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April 16 - 20, 2007

PARTNER COUNTRY TURKEY
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Hannover Messe: Where the World's Industry Leaders Debate the Future

The Global Business Magazine is a publication of the local global GmbH and provides visitors with comprehensive information on the HANNOVER MESSE 2007.

SEPARATING THE WHEAT FROM THE CHAFF

The wheels of the globalised economy are spinning ever faster. Almost every day we read about a new economic miracle in China, favourable production conditions in South America, the vibrancy of the Indian economy, increased demand in Eurasia and new prospects in Africa. What is clear is that every entrepreneur needs to think globally, since the impact of globalisation has long since extended beyond just large-scale enterprises. And yet companies must be careful to distinguish between genuinely strategic new markets and regions that do not hold as much promise. There is no better place to do this than at HANNOVER MESSE.

Nowhere else can visitors compare so many providers in such a compact setting. HANNOVER MESSE is the place where future markets and locations compete against each other directly, side by side. In short: This is where the wheat gets separated from the chaff.

At HANNOVER MESSE companies from all over the world will be presenting technical innovations, current trends and the latest know-how for all the key sectors of industry. We expect to attract a total of 6,150 exhibitors from 68 countries, presenting their products on a total display area of 204,000 square metres. No less than 2,900 of the registered exhibitors — 47 percent of the total — come from outside Germany. After Germany the nations with the largest contingents of exhibitors include Italy, China and Turkey — the Partner Country for this year's show.

And with Turkey signed up as the official Partner Country for 2007, HANNOVER MESSE is once again providing a platform to a country that offers outstanding market opportunities and growth potential, coupled with a track record for innovation and a highly diversified industrial base. The organisers are expecting around 6,000 visitors from Turkey. More than 200 Turkish exhibitors will be occupying net display space of 6,500 square metres. The presentation concept calls for a central stand located in Hall 26, together with numerous joint presentations staged by Turkish exhibitors within the individual fairs and trade shows that make up the HANNOVER MESSE programme. Turkey's exhibition program spans a diverse range of technologies and industrial sectors, with the emphasis on engineering and services in the OEM and subcontracting sectors. Other key areas covered by the Partner Country display include R&D, process and building automation as well as energy and pipeline technologies.

As the world's biggest technology event, HANNOVER MESSE brings together decision-makers from across the globe. Naturally above all in the exhibition halls, in personal conversations at exhibitor stands. But also at the various events contained in our supporting program — the Global Business Forum, for example, ranks as Germany's leading event for international trade issues. This forum provides a perfect platform for networking and communicating among the business and political communities. The exhibition itself is augmented by a series of conferences and advice clinics, plus a special matchmaking event.

Sepp Heckmann, Chairman of the Managing Board of Deutsche Messe AG

HANNOVER MESSE thus serves as a bridge for dialogue among international specialists, as well as a bridge that connects the various growth markets. Nowhere else can you find out so quickly whether reports of some economic miracle are actually credible — or whether the place in question may in fact be uninteresting for your sector of industry.

It is in this spirit that I wish you a successful trade fair. Welcome to Hannover!

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Partner Country Turkey

06 Turkey's rapid economic growth has attracted many investors. The close economic ties between Germany and Turkey form a solid foundation for further expansion.

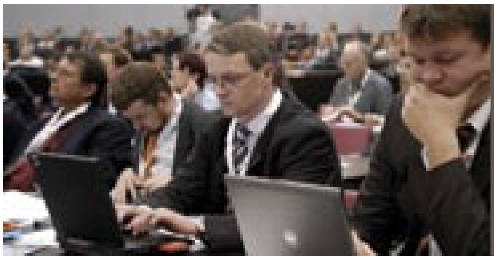
Competitive Companies

10 Large Turkish companies have already become global players. Medium-sized firms follow close behind. Turkish business is well-prepared for the international competition.

PARTNER COUNTRY TURKEY

ENERGY

MARKETS



SERVICE: TOP EVENTS OF HANNOVER MESSE 2007

Europe's China

TEXT: DR. RAINHARDT FREIHERR VON LEOPRECHTING, PRESIDENT, TURKISH-GERMAN CHAMBER OF INDUSTRY AND COMMERCE

UNTIL RECENTLY TURKEY HAD BEEN DISMISSED AS THE "SICK MAN AT THE BOSPORUS". NOW IT HAS ATTRACTED GLOBAL ATTENTION. WHAT USED TO BE AT MOST A SUPPLIERS MARKET HAS TURNED INTO AN INTERESTING AND DIVERSE BUSINESS MARKET. DESPITE A CERTAIN FATIGUE FOR REFORMS, EXPERTS CONCEDE TURKEY THE FULL POTENTIAL TO BECOME THE "CHINA OF EUROPE".

Years of rapid economic growth with the gross domestic product rising by six to ten percent annually, 73 million potential consumers, a young, growing and increasingly well educated population, a dynamic private sector as well as the positive long-term perspective of EU-membership – Turkey is certainly on the way to become the China of Europe. The positive overall picture is only being blurred by the growing current account deficit which is also expected for 2007, the continuously high real interest rates as well as a strong Turkish Lira. However, these facts do not diminish the international economy's interest in the market located at the crossroads between Europe and Asia.

CONTINUED CONVERGENCE TOWARDS THE EUROPEAN UNION

Especially the determined and continuous convergence of Turkey towards the European Union has inspired its economy. This boom, that is spreading to all economic sectors, benefits above all the manufacturing industry. Also, modern services like IT- and telecommunications or the logistics sector have seen double digit increases in turnover for years. Supported by upcoming privatisation projects the energy as well as the information and communication sectors are proving to be the driving forces of the Turkish economy.

IT TRANSFORMATION

While for the latter, the public's receptiveness and interest in new technologies is extremely high, the government plans to provide a large part of the population with unrestricted access to such technologies. In the context of the "e-Transformation Turkey Project" a total of 2.9 billion Turkish Liras (1.5 billion euros) will be invested in the implementation of IT-applications until 2010. With 1.5 billion Turkish Liras (800 million euros) more than half of the scheduled investments are allotted for the year 2007. The goal of this action plan is to boost the competitiveness of small and medium-sized enterprises

PARTNER COUNTRY TURKEY
Setting trends

Hall 6 and Hall 26

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through IT-based projects and to increase the penetration rate for internet use of individual persons from currently 14 to 51 percent. The number of private households that use the internet shall be increased from seven to 48 percent, the use of e-government services from 5.9 to 35 percent. In addition, especially public services are to be rationalised through intensified use of IT-applications. 90 percent of all public invitations of tenders shall be completed electronically by the year 2010.

On the other hand, the market for facilities and equipment of energy technology is marked by upcoming privatisation projects such as the oil pipeline Samsun-Ceyhan or the power stations in the brown coal region Afsin-Elbistan. Here not only conventional systems for energy production and supply are in demand but also sustainable and environmentally friendly energy technologies and applications raising efficiency are increasingly sought after.

INVESTMENT OPPORTUNITIES

Also traditional economic sectors like mechanical engineering, the automotive- and automotive supplier as well as the building industry offer foreign investors and enterprises that are interested in market entry a sufficient scope. It is true that the building industry suffers slightly under the decreasing domestic economic activity, but on the other hand the demand in modernisation and residential construction projects as well as in projects concerning public infrastructure and industry capacities is undiminished.

All these production and investment opportunities are especially interesting for German enterprises. Not least, because Turkey and Germany have been traditional partner countries for a long time and are interlinked in many respects; not only in regard to the bilateral economic connections.

TRADING PARTNER NO. 1

Admittedly, in 2006, Germany had for the first time to cede its Number 1 position among the main supplying countries to Russia and its predominantly natural gas deliveries. With about 17 billion euros of bilateral trade, Germany is still Turkey's most important trade and export partner. Until 2015 Turkey on the other hand will be among the ten most important trade partners for Germany if the current development continues. Today it already holds rank 17 of Germany's export and rank 20 of Germany's import trade partners.

THIS CLOSE CONNECTION OF THE BILATERAL ECONOMY IS NO ACCIDENT

On the one hand, Turkish enterprises strive to enter into the European market. For them Germany is usually the first choice as business location. Not only due to the close economic ties but also because of the multifaceted relations that have developed on both sides in over forty years of common migration history.

It has to be seen in this context that the former Turkish migrant workers in Germany have long since turned into an indispensable pillar of the economy. On the one hand, they are employees and as such support the German tax and social systems. On the other hand, today more than 65,000 Turkish businesses and enterprises of Turkish descent produce more than 35 billion euros per year in this country. They invest far more than eight billion euros and secure jobs for more than 370,000 people.

The companies are not limited to the obligatory niches in retail or gastronomy anymore, but for a long time they have been covering all modern industries and service sectors. Consequently, they increasingly provide a not unimportant part of the urgently needed traineeship positions. Facing the market opportunities in Turkey, German, Turkish and international enterprises are searching for well-trained bilingual and bicultural specialists and executive staff. The young people with migratory background in Germany possess the required potential. Until today, these adolescents have to overcome higher obstacles in the search for a traineeship or a job – the bilateral economy however has recognised their potential and has started to support them.

RISING DEMAND FOR BILINGUAL EMPLOYEES

Traineeship projects like that of the TD-IHK and its partners made it their business to sensitise migratory enterprises and adolescents with migratory background and point out oppor- ›

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"The HANNOVER MESSE will present a significant opportunity for the Turkish industrialists to display their innovative face and high standards. This is why the HANNOVER MESSE is also an important test for the Turkish industry."

Murat Yalçıntaş, Chairman, Istanbul Chamber of Commerce

KEY ECONOMIC DATA TURKEY	2002	2003	2004	2005	2006	2007
Gross Domestic Product (in billion US-Dollars)	182.973	240.596	302.561	362.461	378.425	400.367
Inflation (in percent change)	44.8	25.2	8.6	8.2	10.2	7.2
Population (in million)	68.390	69.478	70.551	71.605	72.750	73.914
Current Account Balance (in billion US-Dollars)	-1.522	-8.035	-15.604	-23.091	-25.466	-23.304
Current Account Balance (in percent of GDP)	-0.8	-3.3	-5.2	-6.4	-6.7	-5.8

Source: IMF

› tunities. The success of this project is demonstrated by succeeding projects all over Germany, which participate in the experiences of the pilot project by the Chamber in Cologne.

STEPPING STONE

Beside the decision for Germany as economical stepping stone to Europe, German businesses have at all times been sought after partners at the Bosporus. Until the end of 2006, more than 2,500 German companies have located in Turkey, more than half of them within the last three years. This was possible due to a number of reforms enforced by the Turkish government of Prime Minister Erdoğan. In the last years they were implemented with unequalled verve and much faster than similar reforms would take place in Germany or the European Union. In order to make the country more attractive for foreign capital and know-how, foreign direct investments were already put on par with domestic ones in the year 2003. The market conditions were improved, the legal security increased and the bureaucracy diminished. Corporate taxes were reduced from 30 to 20 percent in 2006. Privatisation schemes are increasingly put out to international tender.

RISING FOREIGN INVESTMENT

The success of these measures is visible in the strong increase of foreign direct investment since 2005. Only in the first eight months of last year the foreign direct investment amounted to 12.5 billion US-Dollars, which were 126 percent above the overall capital expenditure of the year 2005 with 9,8 billion US-Dollars.

In light of these very positive prospects – which are additionally supported by a subsiding deficit financing and inflation as well as the still very offensive foreign trade policy – Turkey will remain in the long-run a highly interesting market. This will also not be changed by this year's presidential and parliamentary elections, even though the verve for reforms is slowing a bit as a result.

TURKEY AND THE EU WILL SOON OVERCOME THEIR DIFFERENCES

Also concerning the still unsolved question of the complete realisation of the customs union, Turkey will come to an agreement in close consensus with the European Union. An agreement that will satisfy all parties involved and affirm Turkey's seriousness regarding its intention to join the European Union as well as underline the stability of Turkish reforms. This will once again become apparent at the HANNOVER MESSE, where more than 200 enterprises from Turkey will demonstrate which the determined and long-term direction the country has taken. ‹

CANSEN BAŞARAN SYMES

is a rarity. Within the male-dominated environment of an international accountancy corporation, she became the boss of a national branch – and that is in Turkey. Reason enough for PricewaterhouseCoopers to pick her for its European board. In 2001, Cansen Başaran led the Europe 2050 Task Force of the World Economic Forum. She presented the „Readiness for the Future Index" that measures Europe's readiness for the 21st century. Başaran will speak at the German-Turkish Business Summit and the Global Business Forum at the HANNOVER MESSE, discussing the inner life and condition of Turkish family businesses.

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It is All About Confidence

INTERVIEW: HANS GÄNG

› ONE OF THE MOST IMPORTANT CHARTERED ACCOUNTANTS IN TURKEY, CANSEN BAŞARAN SYMES, FEELS THAT TURKISH FIRMS ARE WELL-PREPARED FOR THE COMPETITION ON THE WORLD MARKET – MUCH BETTER THAN SOME EUROPEAN COMPANIES ARE FOR THEM.

› The large and successful Turkish corporations are just as much family-owned businesses as the country's medium-sized companies. Are these businesses ready for Europe and the world market?

You bet. The Turkish family businesses will surprise Europe even more than some companies in India or other emerging markets which currently do just that, too. They have been around much longer and are much closer to the European market than their competitors from the Far East. At least in Western Europe people have definitely missed or turned a blind eye to the developments in Turkey. The offer of the family and media corporation Doğan for the broadcast network ProSiebenSatı has certainly had an invigorating effect on the German debate about the Turkish economy. Just for the record: The large conglomerates have been and are incredibly successful. Therefore, they are in an excellent starting position. I have been in the business since 1981 and very close to the market. Believe me: They will continue to be extremely dynamic.

› Where does this new dynamics of the Turkish companies stem from?

