



TURKISH BUSINESS



IN THE BSEC REGION

**Direct Investments
Contracting Services
Prospects for Cooperation**



DIŐ EKONOMİK İLİŐKİLER KURULU
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TURKEY AND THE BLACK SEA ECONOMIC COOPERATION

The Black Sea Economic Cooperation (BSEC) consists of 12 member countries (Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia-Montenegro, Turkey and Ukraine) which gives this organization the advantage of being located on a strategically important region in the world. The BSEC region is located at the crossroads between Europe, Asia and the Middle East. It has a total population of 330 million, endowed with rich resources of oil, natural gas and raw materials, a strong scientific and technological base and high quality human resources.

Other important features of the BSEC region are as follows:

- A total territory of 19 million square kilometres,
- A total GDP of nearly \$1 trillion,
- A total trade volume of \$400 billion,
- A rapidly growing economy,
- Improving business climate,
- Strategic location on the transport routes of hydrocarbons,
- Rich and large agricultural areas.

A Brief History

BSEC was founded in 1992 as an initiative of Turkey. In the last decade of the 20th century, the Black Sea region was going through a dramatic transformation which had brought the region to a new threshold. The BSEC was established to serve the interest of security and stability both within and outside the Black Sea region, and it led to the creation of an environment conducive to the initiation of rapid reform towards the development of market economies as the basis for economic recovery and prosperity in the region.

On 25 June 1992, the heads of state or government of the eleven founding members (Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine) signed in Istanbul the summit declaration on the BSEC, thus setting up a regional structure of multilateral cooperation in various fields of economic activity.

With the establishment of the permanent International Secretariat in Istanbul, the Black Sea Trade and Development Bank in Thessalonica and the BSEC coordination centre for the exchange of statistical data and economic information in Ankara, the BSEC has created the necessary institutional, financial and analytical instruments for its efficient functioning and for the attainment of the objectives set forth in the summit declaration.

The Yalta summit of the heads of state or government convened on 5 June 1998 and signed the BSEC Charter. Following the ratification formalities, the charter came into force marking the official inauguration of the organization of the BSEC on 1 May 1999. Upon the resolution of the Tenth Council of Ministers of Foreign Affairs and the ratification of the BSEC Charter by its parliament, Serbia and Montenegro became a full-fledged Member of the BSEC Organization as of 16 April 2004.

The Vision

BSEC is playing an important role in the development of economic and social development and sustaining peace in the region. Improving economic and commercial ties between the member countries is seen as the most efficient means to achieve the ends mentioned above.

As the initiator of the BSEC concept, Turkey is working to improve its bilateral economic and commercial ties with each of the member countries and also to contribute to the development of multilateral structures. The private sector is playing a key role in improving the relations and the Turkish government is supporting the business circles in order to provide them with a competitive edge.

This report aims to provide a brief overview of the Turkish private sector's activities in each of the BSEC member countries and what prospects there are for cooperation.

ALBANIA

There are two major Turkish investor companies in Albania, both of which emphasize on the mining and metallurgy sector. The total amount of Turkish investment in Albania is estimated at \$40 million.

Investments

Kürüm Demir Çelik is active in a variety of commercial and investment ventures in Albania, including iron, steel, oxygen, lime, shipyard and harbour management. In 1998, the company bought the only melting and rolling plant in Albania during privatization. It invested heavily in the facilities located at the Elbasan Valley and increased the capacity from 150,000 tons/year to 300,000 tons/year. Steel plant investments were accompanied by rolling plant investments which resulted in the operation of these plants in 1998. As the only iron and steel plant in the country, it holds 65% of the domestic market. 90% of sales are made in the domestic market, and the company exports to Macedonia and Serbia-Montenegro as well.

Ben Öner Madencilik, purchased exploration and processing rights of Albania's copper reserves for 30 years. The company is on a BOT contract with the Albanian government.

In addition to the above mentioned investments, there is also a shoe manufacturing plant, snail processing facilities and several retail stores as well as restaurants with Turkish capital.

Contracting Services

Turkish contracting companies have so far completed projects with a total value of \$35 million. The leading firms in this sector are **Tepe İnşaat, Gintaş, Be-Ha-Şe, Seyaş Mühendislik, Tümaş** and **Enka**. Projects undertaken by these companies include the renovation of hospitals in Vlora and Shkoder, irrigation

projects in rural areas, drinking water supply project in Northern Albania, facilities to support Albanian refugees, construction of Rogozhina-Elbasan Highway, oil fields rehabilitation and construction of military facilities at the Port of Vlore.

Prospects for Cooperation

Albania is currently going through a process of restructuring, which provides significant business opportunities, especially for construction and engineering companies. Turkish companies can cooperate with potential partners in infrastructure projects. There are also prospects for investing in the following sectors: telecommunication, chemicals, banking and insurance, energy, tobacco, tourism, mining, machinery, plastics, food, cement and transportation. Opportunities include, but are not limited with, privatization projects.

ARMENIA

Armenia has a land border with the eastern part of Turkey. However, economic and commercial ties between Turkey and Armenia haven't been established yet due to the fact that several political issues between the governments of these two countries remain unsolved to this date. The border gate between Turkey and Armenia is closed to any kind of traffic.

AZERBAIJAN

Although Turkey's economic and commercial relations with Azerbaijan is much higher compared to those with other countries in the Caucasus, there is still much room to grow for these two neighbouring countries who share a common heritage. Turkey is one of the leading investors in Azerbaijan. Turkey's share in total foreign investments in Azerbaijan, which amount to \$8.7 billion, is around 15%. What makes Turkey special among all the foreigners investing in Azerbaijan is that it is the leading investor in non-petroleum sectors. During the decade following the collapse of the Soviet Union, more than 1,200 firms with Turkish capital had been registered in Azerbaijan, but currently half of them are active. The total amount of Turkish FDI in the Azeri economy is around \$1.5 billion.

Main areas of Turkish FDI in Azerbaijan are as follows: oil, telecommunication, foodstuff, banking and insurance, construction and construction materials, textile, automotive, transportation, chemicals, petrochemicals, iron and steel, energy, education, media, marketing, bakeries.

