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SEEING THE POTENTIAL OF EUROPE'S GATEWAY

PORTS INVESTMENT WILL EASE ACCESS TO MIDDLE EAST AND ASIA

By Catherine Bolgar

Turkey has the ideal location for a logistics hub. Situated on the eastern edge of the Mediterranean, with the only sea access to the Black Sea, and borders with eight countries, Turkey lies between East and West, North and South, and has a large domestic market as well.

"Turkey's geographic location, along with [its] significant investment in infrastructure, means the market also holds exceptional potential to morph into an international logistics gateway hub," says Nilgun Dil Erman, managing director in Istanbul for Jones Lang LaSalle, a financial and professional services firm specializing in real estate services and investment management.

A Jones Lang LaSalle survey of European supply-chain managers last year revealed that Turkey was expected to be the top emerging logistics location. More than a quarter of respondents ranked the country in their top three emerging locations across Europe, the Middle East and Africa.

INFRASTRUCTURE VISION

Turkey has been making some large investments in infrastructure, from highways to ports, rails and airports—with more planned in order to reach its vision for 2023, the centennial of the Turkish republic. The plans include 16 new large-scale logistics centers.

"The 2023 Strategy positions Turkey as a 'Global Logistics Transfer Hub,'

integrating all types of transport and minimizing costs by shifting to seaway, railroad and intermodal/combined transportation," Ms. Erman says.

The importance of logistics in Turkey has long been accepted, but it's only in the past five years that the country has begun to look at logistics as a strategic tool rather than an operational one, says Okan Tuna, professor at the Beykoz Vocational School of Logistics in Istanbul.

In the wake of the global financial crisis, many international companies found themselves with high inventory levels because of long lead times with manufacturing centers in Asia.

"Being in Turkey, you can easily decrease

Trade has been expanding rapidly. Turkey saw 5.6 million TEUs of cargo pass through its container ports in 2010, up 23% from a year earlier, according to the United Nations Conference on Trade and Development. TEUs are 20-foot equivalent units, a measure of cargo containers.

Turkey also is the gateway to energy from the Caspian Sea, especially for Europe. Ceyhan, on Turkey's southern coast, sits at the terminus of oil pipelines from Azerbaijan and Iraq. The Shah Deniz natural gas pipeline from Azerbaijan also goes to Ceyhan, while the TANAP gas pipeline will traverse the country to Greece and Bulgaria.

Turkey ranked No. 27 on the World Bank's Logistics Performance Index, just behind

others. In addition, international port operators have built or are planning ports.

NEW TERMINALS

APM Terminals, a unit of Danish shipping giant Møller-Mærsk A/S, is partnering with Petkim, a Turkish petroleum company that operates Petkim Port near Izmir, Turkey's third-biggest city and one of its top three logistics clusters, to turn the port into the Aegean Gateway Terminal. DP World, a Dubai-based terminal operator, is about to start construction on its Yarimca container terminal near the automotive manufacturing center of Izmit. Mediterranean Shipping Co., based in Geneva, operates Asyaport near Tekirdag.

International shipping companies "see the potential and have reserved their places," says Oguz Bagis, an independent port consultant and co-author of "The Competitiveness of Global Port-Cities: The Case of Mersin, Turkey," published by the OECD in February.

Construction has begun on a megaport near Izmir at Çandarlı, with a growth potential of 25 million TEUs, which would make it the biggest port in the Mediterranean and one of the 10 biggest ports in the world, capable of docking the largest vessels.

"In Çandarlı the government is thinking big," Mr. Bagis says.

Mersin is Turkey's second-largest port after Ambarlı near Istanbul. It is operated by the Port Authority of Singapore and Afken Holding, a Turkish operator of airports, utilities and ports as well as

LOGISTICS ALSO HELPS CUT COSTS DIRECTLY BY MAKING TRANSPORTATION MORE EFFICIENT AND CHEAPER.

your order cycles, so you can have less inventory—and thus lower costs—and you can easily have high turnover rates because of the closeness to the European market," Dr. Tuna says. "It's the same for Middle Eastern and African markets. You can get to them easily from Turkey."

Logistics fuels economic growth by enabling domestic companies to reach larger markets and thus be able to take advantage of scale economies, says Serdar Sayan, professor of economics at the TOBB University of Economics and Technology in Ankara. Logistics also helps cut costs directly by making transportation more efficient and cheaper.

