdoğan's government push down inflation to single digits from around 69.5% in 2001, introduce a new currency, the new Turkish Lira, achieve six years of strong growth and help draw record foreign investment and capital. Year-to-year inflation in March 2009 stood at 7.89%.

The Rapid Urbanization of Turkey

Since World War II, millions of peasants from the countryside seeking work opportunities and higher living standards have migrated to the cities.

About 70% of Turkey's population lives in cities today, compared to only 25% in 1950. By the year 2015, 75% of Turkey's projected 80 million will be living in urban areas. Some 17.8% of Turkey's population already lives in Istanbul – a nightmare scenario for the city's urban planners.

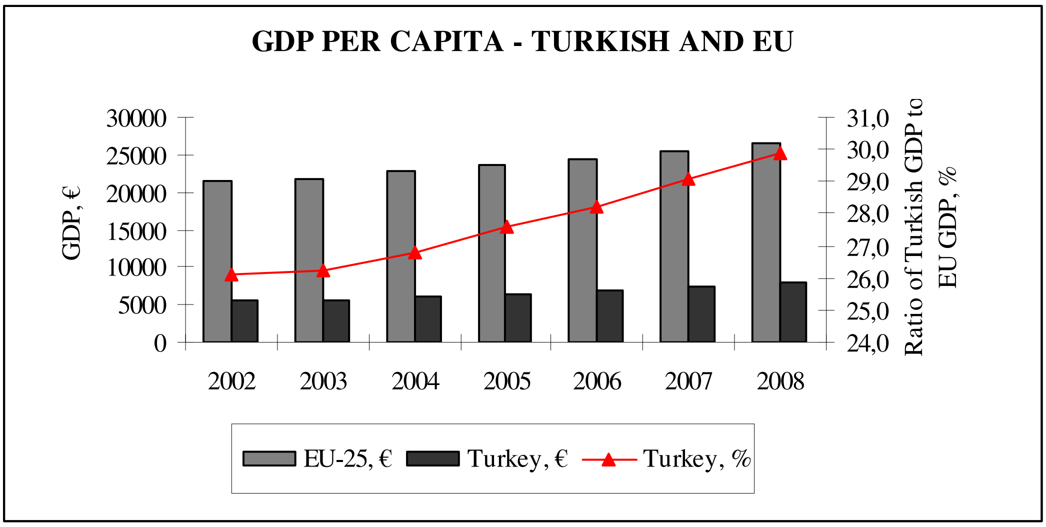
The shift in population from rural areas to the cities in the past six decades has financially overstretched government resources, compelling state planners to find ways to create millions of new urban jobs and invest billions of dollars in new housing projects, infrastructure, health services and schools and universities in the metropolitan areas of the country.

But Turks are paying a high price for their fast growth with record current account deficits that are unsustainable, rising foreign and domestic debts and a stubornly high unemployment rate that defies to be beaten back. Economists were also warning that the country's economic growth and reforms haven't filtered down to low income groups -- some 12.930 million Turks were living under the poverty line, or 17.24% of the nation's population, according to the Turkish Statistical Institute (TUİK). Turkey's foreign debts stood at $276.8 billion at the end of 2008 -- and $185.1 billion of this stemmed from the private sector, the Undersecretariat of the Treasury reported. Central government domestic debt was $241.528 billion at the end of 2008.

FDI Aal PERCENTAGE OF CURRENT DEFICIT, 2002-07
$ million

	FDI	Current balance	Share, %
2002	1,137	-1,524	74.6
2003	1,752	-8,036	21.8
2004	2,883	-15,601	18.4
2005	9,801	-22,603	43.3
2006	20,168	-31,679	63.6
2007	21,863	-37.996	57.5
2008	14,442	-41.416	34.9

Source: Central Bank of Turkey



Source: State Planning Organization (DPT)

4.2 CHALLENGES IN 2009

Political turbulence

Turkish military action against PKK bases in northern Iraq in early 2008 and increased clashes between PKK supporters and security forces in the cities of southeastern Turkey have led many Turks to believe that a more authoritarian government will be needed to maintain peace and unity in the restive southeastern provinces, and that the pro-Kurdish Democratic Community Party (DTP) will have to be shut down, its leaders and deputies be banned from public office. Chief Public Prosecutor Abdurrahman Kaya asserts that the party has organic ties with the outlawed Kurdistan Workers' Party (PKK), a terrorist movement that aims to establish a Kurdish state in eastern Turkey. All of this could harm Turkey's relations with the European Union in the short term, though it is unlikely to cause a break, or a slowdown, in the inflow of foreign direct investment into the country.

4.3 Future Prospects

Structural reforms and further progress in sound fiscal management continue to define the government's economic agenda in 2008 as well.