It is not that new after all. We must not forget that the economic history of modern-day Turkey did not only begin after the 2001 crash and almost from zero. In spite of hyperinflation, companies have survived for a long time in the domestic market. This was a very hard test. Subsequently they used the first waves of privatisation to their own advantage. They entered into successful strategic cooperations with foreign partners and devised initial foreign activities, such as in Russia or on the Balkans. Turkish family business simply learned well to react quickly. They are able to focus strongly on their targets despite a fast-changing environment.

› Are these findings only true for the ten or fifteen well-known large corporations or do they apply also to medium-sized companies which appear ever stronger on an international level?

Also those medium-sized and family-owned suppliers are rapidly expanding companies. They triggered off the development of entirely new centres of activity in the Turkish economy, around Istanbul, in Izmir, Bursa and also in Gaziantep in the East. These factors reinforce and stabilise the steadily high industry growth in the country. And don't forget in Europe. We have seen 21 quarters of uninterrupted growth – with an average seven percent annual growth in the past three years.

› Don't large family businesses slowly but surely outgrow their traditional structures? How does a paternalistically-led business adapt to international competition, also on capital markets?

The very large companies have definitely become global players already. Not only in aligning their activities with those of the large global markets. They prepare accounts according to International Financial Reporting Standards. Some families still maintain a very strong and personal management style in their business. The values which families use for their orientation strengthen these organisations. But these new "patrons" are sometimes the second or even third generation in charge of the business. This generation of heirs very often has excellent, mostly Anglo-Saxon, management skills and, at the same time, a leadership competence in their own company which they have acquired from a very early age. This does the company no harm – far from it. Nevertheless, many of the entrepreneur families have begun to draw back from the operational side of business and take on advisory functions.

› How do you see the future for cooperative ventures and investments?

I'm certain that the Turkish families will quickly start to expand their activities outside Turkey. This will improve the perception for the Turkish reality in Europe and hopefully reduce the reservations which still exist towards us. The „World 2050" report issued by PwC predicts, that between 2005 and 2050 Turkey will grow by at least 5.6 percent annually and, with more than 90 million inhabitants, will become the twelfth largest economy of the world. The gross national product is also expected to grow to four trillion US-Dollars and the per capita income to 40,000 US-Dollars annually. Currently, we are at circa 5,000 US-Dollars. This proves Turkey's huge potential.

› But it also shows how long a way the country still has to go?

Yes, with all the enthusiasm about the countries' potential, the dark sides of the development should not be overlooked. Average Turkish income still reaches barely 29 percent of the average amount of the 25 EU member states. However, we have regions whose average is better than that of ten new EU member states – the growth of income in Turkey is completely diverse. Some parts of the country and the population do not have a share in the growth. Another huge problem is the non-registered economy, the so-called "informal sector". Government and companies must quickly develop solutions for this problem. Unpaid taxes stall growth. It is all about confidence.The European businessmen and also the Turks living there tell me that they do not have the confidence required for realising planned and necessary investments.

› Isn't it the responsibility of the government to create confidence?

If one knows how important the role of expectations is at the international capital markets, how strongly real growth rates depend on positive expectations, then it is clear that lack of confidence is the critical issue. It calls for the collaboration between government and business. Currently, the government works hard on the protection of intellectual property rights, another important factor for confidence. We will also have to reduce the high transaction costs caused by bureaucracy. Industrial and business associations such as TÜSIAD, NGO organisations and entrepreneurs call for impulses and create pressure – for the liberalisation of the markets, for investments in information and communication technology, for reforming the field of education. This is the only way to create sustainable confidence in the society. ‹


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Export Success

INTERVIEW: HANS SEIDENSTÜCKER

› JÜRGEN R. THUMANN, PRESIDENT OF THE FEDERATION OF GERMAN INDUSTRIES (BDI), ON GERMANY'S EXPORT WONDER, STRENGTHENING GERMANY'S COMPETITIVENESS AND THE ATTRACTIVE TURKISH MARKET.

› In 2006, Germany once again captured the title "export champion". Why is Germany's export sector so strong?
First of all, a lot of hard work is the basis for this success. Our companies are highly innovative and technology leaders. At the same time, when it comes to costs, competitiveness has improved. Second, the German economy is tightly integrated within the Single European Market, approximately two thirds of our exports go to the EU. Open markets are therefore an important component for success. And if we continue to push ourselves, the German export wonder can continue for a long time.

› What are the biggest risks and challenges for Germany's export?
Currently we are closely observing the economic trend in the United States and the US-Dollar exchange rate. Herein lie the biggest risks for our exporting companies. Unfortunately, we can do little to influence these events.
Our biggest challenge is the Doha round. This year will likely be the final chance to bring the currently languishing WTO negotiations to a successful conclusion. At the same time, bilateral negotiations on trade liberalisation have to commence. First and foremost, these negotiations have to lead to a reduction of trade barriers in the fast growing Asian markets in order to strenghten the competitiveness of our companies. Politically, it is also important not to rest on our export success. We will have to continue to do our homework here in Germany.

› How can the competitivenss of German industry be strengthened further?
The basis for the economic future of developed industrial countries such as Germany lies in the expansion of knowledge leadership. In the long run, one will hardly be able to compete with low-cost countries. The creation of ideas and turning them into innovative products and processes is key for success in future. Therefore, more emphasis has to be placed on research, technology and education policy. The commitment of the grand coalition to dedicate three percent of GDP on research and development is a crucial step. In addition, a key element of such a strategy has to be, that as much value added as possible remains or becomes profitable. An ever increasing share of value added will in future have to come from innovative sectors. Creation of value must become the model for economic policy. The focus must not be on reducing weaknesses, but on an offensive strategy to tap sustainable value added potential.

› How important is the development of new markets for German industry? What role does Turkey play in this regard?
Our exporters have had huge success in developing new, fast growing markets. For instance, our exports to Russia increased by more than 35 percent in 2006. In the Chinese market, we were able to increase our sales by almost 30 percent. On these markets, political support of the export business is of particular importance. Politics plays an important role not only when the awarding of contracts for major projects is concerned, but also in opening doors for Germany's medium-sized businesses.
Turkey also provides interesting opportunities for our companies. First, Turkey is a dynamic market: Six percent growth in 2006, falling inflation, sinking unemployment rates and growing per capita income speak for themselves. German products enjoy an excellent reputation. Secondly, its EU candidacy creates potential for business. The necessary construction and expansion of infrastructure alone require investment in the billions. Here, German companies have much to offer. And last but not least: its strategic location. Many companies use Turkey as a basis to develop markets in the Middle East or Central Asia. In short, for many German companies, Turkey is an important component for their internationalisation strategy. Therefore, after Russia and India, Turkey is a Partner Country of the HANNOVER MESSE.

› How do you assess German-Turkish economic relations?
German-Turkish economic relations are very satisfactory. In 2006, our trade volume increased by eleven percent. More than 2,500 companies in which Germans have a stake are active in Turkey. This positive picture would not be imaginable without the customs union between Turkey and the EU.
Turkey has been negotiation about the country's EU accession for one and a half years now. We are therefore still at a very early stage. I look favourably upon the EU's robust negotiating mandate. It is important not to prejudge the negotiations, but to make decisions based on Turkey's progress in implementing what is demanded of it. A proven procedure exists, which determines, how negotiations are to progress and how to proceed when difficulties arise.
Companies have considerable interest in further economic and trade liberalisation as well as privatisation in Turkey. An important anchor for this project is a clear European perspective, which should be sustained even when the EU accession negotiations run into difficulties. One could also consider expanding the customs union to services and public procurement. It would also be worthwhile, to integrate Turkey into the European Economic Area, without thereby prejudging a later political decision on EU accession of Turkey. ‹

"At the HANNOVER MESSE, our firms will use the opportunity to position themselves on the international market." Ali Coskun, Minister for Trade and Industry

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An Immense Opportunity

INTERVIEW: HANS SEIDENSTÜCKER

› AS PARTNER COUNTRY OF THE HANNOVER MESSE 2007, THE EYES OF THE INDUSTRIAL WORLD WILL BE ON TURKEY. ALI COŞKUN, TURKEY'S MINISTER FOR TRADE AND INDUSTRY, ASSESSES THE CURRENT ECONOMIC DEVELOPMENTS IN HIS COUNTRY.

› How do you assess the competitiveness of Turkey's industry?

In recent years, Turkey's competitiveness has improved. This is evident in company operations and strategies, the quality of the business environment, and technology. But even though considerable productivity increases have been obtained as a result of the structural reforms realised and the macroeconomic stability achieved, Turkey's competitiveness has not yet improved sufficiently. Some of the main reasons are the inadequacies in the quality of the business environment, in energy and transportation infrastructure, in R&D and innovativeness. At the same time, international competition is increasing. This makes it necessary for Turkey's manufacturing industry to move towards areas where information and innovativeness constitute the determining factor of competition.

› How have Turkey's exports developed?

Our exports in 2006 amounted to 85.3 billion US-Dollars – a 16.1 percent increase compared to the previous year. With a share of 52.4 percent, the EU is our most important export market. With an 11.4 percent share and 9.7 billion US-Dollars, Germany remains our most important market, followed by the UK (eight percent share and 6.8 billion US-Dollars) and Italy (7.9 percent share and 6.7 billion US-Dollars).

› Where do you see the reasons for this impressive export growth?

The achievements of our country in foreign trade particularly after the crisis in 2001 have been due to Turkey's improved investment climate, private sector investment and foreign direct investment have strengthened our product potential. The share of sectors such as the automotive industry, machinery and manufacturing industry, electric and electronics industry, which require advanced technology and are capital intensive, has increased.

› What can be done to increase Turkey's production of high value-added goods?

As I mentioned before, our main objective is to increase the production of high value-added goods with the aim of raising Turkey's competitiveness and obtaining a higher share of world exports. Just to mention a few steps we have taken to achieve this goal: We have harmonised Turkey's laws with the EU's technical legislation, improved the quality infrastructure and supported R&D activities. 23 technoparks have been established in which industry and universities cooperate closely to develop new technology. The goal is to enable every SME to conduct R&D activities.

› How do you seek to attract foreign companies to invest in Turkey?

Turkey has a large domestic market. Investors have been attracted by sound macroeconomic and structural policies and the strong growth of the Turkish economy. Foreign direct investment reached 20 billion US-Dollars last year. The Law on Foreign Direct Investment passed in 2003 guarantees equal treatment and investors' rights. The company establishment process has been reduced to one day. The harmonisation with EU legislation with respect to technical legislation has also been achieved. In addition, various incentives are provided for those who invest in the organised industrial zones.

› Turkey is the Partner Country of the HANNOVER MESSE. What are your expectations for the event?

Being the Partner Country is an immense opportunity for Turkey. In the last few years, the HANNOVER MESSE has focused more on technology, innovation and proposals for solutions in industry. Turkey will present itself, with its research institutes, in a manner based on innovation and R&D.

Our firms will use the opportunity for technology transfer, which is indispensable for R&D. Turkish firms will grasp the opportunity to position themselves with respect to the global market. It will be possible to establish bilateral ties with the prime industrial actors of the world. ‹

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Turkish Delight

TEXT: PROF. DR. RONALD BOGASCHEWSKY, ULRIKE MÜLLER, CFSM – CENTRUM FÜR SUPPLY MANAGEMENT

› TURKEY'S IMPORTANCE AS A SOURCING MARKET IS CONSTANTLY INCREASING. WHAT TURKISH SUPPLIERS LACK IN RESEARCH AND DEVELOPMENT, THEY MAKE UP IN PRICE.

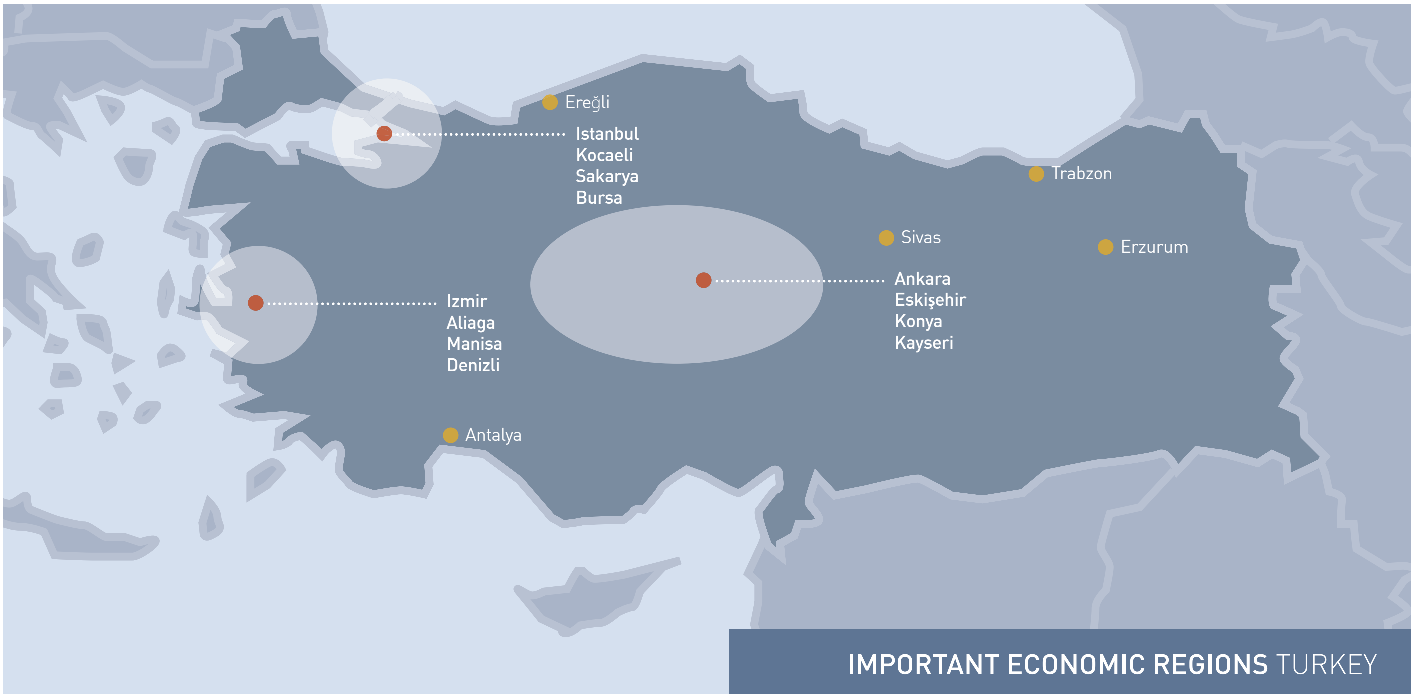
While Turkey is ranked 21st when it comes to exports to Germany, it is in fifth position among the emerging markets behind China, the Czech Republic, Poland and Hungary. For comparison: Measured by value, twice as many goods have been imported to Germany from Turkey than from India. Turkey's economy has witnessed impressive growth since the late 1990s.