Turkish investors in Azerbaijan are regarded as good corporate citizens who contribute to the social life in the country as well. Currently 33 thousand Azeris are employed by companies with Turkish capital.

Currently, the most important item in the agenda between Turkey and Azerbaijan is the Baku-Tbilisi-Ceyhan (BTC) crude oil pipeline. The pipeline will

be 1,776 km long and have an annual capacity of 50 million tons. 90% of the pipeline is completed and it will start pumping oil by June 2005.

Investments

The **Turkish National Petroleum Company (TPAO)** is involved in 5 projects in Azerbaijan. The largest project is the Azerbaijan International Operating Company, where TPAO has a share of 6.75%. So far, TPAO has invested \$441.1 million in the project where BP is the major shareholder. Work has commenced in January 1995 and until now TPAO has earned \$329.8 million from oil revenues.

TPAO has 9% shares of the Shahdeniz Project in which it has invested \$55.9 million. Expected revenues are \$405 million. Another project is the Alov Project where TPAO has a 10% share and \$22.3 million investment. Currently this project is on hold due to a disagreement between Azerbaijan and Iran. TPAO has also invested \$16.9 million in the Kurdashi Project. The last project, which is the Shahdeniz-Transcaucasus Pipeline, is still waiting for the related agreements to be ratified by the governments involved in the project.

Turkcell, one of the leading GSM operators in Turkey, holds 65% of **Azercell Telecom** through its holding company Fintur. With a market share of 84%, Azercell is said to be the most successful joint venture in Azerbaijan. It has more than half a million subscribers, 173 dealers, 438 sub-dealers and 27,427 points of sale. Although it has only 228 employees, Azercell helps to create 25 thousand jobs in Azerbaijan.

Azersun group of companies is investing in Azerbaijan since 1994. With its local partners, the group is increasing its market share in the fields of trade, construction, packaging, transportation, vegetable oils, tea, paper boxes, napkins, investment banking and insurance. Azersun's production is not focused only on the Azeri market. The group exports to several countries including Syria, Iran, Iraq and CIS countries. The biggest investment of Azersun is the Oil and Food Plant in Baku.

Anadolu Holding, which is one of the leading players of the beverages sector in Turkey, owns 78% of this company which is producing Coca-Cola products at its plant in Baku. IFC and the Coca-Cola Corporation have shares of 10% each. The plant, which is constructed by a Turkish company, is operating since late 1996. With a distribution network of 340 retailers, Coca-Cola is the market leader in the region.

Migros Türk, the retail chain of the Turkish conglomerate **Koç Holding**, entered the Azeri market with an office in 1992 and opened its first supermarket in 1996 in Baku, under the brand **Ramstore**. Currently there are three Ramstore supermarkets in Azerbaijan.

A joint venture of two telecommunication companies, **Alcatel** and **Teletaş**, is active in the Azeri telecommunication market since 1992. Currently it serves 67% of all fixed line owners in Azerbaijan.

Koç Holding has also two companies active in the automotive sector, **RamAuto Baku** and **SetAuto Avis** and the bank of the group, **Koçbank**, is offering banking services. Other banks with Turkish capital in Azerbaijan are **Azer-Türk Bank**, where Ziraat Bankası has a 50% stake, **Baybank**, **Royalbank** and **Cibank**.

Contracting Services

According to the latest data released by the Undersecretariat of Foreign Trade, the total contract value of projects carried out by Turkish firms in Azerbaijan is \$1.38 billion. There are 54 Turkish companies involved in a total of 126 projects. The leading companies are **Atilla Doğan, Borova, Ekpar, Enka, Tekfen, Tepe, T. Hazinedaroğlu, TML, Yücelen** and **Zafer**.

Due to the economic and political instability of the region, the number of construction projects, in which Turkish companies are involved, is in a decreasing trend. This situation leads to financing problems which pose a great threat to the Turkish existence in the Azeri construction market.

Baku International Airport, Central Bank Building, Baku Shipyard, Coca Cola Plant, UNOCAL Building, Turkish Embassy, Ramstore Building, Azer Yapı Market Building, SPS Fabrication Yard, Caspian Training Centre, Karadagh Gas Compressor Station, Severnya Combined Cycle Power Plant and extraction facilities of the National Oil Company are among the most important works of Turkish contractors in Azerbaijan.

Prospects for Cooperation

As an economy in transition, Azerbaijan is currently taking steps in establishing its institutional infrastructure and industrial base. Most of the factories in Azerbaijan are operating at half capacity because of the lack of investment and raw materials. These facilities offer good opportunities for Turkish companies.

Turkish companies already active in Azerbaijan benefit from their long time experience in this market as well as similar understanding and ways of doing business with their Azeri counterparts. For this reason, Turkish companies would be the most appropriate partners for companies from other countries interested in doing business in Azerbaijan.

The greatest economic potential in Azerbaijan is offered by the following sectors:

IT: Digital phone lines, modernisation of post offices, production of hardware and software, security systems.

Food: Poultry, dairy products, pasta, biscuits, candies, chocolate, fruit, beer, processed food, meat products, and soft beverages.

Manufacturing: Automotive, spare parts, bicycles, motorcycles, household products, toys.

Construction materials: Cement, lumber, iron, electrical goods, ventilating systems, iron pipes and pipe curves, isolating materials, accessories, vents, prefabricated structures.

Chemicals: Plastics and plastic products, rubber, fertiliser, chemicals used in construction, paint and preservatives, paper, industrial detergents.

Health care: Drugs, pharmaceutical products, medical equipment, dentistry equipment, baby formulas.

Agriculture: Seeds, agricultural machinery, chemicals, laboratory equipment, services, irrigation systems.

Textile: Cotton linen, leather and leatherwear, shoes, workplace safety equipment, clothing, sports equipment.

BULGARIA

During the last decade, economic relations between Bulgaria and Turkey have been continuously improving. The legal and regulatory framework on the intergovernmental level is a full and comprehensive one. This is due to the active dialogue between two countries.