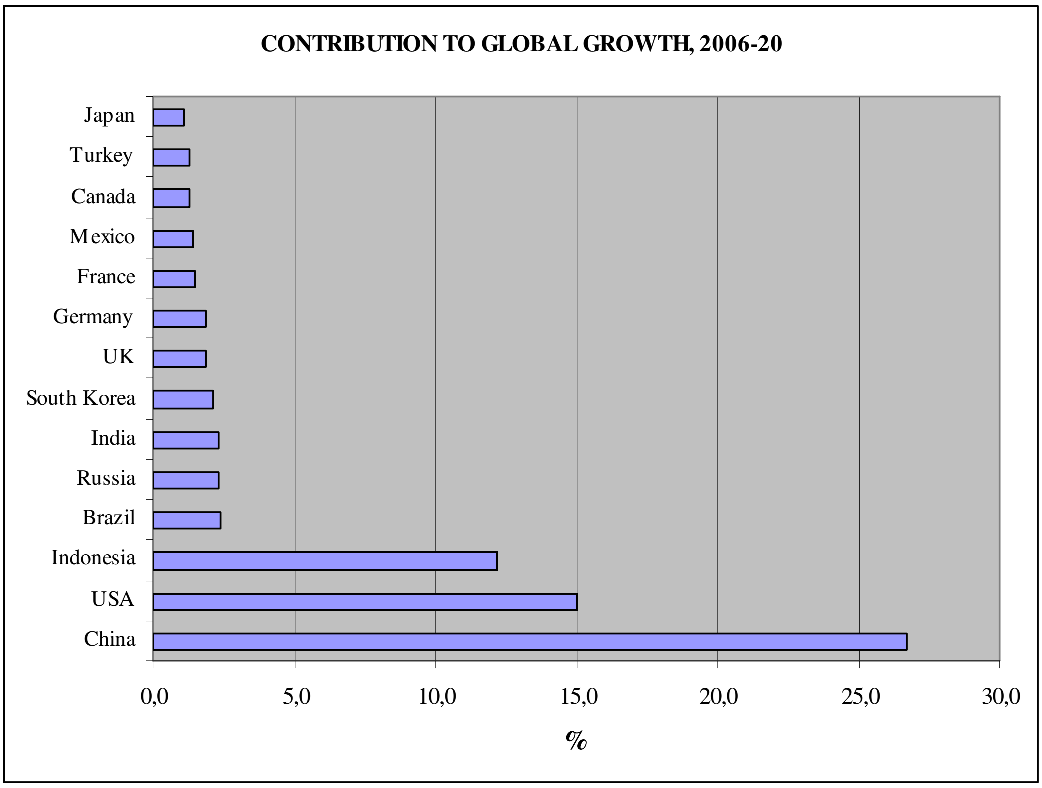
The government projects in the 7-year economic program an average growth of seven percent from 2007 to 2013. Turkey's State Planning Organisation of Turkey projects that the economy will have $10,000 per capita GDP and an overall GDP of $800 billion by then.

SELECTED MACROECONOMIC FORECASTS BY SPO, 2006-13

		Long Term Plan		
	2006	**2007**	**2013**	**Change, %**
Growth				
GDP ($ billion)	380.5	608.9	797.4	7.0
GDP per capita ($)	5480	7,500	10,099	9.9
GDP (PPP) per capita ($)	8,786	9,662	15,332	8.3
Population, million	73	75	79.0	-
Foreign trade				
Exports, FOB ($ billion)	95	107.1	210	14.2
Imports, CIF ($ billion)	133.3	169.9	275	10.9
Trade balance ($ billion)	-38.1	-62.8	-45	-
Average inflation (CIP) %	9.6	8.6	3.0	-

Source: State Institute of Statistics, The 2007 Plan; Long Term Plan, 2007-13, State Planning Organisation

The "Foresight 2020" study unveiled by the Economist Intelligence Unit in March 2006 lists Turkey among the leading 14 countries in terms of contribution to the global GDP. The study forecasts that Turkey will account for 1.3% of global GDP, outpacing Japan. Canada is also estimated to have a share of 1.3%.



Source: "Foresight 202", The Economist Intelligence Unit, March 2006

Turkey, as a member of "E7" will outpace G7 economies by 2050

One conclusion of the PricewaterhouseCoopers' recent report The world in 2050, is that by the year 2050, what the reports calls the "E7" economies — China, India, Brazil, Russia, Indonesia, Mexico and Turkey — will have outstripped the current G7 — US, Japan, Germany, UK, France, Italy and Canada - by between 25% when comparing GDP using market exchange rates to around 75% when using purchasing power parity (PPP) exchange rates.

Based on World Bank data, the report estimates that Turkey would grow more strongly due to its younger population, being of similar size to Italy by 2050 at both market exchange rates and in PPP terms.