STRONG ECONOMIC GROWTH

Industrial production has soared, the construction sector is booming, and large sums are being invested in the telecommunication and energy infrastructure. Strong economic growth of between six to nine percent, a young and growing population, strong investment in the private sector and a comparatively stable political situation are the foundation for good prospects. Even the suspension of EU accession negotiations and potential political uncertainty in the election year 2007 – presidential elections are held in April and parliamentary elections in November – should not stop the upward trend of the Turkish economy.

RISING EXPORTS

According to official statistics, Turkish exports in the first three quarters of 2006 rose by 13.4 percent to 60.7 billion US-Dollars, while imports increased by 17.8 percent to 100.5 billion US-Dollars. The mechanical engineering and automotive sector replaced the textile and apparel industry as the country's strongest exporting sector.
Turkey's strengths lie in the manufacturing sector, especially in the automotive industry, in mechanical and plant engineering, in the iron and steel industry, in the electronics and chemical industry. 70 percent of companies are located in Western Turkey, 40 percent of them in the Marmara region around Istanbul. This region – together with Kocaeli, Bursa and Sakarya – is among the largest industrial centres in the country. The automotive sector is particularly important with well-known



IMPORTANT ECONOMIC REGIONS TURKEY

SOURCE: CFSM

manufacturers such as Ford, Mercedes-Benz, Isuzu, Chrysler, Renault and Fiat located in the region.

CONCENTRATION PROCESS

The Turkish market for machinery and plants, whose main locations are in the Marmara region and in Central Anatolia (Ankara, Konya, Kayseri, Eskişehir) also provides interesting opportunities for foreign companies. The total number of mechanical engineering companies amounts to 3,000 and the sector's total production value amounted to 17.7 billion US-Dollars in 2005. The Turkish Association of Machine Manufacturers (MIB) predicts an expansion of capacity. The strong competition and the limited financial resources should lead to a concentration process, which will result in larger companies. Potential for investment exists in such sectors, which are important for the production of semi-finished goods for the manufacturing industry. In particular, so-called technology components, which have not yet been manufactured domestically but are needed by manufactures – for instance in the automotive sector – offer potential.

Measured by exports, the iron and steel industry has replaced agriculture as Turkey's third most important industry. Turkey is one of the world's ten largest iron and steel exporters. Turkey aims to further modernise and rationalise the sector and invest 5.5 billion euros by 2010. It is expected, that thanks to improved quality, Turkey will be able to further increase its iron and steel exports.

The electronic industry is also expected to continue its growth, especially in the consumer electronics ("brown and white goods") and telecommunication sector. For instance, more than one third of all televisions sold in the EU are made in Turkey. Even though this market is dominated by large conglomerates in the end customer sector, a distinct network of small and medium-sized suppliers for components and spare parts has developed.

HANDELING ONE THIRD OF TURKEY'S EXPORTS

The chemical industry is experiencing a similar upward trend. One main region of this sector is the Aegean region with its large port in Izmir. The city handles one third of Turkey's exports and is home to the oil refining, (petro-) chemical industry and automotive industry. Exports of anorganic and organic chemicals grew by 25.8 percent and 33.7 percent to a total value of 595 million US-Dollars during the first three quarters of 2006. Exports of mineral fuels and oils increased by 41.5 percent to 2.7 billion US-Dollars. The sector will benefit from the planned expansion of the oil terminal in Ceyhan and the construction of an oil refinery by Russia's Lukoil.

MORE R&D REQUIRED

When sourcing in Turkey, one should be aware that Turkish suppliers have to catch-up when it comes to research and development. For instance, Turkey's innovative strength – measured by the EU's "European Innovation Scoreboard 2006" – is significantly below the EU average and even below every EU accession country. The Turkish government seeks to address this weakness through a number of targeted investment projects.

Unfortunately, the Turkish exhibition sector is still underdeveloped, so that it is difficult to assess an exhibition's quality beforehand. When looking for suppliers, exhibitions can provide some initial orientation, especially in terms of technology and product quality and help in establishing contacts. But for a comprehensive overview, systematic supplier research is necessary. Possible sources for information are supplier data bases, company lists provided by the industrial federations and chambers of commerce and industry as well as Internet research.

ATTRACTIVE SOURCING LOCATION

No matter how the supplier is finally found: Business contacts in Turkey must be well looked after. On the one hand, the personal impression one leaves among the Turkish partners is often more important for agreeing on a contract than just the numbers involved. On the other hand, only through a good relationship with the supplier one can ensure an adequate proccess quality in the long-term and notice personal and organisational changes in time. Turkey can be an attractive sourcing location – if one adjusts to the culture. ‹

Going to Turkey

INTERVIEW: ULF C. GOETTGES

› AXEL EUCHNER, CFO OF SCHMOLZ + BICKENBACH KG, AND MICHAL SCHMITZ, GLOBAL RELATIONSHIP MANAGER OF FORTIS, TALK ABOUT OPPORTUNITIES AND CHALLENGES IN TURKEY.

› When Schmalz-Bickenback KG decided to open a production site in Turkey in 2001, the legal and economic framework was not as developed as today's. Why did you decide to take the risk?

Euchner: We followed the market. More and more component suppliers moved to Turkey, not only European, also Asian ones. They need steel and that is our business. The automotive industry has since become a major accelerator for economic growth in Turkey.

› So the automotive industry was very farsighted at that time?

Schmitz: Yes, no doubt. Turkey offers well-trained employees. The wage level is significantly lower than in Germany, employment laws are much more flexible. The 46-hour work week is standard in Turkey. From that point of view the basic conditions appeared to be very attractive to manufacturers.

› Are you taking advantage of these conditions to produce low priced steel for export?

Euchner: No, we are predominantly producing for the domestic market. Our clients are component suppliers, but also other companies as well. A growing economy leads to rising demand for steel. It is more efficient to develop the Turkish market than to just take advantage of low wages.

Schmitz: Looking at Turkey as a low-cost country is a mistaken perspective. A study conducted by the Federation of German Industries came to the conclusion that simple, labour-intensive production lines are being placed in Bulgaria and Romania whereas manufacturing processes creating added value are being developed in Turkey.

› What has changed since 2001?

Euchner: Turkey is keen to liberalise its regulatory and economic system. Back in 2001, there was no investment law. Foreign investors were not allowed to buy and own real estate. That has been changed and more is to come soon.

Schmitz: I would even say that no other country in the Mediterranean is undergoing such broad changes.

› No more wishes?

Euchner: Of course there are many more wishes. For instance, the whole financial management displays a strong need for deregulation.

Schmitz: The Turkish financial market is booming. Its deregulation should not be delayed. Turkey is an emerging market for banking and insurance.

› You are talking about the domestic market. But isn't Turkey a gateway to markets abroad, too?

Euchner: Indeed. In the North there are Bulgaria and Romania, looking to the South you have the Middle East.

Schmitz: Yes, that is a rewarding long-term perspective. But most investors concentrate on the domestic market. Turkey anticipates 15 billion US-Dollars foreign investment in 2007.

› Your production site is located in Gebze/Kocaeli near Istanbul. Are you concentrating on that region?

Euchner: No, we are present in all major Turkish cities. But the Gebze region plays an important role. The Turkish Institute of High Technology is located there and it is also a point of concentration for the automotive industry.

› Would you advise other entrepreneurs to go to Turkey?

Euchner: Sure if it fits their strategy. But whoever takes that step must find competent Turkish managers. Without local support, success is unlikely. But if one finds the right employees, Turkey offers great opportunities.

Schmitz: Fortis possess sufficient know-how and experience to guide investors and keep them from taking unnecessary risks. Now is the right moment for entrepreneurs to invest in Turkey. That way they will participate in the boom. ‹

AXEL EUCHNER

is Chief Financial Officer of **Schmolz + Bickenbach KG**, a leading provider of special solutions in high quality steels based in Düsseldorf, Germany.

MICHAEL SCHMITZ

is a Global Relationship Manager with **Fortis** – one of Europe's twenty largest financial institutions. It has a market capitalisation of 43.7 billion euros.

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Certified Demand

INTERVIEW: HANS SEIDENSTÜCKER

› ROUGHLY 20 YEARS AGO, TÜV SÜD ESTABLISHED ITS FIRST BRANCH OFFICE IN ISTANBUL. DR. AXEL STEPKEN, EXECUTIVE VICE PRESIDENT, TÜV SÜD AG, EXPLAINS THE COMPANY'S STRATEGY IN TURKEY.

› How long has TÜV SÜD been active in the Turkish market? What were TÜV SÜD's motivations for entering the Turkish market?

Roughly 20 years ago, TÜV SÜD established its first branch office in Turkey, in Istanbul. Today, we are represented at six locations throughout the country: in Istanbul and also in Izmir, Kocaeli, Ankara, Adana and Bursa.

Particularly since Turkey's EU accession negotiations were launched, the country has earned more attention from German industry. For TÜV SÜD, Turkey, as the interface between Europe and Asia, has been an interesting market for a long time.

› What were the biggest challenges in the beginning? How did you succeed in achieving brand recognition?

In the establishment phase our biggest challenge was to find local experts who were familiar with EU Directives. Over the next years, we then succeeded in establishing ourselves in Turkey thanks to our comprehensive industry expertise and by providing early consulting services and continuous support targeted at optimising technology, systems and know-how. Today, we "add value" as a process partner recognised equally by industry and government.

› To what extent does business culture in Turkey differ from that in Germany?

Basically, business life in Istanbul and other large cities in Turkey is no longer noticeably different from that in other business locations throughout Europe. Of course, there are still very many family companies but they are also well on their way to adopting a more Europe-oriented business culture. Noticeable effects of this trend include soaring demand in the area of system certification as per European and international standards.

For many small and medium-sized enterprises (SMEs) in Turkey, concepts such as environmental protection, occupational safety and health and quali-

ty management are also relatively new. For this reason, we have strengthened TÜV SÜD Academy, offering appropriate initial and further training programmes.
Only recently, TÜV SÜD certified the mayoral office of Istanbul's largest district of Şişli according to the internationally binding standards for occupational safety and health, environmental protection and quality. Numerous hotels and restaurants in Turkey have also been certified as per international standards by TÜV SÜD.

› What services do you offer your clients in Turkey?

TÜV SÜD's activities in Turkey focus on industry, system and product certification, the automotive and the initial and further training sectors. In the field of type examination certificates for lifts as per EC Directive 95/16/EC, TÜV SÜD is actually the market leader in Turkey.

In cooperation with the national Chamber of Industry and Commerce, we have been equipping small and medium-sized enterprises for the European market for some time now. Specialist training courses and seminar programmes provide initial and further training on CE marking, quality management, environmental management, occupational safety and health or food safety. Further projects at various Turkish universities are aimed at making today's students fit for the international labour market.

› Do you also provide services to neighbouring markets in southeastern Europe, the Middle East and the CIS from your branch offices in Turkey?

Services in Central and Eastern European countries are provided by the local TÜV SÜD subsidiaries there, but our branch offices in Turkey receive many service inquiries from neighbouring countries and the Middle East and we are very happy to provide these services.

› What kind of effect is Turkey's accession process having on your business? Is there a rising demand for TÜV certification?

Turkey's accession process has had a favourable influence on business. After all, Turkey has generated annual economic growth of roughly five to seven percent since 2004. CE marking of products in particular has increased in importance, as this directive no longer applies only to product export but also to products sold in Turkey.
Turkey, however, is also well on its way to adjusting to European standards and norms in other areas. The best example of this is the establishment of German-style roadworthiness testing and inspection for which TÜV SÜD is currently making preparations. TÜV SÜD, together with the Turkish conglomerate DOGUS and construction company AKFEN, has been awarded the 20-year contract for the project following an international invitation to tender issued by the privatisation authority of the Turkish Ministry of Finance. The activities of the three-company consortium are combined under the umbrella of TÜVTURK AG. Each partner holds a third of the interest in the new company. Plans provide for roughly 200 service centres and 40 mobile stations to be established and equipped.

› What special technical and legal conditions do German companies face in Turkey?

As a matter of principle, the Turkish government promotes and supports foreign investments in Turkey. In the wake of EU accession talks, Turkey has also passed numerous laws already valid in the EU. Even if implementation of the laws that have been passed takes slightly longer than planned, foreign companies can generally transact business without restrictions in Turkey. Currently, over 2,000 German companies have invested in a host of different areas there. ‹

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"Most companies benefit from the dynamic growth of the Turkish economy." Joachim Friedrich, Coface

Good Prospects

TEXT: ERICH HIERONIMUS

› THANKS TO COMPREHENSIVE REFORMS, THE ECONOMY IS BOOMING AT THE MOMENT, MANY FOREIGN INVESTORS HAVE INVESTED IN TURKEY. BUT HOW SOLVENT ARE TURKISH COMPANIES?