According to the latest data released by the Bulgarian Agency for Foreign Investment, Turkey is the 13th largest investor country in Bulgaria. The total amount of Turkish direct investment in Bulgarian economy is nearly \$150 million. The constant improvement could be clearer considering the zero amount of Turkish direct investment in the country in the year of 1992.

Investments

Soda Sanayi, the main raw material supplier of Turkey's glass conglomerate **Şişecam Group**, has a partnership with the world's largest soda producer, the Solvay Group from Belgium, in the Bulgarian producer Sodi-Devnya since 1997. The plant in Bulgaria has an annual production capacity of 1.2 million tons and Soda Sanayi has the rights to 25% of production.

Another subsidiary of the Şişecam Group, **Trakya Cam**, is also investing in Bulgaria. The company is currently constructing a glass plant in the Targovishte region. The construction has commenced in July 2004 and the plant will produce glass and glass products.

Şişecam Group plans to carry out greenfield projects in Bulgaria, which include the construction of two sheet glass factories. It is said that there are conditions for the construction of a facility for household glassware in Bourgas.

Süzer Holding acquired 87.5% shares of the biggest paper mill in Bulgaria through the privatisation program. The mill is located in Nikopol, at the shores of the Danube River.

Other production facilities include **Maser Holding's** textile plant producing woollen fabrics and linen in Sofia, **Aksan Kalip's** conductor plant in Botevgrad, **Faf Metal's** aluminium and metal processing plant in Shumen and the **Trikom** textile plant in Haskovo. Furthermore, **Nurinvest**, a Turkish-Bulgarian JV, is involved in a wide range of production areas including food, furniture and carpets.

Turkish companies are also investing in the tourism industry of Bulgaria. **Özkan Group** has purchased the "Novotel Europa" in Sofia and the group's chain of "Princess Hotels" is also operating in Plovdiv. **Magic Life** has leased a tourism complex on the Black Sea coast and the company is currently renovating it.

Ramstore, the Turkish retail store chain, which is operating dozens of supermarkets and other shopping centres throughout Southeast Europe and the former Soviet Union, has 3 stores in Bulgaria. Ramstore has lately decided to increase its investment in Bulgaria and the chain is also selling Bulgarian products through its stores in Azerbaijan, Kazakhstan and Russia.

Aygaz is running 5 gas stations in Bulgaria with 3 of them located in Sofia and the other 2 in Shumen.

Two Turkish banks are active in Bulgaria. The Sofia branch of **Ziraat Bankası** was opened in July 1998. **Demirbank Bulgaria** was established in 1999 and it is offering services through two branches in Sofia and one in Varna.

Contracting Services

Turkish contracting services in Bulgaria are to some extent linked to the energy trade between the two countries. There is a power line between Bulgaria and Turkey with a capacity of 500 MW. An intergovernmental agreement states Bulgaria's commitment to award infrastructure projects to Turkish companies in return for the electricity bought by Turkey. Within this framework, **Ceylan Holding** has undertaken the construction of a 160 km highway on the East-West Corridor, a power plant in Gorna Arda and the urban power distribution networks in Pazardjik and Harmanli.

Other important infrastructure projects undertaken by Turkish companies in Bulgaria include the Podkovo-Makozo Highway by **Hazinedaroğlu İnşaat**, Karnobat-Burgaz Highway by the **Doğuş-Eko** consortium and the water purification project in Gorna Oriahovista, Dolna Oriahovista and Laiskovets undertaken by **MNG Holding** and financed by the European Union.

Prospects for Cooperation

The overall picture in Bulgaria shows that despite progress in recent years in liberalisation and macroeconomic stabilisation, there are still many barriers to investment in the region: a large unfinished reform agenda, cumbersome bureaucracies and corruption.

However, it is possible to say that the investment climate is improving rapidly thanks to the measures taken by the new Bulgarian government. Investors are enjoying advantages such as economic stability, low inflation, national treatment

for foreign investments, liberal regime for repatriation of after tax profit and capital and foreign investments are no longer subject to registration etc.

Shortcomings in Bulgaria can be transformed into opportunities, if the correct areas of activity and appropriate partners are chosen. Bulgaria lacks export-oriented FDI, and is also not attracting sufficient greenfield investment. Most of the FDI in the region is concentrated in labour-cost areas and low value added industries.

Turkish businesses see a great potential in the privatization program of Bulgaria. They have already expressed interest in several items in the privatization portfolio, such as paper mills, military industry facilities, machinery manufacturing factories, hotels, etc. They can establish partnership with companies from third countries in order to create synergy and produce fruitful results, as seen in Şişecam's partnership with a Belgian company.

Furthermore, it has to be kept in mind that Bulgaria is looking forward to 2007 as its EU accession date. It is already enjoying preferential access to EU markets, and moves are also on the way to liberalise Balkan intra-regional trade. Balkan states are also not constrained by EU rules forbidding special incentives to FDI. Turkey is sharing a land border with Bulgaria which is a great advantage when doing business there.

GEORGIA

Although Turkey and Georgia are sharing a land border, flow of Turkish direct investment has been limited. This fact can be attributed to the political instability and economic problems in Georgia, which are discouraging investors. Due to the fact that the purchasing power is considerably low in Georgia, mostly cheap and lower quality Turkish products have entered the Georgian market and this led to a negative perception of Turkish products among the Georgian consumers.

The profile of Turkish investors in Georgia can be summarised as a few large companies and several small and medium scaled enterprises. There are currently more than 100 companies with Turkish capital and the amount of Turkish investment in Georgia is estimated \$125 million. A large portion of this figure is invested in telecommunication and manufacturing sectors and other major investments are in the fields of harbour management, glass packaging, textiles and water bottling.

Turkcell owns a majority stake at **Geocell**, which is operating a GSM network in Georgia. Geocell received a country-wide 10-year license that commenced in 1997. The Geocell network currently covers more than 85% of Georgia's population. Geocell has entered into roaming agreements with 61 operators in 41 countries.