Projected relative size of economies in 2005 and 2050 (US = 100)

Country (indices with US = 100)	GDP at market exchange rates in US $ terms		GDP in PPP terms	
	2005	2050	2005	2050
US	100	100	100	100
Japan	39	23	32	23
Germany	23	15	20	15
China	18	94	76	143
UK	18	15	16	15
France	17	13	15	13
Italy	14	10	14	10
Spain	9	8	9	8
Canada	8	9	9	9
India	6	58	30	100
Korea	6	8	9	8
Mexico	6	17	9	17
Australia	5	6	5	6
Brazil	5	20	13	25
Russia	5	13	12	14
Turkey	3	10	5	10
Indonesia	2	19	7	19

Source: **TheWorld in 2050, PricewaterhouseCoopers, March 2006**

The economies of Mexico, Brazil, Russia, Turkey and Indonesia are projected to grow from only around two percent to six percent of the size of the US economy at market exchange rates today to around 10-20% by 2050, although they are likely to remain significantly smaller than those of either China or India due to their much smaller populations. Turkey's GDP per capita is projected to be approximately $36,000.

Projected relative income per capita levels in 2005 and 2050

Country (in constant 2004 $ terms)	GDP per capita at market exchange rates		GDP per capita in PPP terms	
	2005	2050	2005	2050
US	40,339	88,443	40,339	88,443
Canada	31,466	75,425	31,874	75,425
UK	36,675	75,855	31,489	75,855
Australia	32,364	74,000	31,109	74,000
Japan	36,686	70,646	30,081	70,646
France	33,978	74,685	29,674	74,685
Germany	33,457	68,261	28,770	68,261
Italy	29,455	66,165	28,576	66,165
Spain	23,982	66,552	25,283	66,552
Korea	15,154	66,489	21,434	66,489
Russia	4,383	41,876	10,358	43,586
Mexico	6,673	42,879	9,939	42,879
Brazil	3,415	26,924	8,311	34,448
Turkey	4,369	35,861	7,920	35,861
China	1,664	23,534	6,949	35,851
Indonesia	1,249	23,097	3,702	23,686
India	674	12,773	3,224	21,872

Source: **TheWorld in 2050, PricewaterhouseCoopers, March 2006**

4.4 PRIVATIZATION AND FOREIGN INVESTMENT

Privatization

Turkey's ambitious privatization program is switching gears, shifting from the sale of sprawling state industries to the energy sector and infrastructure.

Since the program was initiated in 1985 to the end of 2008, the Privatization Administration (ÖİB), the main agency assigned to carry out the country's huge privatization program, has sold the state's shares in nearly 200 companies, generating a total $36.312 billion in revenues.

The state has exited from forestry products, petrochemicals, dairy, pulp and paper, oil refining and oil products retailing, tobacco and spirits, aluminum, animal feed, cement industries, and shipping. Several industries still remain in ÖIB's portfolio, such as the sugar concern Seker Fabrikaları A.Ş., but privatization in Turkey is now focusing on the energy sector, airports and ports, highways, banking and finance, real estate and services.

In the first quarter of 2009, the Sabancı Holding-Verbund and Enerjisa Joint Venture acquired Başkent (Capital City) Electricity Distribution Company, one of 20 regional power distributors in Turkey being privatized, for $1.250 billion, while the Ak Enerji-Cez joint venture acquired Sakarya Electricity Distribution Company for $600 million. In January, France's GDF Suez acquired the operational rights of the Izmit gas company, IZGAZ, from Municipality of Greater Kocaeli in western Turkey, for 25 years for $522 million. IZGAZ supplies 1 billion cubic meters of natural gas to subscribers in the city each year.

MAJOR SALES OF STATE ASSETS CARRIED OUT BY THE PRIVATIZATION ADMINISTRATION IN 2009

Company Privatized	Acquiring Company	Purchase Amount in Million U.S. Dollars
Capital City Electricity Distribution Company	Sabancı Holding-Verbund-Enerjisa JV	1,250.000
Sakarya Electricity Distribution Company	AkCez	600,000
	Total	1,850.000

Source: Privatization Administration (OIB)

MAJOR SALES OF STATE ASSETS CARRIED OUT BY THE PRIVATIZATION ADMINISTRATION IN 2008

Company Privatized	Acquiring Company	Purchase Amount in Million USD
Petkim 52% stake offering	Socar-Turcas-Injaz Joint Venture	2,040.000
Turk Telekom %15 share Offering	Public offering	1,900.000
Sigara Sanayi Isletmeleri ve Ticaret A.S.	BAT	1,721.000
Ankara Dogal Elektrik's seven power plants, geothermal field and gas turbines	Zorlu Enerji	510.000
NITRO-MAK Makina Kimya Nitro Nobel Sanayi A.S. 33% stake sale	Altay Endüstri Yatırımları ve Ticaret-Altay Kolektif Sirketi – M. Murat Dural ve Ortağı – ANG Ali Nihat Gokyiğit Yatırım Holding- Viem Ticaret ve Sanayi Ltd Joint Venture	19.500
Tekel Pipe, Cut Tobacco and Waterpipe Brands	Medtur Gida Turizm Maden San. ve Tic. A.S.	0.350
	Total	6,295.786**

***Includes minor land sales.*
Source: Privatization Administration (OIB)

The biggest privatization implementation in 2008 was the 52% share offering of Petkim, the petrochemicals concern. A joint venture that included Azerbaijan's state oil company Socar, Turkey's energy investment company Turcas and the Azeri Injaz company, acquired the majority shares of Petkim for $2.040 billion. The ÖİB raised $1.9 billion from a public offering of 15% shares of Turk Telekom, the telecommunications concern. BAT acquired Sigara Sanayi İşletmeleri, the cigarette manufacturing arm of the former state tobacco monopoly Tekel, for $1.721 billion. Turkey's Zorlu Enerji acquired Ankara Doğal Elektrik's seven power plants a geothermal field and gas turbines for $510 million.