While the various rating agencies have denied Turkey investment grades for some years, in their day-to-day business with Turkish companies German enterprises have lately encountered no more unusual payment problems than they would experience in countries with much better ratings. This assessment is provided by Coface's Joachim Friedrich, who, from his base in Istanbul, looks after major customers in Eastern Europe, the Middle East and Turkey. At present, Coface assigns a B rating to Turkey and last year it took the country of its watch list.

DYNAMIC GROWTH

"The payment behaviour of Turkish companies does not generally deviate from that in other south or eastern European countries," says the Coface manager, pointing to the fact that Coface had registered no significant changes in the insurance losses as a consequence of the turbulent months of May/June 2006 in Turkey. "It goes without saying that there are insolvencies and payment delays just like in other countries, but most companies benefit from the dynamic growth in nearly all sectors of the Turkish economy, domestically and in the rapidly increasing export sector," Joachim Friedrich adds. In contrast to these positive trends, Coface sees companies in the agricultural and textile sectors operating in a recessive environment, making their activities incomparably more difficult. Significantly, the highest losses of Coface Turkey were caused by debtors from the textile sector.

IMPROVED CAPITALISATION

Thanks to economic growth and a tight rein on inflationary pressures, many Turkish companies were able to improve their capitalisation. Meanwhile a large number of Turkish banks have been merged into foreign banking groups, with the consequence that in Turkey, too, banks will confront medium-sized and large companies with the future evaluation according to Basel II criteria. So far it appears that the effects of the stronger internationalisation of the banking sector, the preparations for introducing the Basel II criteria and the rapid growth of foreign trade tend to strengthen Turkish companies rather than confront them with insurmountable problems.

GROWING EXPORTS

Although the euphoria surrounding possible EU membership has somewhat abated, many companies see their chances in foreign trade with other European countries. Politicians and business organisations envisage an overall export volume of 500 billion US-Dollars for 2023, when Turkey will celebrate its 100th anniversary as a modern state. While this will demand a supreme effort, it also opens considerable possibilities for organic company growth. If the potential of the domestic market is added, one arrives at an enormous purchasing volume of Turkish companies.
"With view to the vast spectrum of imponderable factors to which Turkish

companies are exposed, it goes without saying that we have to wonder whether our own business partners are equipped to cope with possibly rising inflation, a fluctuating exchange rate and the political uncertainties connected with the impending presidential and parliamentary elections," says Joachim Friedrich. All in all, he leans towards an, if anything, optimistic interpretation of the external factors for companies at the present time. The first government bond tied to the rate of inflation since 1999 was oversubscribed six times, underlining the government's confidence that it has a firm grip on inflation.

SUPPLIER CREDITS

The rapid growth of Turkish enterprises is one of the main reasons for the growing importance of supplier credits as a source of finance. Joachim Friedrich expects that "bad debts will remain common occurrences, just like in Germany or other European countries, even if the positive short-term trends we see at the moment were to persist for some time." This could become problematic if short-term crises in emerging economies, triggered or amplified by international capital flows, were to develop more serious consequences than in May/June 2006. While Turkey had demonstrated that it could ride out turbulences of this kind, it remained to be seen how serious and long lasting these turbulences would be. "After all, our B rating shows that we see Turkey as vulnerable. If it came to it that interest rates had to be raised yet again, we would have to expect corporate bankruptcies, due to the rising interest burden," stresses Joachim Friedrich. The Turkish currency, he adds, was generally seen as overvalued, leading to likely corrections. However, no one could predict whether these corrections could be effected in a controlled fashion or whether companies would have to cope with a sudden adjustment.

FINANCIAL HEALTH HAS IMPROVED CONSIDERABLY

With view to company information, Coface asserts that while transparency concerning the financial "health" of Turkish companies had improved considerably, including in the context of the beginning introduction of the IFRS accounting standard in large companies and those active in foreign trade, the accounts of medium-sized companies trading domestically often remained obscure and needed interpreting in the context of their tax burden and their shareholders, among others. This also meant that risk evaluation could not end with a consideration of the country risk and the macro-economic factors, but it always had to include an analysis of the actual business relations of the companies concerned.

SENSIBLE EXPANSION

The possibilities of insuring exports into Turkey or domestic business within the country itself have significantly improved over recent years through private credit insurance and export factoring. "Particularly against the background of terms of credit sales, companies have to consider the creditworthiness evaluation of their business partners", is Joachim Friedrich's advice. "There is no doubt that the opportunities of the Turkish market for German companies make a controlled expansion of business relations appear sensible and promising." ‹

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Energy Efficiency

TEXT: DR. CHRISTIAN URBANKE , MEMBER OF THE GROUP EXECUTIVE MANAGEMENT, SIEMENS POWER TRANSMISSION AND DISTRIBUTION (PTD)

› **CLIMATE EXPERTS WARN OF DIRE CONSEQUENCES IF THE WORLD FAILS TO REDUCE THE EMISSION OF GREENHOUSE GASES. MANY TECHNOLOGIES EXIST TO REDUCE ENERGY CONSUMPTION. HOWEVER, MUCH ENERGY SAVINGS POTENTIAL REMAINS UNTAPPED.**

The recently published UN report on climate change warns that the consequences of climate change can no longer be averted. According to the report, surface temperatures will rise by a further 0.6 degrees centigrade by the year 2100 alone due to the greenhouse gas emissions that have already been caused by humans. According to the UN experts, the most severely affected regions will be southern Africa, the highly populated river deltas of Asia, pacific island nations and the Arctic. We must act now to avert further rises in temperature. Climate change is one of the most important global challenges we face today.

The measures we have to take in order to reduce greenhouse gas emissions, will affect our whole way of life – all over the world, every part of society. We have to pull all levers to save energy. Some measures even save costs, for instance the efficient refurbishing of buildings to reduce heating and cooling expenses.

COSTS OF CLIMATE CHANGE

This will not be sufficient. To have a measurable effect, steps must be taken, which viewed from today's perspectives offer low yields. However, if we fail to take them, the follow-up costs will be much higher. According to calculations by the World Bank's former chief economist, Nicholas Stern, one percent of GDP will have to be invested annually in climate protection measures. Stern warns, that failing to do so, will result in even higher costs. Climate change may then cost between five to 20 percent of GDP annually.

Industry can make a large contribution to stabilise the climate with energy efficiency being one of the most important levers. Put differently, increasing energy efficiency is one of the largest sources of energy. The big challenge for us: For a rapidly growing world population and simultaneously declining energy resources, we have to discover a safe and secure energy supply – an energy supply that is not only as efficient, but also as environmentally friendly as possible.

POWER GENERATION

It starts with power generation. In the year 1900, a coal-fired power plant's efficiency was approximately seven percent. About two kilograms of coal had to be used to generate one kilowatt hour of electricity. Today, modern coal-fired power plants achieve an efficiency of 47 percent. One kilowatt hour of electricity can today be generated with 0.3 kilogram coal.

Another comparison reveals the consequences of increased efficiency: If one increases the efficiency of a lignite power plant with a capacity of 900 megawatt by one percent, then it uses 130,000 tons lignite less and emits 130,000 tons less CO_2.

If one were to bring all coal-fired power plants up to the most modern standards, carbon dioxide emissions could be reduced by 1.6 billion tons. And if one were to replace coal-fired power plants with combined cycle power plants, the environment would be spared more than four billion tons of carbon dioxide emissions. These would be about ten percent of global greenhouse gas emissions, which amount to 40 billion tons of carbon dioxide.

Today, combined cycle power plants which combine gas and steam turbine cycles, have an efficiency of 58 percent and are continuously being improved. Currently, Siemens is building a testing facility for a new generation of gas turbines. With an efficiency predicted to exceed 60 percent, this combined cycle power plant will be among the world's most efficient.

Another form of efficient power generation is the CO_2-reduced power plant. The combination of coal gasification, CO_2 separation, and gas and steam turbines can in the future result in a giant leap for the climate compatibility of coal-fired power plants. The separated CO_2 is, for example, permanently stored in depleted oil and gas reservoirs. However, substantial research and development work is needed to control the processes and ensure safe CO_2 storage.

All of these technologies contribute to using fossil fuels in a more efficient and environmentally-friendly manner. In addition, technologies for renewable energy exist, such as wind turbines and solar plants, with their virtually unlimited energy supply, but also with their well-known disadvantages, such as the low energy density and their temporarily fluctuating availability.

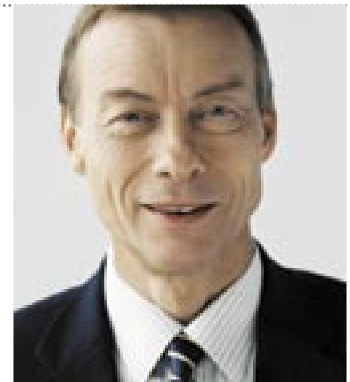
SMART GRID

Renewable energy places especially high demands on power grids. These have to cope with or balance the electrical power that has been generated – be it extremely large or unusually small. Energy transmission and distribution is therefore a second important area, in which generated power can be used in an optimum manner due to new technologies.

For the integration of strongly growing renewable and distributed energy sources, it is necessary, to regulate the energy flow and thereby sustain network stability. Here, the use of power electronics such as the energy transport via high-voltage direct current (HVDC) and special equipment for flexible AC transmission systems (FACTS) is helpful. The aim is a "smart grid", i.e. a flexible and intelligent power transmission network for the integration of large amounts of renewable and distributed energy sources. In such a network, power is distributed with minimal loss from the power plant to the customer, while at the same time ensuring high reliability and quality of power supply. By controlling and regulating the power flow, the probability of a blackout is reduced. If a blackout should occur nonetheless, modern energy automation limits damage. This is ensured through fast information exchange between the digital protection systems and the network control technology.

LOW-LOSS ENERGY TRANSPORT

Modern HVDC facilities enable low-loss energy transport over long distances over land and even through oceans, further increasing the use of hydropower. An example for energy efficiency in this context is the HVDC submarine cable between Tasmania and Australia. From the island of Tasmania, "green power" can be supplied to cover peak load demand. In return, power plants on the mainland can replenish Tasmania's base load through electrical power imports from the mainland in dry periods when the island's reservoirs are not sufficiently filled. In India, Siemens is constructing a 780 kilometre long HVDC transmission link, which will strengthen the power supply of the growing region around the megacity of New Delhi, without the need to build additional power plants. The planned project is the fourth HVDC long-distance link in India and will have the highest power rating of all. The bipolar 500-kV direct-current transmission system with a power rating of 2,500 megawatts will transport energy with low loss from Balia in the east of the province of Uttar Pradesh to Bhiwadi in the province of Rajasthan near New Delhi. In comparison to a conventional 400 kV AC transmission line, this HVDC transmission link improves energy efficiency so that 688,000 tons of CO_2 per year will be saved.



Dr. Christian Urbanke of Siemens Power Transmission and Distribution calls for more efficient use of energy.

These are only some examples, which demonstrate, how efficient energy can be transported with modern technology and how CO_2 emissions can be avoided. In addition to the generation, transmission and distribution of power, industry can also contribute much on the consumption side, in order to use power as efficiently as possible.

EFFICIENT MOTORS

Almost 70 percent of the industry's power consumption are accounted for by installations driven by electric motors. According to the German Electrical and Electronic Manufacturers' Association (ZVEI), 36 billion kilowatt hours could be saved in Europe alone, if one were to replace unregulated motors for pumps, ventilators and compressors by variable-speed drives motors in industrial processes. A further seven billion kilowatt hours per year – which translate into 500 million euros – could be saved by using more efficient energy saving motors. Given today's electricity costs, the necessary investment for new motors would pay for itself within two years. In energy intensive sectors such as the automotive sector or metal processing, in which energy costs often amount to 40 percent of total costs, energy efficiency is an important competitive factor.

Industry has done much to increase energy efficiency. Between 1950 and the year 2000, the specific energy consumption of industry fell from 430 kilogram mineral coal units for each 500 euros gross value added to 113.

Information and communication technology plays an ever more important role in increasing energy efficiency. In the future, by using "smart metering", it will be possible to collect real-time data about electricity, gas and water consumption with the help of new digital meters and provide them as part of specialised services such as e-home-services. A user will be informed about his current usage and motivated to take measures to reduce consumption. He may switch-off some electrical consumers and receive a less expensive rate in return. Through this use and demand management, the intelligent power distribution network provides pseudo storage.

A simple number underlines how much potential modern energy saving lamps offer: During the life cycle of a 20 watt energy saving lamp 1,200 kilowatt hours of power are saved. For comparison: Half a ton of CO_2 is emitted when generating this power. The illumination of a factory, once a large item on the energy consumption list, can today be achieved much more efficiently thanks to modern fluorescent lamps. An illumination system, consisting of high tech components, saves up to 80 percent of energy.

RENEWED EFFORTS NECESSARY

Many more such examples could be mentioned. As a responsible industrial company, Siemens thinks ahead in all business units, from generation, transport and distribution of electric energy over solutions for industrial plants, mobility and communication up to household products, with its own models of the future. The findings and forecasts of the UN climate report are cause for concern. When it comes to energy efficiency, renewed efforts must be made to tap the currently underutilised energy savings potential. ‹

Protecting the Climate

TEXT: SIGMAR GABRIEL, FEDERAL MINISTER FOR THE ENVIRONMENT, NATURE CONSERVATION AND NUCLEAR SAFETY

› THE DRAMATIC CONSEQUENCES OF CLIMATE CHANGE REQUIRE SWIFT AND DECISIVE ACTION. CLIMATE PROTECTION IS INDISPUTABLY A GROWTH-FRIENDLY STRATEGY FOR INDUSTRIALISED AND DEVELOPING COUNTRIES, OPENING UP HUGE POTENTIAL FOR INNOVATION AND TECHNOLOGICAL PROGRESS.