Şener Arda Group consists of companies involved in heavy industry, logistics, construction and foodstuff. It entered Georgia with the joint venture Batumi Enterprises Limited (BEL), which constructed the ferry docks at the Port of Batumi. The company later broke ground for a new investment project for a

multi-purpose terminal at the same port. Both projects are BOT and the company reserves the rights of operating the facilities for 30 years.

Şener Arda Group has also constructed the Turkish-Georgian Trade Centre which is 2 kilometres to the Tbilisi International Airport. Another company of the group, Arda Enterprises Ltd., has constructed a flour plant with a monthly production of 1200 tons in Koubeletti, 20 kilometres to Batumi.

Şişecam, which is one of the world's leading glassware producers, stepped into Georgia by purchasing 76% shares of the **Mina Ksani** Glass Plant, which was privatised in 1997. In 1999, it bought the remainder of the plant's shares and enjoyed full ownership. The plant went through heavy renovation and started production with an annual capacity of 20 thousand tons. In November 2002, additional facilities were increasing the annual capacity to 30 thousand tons, and in 2003, the capacity increased further to 50 thousand tons.

Delta Petrol is a subsidiary of Transteknik Holding and it is operating oil storage facilities at Poti. The company is also offering sea transportation services.

Contracting Services

Compared to other countries in Central Asia and the Caucasus, Georgia offers fewer opportunities for Turkish contractors. Currently there are 19 projects undertaken by 16 companies. The total contract value of these projects is \$270 million.

The major Turkish construction companies doing business in Georgia are **Baytur, Borova, Burç, TML, Üstay** and **Zafer**. A selection of completed and ongoing projects is as follows: Turkish Embassy building, Georgian Housing facilities, Supsa Oil Terminal, electronic facilities of the Tbilisi International Airport, Koubeletti Flour Plant, Turkish-Georgian Trade Centre, Poti Oil Storage facilities and Batumi Port terminals.

Prospects for Cooperation

The new government of Georgia is taking the necessary measures in order to improve the business climate and attract more foreign investors. This trend is opening new opportunities for cooperation.

Georgia has a well developed agricultural base, however it lacks the infrastructure for processing, packaging and exporting. Projects can be developed especially in fruit juice, meat and dairy products. Turkey's regions bordering Georgia can play an important role in such projects.

The energy sector is another area where cooperation is possible. Dams and hydropower plants can be erected on Georgia's rivers and the electricity produced there can be used to supply power to Georgia and the eastern regions of Turkey.

Currently, Georgia is witnessing a revival in tourism at its Black Sea shores. The total amount of tourists visiting Georgia is expected to reach 1 million this year.

Turkish companies can play an active role in modernising the tourism infrastructure in Georgia.

Georgia offers opportunities for joint projects to be undertaken by Turkish companies and those from third countries. This form of cooperation is needed especially in projects that require substantial financial resources and transfer of high technology. Examples include hydropower plants, oil extraction and processing, natural gas plants, power distribution, transportation of hydrocarbon resources, rehabilitation of roads, harbours and railways.

Until recently, transport links between Turkey and Georgia have been far from serving the needs of the companies doing business between these two countries, however several important projects have been undertaken since the new government was installed in Georgia. The 125 km Kars-Tbilisi railroad will be completed by 2006 and a second route will connect Georgia to Trabzon on the Turkish Black Sea coast. Another item in the agenda is the Batumi Airport, which is planned to be used jointly by Turkey and Georgia as a tourism hub.

GREECE

Turkey's economic relations with Greece are mainly focused on the trade of goods and services. Other than that, there is also a substantial volume in the tourism between the two countries and cooperation in the energy sector is high on the agenda as well.

According to the data released by the Turkish Under-secretariat of Foreign Trade, there are only 10 companies with Turkish capital registered in Greece. These companies are active in tourism, transportation, food, furniture, trade and IT sectors.

Prospects for Cooperation

Greece is the only EU member country within the BSEC and Turkey is an official candidate for EU accession. These two countries are sharing a land border and are located on both sides of the Aegean Sea facing each other. Turkish and Greek companies can cooperate with each other to establish strong business prospects, and not only within the borders of these countries but also in third countries. However, despite the existence of a great potential for cooperation, opportunities have not been used well so far.

Industrial cooperation is an important area that should be considered. In the long term, high quality and low cost products can be produced and exported to third markets. Automotive and spare parts, iron and steel, machinery, energy, metallurgy, chemicals, food, textile, electrical goods and telecommunication equipment are among the sectors where Turkish and Greek companies can join forces.

Strengthening the banking and financial ties between the two countries is crucial. Institutions from Turkey and Greece can jointly undertake projects in order to finance private sector development in the whole BSEC region.

Both Turkey and Greece are leading countries in the world tourism industry. Opportunities for cooperation in this sector include offering joint travel packages, establishing facilities at the Aegean and in third countries, developing the transportation infrastructure, establishing the concept of "East Mediterranean Tourism" with a special emphasis on congress and incentive tourism.

MOLDOVA

Among the countries of the Commonwealth of Independent States (CIS), Moldova is the one that has the lowest level of economic and commercial relations with Turkey. This is due to the economic and political instability and the absence of a favourable investment climate in this country during the 90's. However, Moldova is advancing rapidly and the improvements it has achieved over the past few years caused the Turkish private sector to take Moldova in their agenda. The total amount of Turkish direct investment in Moldova exceeded \$40 million.

Investments

Turkcell entered the Moldovan market with 77% share in **Moldcell**, where it had partnered with a US-Moldovan joint venture. Since 2000, 66% of Moldcell belongs to **Fintur Holding** (a partnership of Turkcell and the Finnish company Sonera). Moldcell covers 71% of Moldovan territory.

Efes Pilsen has purchased the largest brewery of Moldova, Vitanta Intravest, in 2003, through its subsidiary in the Netherlands. Vitanta has a market share of 70% in beer and 55% in soft beverages. Efes is planning to invest more over the coming 3-4 years and improve its production facilities.