The biggest privatization to date was the Saudi Group Oger Telecom's acquisition of 55% of Türk Telekom, the state telecommunications concern, in 2005 for $6.5 billion.

In 2009, the ÖİB is expected to complete the privatization of the Ports of Bandırma and Derince, along the Sea of Marmara, and Samsun, on the Black Sea Coast, as well as the sale of Meram Electricity Distribution Company, and the national lottery, Milli Piyango.

Privatization authorities approved the sale of operating rights of the State Railway's (TCDD's) Port of Derince, in the Gulf of Izmit, along the northeastern shores of the Sea of Marmara, to Turkerler Investment Enterprise Group for $195.250 million.

They also approved the sale of Meram Elektrik Dagitim A.S to Alsim Alarko Sanayi for $440 million. Meram Elektrik Dagitim A.S. distributes electricity the south central Anatolian provinces of Kirsehir, Nigde, Konya, Karaman, Nevsehir and Aksaray. Meram Elektrik has 1.475 million subscribers and an 8% loss of power on the grid.

Çelebi Joint Venture placed the highest bid for Turkish State Railways Administration's (TCDD's) Port of Bandirma, along the Asian shore of the Sea of Marmara with a $175.5

Other major state companies coming up for privatization are:

- Some 29 major power plants in the next phase of the privatization of state economic enterprises.
- The remaining 75.02% stake in state-owned Türkiye Halk Bankası (Halkbank), Turkey's sixth biggest commercial bank, in block sales.
- The privatization of the Yeşilırmak, Çoruh and Osmangazi Electricity Distribution Companies. Investment analysts predicted that the country could attract more than $10 billion in funds through the tendering of the 20 power distribution companies because of the intense competition.

- The OIB is also planning to privatize the sugar mills of Turkiye Seker Fabrikaları (TSF), the state sugar concern in 2009, in six other groups or portfolios Shares of some state sugar factories, such as Konya Şeker Fabrikası, have been sold.
- The government in 2009 plans to hold a new tender for the rights to build and operate Bodrum-Milas International Airport because the current operators failed to carry out new investments as stipulated in its contract with the state. Teknotes Teknolojik Tesisler A.S. and Aerodrom Beograde Airport Ortak Girisim signed a contract in 2006 to operate the airport for 45 months for $100 million and renew it.

- The OIB in 2009 plans to launch tenders to transfer the operations of the Bosphorus Bridge and the Faith Sultan Mehmet Bridge in Istanbul, and nine express roads across Turkey. The express roads are the 921- km Edirne-Istanbul-Ankara Express Road; the 170-km Pozantı-Tarsus-Mersin Express Road; the 316 km Tarsus-Adana-Gaziantep Express Road; the 122-km Toprakkale-Iskenderun Express Road; the 141-km Izmir-Aydın Express Road; Gaziantep-Sanlı Urfa Express Road; Izmir and Ankara Ring Roads.
- The OIB is planning to sell its remaining 30 % share in the partially privatized telecommunications company Turk Telekom starting in 2009 through share sales. The OIB picked Deutsche Bank- Garanti Investment Securities A.S. as financial advisers for the public offering.
- The Istanbul Municipality intends to privatize the Istanbul Natural Gas Distribution Company (IGDAS) in 2009, first with a public offering and then with share sales.
- The government plans to privatize Terminal 1 Antalya Airport starting in 2009.
- The Municipality of Greater Istanbul has begun work on the privatization of Istanbul's Metro Lines and Light Rail Systems, the Istanbul Sea Bus Company (IDO), and municipal real estate development company Kiptas, and the Istanbul Natural Gas Distribution Company (IGDAS) and plans public offerings. Istanbul has 47 km of rail lines that will be extended to 100 km.
- The privatization process for Ankara's Municipality Directorate of Electricity, Gas and Bus Services (EGO) began in November. The company will be privatized because it is unable to pay its debts of around YTL 1 billion to the state petroleum pipeline company BOTAS. Ankara Mayor Melih Gokcek said the municipality expected to generate $3 billion from the sale. It isn't certain yet how EGO will be privatized.