In 2007 climate change is finally receiving the attention it has long been due. Public awareness of the problem is higher than ever before, the scientific findings are conclusive and the economic arguments are on the table. Under the German Presidency the European Union has drawn conclusions and formulated ambitious political objectives. We have already made good progress in the climate year 2007. Germany is using its EU and G8 Presidencies to make further advances in international climate protection. Our aim at the UN Climate Change Conference in Bali at the end of the year is to launch comprehensive negotiations on an international climate policy after 2012, the year the first commitment period of the Kyoto Protocol ends. We still have a long way to go, but I am confident that the international community will agree on the next steps for mitigating climate change. Both economics and science make it clear that we must take swift and decisive action.

STERN REVIEW

In his much regarded economic analysis the former chief economist of the World Bank, Sir Nicholas Stern, made it clear that we cannot afford to omit measures against climate change. Taking action for climate protection is far cheaper than non-action or delayed action. The Stern Review urgently calls for a correction of climate change – the „greatest market failure ever".
According to Stern's calculations, unchecked climate change costs five to 20 percent of GDP per year. Stern concludes that unchecked climate change would have more devastating economic consequences than the two World Wars of the last century. If we do not take decisive countermeasures more and more people will be forced to leave their homes in search of water and pasturage, the Earth's densely populated coastal regions will be at risk of flooding.
Only active climate protection can avert massive loss of prosperity. Stern estimates the costs to be about one percent of global GDP, thus considerably lower than the costs of climate change. This is a message which politicians, economists and representatives of industry must – and will – understand. The Stern Review also shows that climate protection is indisputably a growth-friendly strategy for industrialised and developing countries, opening up huge potential for innovation and technological progress.
Climate change is a vitally important issue for the future of the global economy. It fundamentally alters the conditions which determine the success of companies. Whoever understands this first has an advantage over competitors: environmental technologies and especially innovative energy technologies are key world growth markets and the lead markets of the future. Management consultancy firm Roland Berger forecasts that in Germany alone these industries will increase their turnover from the current 150 billion euros to 1,000 billion euros in 2030, thus leaving traditional sectors of industry such as vehicle construction and mechanical engineering far behind.

URGENT NEED FOR ACTION

The report by the Intergovernmental Panel on Climate Change (IPCC) presented at the beginning of February 2007 represents a further milestone. The report contains confirmation by the world's most respected climate researchers: there is no longer any doubt in international climate research that climate change is advancing and accelerating. The negative impacts connected with this – heat waves, droughts, flooding and heavy rainfalls – are noticeable throughout the world. Climate change will have serious impacts on lifestyle in industrialised and developing countries; it will damage our natural environment, massively weaken the global economy and affect international security.
These are the essential findings of the IPCC's new report. At the same time, the report highlights the fact that consistent action must be taken to ensure that global temperatures do not rise by more than two degrees compared to pre-industrial levels. Any greater temperature increase would mean we could no longer control the risks.

THE EU RESPONDS TO THE CHALLENGES

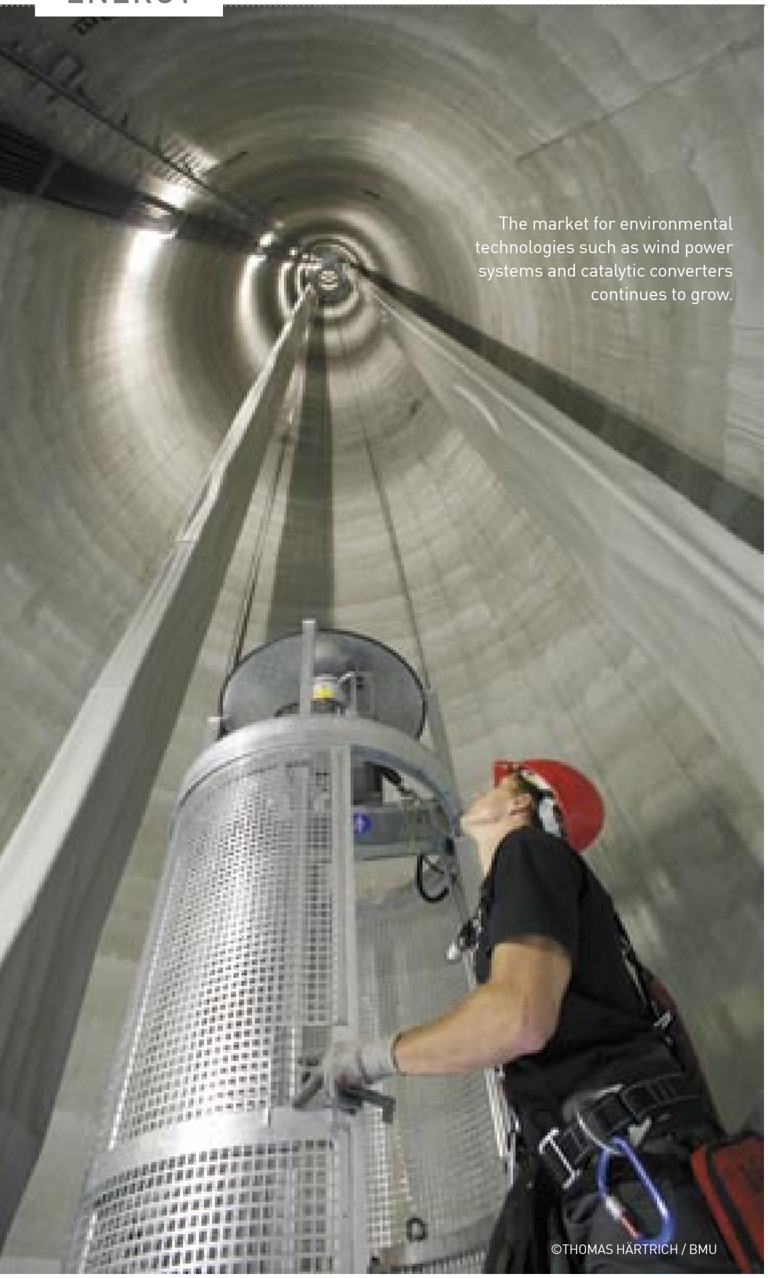
Under the German EU Presidency, on 9 March the EU heads of state and government responded to these challenges and adopted an integrated climate and energy policy strategy. Ambitious climate protection goals and concrete measures for their implementation set the course for increased climate protection and a secure energy supply.
The EU summit adopted ambitious climate protection goals up to 2020 together with an EU negotiating package for a post-2012 climate protection agreement. By 2020 the EU will reduce its greenhouse gas emissions by 30 percent against 1990 levels, if other industrialised countries make comparable efforts and newly industrialising countries also make a contribution in accordance with their capabilities. Regardless of the result of international negotiations and irrespective of the commitments of other countries, the EU also decided to reduce its greenhouse gas emissions by at least 20 percent.
The International Energy Agency describes the current trend in global energy supply as „dirty, insecure and expensive". With its integrated energy and climate policy the EU sent a clear signal in March for a change of direction. The targets are to be achieved through a speedy increase in energy efficiency and the expansion of renewable energies. The European Council decided to increase energy efficiency by 20 percent by 2020 and raise the share of renewables in energy supply to 20 percent by 2020 – thus trebling their share. The Council's aim is to speed up the spread of future technologies.
With the adoption of its ambitious climate and energy package the EU has confirmed its leading role. It has sent a signal to the international community that the EU wants to make a fair and appropriate contribution in the framework of an international climate protection agreement. This is an historic step forward, aimed at breaking the logjam at international level. Europe is giving industry a clear sign that European emissions trading will continue after 2012 and that it still – and increasingly – pays off to invest in energy-saving, efficient technologies.

INDUSTRIALISED COUNTRIES HAVE A PARTICULAR RESPONSIBILITY IN CLIMATE PROTECTION

The German Presidency in the Group of Eight (G8) is an opportunity to set a course towards solving the major global problems of the future. For this reason the German Government has placed the topic of climate change high on its Presidency agenda.

Sigmar Gabriel, Federal Minister for the Environment, Nature Conservation and Nuclear Safety

In view of their historical responsibility and opportunities for action, the G8 and other industrialised countries must continue to lead the way in the



The market for environmental technologies such as wind power systems and catalytic converters continues to grow.

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› reduction of global emissions. Nevertheless, reduction measures in industrialised countries alone will not be enough to prevent dangerous climate change. A more extensive commitment from developing countries, especially newly industrialising countries, is needed.

For this reason, Germany also invited the major newly industrialising countries – China, India, Brazil, Mexico and South Africa – to the G8 Environment Ministers' meeting. This was the first time that an environment ministers' meeting took place in this format, bringing together the world's major policymakers and around two thirds of global greenhouse gas emissions. At the meeting we succeeded in finding a common base for further cooperation. In view of the dramatic developments linked to climate change the political will to find solutions was evident on all sides.

SENDING A SIGNAL

I therefore feel that we have a good chance of progress at the G8 summit. Climate protection has become a matter for heads of state and government. We can only find a solution if we address climate policy together with economic growth, social development and security of energy supply. Developing and newly industrialising countries are particularly interested in avoiding the mistakes of industrialised countries: the development of emissions must be decoupled from economic growth. In Heilgendamm the G8 must therefore send a signal regarding which route to take. Their economic power and historical emissions mean that they have a particular responsibility in international climate policy.

LAUNCH OF INTERNATIONAL NEGOTIATIONS

The climate protection process of the United Nations is the forum in which to conduct negotiations on future global action against climate change. There is no alternative to a global response to the global challenge. The basis was established at the 1992 Earth Summit in Rio with the Framework Convention on Climate Change. The international community made a commitment to prevent dangerous climate changes and promote sustainable development. As the first implementation step, the Kyoto Protocol is a groundbreaking achievement of international law. It must remain the backbone of an even more far-reaching agreement.

An international agreement for the post-2012 period must create an effective, flexible, fair and comprehensive political framework. It should offer a common long-term perspective and use market forces to create the right incentives for investment decisions.

CORRECTING MARKET FAILURE

Action is urgently needed. By 2009 the international community must agree on a climate protection regime post-2012 in order to introduce a global change of direction before it is too late and ensure continuity and reliability for climate protection investments. This can only succeed if comprehensive negotiations begin in 2007. A negotiating package must contain attractive elements for all groups of countries. Industrialised countries must take the lead with far more ambitious, absolute reduction targets. As a key element, the carbon market offers enhanced incentives for climate protection measures in developing and newly industrialising countries while at the same time allowing flexibility in emissions reduction.

Our aim in the climate year 2007 is the launch of comprehensive negotiations. In my role as politician I will support the further development of framework conditions to correct this market failure i.e. climate change. The use of market opportunities is primarily a matter for the private sector. I am convinced that in the coming months and years more and more companies will recognise and use the opportunities existing in climate protection – if not for ecological reasons, then because they have economic foresight. ‹


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Energy Crossroads

TEXT: HANS SEIDENSTÜCKER

TURKEY PLAYS A KEY ROLE FOR EUROPE'S ENERGY SUPPLY. NEW PIPELINE PROJECTS NOT ONLY BENEFIT TURKEY BUT ALSO REDUCE THE EU'S DEPENDENCE ON RUSSIAN OIL AND GAS.

PIPELINE TECHNOLOGY CONFERENCE

Conference on oil, gas and water pipelines
Convention Center,
16 – 17 April 2007

When Russia carried out the threatened shutdown of the gas pipeline that runs through Ukraine in early 2006, the consequences were clearly felt in the EU. Member states realised how dependent they had become on Russian oil and gas. Hungarian factories had to reduce production, emergency reserves were tapped. Despite the diplomatic talk that one should not overreact and that Russia continues to be a reliable partner, the EU's efforts to diversify its energy supply have clearly been intensified during the past year.