The Turkish hotel chain **Dedeman** opened the first 5-star hotel of western standards in Chisinau in December 2002. This hotel is located in the city centre and has 143 rooms, as well as leisure and business facilities.

Asena Tekstil, which is a subsidiary of Nergis Holding is producing textile products and clothing at its facilities in Chadyrlunga. The company is now investing to double its production capacity. Other major textile investments are **Infinity SRL** that is manufacturing underwear and exporting to the US and **Tokuşor SRL** that is producing shoes for the domestic market and also for exporting to Russia.

Since 1998, **Nefis Bisküvit** is producing biscuits, chocolate and candies at its plant in Floreşti. This company has a big market share in Moldova.

Simart is about to start production at its bricks plant in Vulcaneşti. Other than those major investments there are Turkish companies producing polypropylene sacks used in agriculture and TV tubes.

Contracting Services

Turkish contractors have undertaken 10 projects with a total value of \$45 million in Moldova. A Turkish firm **ENF** has completed the irrigation and drinking water infrastructure of the Gagauz region and the cities of Komrat, Vulcanesti and Chadyrlunga. The **Akfen-Summa** consortium has renovated the Chisinau International Airport, whereas Summa has also constructed the Grand Chisinau Dedeman. **Onursan İnşaat** has completed the Russian Embassy building and the Moldcell headquarters, **Zafer İnşaat** has renovated the US Embassy.

Prospects for Cooperation

Moldova is increasingly becoming attractive for Turkish companies, because it is adjacent to Turkey with direct flights offered by Turkish Airlines and it offers: low cost and skilled labour, developed scientific and technological potential, growing macroeconomic stability, free trade agreements with CIS countries and Romania, WTO standards.

Although the domestic market is relatively small in size, Moldova offers great prospects as a manufacturing base from which zero tariff exports to CIS countries and Romania can be possible.

Privatisation in Moldova has gained momentum, and especially food, leather and wine sectors are offering good opportunities for investors.

The Gagauz Region has an autonomous status within the Republic of Moldova and it has an ethnic Turkish population. The local government protects the Turkish identity and offering favourable conditions for Turkish investors. Companies from third countries interested in doing business in this region would benefit from a partnership with a Turkish counterpart. The Gagauz Region has a great potential in animal husbandry, dairy products, honey, biscuits, sunflowers and needs investment for processing and storing.

ROMANIA

Romania is one of Turkey's strongest economic and commercial partners in the Southeast European region. It is also the largest recipient of Turkish direct investment in this region, with a total amount of nearly \$400 million. Turkish entrepreneurs began to enter the Romanian market right after the change of the regime in early 90's, with small ventures such as bakeries and restaurants.

After the legal and regulatory framework on the intergovernmental level was completed, larger firms began to show an interest in Romania and focused on services and manufacturing sectors. Turkey is the 9th largest investing country in Romania.

Investments

Efes Pilsen, the beer producing arm of the Turkish conglomerate Anadolu Group is running a brewery in Ploești. This plant is operating since 1998 and it is one of the biggest in Romania.

Pak Holding has a plant producing yeast in Pascani. It is capable of meeting two thirds of the total demand in Romania.

The Bucharest Shopping Centre was opened as a joint venture between FIBA Holding and Bayındır Holding. Since 2000, **FIBA Holding** is the sole owner. This group is also running a chain of supermarkets in Romania, under the brand **GİMA**, and it is active in the finance sector, with **Finansbank**, **Finans Leasing** and **Finans Securities**.

There are other Turkish institutions in the Romanian banking and finance sector as well. **Libra Bank** and **Garanti Bank International** are offering banking services. Robank, which was purchased through the privatisation programme by **Bayraktar Holding** and the British Balli Group, has nine branches throughout the country. **Global Menkul Değerler**, a Turkish securities firm, runs a \$25 million Romania fund.

Other entities purchased by Turkish companies through the Romanian privatisation programme are: a wood industry company in Mures purchased by **Hayat Holding**, a fertilizer plant again in Mures purchased by **Yilsan**, a company producing automotive spare parts purchased by **Kombassan**, a company leasing construction equipment purchased by **DMS Dilmenler**, a paint plant purchased by **DYO** (a subsidiary of Yaşar Group), a refrigerator plant purchased by **Arçelik** and a brewery purchased by **Altınmaya**.

Escort Computer has an office in Romania and this company is renewing the IT infrastructure of the Romanian Department of Land and Property Registration.

Contracting Services

Turkish contracting firms have so far undertaken 43 projects in Romania with a total value of \$943 million. A consortium established by **Yüksel**, **Makimsan** and **Ener** has completed several highway projects. Another consortium of **ENKA** and its US partner Bechtel is currently constructing the Brasov-Cluj-Bors Highway. Another Turkish contracting firm with a large business volume in Romania is **Öner İnşaat**.

Prospects for Cooperation

Despite the presence of large state-owned government-subsidized enterprises, the government of Romania is increasingly realizing the role of FDI in its economic development. It seeks to attract foreign investment in many ways including the privatization programs. It welcomes suggestions coming from foreign investors, and various regional and international organizations including the EU, IMF and the World Bank for the improvement of its investment climate. It offers national treatment in many respects to foreign investors, with access to

markets and permission to participate in privatization. It is increasingly improving its regulatory frameworks including its taxation and foreign exchange systems.

An important area for cooperation in Romania is the tourism industry. The country has a great potential in nature, health and winter tourism and has severe shortcomings especially in middle class hotels. Tourism complexes on the shores of the Black Sea and winter tourism on the Carpathians are two priority areas. The Ministries of Tourism of Turkey and Romania have already signed a memorandum of cooperation and it is also a great advantage that the Ministry of Tourism is in direct charge of privatisation in the tourism sector.

The IT sector is also growing in Romania. A techno park is currently established in Timisoara and there are several other projects supported by the government and waiting for foreign investors.