- The government has authorized the Higher Planning Committee to tender the construction of $9.9 billion of Express Roads in western Turkey to the private sector on a "build-operate-transfer" (BOT) basis. The 781- km of highways will be tendered in nine sections and will include the 30 km Kinali-Hadimkoy Motorway, northwest of Istanbul, at a cost of $130 million; the 106 km Hadımkoy-Mahmutbey Motorway in northwest Turkey at a cost of $343 million; the 86 km Tarabya-Beykoz Motorway-at the cost of $2.2 billion; the 89-km Sarıyer-Yusa Highway for $2.251 billion; the 117-km Mollafenari-Akyazı Motorway in northwest Anatolia; the 30 km Izmit Junction for $350 million; the 62 km Kınali-Agacli Motorway for $529 million; the 115 km Garipce-Poyraz Highway for $2.036 billion; the 146 Omerli-Akyazı Highway for $1.258 billion. The highways will supplement the existing Trans European Motorway (TEM) will have a capacity for 506,000 vehicles a day. It also plans to tender the Izmit Bay Bypass Road and Izmir Highways. The Izmit Bay Bypass will include a bridge across the bay, tunnels and 44 km of highway, linking the northeastern coast of the Sea of Marmara with the town of Orhangazi, in Bursa province, and connecting to the new Izmir Highway for a total 404 km. The Izmir highway parking spaces every 20 km and service stations every 50 km and motels and hotels every 200 km.
- The state-owned Turkish Coal Corporation (TKI) is planning to open 20 more new lignite coal fields to the private sector under a plan to create jobs for 10,000 persons, produce 50,000 tons of coal and turn out 35 billion kilowatt hours of electricity annually. Winners of the contracts for the 10 biggest fields must build power stations to accompany the investments. The country has abundant supplies of low calorific lignite – 8.3 billion tons – that it wants to use to meet Turkey's growing demand for electricity. Rising prices for imported oil and natural gas are forcing Turkey's energy planner to reassess the country's domestic coal supplies. The other major coal fields to be transferred to the private sector include: Tekirdag-Saray, in European Turkey, with 129 million tons of reserves. The winner must build a 300 MW power station; Bingol-Karliova, in eastern Turkey, with 26 million tons of reserves. The winner is required to build a 100 MW power plant; Bursa-Davutlar, northwestern Anatolia, where a 160 MW plant has to be constructed; Denis, western Turkey, where a 160 MW power plant will have to be erected; Manisa – Eynez in western Anatolia where a 600 MW plant is needed. The coal will be used for heating and electricity; Kutahya-Derinsahlar, in western Turkey, where a 300 MW plant will be built. The coal is to be used for heating purposes and for power generation; Adana Tufanbeyli, southern Anatolia. A 600 MW power station needs to be built; Soma-Eynez, western Turkey, where a 300 MW plant has to be built.

- Turkey plans to privatize the state petroleum pipelines operator Botas, munitions producer Makine Kimya Endustrisi Kurumu (MKEK)and the General Directorate of Coal (TKI) when the global economic crisis is over. The three companies to be privatized are: Botas, the state company responsible for importation, transmission and distribution of oil and natural gas. Botas currently operates 3,374 km of crude oil pipelines and 10,526 km of natural gas pipelines, carrying 130.2 million tons of crude oil and 88 billion cubic meters of natural gas each year; MKEK, which comes under the Defense Ministry, is the state armaments manufacturer, operating 10 factories and producing ammunition, weapons, rockets, explosives, machinery, materials, and chemical products for the Turkish armed forces and for civilian use. TKI, Turkey's 18th biggest industrial company in terms of sales, mines lignite coal at seven big mines in western Turkey.

- The ÖİB plans to privatize the Bosphorus Bridge and the Faith Sultan Mehmet Bridge and nine toll express roads. The express roads are: the Edirne-Istanbul-Ankara Express Road; Pozantı-Tarsus-Mersin Express Road; Tarsus-Adana-Gaziantep Express Road; Toprakkale-İskenderun Express Road; Izmir-Aydın Express Road; Gaziantep-Sanlı Urfa Express Road; Izmir and Ankara Ring Roads.

- The ÖİB launched tenders in February for the privatization of the State Railways Ports of Bandırma and Samsun.

Privatization is also being carried out by the Savings Deposits Insurance Fund (TMSF), a state banking receivership fund that is selling companies and assets of more than 20 banks that collapsed since 1997. Other state agencies, banks and municipalities are also involved in privatization.

Major sales carried out by the TMSF in the past two years were the mobile phone services operator Telsim to Britain's Vodafone for $4.550 billion and a series of television channels and cement companies that were previously owned by the controversial Uzan Group but taken over by the receivership fund against its debts to the state over the collapse of its İmarbank.