DIVERSIFIED ENERGY SUPPLY

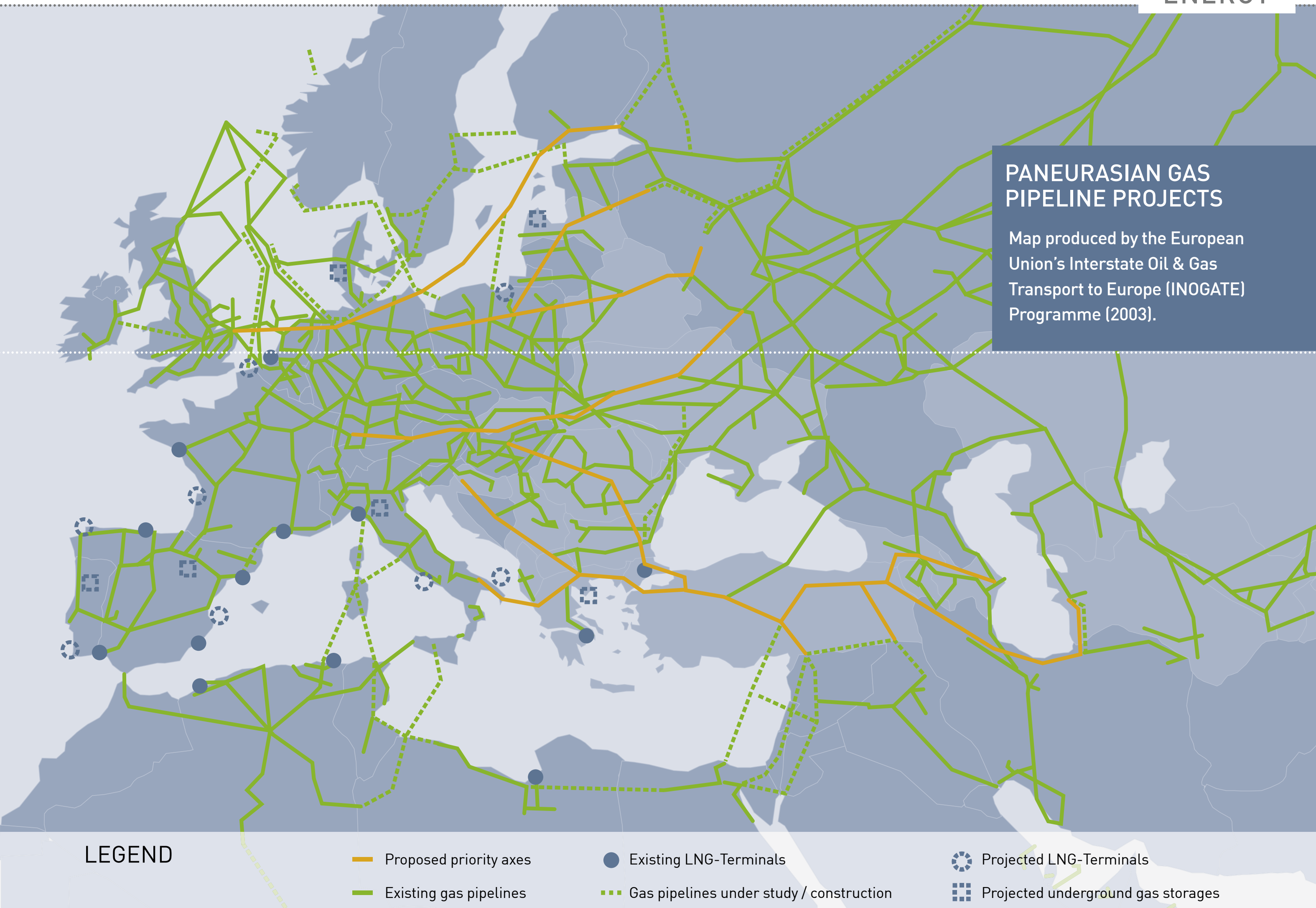
Today, more than a quarter of all gas being imported by the EU comes from Russia. Some member states are significantly more dependent on Moscow – among them Germany which last year imported 35 percent of its gas from Russia. The controversial North European Gas Pipeline currently being built will connect Russia and Germany through the Baltic Sea, thus bypassing the current transit countries. This may reduce the risks to Germany and other Western European countries should another dispute erupt between Russia and one of the transit countries (currently Ukraine, Slovakia, Czech Republic, Belarus and Poland). But the pipeline will likely further increase Germany's – if not Europe's – dependence on Russian gas.

However, in future Turkey will play an ever more important role in diversifying the European energy supply. Turkey has developed into a major crossroads for pipelines carrying oil and natural gas from Russia, the Middle East and Central Asia to the Mediterranean region and beyond. One well known example is the Baku-Tbilisi-Ceyhan-Pipeline (BTC pipeline) opened in the spring of 2006. The 1,760 kilometre long pipeline originates in Azerbaijan and runs through Georgia and Turkey, where it ends in Ceyhan. The Mediterranean port city is quickly developing into a regional energy hub, since it can handle even the largest oil and gas tankers.

THE MOST IMPORTANT EXPORT ROUTE

The BTC pipeline is the most important export route for the oil reserves that lie beneath the Caspian Sea. The pipeline has an annual transport capacity of 50 million tons of oil. Construction, which cost approximately 2.5 billion euros, was largely financed by the World Bank. The pipeline is owned by a consortium consisting of eleven energy companies led by BP, the operator of the pipeline. The pipeline's official inauguration on July 13, 2006 made Turkey less dependent on Russian oil and strengthened its role as regional power.

Further pipeline projects are being planned. The construction of the Nabucco pipeline has been discussed for years. In June 2006, the energy ministers and company representatives of five Balkan states agreed to accelerate the planning and construction of the pipeline. The new transit route which bypasses Russia and the other countries of the former Soviet Union is now scheduled to start operating in 2011. The pipeline will stretch over 3,400 kilometres and is to start in eastern Turkey and run through Bulgaria, Romania and Hungary to Austria. The gas that is to be transported could come from Azerbaijan, Iraq, Iran, Egypt or Russia. In 2020 as much as 30 billion cubic metres of gas could take this route through Turkey. The Central



SOURCE: INOGATE ©GLOBAL BUSINESS MAGAZINE

Asian share in Europe's energy supply is set to increase to between ten and 15 percent.

But the Nabucco pipeline is only the most ambitious of a number of projects intended to increase Europe's energy security. Another pipeline being planned will connect Turkey, Greece and Italy and will have an annual capacity of 16 billion cubic metres of gas. The first section has already been inaugurated. In 2008 the Arab Natural Gas Pipeline which runs from Egypt through Jordan and Syria to Turkey is scheduled to be completed.

Looking at these project, one thing becomes clear: Turkey is increasingly developing into a global energy hub. An EU study concludes: "Turkey plays a strategic role for the security of the EU's energy supply. A number of existing and planned oil and gas pipelines from Russia, the Middle East, North Africa and the states bordering the Caspian Sea, run through Turkey." Official forecasts expect that in 2012 six to seven percent of all energy transports in the world will run through Turkey – much to the country's benefit. After all, Turkey's domestic production is limited, most oil and natural gas has to be imported.

BYPASSING A BOTTLENECK

But Turkey also suffers from the downsides of the global energy trade. Every day oil and gas tankers loaded to the brim with their explosive material pass through the narrow Bosporus. Since 2001, the number of tankers taking this route has tripled, ships have to wait up to ten days before making the passage. The 30 kilometre long strait, which connects the Black Sea with the Sea of Marmara, measures only about 700 metres at its narrowest part. Were a fully loaded tanker run into trouble while making the passage, the consequences could be catastrophic. Not only could a disaster lead to a large loss of life and cause significant environmental damage. In the worst case scenario this important transit route – one of the most important export routes for Russian commodities – could be closed for weeks, if not months.

In the past, Istanbul's residents have experienced a number of close calls. But Turkey can do little to regulate traffic on the Bosporus. The Montreux Convention Regarding the Regime of the Turkish Straits, signed in 1936, prohibits Turkey from restricting the use of the Bosporus in peacetime. For decades, various plans to bypass the dangerous strait have been discussed. Turkey favours a pipeline running from Samson, a Turkish port on the Black Sea, to the oil terminal in Ceyhan. Up to 60 million tons of Russian and Kazakh oil could thus be transported from the Black Sea to the Mediterranean.

LOWER TRANSPORT COSTS

However, Russia has rejected these plans. It wants to reduce its dependence on Turkish transit routes. On March 15, Russia, Greece and Bulgaria signed an agreement to build a 280 kilometre long pipeline running from the Bulgarian port of Burgas to Alexandroupolis on the Aegean Sea. The total costs are estimated at 900 million euros. Every year, 35 million tons of oil are to flow through the pipeline. Despite the high costs, the pipeline will pay off in the long run. Experts estimate that the transport via pipeline would be about eight US-Dollars cheaper per ton than transporting the black gold by tanker via the Bosporus. ‹

Power-Up

TEXT: HANS SEIDENSTÜCKER

RISING DEMAND FOR ELECTRICITY, LIBERALISATION OF THE ENERGY MARKET, LARGE-SCALE INVESTMENT AND THE INTRODUCTION OF NEW TECHNOLOGY MAKE TURKEY AN ATTRACTIVE MARKET FOR INTERNATIONAL ENERGY COMPANIES.

©VESTAS

Turkey is witnessing fundamental changes in the electricity sector. According to official government figures, Turkey today has a generating capacity of 38,000 megawatt. But the country will have to invest at least three billion US-Dollars annually in order to install an additional 25,000 megawatt generating capacity by 2015 to meet the growing demand. Power consumption is expected to more than triple by 2020, making it one of strongest growth markets worldwide. Observers warn that Turkey could face energy shortages by 2012 if necessary reforms and investments are not carried out.

HIGH ELECTRICITY COSTS

“The costs of electricity in Turkey are among the highest of any OECD country”, complains Tanıl Küçük, President of the Istanbul Chamber of Industry (ISO). It is hoped that this will change with the liberalisation of the energy sector and the entry of international companies into the Turkish market. Turkey has adjusted its energy legislation to satisfy the EU’s demands.

In 2001, the government enacted a new Electricity Market Law, setting the stage for privatisation of power generation and distribution activities. However, progress has been slow. While the state-owned Turkish Electricty Generation and Transmission Corporation (TEAS) was split into separate generation, distribution and trading companies, scheduled privatisation was repeatedly delayed. The privatisation of generation assets and generation networks is now finally making headway. In August 2006 the decision was made to privatise the 20 regional power transmission networks. This generated strong interest among international energy companies. It is hoped that these companies will upgrade the transmission networks to achieve higher energy efficiency.

NEW ENTRANTS

Every major European energy company is entering the Turkish market. For instance, EnBW, Germany’s third largest energy company, signed a memorandum of understanding with the Ciner Group, one of Turkey’s largest industrial conglomerates. The partners agreed to jointly bid for the distribution companies Ayedas, Baskent and Sakarya. Austria’s Verbund energy company bought 49.99 percent of the shares in EnerjiSA, the energy unit of the Turkish Sabancı Holding. Together, Verbund and Sabancı seek to achieve a ten percent market share in the Turkish energy sector by 2015. They plan to install power plants with a total generation capacity of 5,000 megawatt and take part in the privatisation of the power distribution and transmission network. Total investment will amount to around 7.5 billion US-Dollars.

MAJOR INVESTMENT

Most existing thermal power plants are old and inefficient. The government is trying to change this by opening up the sector to private investors, who are invited to build and operate new power plants. However, some of the tenders are running into trouble. For instance, the Electricity Generation Co. Inc. (EÜAS) has extended the deadline for a planned BOT (build, operate, transfer) project in the Afsin-Elbistan coal basin. The plan calls for the construction of two thermal power plants to be supplied with the coal mined in the Afsin-Elbistan coal basin.

Turkey is also once again betting on nuclear power. In the 90s, it had already decided to built its first nuclear plant, but plans were shelved due to high costs. The government is convinced that the time has now come to build three nuclear power plants by 2015. Total capacity is planned to amount to 5,000 megawatt, while costs are estimated at around eight billion US-Dollars.

Given the increasing costs of energy imports, solar and wind power are also gaining popularity. In 2005, the government passed a law to promote renewable energy sources. The goal is that at least eight percent of annual power consumption will come from renewable energy. The first wind energy farms have started operation, the largest being located in the coastal city of Bandirma, approximately 100 kilometres south of Istanbul. The wind park will produce 120 million kWh of electricity per year. Due to the good environmental conditions in Turkey, wind power has much potential in Turkey. In contrast, the use of solar energy is mostly limited to supplying households and hotels with warm water. ‹

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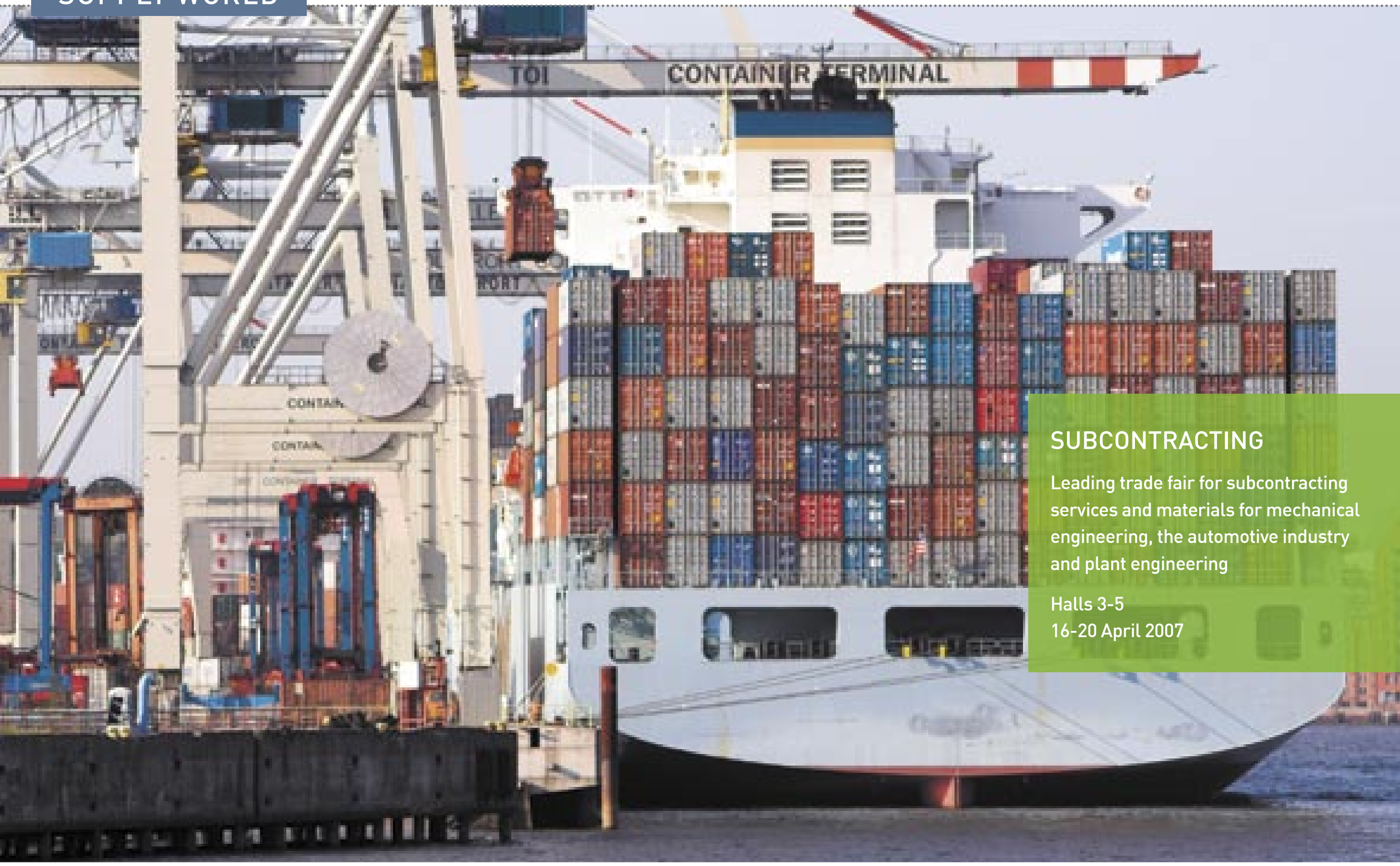

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Trade and Export Finance

TEXT: **WERNER SCHMIDT**, MANAGING DIRECTOR, HEAD OF TRADE RISK ADVISORY, BAYERISCHE HYPO- UND VEREINSBANK AG

› **IN LIGHT OF POLITICAL AND ECONOMIC LIBERALISATION PROCESSES IN MANY EMERGING MARKETS, BANKS AND FINANCIAL SERVICE PROVIDERS HAVE ADAPTED THEIR TRADE AND EXPORT FINANCING.**

Lately, the creation of more efficient local and regional money and capital markets plus their gradual renewal in the emerging markets has led to an ample liquidity supply of the economy, a substantial diversification of the financing portfolio and a significant drop in credit lines. This development has had its effects on traditional trade and export financing and its relevance for international trade activities. Internationally operating banks and financial service providers have adapted their previous business models to this changing environments. Comparatively simple business structures based on bilateral delivery transactions in connection with traditional export financing, covered by government export guarantees, have been almost completely replaced by complex and structured transactions. The changes in demanded structures, structuring requirements and the necessary broadening of the investor base arising from these developments will be highlighted in the following. One of the biggest challenges in international trade and export financing is the alignment of the interests of all businesses and institutions that are part of the value chain and its financial backing.