Companies from third countries interested in investing in Romania should consider Turkish partners, because Turkey has a long time experience in private sector investment in this country and direct air, land and sea transportation links. Partnerships can be established not only in manufacturing or services sectors, but also in contracting, since Romania is planning to invest more than \$20 billion in infrastructure over the coming 5 years.

RUSSIAN FEDERATION

The financial crisis in 1998/99 and the devaluation of the ruble had forced the Russian government to introduce import substitution policies, which made it difficult for Turkish exporters to increase their presence in the Russian market. That was a turning point in the history of Turkish-Russian economic and commercial relations, because as a response to the changing circumstances, Turkish companies began to look at Russia with a longer term perspective and emphasize more on direct investments rather than considering this market only as an export destination and hence a source for short term profits.

The last 5-6 years witnessed a surge in Turkish direct investments in Russia, of which the cumulative value is now exceeding \$1.5 billion. A recent trend is the shift from Moscow to the provinces where investing firms can benefit from the advantages of cheaper inputs and in some cases better investment climate.

Investments

ENKA is not only the Turkish contracting company with the highest business volume in Russia but also the first foreign investor in the Russian real estate market. ENKA leases land from the Municipality of Moscow, on which it builds business centres, malls and residential complexes. In Moscow, ENKA's share in the A-class commercial office building market is more than 25%, which makes the firm a leader in this market.

Ramenka, a joint venture established by two Turkish corporate giants Koç Group and ENKA Holding, operates the retail chain "Ramstore", which is currently

the largest of its kind in Russia. The first Ramstore was opened in 1997 with credits obtained from Turkish Eximbank. The latest Ramstore opened in Russia is the one opened in Nizhny Novgorod in December last year, which brought the total number of Ramstores in Russia to 25.

Ramstore has been the first in Russia to provide the Russian people with a western style shopping experience together with a large variety of products as well as facilities for dining and leisure. 5% of all the products sold in Ramstore outlets are Turkish products, whereas 55% are Russian and 40% are imported.

In 1997-2003, the company invested \$250 million in creating and expanding the Ramstore chain, including \$100 million in 2003. For 2004, Ramenka's turnover is expected to amount to \$560 million, up from about \$430 million in 2003 and about \$300 million in 2002.

Efes Beverages Group has entered the Russian market with a Coca Cola production plant opened in Rostov-on-Don in 1996. The second investment of the group was the Efes Brewery in Moscow, which was opened in June 1999. In 2003, the Coca-Cola plant in Rostov-on-Don was converted to a brewery and the Amstar beer factory in Ufa was acquired, increasing the number of MEB (Moscow Efes Breweries) plants to three and the total production capacity to 520 million litres.

In 2003, MEB became the third biggest producer on the Russian beer market, with a share of 16%. MEB managed to achieve a growth of 33% in Russia, a rate that is much higher than the 7% growth of the Russian beer market.

Efes offers five different brands, which are Efes Pilsener, Sary Melnik, Warsteiner, Betiy Medved and Skonol. Sary Melnik is the leader of its segment (local premium) with a market share of 24% and so is Efes Pilsener in the licensed premium segment with 16%.

Efes is also pursuing a project of "internet pub chain" in Moscow and the rest of Russia. The first pub was opened in Russia in April 2003 and Efes is planning to increase the number of internet pubs to 20 in Moscow.

Şişecam, one of the world's leading producers of glassware, operates a factory in Gorohovets, a town 330 km to Moscow. The factory has 43 thousand square meters of indoor area built on a land of 17 hectares. It is producing bottles and glass packaging for foodstuff.

The first furnace of the factory was opened in September 2002 and the second furnace became operational in May 2003. The third furnace is about to be completed and it will increase the total production capacity of the factory to 340 thousand tons a year. Ruscam has now the capacity to meet 20% of total Russian demand for glass bottles.

Ruscam is not only enlarging the capacity of its factory in Gorohovets, but also purchasing new production facilities. The company has lately bought 76% shares of the Pokrovosky Glass Factory located near St.Petersburg. This factory has a production capacity of 75 thousand tons a year.

Vestel, the flagship of Zorlu Group, which has also partnered Tatneft in the sale of Tüpraş Refineries, is the first foreign company to produce TV sets in Russia. In November 2003, Vestel opened a factory in Alexandrov, a town 120 km to Moscow, on a 120,000 square meter area, of which 40,000 square meters is closed. The factory has a production capacity of 1 million TV sets per year. In the first phase only TV production would be made, and later the range would be extended to products such as DVD and DVB.

As one of the leading exporters in Turkey, selling its products to 103 different countries, Vestel shows a continued aim to expand. Vestel, with its manufacturing range of several different electronic and white goods, is developing a new approach in order to offer consumers products made by other companies. In line with this strategy, Vestel has forged strategic partnerships with leading world brands on products that it does not manufacture itself. These include the French brand Moulinex for small household gadgets, the Italian brand Zanussi for built-in products and the Japanese brand JVC for digital cameras and other digital products.

Colin's Jeans is one of the best selling brands of denim products in Russia. The owner of the brand, Eroğlu Group, entered the Russian market in early 1990's with exports and later established a factory near Moscow. In addition to its factory, Colin's Jeans operates 26 outlets throughout Russia and sells its products at 286 sales points.

TEBA is one of Turkey's leading exporters of white goods, household products and air conditioning equipment. It has production facilities in Turkey and also in the USA. As a part of its strategy to expand in the Russian market, the company has decided to move production facilities to Russia. To this end, the company has opened a factory in Kazan, the capital of Tataristan.

The partnership between the Turkish household goods producer **Ütüsan** and German ZASS GmbH has been successfully operating since 1988. In 2003, this partnership opened a factory in Russia under the name "ZASS Alabuga". With its wide range of products including irons, different kinds of heating systems, grills, barbecues, ventilators and electrical kitchen products, Ütüsan/ZASS is increasing its market share in Russia.

The Turkish telecommunications firm **Netaş** has established a joint venture with the Instruments Making Works Plant of the Ministry of Atomic Energy and the Municipality of Chelyabinsk in 1995. "Rontelekom" manufactures telecommunication systems and software.