ELECTRICITY DISTRIBUTION REGIONS TO BE PRIVATIZED			
1	Dicle (Diyarbakir, Mardin, Siirt, Sanliurfa, Batman and Sirnak provinces)	**12**	Uludağ (Balikesir, Bursa, Yalova and Canakkale)
2	Van Gölü (Van, Hakkari, Muş, Bitlis)	**13**	Trakya (Edirne, Kirklareli and Tekirdağ)
3	Aras (Erzurum, Agrı, Kars, Ardahan, Erzincan, Bayburt, and Iğdır)	**14**	AYEDAS (Asian side of Istanbul)
4	Çoruh (Trabzon, Rize, Artvin, Gümüşhane and Giresun)	**15**	Sakarya Electric (Sakarya, Bolu, Düzce and Kocaeli)
5	Fırat (Bingöl, Elazığ, Malatya, Tunceli)	**16**	Osmangazi (Eskişehir, Bilecik, Afyon, Kütahya, and Uşak)
6	Çamlıbel (Sivas, Tokat, Yozgat)	**17**	Boğaziçi (Istanbul – European Side)
7	Toroslar (Adana, Mersin, Osmaniye, Hatay, Gaziantep and Kilis)	**18**	Kayseri (Kayseri province)**
8	Meram (8th Region covering Kirsehir, Nevsehir, Nigde, Aksaray, Konya and Karaman)	**19**	Menderes (Aydın, Denizli and Mugla)
9*	Başkent Elektrik Dağıtım (9th Region, covering Ankara, Kirikkale, Zonguldak, Bartin, Karabük, Çankırı and Kastamonu)	**20**	Göksu (Adıyaman and Kahramanmaraş)
10	Akdeniz (Antalya, Burdur and Isparta)	**21**	Yeşilırmak (Amasya, Çorum, Ordu, Sams and Sivas)
11	Gediz (Izmir and Manisa)		

Each region with the exception of Istanbul province represents a single or several provinces. Power distribution in Istanbul province is separated in two regions the European side and the Asian side.
*****Power distribution in Kayseri province has already been privatized.***
Source: TEDAS

Turkey's Maritime Organization plans to transfer the operational rights of Galataport, the project for the renewal and operations of Istanbul's old passenger liner gateway, for 49 years, possibly in 2008. The first tender in February 2006 was cancelled after the State Planning Organization refused to approve the transfer of shares of Galataport to a consortium led by Israeli businessman Sammy Ofer's Royal Caribbean Cruises and Turkey's Global Investment Holding, because of irregularities in the tender. The consortium had offered $4.3 billion for Galataport. The new port will help transform Karaköy, a former 15th Century Venetian neighborhood with rundown, crowded, old apartment buildings, shabby business offices, port facilities, mosques, churches and synagogues, into the "new Barcelona" of Istanbul, in a major urban renewal. Some 5,000 historic buildings in the district will be renovated, and Istanbul's public brothels, located in Karaköy, will be moved outside the city. The Galataport Project, located between TDI Headquarters in Karaköy, next to the ferryboat landings, and Chamber of Maritime Commerce in Fındıklı, would include three hotels, restaurants, cinemas, convention centers, new customs facilities, cultural centers, playgrounds, a shopping center, a museum and a large automobile park, and a new quay.

STATE COMPANIES UNDER THE CONTROL OF THE PRIVATIZATION ADMINISTRATION BOARD (ÖİB)

NAME OF THE COMPANY	INDUSTRY	Share of ÖİB (%)
Sümer Holding A.Ş. *	Textile, leather, ceramics, carpet, sugar	100.00
Sümer Halı A.Ş.	Carpet	100.00
T. Denizcilik İşletmeleri *	Maritime	100.00
Tobacco, Tobacco Prod. Salt and Alcohol Ent.Inc. (TEKEL) *	Tobacco Products, Salt	100.00
Turkish Electricity Distribution Inc (TEDAS)*	Electricity Distribution	100.00
Ankara Doğal Elektrik Üretim ve Ticaret A.Ş.	Electricity Production	100.00
Türkiye Şeker Fabrikaları A.Ş. *	Sugar processing	100.00
KBİ-Karadeniz Bakır İşlet. *	Copper	99.99
T.Halk Bankası A.Ş. *	Banking	75.00
Doğusan Boru Sanayi ve Ticaret A.Ş.	Pipe Production	56.09
Turkish Airlines (THY)*	Airline	49.00
Türk Arap Pazarlama A.Ş.	Marketing	12.50
Kayseri Şeker Fabrikası A.Ş.	Sugar processing	10.00
T.İş Bankası	Banking	0.000001

***Some of the assets/ or shares of these companies have been privatized**
Source: Privatization Administration

ENTITIES IN THE PRIVATIZATION PORTFOLIO
MOTORWAYS AND BRIDGES

	Toll Motorways		Bosphorus Bridges
1.	Pozantı-Tarsus-Mersin	1.	Boğaziçi (Bosphorus)
2.	Edirne-Istanbul-Ankara	2.	Fatih Sultan Mehmet
3.	Tarsus-Adana-Gaziantep		
4.	Toprakkale-İskenderun		
5.	Izmir-Çeşme		
6.	Izmir-Aydın		
7.	Gaziantep-Şanlıurfa		
8.	Izmir ve Ankara Çevre		