China. Turkey moved up from No. 39 in 2010. The index measures customs processes, infrastructure, logistics, tracking and timeliness. Turkey's liner shipping connectivity index has improved to 52.13 this year, up from 25.60 in 2004, based on a maximum of 100 for the 2004 figures. The measure includes the number of ships, their capacity, the maximum vessel size, the number of services and the number of companies deploying ships to and from a country's ports.

Turkey has privatized four out of seven ports that were under Turkish State Railways—Mersin, Iskenderun, Bandırma and Samsun—and wants to privatize the

Continued on following page

Seeing the potential of Europe's gateway



Continued from previous page

construction, shipping and real estate. About 30 shipping lines call at Mersin with containers, from where they can connect with about 300 ports around the world.

Every euro of output in the port leads to additional output in the national economy of €1.20, the OECD paper estimates. The port is responsible for about 17,000 jobs, a number that is increasing with port activity.

Turkey's vision for 2030 includes increasing its exports to \$500 billion, from \$150 billion today. That kind of growth means "port activities and container activities will be tripled or quadrupled, and this port (Mersin) will not be sufficient," says Jozef Atak, general manager of Atako International Transport, Shipping & Trading Co. and president of the Mersin Logistics Platform, a private-sector group of companies and organizations working to create a full-service intermodal logistics center near Mersin.

Activity in Mersin already has mushroomed, to 1.3 million TEUs a year from 500,000 TEUs six years ago, with annual growth of 8% to 10%.

Mersin is one of three new ports—along with Çandarlı, as mentioned above, and Filyos on the Black Sea—in the Turkish government's plans, with construction planned to begin in 2014 or 2015.

The Mersin Logistics Platform is looking to supplement the port activities by creating a logistics village about 14 kilometers from the port, served by a direct rail line so that containers can be taken from ship to warehouse seamlessly, and where companies can do final assembly, finishing or packaging of goods.

The platform's location means trucks can avoid the center of the city of nearly a million people, while the port and platform have a large pool of well-educated, skilled workers nearby.

Lying on the southern coast of Turkey, Mersin is the best port for accessing Central Asian and Middle Eastern countries, such as Azerbaijan, Iraq and Iran—and in better times Syria—as well as countries beyond. It is well situated for serving Turkey's interior, with its large domestic market. Mersin is well served by highways and railways, and is getting a new international airport.

The expansion at Mersin and other ports is critical to positioning Turkey to become an international logistics center, says Mr. Bagis, adding, "As soon as capacity is expanded, Turkey can become a major transshipment hub."

CRUISING TOWARD SUCCESS

WITH MORE than 5,000 miles of coastline and countless cultural and historical sites, Turkey is increasingly a desirable destination for cruise ships.

Istanbul received 621,000 cruise passengers in 2011, up 67% in just five years. Izmir's passenger traffic nearly tripled and Kusadasi's rose 76% in the same period, despite the global economic crisis at the time. Cruise lines' interest is becoming more concrete: Royal Caribbean Lines, for example, has a 27.5% stake in the port of Kusadasi.

Istanbul, whose cruise port facilities were privatized in May, in particular is poised to be a "home port," says Oguz Bagis, an independent logistics consultant in Izmir. A home port is where cruise itineraries begin and end, and where



Over a five-year period, through the global economic crisis, Kusadasi's cruise passenger traffic increased 76%.

passengers on different itineraries may change ships. Home ports therefore need good airline connections, hotels, restaurants and other tourism infrastructure. With a third airport to start construction in Istanbul next year, international connections and capacity will increase.

Home ports also are where ships stock up on supplies, such as food and linens.

Turkey is attractive as a home port because of its established logistics network in Istanbul, with lower-cost supplies than the alternatives in the Mediterranean, Mr. Bagis says. The key home ports in the region are Venice, Civitavecchia near Rome, and Barcelona, and to a lesser extent Piraeus, next to Athens.

Piraeus serves mostly the Greek islands and smaller ships, rather than the megavessels driving the cruise industry. The other home ports are saturated with Western Mediterranean traffic and are far from Eastern Mediterranean destinations and the high-potential Black Sea.

The opportunities for cruise-industry growth in Istanbul, and Turkey in general, are heightened by the industry's search for new products and itineraries, as well as Turkey's growing middle class, which presents a mostly untapped market.

— Catherine Bolgar

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