Until well into the 90s export financing was dominated by banks and the state while private enterprises played a minor role in the emerging markets. Demand from the private sector developed very dynamically, at first in Asia and Latin America, and after the Cold War also in Eastern Europe. Significant progress regarding transparency and the trend towards international accountancy facilitated access to international capital markets. Today, with many export financing banks, the financing granted to enterprises (corporate risk) accounts for between 80 and 90 percent of new business volume.

Large, but recently to an increasing extent also medium-sized, companies in the emerging markets sector regard export financing as an attractive financing product for diversifying the financing of the entire business. In particular, access to long-term funds for the financing of investment in capital goods in line with the lifespan is one of the significant advantages of this form of financing. In addition, export financing is seen by businesses as a door opener to other capital market products (syndicated credits, bonds), which allows for a further broadening of the base of banks and investors and thus for a further optimisation of financing. This also means that export financing has lost its stand-alone character. More and more it is embedded in extensive financing packages or competes with other financing structures.

CONTINUING COMPLEXITY

The trend towards corporate risk and the accompanying increase in complexity of the transaction structures lead to higher demands on the structuring know-how of banks, exporters, export credit agencies and other investors (e.g. private credit providers). Large investments in vital economic sectors, such as the oil and gas, steel production, energy generation and telecommunication industries, require an efficient bundling of a variety of financing and structuring techniques. Beside the financing of capital goods import under ECA coverage, advance financing and local cost financing, as well as financing of third countries supplies within a multisourcing approach are in demand. Individual collateral agreements, the transfer of delivery contracts and consequent cash flows as well as financial covenant agreements complement export credit guarantees relating to uncovered portions of a credit. Not least, the shifting of political to economic risks provides a challenge for export credit agencies.

EXTENDING THE OPTIONS OF THE CAPITAL MARKET

In spite of its promoting character, the export credit guarantee must pay for itself. A partnership-based approach involving export credit agencies, exporters and banks is essential to common success. From the point of view of the credit institutes it is very important that the promotional function is the key aspect of the export credit agencies and, as such, extends the options of the capital market and efficiently supports the European export industry for the purpose of the subsidiarity principle. Credit institutions are willing to become instrumentally involved in the analysis and decision-making processes. Information on markets and address risks can be accessed with the help of large international networks of subsidiary banks, branches and representations.

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With world merchandise exports growing by 4.5 percent between 2000 and 2005 alone, the demand for new forms of export and trade financing is steadily increasing.

SHIFTING OF FINANCING DECISIONS

The change in demanded structures results in the shifting of financing decisions in buyers' markets. In spite of an increasingly dual product sales approach of the credit institutions the exporter remains at the centre of activities. This is all the more true of short-term trade financing which is strongly characterised by supplier financing. High numbers of trade claims often tie tight liquidity and financing for capital equipment, but provide a solid basis for diversifying the business financing. The traditional forfeiting, based on letters of credit, guarantees and bills of exchange, has been an accepted product for years.

FINANCING OF BOOK ACCOUNTS

The largest potential for growth, though, is in the financing of book accounts which may be an option owing to their self-contained character and possible rating transfers for optimising the financing of capital equipment. Medium-sized businesses make consistent use of this option because they often hold creditworthy claims in their portfolio which can be taken at short call for improving the liquidity and optimising financing costs. When compared with factoring, this type is significantly more cost-efficient because the management of the claims remains with the seller of the claim. However, due to single transaction treatment and handling, there are usually minimum requirements with regard to amount, duration and margin.

Other options based on a portfolio approach in order to optimise processes and costs while integrating buyer and exporter, are currently being developed and will further enhance the range of financings for exporters. Financial service providers are making immense efforts in order to be able to offer their customers convenient e-banking applications. These are designed to automatically take over customer data, e.g. invoice information, so that discontinuities of media or manual data acquisition can be avoided and the factoring can be settled fully automatically.

EXTENSION OF SYNDICATION ACTIVITIES

From the point of view of banks, investors and secondary market activities are also part of the value chain. Financial investors have now also recognised that trade-based financing deals, which generally have a far better loss history in comparison to other risk or credit categories, are an attractive option. The first hedge funds and mutual funds have already floated such fonds and others will follow. Due to rising transaction volumes, the increase of inherent risk profiles and and the formation of selective cluster risks, credit institutions will extend their syndication activities by efficient portfolio management. The useful combination of providing one's own risk and financing resources (capital) with extensive primary syndication activities and a focussed portfolio will in the medium to long term decide on the optimal supply of exporters and credit. Due to a very good liquidity status in the financial markets and the accompanying pressure on the markets, development in this area may lag behind. The basic tendency to a balanced risk and liquidity management will remain valid.

REQUIREMENTS CONTINUE TO GROW

At some point there will certainly be a tendency for economic cooling and for corrections in the emerging markets. In the long run, however, current trends in trade and export financing should remain intact. The requirements for structuring competence, demand for holistic financing solutions and a stronger and more efficient integration of customer needs with the interests of financial market investors will continue to grow. This is a very promising challenge for innovative and creative partners which holds enormous growth and business potential. ‹

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Werner Schmidt, Managing Director, Head of Trade Risk Advisory, Bayerische Hypo- und Vereinsbank AG

KEY FIGURES ON THE TURKISH FOUNDRY INDUSTRY [in 2005]

Share of world production	1.4 %
Total casting plants	1,362
Total employed	30,865
Total exports	1.2 billion USD
Total turnover	3 billion USD

CASTING DEMAND BY SECTOR

Automotive	45 %
Housing & Heating	15 %
Metal, Chem. & Oil	10 %
Pipes & Fittings	10 %
Machinery	3 %
Electricity	3 %
Others	14 %

SOURCE: TÜDÖKSAD

©STAHL-ZENTRUM

A Way Ahead

TEXT: **YAYLALI GÜNAY**, PRESIDENT, TÜDÖKSAD, THE TURKISH FOUNDRYMEN'S ASSOCIATION

› **METALLURGY AND CASTINGS ARE NOT SOMETHING NEW FOR THE TURKISH FOUNDRYMEN. FOR SEVERAL YEARS THEY HAVE BEEN ACTING GLOBALY AND HAVE BEEN VERY SUCCESSFUL ON INTERNATIONAL MARKETS.**

Towards the end of the last century, Turkey became a major supplier of foundry products for Europe. With her population of 71.5 million and GNP at PPP terms of 569 billion US-Dollars in 2005, Turkey ranks at number 19 in the world scala and number five in Europe for GNP at PPP terms.

DOUBLE DIGIT GROWTH

As for the Turkish foundry industry, even though there is a long and powerful history on the background, the growth was slow until the 90s, but from there on, the sector grew by double digits. Major growth areas are in the ductile iron and aluminium castings. This has been triggered with the automotive, farm tractor and earth moving equipment manufacturing growth both domestically and in Europe. A major portion of the production is being directly exported to mainly EU and to neighboring countries.

The Turkish foundry industry serves different industries either locally or internationally. In the domestic market, there are several industries where castings are provided (see figure). The automotive industry takes the greater portion of the pie, but covers touch, bus, car, farm tractor and earth moving equipment industries.

MODERN TECHNOLOGY

The Turkish Foundry Industry has invested over one billion US-Dollars in the last decade for plants and equipment with up to date technology to achieve an installed capacity of 1.3 million tons. Most of these plants are distributed suitably throughout Turkey to serve the various domestic and international customers. Turkey being at a reasonably short distance to Central Europe, deliveries can be made in maximum five days by truck and ten days by sea route.

One main advantage of Turkey is the presence of surplus young and educated workforce, with English language knowledge and computer literacy and most important who are willing to work in foundries.

As nearly all of the EU ecology and environmental laws are now in force in Turkey, all foundries are heavily investing in environmental protection machinery to abide by the new regulations.

Turkish casting production is expected to grow by seven to eight percent per year in the coming five year term. The main growth will be in engineered machinery components and high pressure die castings.

NEW TRENDS

New trends and progress in the Turkish foundry industry is based on compacted graphite iron, ductile aluminium, high value added products, concept to product design, prototyping and testing, complete assemblies with machining, with various patent applications.

Turkish foundry men realise that, by combining low production costs with higher quality, improved productivity and newer technology, the sector would have considerable advantages in competing globally.

The Turkish foundry industry has grown into a position of strength:

› Growth not only on the annual production levels, but also on the technical side.
› Well-trained and educated employees on every level
› Economic crises periodically experienced in Turkey have taught the foundrymen how to reduce costs, live with minimum financial depths, and keep their customers.
› Products supplied at competitive prices, coupled with service, simultaneous engineering, value analysis, just in time delivery, flexibility, up to date technology and reliable quality are the characteristics of the Turkish foundry industry. ‹

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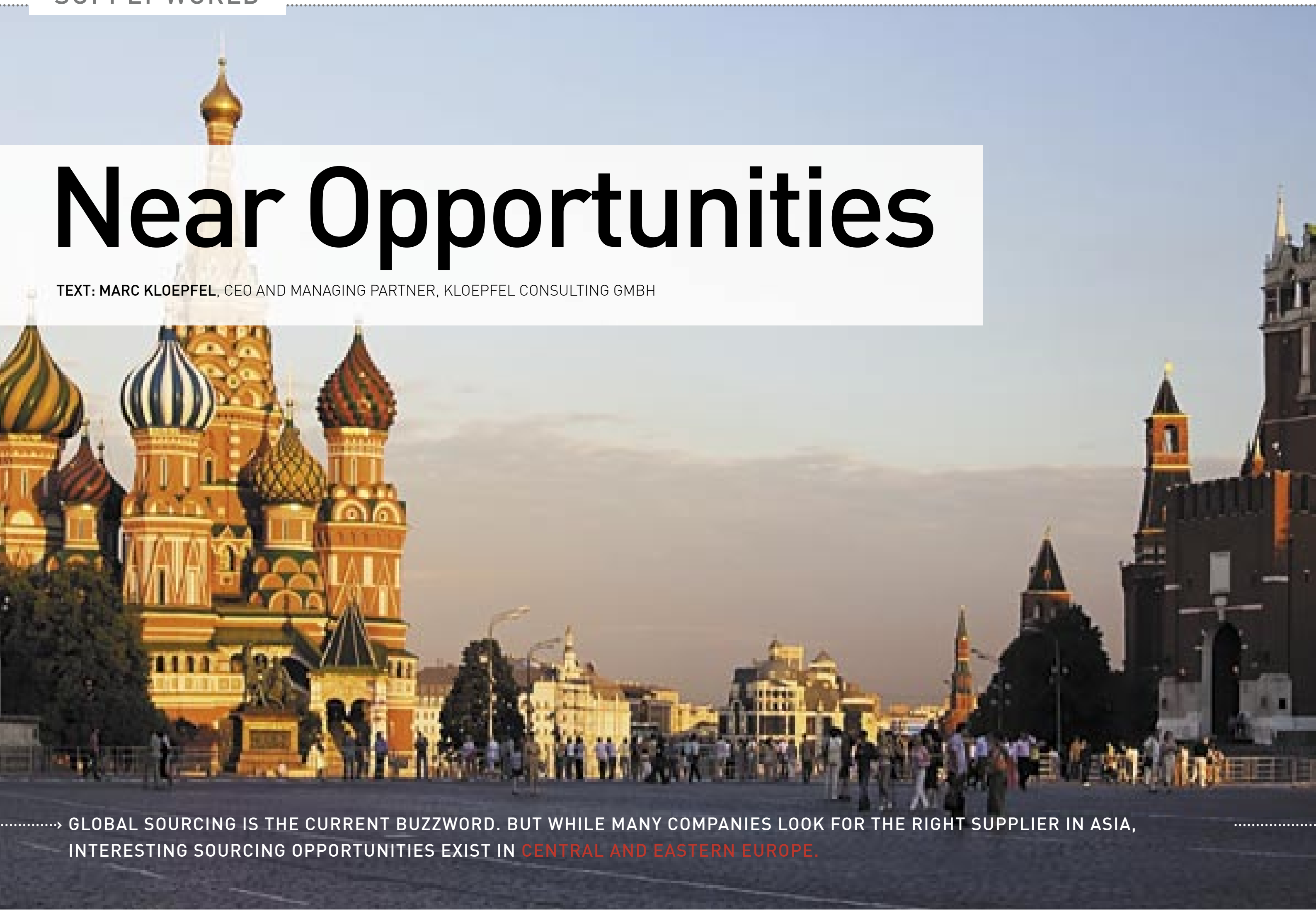
Near Opportunities

TEXT: **MARC KLOEPFEL**, CEO AND MANAGING PARTNER, KLOEPFEL CONSULTING GMBH



GLOBAL SOURCING IS THE CURRENT BUZZWORD. BUT WHILE MANY COMPANIES LOOK FOR THE RIGHT SUPPLIER IN ASIA, INTERESTING SOURCING OPPORTUNITIES EXIST IN CENTRAL AND EASTERN EUROPE.