Binmeksan is a joint venture of Turkish Meksan and Summa companies and their Russian partner. Their factory opened in the suburbs of Moscow in 2000 is manufacturing pumps for fuel stations. Its production capacity is 5 thousand pumps a year.

The **Turkish Trade Centre in Moscow** is a joint investment by TOBB (Turkish Union of Chambers and Commodity Exchanges) and TİM (Turkish Exporters Assembly). The centre, which was opened in January 2005, consists of commercial office space as well as 55 shops, cafes, restaurants and 6 theatres.

The Turkish Trade Centre, which is only 5 minutes of drive to Kremlin, will be the heart of Turkish business in Moscow.

Five Turkish banks have opened branches in Moscow. These banks are **Finansbank, Garantibank, Denizbank, Yapı Kredi Bankası** and **Ziraat Bankası**. According to the data released by the Turkish Undersecretariat of Treasury, the total amount of capital exported by these banks is \$87 million.

Turkish companies are expected to increase their investments and new companies are expected to enter the Russian market in the near future, parallel to the developments in the Russian economy. It can be said that mainly large companies are investing in Russia but there are also several SME's profitably investing in Russia.

Contracting Services

Turkish contractors have contributed a great deal to the rebuilding of post-Soviet Russia. According to the data released by the Turkish Undersecretariat of Foreign Trade, Turkish companies have so far undertaken 813 projects in Russia, with a total value of \$14 billion.

Turkish contractors had entered the Russian market with the tenders for housing projects for Russian troops. The "Housing Construction Program in the Russian Federation, Belarus and the Ukraine" aimed to provide homes for members of the former Soviet Army returning to their home countries from former East Germany following the unification of East and West Germany. In 1991, the German Federal Government provided DM 8,35 billion for the housing program to build over 45,000 apartments with around 3 million square meters of residential space. This program was accomplished successfully in the 1991-1996 period.

The financial crisis in 1998-99 had a negative impact on Turkish contractors doing business in Russia. However, with the recovery of the Russian economy, business volumes are again in an increasing trend.

One important aspect of Turkish contracting firms in Russia is that they usually face the obligation to provide their own financial resources. It is very often the case, and the best example is ENKA as mentioned above, that a contractor becomes an investor and eventually the operator in the project it undertakes.

A partial list of the most important projects completed by Turkish companies is as follows:

Ramstore Supermarkets
Petrovksy Passage (renovation)
Maly Gum (renovation)
White House (renovation)
Moscow International House of Music
Paveletsky Tower
Riverside Towers
Mosenka Park Towers
Sadovaya Plaza
Tchaikovsky Military Housing Project
Egorlyskaya Military Housing Project
Krasnodar Military Housing Project

Baranovich Military Housing Project
Volgograd Military Housing Project
Morosowsk Military Housing Project
Strugi-Krasnye Military Housing Project
Hospital for World War II Veterans
Tchaikovsky Military Town Hospital
TSITO Hospital
OBP Hospital (renovation)
Bakulev Cardiovascular Hospital
Volinskaya Hospital (renovation)
Barvikha Sanatorium (renovation)
Stivgar Hospital

Tyumen Intensive Care Hospital
Krasnousolsk Sanatorium
Mars Confectionery Plant
Podreskova Ceramic Production Plant
Danone Milk Production Plant
Fritolay Potato Chips Factory
St. Petersburg Mint
Gazprom Administrative Buildings
Elkat Copper Rod Plant
Tverskaya Business Center
Nevsky 25 Business Center
Taganka Business Center
Lentrangas Office Building
Marksistkaya Business Center
Rosneft Office Building
Samara Neftegaz Building

Ingushetia Parliament Building
Pokrovsky Hills Villas
Kuartal Apartments
Proton Hotel
Hotel Kuban
Hotel Sibirski
Kuskinskaya Theatre
Iranian Embassy Building in Moscow
Ministry of Foreign Affairs Building
(renovation)
RF Supreme Court Building
Platinabank Building
Sberbank Building
Mostbank Building
Menatepbank Building
Druzhba Hotel Stavropol

Prospects for Cooperation

Some of the areas that carry a potential for the cooperation between Turkish companies and suitable partners from other countries in Russia are as follows.

Construction. Turkish construction firms have realised several prestigious projects and achieved high contract values in this region. One of the most interesting points about Turkish experience in Russia and the rest of the CIS is that a unique pattern of doing business has appeared in time. In many cases the construction firms, which have undertaken projects had to become investors themselves due to problems related to financing the projects. When sources of finance dried off, they mobilised their own resources and financed the very project they were working on. Today, in CIS one can see several luxury hotels, which were financed, built and even operated by the same Turkish firm.

Need for finance. Lack of adequate finance is the main obstacle hampering Turkish investments in Russia. Given the insufficient level of economic stability in Russia, obtaining project finance from international institutions is costly. Therefore Turkish companies doing business there or planning to do so are interested in establishing partnerships with western companies which have stronger financial resources.

Small and medium scaled enterprises. The Turkish private sector is experienced in developing SME's and most of the Turkish companies operating in the region can be categorised as SME's. However, being still in a transition process from socialism to market principles, Russia does not have a well developed SME sector. Turkey can cooperate with western countries for SME projects in the region. These projects can include establishing special industrial zones and training programmes.

Foodstuff. Turkey has a clear comparative advantage in food production and packaging. Russia needs foreign investment in this sector. Opportunities for cooperation and joint production should be considered.

Textile. Russia is dependant on imports for their textile goods and apparels. Turkish companies have already several remarkable investments not only in Russia but the whole CIS. For instance, Turkmenistan, once a net exporter of raw cotton, became the textile production hub of Central Asia thanks to Turkish

investment. Also considering the abundance of raw materials in this region, it can be said that it is suitable for joint projects.

Tourism. Turkey is the favourite overseas holiday destination for Russians and the third largest source of incoming tourists to Turkey. Turkey has a well-developed tourism industry and Turkish companies are interested in entering the Russian market. Russia offers a large untapped market for tourism investors because it possesses several areas of natural, historical and cultural value that can be attractive for tourists, yet so few tourism facilities, which are below international standards.