ELECTRICITY ASSETS			
1	**Çatalağzı Lignite Generation Plant**	16	**Suatuğurlu Hydroelectric Generation Plant**
2	**Orhaneli Lignite Generation Plant**	17	**Kılıçkaya Hydroelectric Generation Plant**
3	**Seyitömer Lignite Generation Plant**	18	**Çamlıgöze Hydroelectric Generation Plant**
4	**Ambarlı Doğalgaz Lignite Generation Plant**	19	**Ataköy Hydroelectric Generation Plant**
5	**Ambarlı Fueloil Lignite Generation Plant**	20	**Köklüce Hydroelectric Generation Plant**
6	**Hopa Lignite Generation Plant**	21	**Almus Hydroelectric Generation Plant**
7	**Aliağa K.Ç.G.T. Lignite Generation Plant**	22	**Sarıyar Hydroelectric Generation Plant**
8	**Bursa Gas Lignite Generation Plant**	23	**Oymapınar Dam Hydroelectric Gen. Plant**
9	**Lignite Generation Plant**	24	**Gökçekaya Hydroelectric Generation Plant**
10	**Altınkaya Hydroelectric Generation Plant**	25	**Yenice Hydroelectric Generation Plant**
11	**Hirfanlı Hydroelectric Generation Plant**	26	**Beyköy Hydroelectric Generation Plant**
12	**Kesikköprü Hydroelectric Generation Plant**	27	**River Plants***
13	**Derbent Hydroelectric Generation Plant**	28	**Electricity Distribution Inc. (TEDAŞ)**
14	**Kapulukaya Hydroelectric Generation Plant**		
15	**Hasanuğurlu Hydroelectric Generation Plant**		

54 small river plants
Source: Privatization Administration Board (OIB)

OTHER ENTITIES IN THE PRIVATIZATION PROGRAM	
PORTS	**OTHERS**
1. State Railway's Bandırma Port	1. Foça Holiday Resort
2. State Railway's Izmir Port	
3. State Railway's Samsun Port	
4. State Railway's Derince Port	
5. Izmir – Çeşme	

Source: Privatization Administration

Foreign Investment

In 2008, Turkey attracted $14.442 billion in foreign investment, the lowest in three years, the Central Bank of Turkey reported. The country pulled in a record $21.873 billion in foreign direct investment in 2007. In

2006, the nation attracted a $20.1 billion in foreign direct investment (FDI), twice the amount of foreign investment that entered the nation in 2005 and 79 times more than the amount of investment that the country absorbed from 1954 to 1980. Turkey in 2006 ranked 16th in the world in attracting FDI and fifth among emerging markets.

About 70% of the FDI has been in mergers and acquisitions and the remaining has been in greenfield investments.

"Turkey has the potential to attract five percent of its GNP -- around $25 billion -- in foreign investment every year," Mustafa Alper, secretary general of the Foreign Investors' Association (YASED), declared in an interview.

Turkish authorities are approaching FDI without discriminating about the sector or origin, but give special attention to investments that will bring new jobs, know-how and generate value-added to the economy. Investments in information and communications technology, machine tools, machinery, metal processing, logistics and automotive industry, food processing, pharmaceuticals, energy, services and infrastructure are being particularly encouraged.

Consumer-oriented service companies are pouring into the country, mesmerized by the country's young population and rapidly changing shopping habits.

The three largest foreign investments in Turkey in the first two months of 2008 were:

- BAT's acquition of the cigarette manufacturing company of the former state monopoly Tekel for $1.721 billion.
- Britain's BC Partners' acquisition in February of Koç Holding's 50.83% share in Migros, Turkey's biggest retailer, for $1.645 billion.
- France financial giant AXA purchase of the Armed Forces Pension Fund's 50% stake in AXA Oyak Holding for $525 million. The acquisition gives AXA complete control over insurance companies AXA Oyak Sigorta and AXA Oyak Hayat Sigorta, two of the biggest in their fields of general and life insurance.

Mergers and Acquisitions

In 2008, Turkey had 171 cases of mergers and acquisitions (M&A), totaling an estimated $16.3 billion in investment, the U.S. consultancy company Ernest & Young said in a report published in January 2009.

It said that $5.718 billion in M&A activity involved energy companies, $2.394 billion in financial services, $2,062 billion in retailing, $1,954 billion in manufacturing, $1.076 billion in cement, $676 million in construction, $554 million in healthcare, $495 million in real estate development, $382 million in transportation and logistics, $232 million in media and entertainment, $228 million in textiles, and $569 million in other fields

Some 22 of the M&A transactions were in manufacturing, 17 in financial services, 16 in energy, 15 in services, 14 in food and beverages, 13 in retailing, 10 were in transportation and logistics, nine in media and entertainment, eight in the automotive sector, seven in heathcare, six in construction, five in real estate, and five in informatics. Twenty-four transactions were in other fields.

Canadian Pension Funds invest in Turkey

In February 2007, Teachers' Private Capital, the private investment arm of the Ontario Teachers' Pension Plan, and the Canada Pension Plan Investment Board jointly established Actera Partners, the largest private equity fund to date exclusively focused on investment opportunities in Turkey. The aim is to capitalize on the opportunities created by Turkey's emerging economic potential and its continued drive to modernize its financial and regulatory structures.

Actera Partners' investment strategy focuses primarily on buyout and growth equity investments as well as seeking to partner with Turkish companies in order to assist in their expansion efforts outside of Turkey. The fund had raised $450 million by March 2008, and its first major investment in Turkey was the acquisition of a minority stake in Mey İçki, a privatized alcholic beverages producer.

Jim Leech, Senior Vice-President of Teachers' Private Capital, said*: "Turkey is an attractive private equity market, with a large and growing population, a high number of quality mid-market businesses, and a developing economy which is expected to benefit from becoming increasingly harmonized with Europe."*

4.5 THE EU ACCESSION PROCESS

An associate member of the European Union (EU), Turkey began accession talks with the world's biggest trade bloc on October 3, 2005. Turkey also forged a customs union with the Union, when it removed all trade barriers in 1996 against industrial goods produced in the 27-nation emporium in return for the lifting of all quotas against Turkish textiles. It also enacted laws to protect copyrights, patents and brands and other intellectual property rights and adopted the lower tariff system of the Union against industrial products from third countries. About 56 of its exports went to the European Union and about 40% of its imports came from the 27 members of the Union in 2007.

But membership talks have moved forward at a snail's pace because of differences between Turkey and the Union over Cyprus and human rights.

Negotiations on only one chapter of 35 chapters, or policy areas -- science and research -- was begun and provisionally completed in June 2006. Negotiations on five other chapters, enterprise and industrial policy, financial control, statistics, consumer and health protection, and Trans European networks opened in 2007.

Turkey has submitted position papers on the chapters of education and culture, and economic and monetary policy, and EU positions were awaited.

The nation must complete reforms for negotiations to begin in 14 other chapters: public procurement, competition policy, free movement of capital, social policy and employment, agricultural and rural development, taxation, intellectual property law, customs union, food safety and veterinary and phytosanitary (plant health) policy, company law, financial services, free movement of goods, rights of establishment and freedom to provide services, and the environment.

Screening reports are awaited on the other chapters. Eight chapters have been blocked since the end of 2006 because of Turkey's refusal to open its ports and airports to ships and aircraft of EU member Greek Cyprus.

Turkey in return demanded that the Greek Cypriots open it ports to Turkish Cypriot ships and airplanes and urged the Union to end its 34-year embargo against the Turkish Republic of Northern Cyprus, the Turkish Cypriot ministate in the northern two-fifths of the divided Mediterranean island. Turkey refuses to recognize the Greek Cypriot administration in the southern part of the island as the sole government of Cyprus.

Cyprus has been divided since Turkey sent troops to the Mediterranean island in June 1974 to protect the Turkish Cypriot minority in wake of a coup against the Cypriot government, engineered by the junta then ruling Athens, aimed at uniting the island with Greece.

Despite the obstacles, the European Union in 2007 provided €497 million in aid to Turkey in the form of grants, and this figure is expected to increase each year until reaching €653.7 million in 2010. But large-scale EU funding for Turkey's huge agricultural sector and economically underdeveloped eastern parts of the country isn't forthcoming until Turkey itself carries out massive rural reforms.

Nevertheless, the European Investment Bank provided $3.1 billion in loans to Turkey from 2003 to 2005, including financing of a natural gas pipeline from Turkey to Greece to carry energy supplies from the Caspian region to Western Europe.

Additionally, some 370 projects of Turkish universities, industries and government organizations were designated to receive substantial grants through of the EU's Seventh Research Framework Program (2007-2013).

The projects cover research in the fields of health, energy, food and agriculture, biotechnology, environment, climate change, transport, space and security, nanotechnology, social and economic sciences, competition and innovation and information and communication technology.

Furthermore, thousands of Turkish university students and lecturers have received EU-funded scholarships and fellowships to study and teach at universities in member countries of the EU. Turkish companies are also allowed to bid for contracts in the EU.

Accession talks have also resulted in a stampede of European, American, Japanese and Arab investment into Turkey's banking, insurance sectors and brokerage services and a flurry of mergers and acquisitions in the fields of energy, health services, telecommunications, building materials, real estate development and other industries and services. The appetite for Turkish investments continues today, despite a tightening up of global liquidity.

V. DEİK

DEİK ADMINISTRATION

DEİK President
M. Rifat Hisarcıklıoğlu
Chairman of the DEİK Executive Board
Rona Yırcalı

DEİK / TURKISH CANADIAN BUSINESS COUNCIL ADMINISTRATION

Executive Committee

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Süreyya Yücel Özden	*Vice Chairman*	*Gama Construction*
Banu Tesal	*Vice Chairwoman*	*Nortel Networks Netaş*
Ruşen Çetin	*Vice Chairman*	*Tureks Import, Export & Trade*
Koray Arıkan	*Member*	*JP Morgan, Istanbul*
Sedat Eratalar	*Member*	*Borusan Makina*
Enver Güney	*Member*	*Uni-Mar Energy Investments*
Merve Kağıtçı	*Member*	*Mineks International*
Ayhan Yavrucu	*Member*	*Alarko Holding*

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