In addition to all the fields listed above, another important opportunity for cooperation is joint investment in existing industrial facilities. There are basically hundreds of production facilities built during the Soviet era, which are now obsolete due to lack of investment and years of neglect. Most of these facilities are being privatized. In many cases rehabilitating and modernizing these facilities can provide the investors with high rates of ROI (return-on-investment).

SERBIA and MONTENEGRO

After the war in former Yugoslavia, the UN embargo was lifted in November 1996 and this led to a normalisation of economic and commercial relations between Turkey and Yugoslavia. However, later these relations were negatively influenced by the crisis in Kosovo.

Investments and Contracting Services

Efes Pilsen, the beer producing arm of the Turkish conglomerate Anadolu Holding is the most significant Turkish investor in Serbia and Montenegro. It has purchased a brewery in Pancevo in 2003 and another brewery in Zajecar in 2004. The company is aiming to become the third largest producer in the domestic market.

There are around 15 Turkish small and medium scaled enterprises in Serbia and Montenegro, operating in tourism, carpet manufacturing, textile, steel doors, plastic goods and restaurant management.

A Turkish contracting firm, **Gintaş**, has lately concluded a contract with the Montenegrin government to construct a business centre in Podgorica.

Prospects for Cooperation

Textile, household products, automotive and spare parts, electronic goods and chemicals are the priority areas where Turkish and Serbia-Montenegrin companies can cooperate. Turkish companies can process semi-finished products from Serbia and Montenegro, add value and export to third markets.

There are several plants in Serbia and Montenegro awaiting foreign investment. These facilities can be purchased, rehabilitated and utilized for low cost production.

After years of warfare and civil unrest, Serbia and Montenegro is in dire need for infrastructural rehabilitation and development. Turkish contractors, who have years of relevant experience in the former Soviet Union can take part in projects funded by the EU and international financial institutions.

UKRAINE

Most of the Turkish businesses active in Ukraine can be classified as SME's. The total amount of Turkish direct investment in the Ukrainian economy is more than \$100 million. This amount is expected to increase in the near future since Ukraine is officially declared as a priority country in Turkey's foreign economic relations.

Investments

Aygaz, a subsidiary of the Koç Group, has entered the Ukrainian market in June 2000 by establishing "Aygaz Ukraine LLC" in partnership with the Ukrainian firm Chemoil. This company is operating a LPG export terminal, from which Russian LPG is transported through the Ukrainian port of Illichevsk to Turkey. On 12 August 2004, the company has declared that its title is changed as "Illichevsk Gas Transshipping Terminal."

In 2001, **Efes Pilsen** has purchased a 51% stake at the Chernomore Brewery located in Odessa. This plant has an annual capacity of 100 million litres.

Olivia Beta Industrial Complex, is a Turkish investment, which is producing detergents and household chemicals in Dnipropetrovsk since 2003. Another Turkish firm, **Evyap**, is producing soap and cosmetics products in Illichevsk.

Turkcell, signed an agreement with the Ukrainian company Digital Cellular Communication in April 2004. These two companies have established a joint venture, where Turkcell has a 51% stake, in order to launch Ukraine's third largest GSM network.

Batı Nakliyat has partnered with Ukrferry, in order to provide transportation services between Illichevsk and the Turkish port of Derince. A railway terminal was opened in Derince in September 2004, thus enabling the transportation of rail carriages between the two ports. Grain, fertiliser and LNG storage facilities are planned to be opened in Derince in 2005 and 2006.

Other Turkish investments in Ukraine include **Vita-Ukrayna**, which is producing biscuits and confectionary; **Lord Food**, a producer of biscuits; **Ata**, a producer of sugar and **Colin's**, a producer of sports clothing.

Contracting Services

25 Turkish contracting firms have so far undertaken 48 projects in Ukraine, with a total value of \$815 million.

A major project in the agenda is the construction of five bridges on the river of Dnepr and the connecting roads in Kiev. **Enerji Yapı** has undertaken this \$600 million project in partnership with the Japanese firm IHI. The project is expected to be completed within 36 months.

Another important project, which is already completed, is the construction of the Ukrainian part of the gas pipeline that carries natural gas from Russia to Turkey via Ukraine, Moldova, Romania and Bulgaria. This project was undertaken by **Transbalkan**, a partnership of Ukgazprom, Gazprom and the Turkish companies **Enka, Entes, Tekfen** and **Gama**.

Prospects for Cooperation

Turkish companies have identified investment opportunities in areas such as construction, construction materials, food, detergents, chemicals, electrical and electronic appliances. Other than those, Ukraine also needs foreign investment to its agricultural infrastructure.

Turkey and Ukraine are currently considering several projects of cooperation in iron and steel industry. This sector has a great potential and some of the individual projects in the agenda are the modernisation of Azovstal and Donetsk steel mills, coke plants and high quality coal transfer to Ukraine.

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 DEİK DIŞ EKONOMİK İLİŞKİLER KURULU FOREIGN ECONOMIC RELATIONS BOARD	TOBB Plaza Talatpasa cad. No:3 Kat:5 34394 Gultepe Levent Istanbul TURKEY
	Phone: 90 212 339 50 00 (pbx) Fax: 90 212 270 30 92 90 212 270 41 90 (pbx)
	E-mail: info@deik.org.tr Web: www.deik.org
FOUNDERS	Chairman: M. Rifat Hisarcıkıoğlu Chairman of the Executive Board: Rona Yırcalı Director: Çiğdem Tüzün
TOBB Union of Chambers and Commodity Exchanges of Turkey / TİSK Turkish Confederation of Employer Associations / TZOB Union of Turkish Chambers of Agriculture / TÜSİAD Turkish Industrialists' and Businessmen's Association / YASED Foreign Investors Association / TMB Turkish Contractors' Association / İKV Economic Development Foundation / TİM Turkish Exporters' Assembly / TURKTRADE Foreign Trade Association of Turkey	