Currently, global sourcing is becoming a more and more popular discussion topic with European SMEs. Sourcing abroad implies many opportunites, but also risks which result from cultural differences, language barriers, discrepancies in production quality, or differences in infrastructure. Companies must be aware that global sourcing cannot be handled with "three visits abroad". The further the new supplier is away from the production site, the more time consuming will be its development until readiness for delivery. Many companies have had bad experiences in the past with suppliers from Russia, Romania or China. Analysis shows, that the most common mistake has been an underestimation of the development process that needs to be undergone.

In our experience, most European SMEs are struggling to globalise their supplier pool. Generally, it is not known which country to chose for which product. Many companies are currently trying to find suitable suppliers in China, thereby completely neglecting the opportunities on their doorstep – the various markets of Europe. While there are definitely opportunities in traditional European markets such as Spain, Italy or France, especially the countries of Central and Eastern Europe are gaining in importance as a sourcing market for German companies.

VARIED SOURCING MARKET

The European Union is by far not an homogeneous sourcing market. Wages of the EU-10 states are on average 1,928 euros in comparison to 634 euros in the new acession states of the east. However also those countries show sizeable differences: while wages in Slovenia have risen to 1,136 euros, they are only at 351 euros in Bulgaria (lower than in China). This is also reflected in procurement. The higher the salary level of a country, the less labour intensive its production.

EXPLOITING COST ADVANTAGES

Surprisingly, only a few companies are already fully exploiting the cost advantages of Central and Eastern Europe. The region's share of production for Western European markets is lower than it should be, given its relative advantages. Misperceptions about the region, combined with a tremendous attention to the Chinese sourcing market, have led some companies to ignore Central and Eastern Europe and to take much of their sourcing and manufacturing to Asia. Those companies are overlooking highly desirable sourcing opportunities.

Central and Eastern Europe represents an attractive and growing market. While the region is much smaller than China – with 380 million people versus 1.3 billion – it generates nearly the same gross domestic product. Obviously, Central and Eastern Europe is far from monolithic, as it consists of 14 national markets and cultures.

When companies are looking for qualified suppliers in Central and Eastern Europe, they must have some patience. The availability of suitable companies is limited.

The further the search is extended to the East, the more difficult it will be to find a supplier who immediately fulfils most of the requirements. Furthermore, because of rapidly expanding economies in Central and Eastern Europe, some companies lack free capacities and may refuse new contracts or attractive offers.

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Nevertheless, Central and Eastern European countries offer a wide range of products and services where sourcing opportunities definitely exceed the threats, helping companies not only to reduce their costs but also to improve their competitiveness. Furthermore, in contrast to China no intellectual property problems arise.

LESS CULTURAL DISTANCE

From a cultural point of view, Eastern European countries are much closer to our culture than Asian countries which definitely helps to establish long-term relationships. Companies should still be aware that it takes time to qualify a supplier. Small producers in Romania or Ukraine do not seem to have potential at first sight. However, those companies concentrating on gradually building up the relationship with companies from the region – including knowledge transfer – have experienced great success.

A good example is the furniture industry, Companies do not have to go to China in order to find suitable suppliers. Poland has become the fourth biggest furniture exporter in the world. In 2005 over 80 percent of the Polish furniture production was exported, in 2006 the sector had a total turnover of nearly eight billion euros. There are currently about 80 furniture producers in Poland with over 250 employees, and over 7,000 smaller companies. More and more German companies have started to outsource some of their production to Poland or neighbouring countries such as the Czech Republic or Slovakia. Italy also offers opportunities for buyers from furniture producing companies.

TOTAL COST CALCULATION

Often it is said that the textile industry is mainly purchasing from Asia. In reality, the supply chain of most labels is much more diverse. Finding the right mixture between Asian and European sources makes the winning formula. While Asia usually beats European prices, a total cost calculation often looks different. Taking into account transportation costs, quotas and rapidly changing fashion styles often eliminate previously expected profit margins. Romania, Bulgaria and Turkey are much closer to the European customer markets. Some retailers (e.g. Zara) are only purchasing from European sources to keep their flexibility. While most experts expected heavy reductions in Turkish textile exports, the country managed to increase its sales by over two percent. This can be seen as a clear signal that the textile markets of the region are able to compete with Asia.

AUTOMOTIVE SUPPLIERS

For the automotive industry more and more promising suppliers are developing in the Czech Republic, Turkey and Hungary. Purchasers coming to those countries experience clusters of suppliers (around automotive production sites) which makes a visit to several companies very efficient. For machine parts or toolings, Italy has traditionally been a promising sourcing market. Today purchasers should also analyse the Czech market where more and more excellent machinery companies have evolved.

MAINTAING PRODUCTION IN EUROPE

The traditional Italian shoe industry has outsourced much of its production to neighbouring countries like Romania, Hungary and Bulgaria, thereby still holding tight control. The latest example has been Geox which invested 16 million euros for 1,500 workers in Moldova. This confirms the trend to keep the production sites in Europe, even though companies are moving more and more to the east.

Another industry where companies should be aware of the product availability from neighbouring countries is the food sector. In our experience, many producers purchase apples, strawberries or cucumbers from national traders without much market transparency. It generally helps to enter into a direct relationship with local producers.

There are several bigger strawberry producers in Poland or apple farms in Hungary and Italy. Direct contact reduces the margin of the trader and increases the market knowledge of the purchasing company. Here, especially it makes sense to compare different markets. While hazelnuts are mainly coming from Turkey, companies should also consider alternative markets like Bulgaria or Romania.

UKRAINE AND RUSSIA

Ukraine and Russia are of big importance when it comes to raw materials like steel, alloys and other metals. Most European companies are refusing direct deliveries from companies of this region. When a company is dealing with Russian (or other CIS countries) suppliers, it needs special knowledge about this market and, ideally, a partner who knows the industry structure. A partner who has the necessary network in order to make the products arrive on time, at the right quality and at the lowest possible price. The quality level of Russian products is much better than its reputation. The decisive factor is often the personal impression the buyer leaves with the Russian counterpart. Negotiating and doing business in CIS-countries needs a higher personal involvement of the buying company. Personal relationships, intensive dinners and regular visits are necessary for long-lasting supplier relationships.

BUSINESS PROCESS OUTSOURCING

Another field with huge potential is business process outsourcing (BPO), which was originally invented in India and which, in recent years, came more and more to European countries. The first European BPOs opened in Britain and Ireland, the next wave was Poland, Hungary and Slovakia. The latest openings have concentrated on Romania which offers an excellently trained workforce (especially in languages). Bigger companies open their own call-centers and BPOs, smaller companies can use the services of specialised service providers in the region.

MANY SOURCING OPPORTUNITIES EXIST IN EUROPE

There are many sourcing opportunities in Europe. In the decision for the right sourcing market, SMEs should assess their own capabilities. Negotiating with Chinese suppliers or setting up QA- and logistics process from Asia are definitely much more time consuming than finding a professional and promising European supplier. Cultural differences between European suppliers (even from Russia or Romania) are definitely smaller than those with Asian companies. Considering those difficulties, European SMEs should exploit more of the existing sourcing opportunities in Europe. ‹

Expanding Credit

INTERVIEW: HANS SEIDENSTÜCKER

› THE CENTRAL AND EASTERN EUROPEAN COUNTRIES HAVE WITNESSED IMPRESSIVE GROWTH RATES IN RECENT YEARS. WILHELM NÜSE, REGIONAL MANAGER FOR CENTRAL AND EASTERN EUROPE/CIS, ASSESSES THE DEVELOPMENT OF THE CREDIT BUSINESS IN THE REGION.

› How has the credit business in Eastern Europe developed since the EU's expansion?

The national economies in Central and Eastern Europe (the CEE region) have been growing for a number of years at an impressive rate of five to six percent annually on average, twice the speed of the eurozone. Total bank assets, and thus also the credit business, are growing in a similarly dynamic fashion.

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Wilhelm Nüse, Regional Manager, Central and Eastern Europe/CIS

The banking markets are quite diverse, just as economic development can vary widely from country to country. In terms of market readiness, countries which acceded to the EU in 2004 have a greater saturation of their respective banking markets, and thus higher intermediation rates, compared to Southeast European countries or CIS states. Credit volumes, measured as a ratio to the GDP in the new EU countries, are comparatively higher than in the other Eastern European countries. Regarding credit growth,the more mature national economies and their banking markets usually grow less rapidly.

› What is the outlook for the corporate and private client business?

In the corporate client business, there is a heightened need for credit among small and medium-sized enterprises (SMEs). These companies traditionally have relatively minor debt ratios, as local banks used to be very restrictive in extending credit to medium-sized enterprises. With the expansion of the EU, new business opportunities have opened up for SMEs, and with this trend an increased need for financing. Overall, medium-sized enterprises in the CEE region are increasingly developing into an economic motor, with above-average prospects for growth.

The private client business is today, and will be in the future, the most dynamic market sector, with especially high growth rates in consumer financing and private real estate financing. The extension of the EU has led, in the countries which have newly acceded to the EU, to an increased demand for foreign or hard currency loans. Although the increasing competition and market saturation are compressing margins, they are still far above the level of Western Europe.

› How do you assess the potential for public-private partnerships?

Local authorities are clearly winners of EU expansion: They have become eligible for EU subsidies, so that they can finally address the backlog of investment needs accumulated over decades. Public-private partnerships (PPPs) are an attractive alternative for implementing public investments in Central and Eastern Europe. This is a cooperative partnership between the government and the private economy in planning, starting, financing, operating or developing public services which were formerly provided by the state.

› What are the current prospects for banking competition in Eastern Europe?

The banking markets in the CEE region have clearly changed in the past decade. Consolidation has, in many places, been completed. International banks, with their modern business structures, know-how and good capital resources, have made a considerable contribution towards increasing competitive pressure Today, foreign banks, with assets amounting to several hundred billion euros, possess more than two thirds of total bank assets in the CEE region. In both Central and Southeast Europe, governments have already sold the lion's share of banking markets to international investors; in smaller countries, such as Estonia, Lithuania, Croatia or Slovakia, foreign banking groups possess a market share of over 90 percent. In the CIS states, in particular in Russia and the Ukraine, the consolidation process for banking markets has only just begun and the involvement of the international banks is still at a significantly lower level.

› Does the Eastern European way of doing business have any distinctive features?

There are a number of important distinctive characteristics. Even though the newest Member States of the EU have already largely fulfilled the EU convergence criteria and the future candidates for accession to the EU are successfully mastering the transformation phase. But here are still clear differences, as well as the need for reform, for example in the areas of administrative efficiency, legal security, infrastructure, tax systems or combating corruption. Political stability, economic transparency, instability of the macro-economic situation or volatility of the currency of the country are naturally important topics and conditions, which still require particular consideration in regard to Eastern European business. Further, local capital and banking markets, as well as the supervisory environment, are still at a comparatively early stage of development and thus constitute more restrictive general conditions for both creditors and debtors. On the whole, however, positive arguments certainly predominate, not least of which is the above-average prospect for growth. This outlook makes these markets extraordinarily interesting in the long term.

› What foreign exchange risks do you, or your corporate customers in Eastern Europe, have to reckon with? How are these hedged?

The structural problems are very diverse. For example, the interest margin and the volatility of the forint in relation to the currencies of the neighbouring countries of Poland, the Czech Republic or Slovakia are comparatively great. Nonetheless, many foreign currency loans are issued for business purpose, the majority of which are secured through adequate cash flows in hard currency from exports. In addition, depending on the maturity of the

capital market, efficient instruments for securing loans, such as, for example, forwards, swaps or options, are available to the financial management of companies as well as banks.
Foreign currency loans are to be scrutinised more carefully in the private client sector, as usually there are no currency hedges, and the interest advantage of foreign loans on its own cannot compensate for any strong devaluation in local currency.

› What kind of collateral is normal in the case of loans to Eastern European subsidiaries? What kind of liability exists?

By and large, the possibilities for providing collateral security prevalent in Germany, such as, for example, the assignment of claims or land charges, are also standard in Eastern Europe. With regard to the co-liability of German parent companies for loan obligations of its subsidiaries in the CEE region, guarantees or letters of comfort from the parent companies are an effective instrument for boosting the creditworthiness of companies in their start-up phase.

› How do you assess the prospects for future Eastern European business?

With the rapid economic growth in the CEE region, intermediation will also increase going forward, i.e. the ratio of the bank assets to GDP. Overall, intermediation in the CEE region, with an average of 60 percent, still lies considerably below the average for the eurozone of 200 percent. In that respect, the credit volume, in spite of very high credit growth rates, is still on average only 30 percent of GDP, in comparison to about 100 percent in the eurozone. This convergence potential is only one of many relevant indicators of continuing above-average positive growth prospects in this region. Banks in Central and Eastern Europe will in future focus even more on medium-sized corporate clients as well as on private clients. ‹

RUSSIA

This year, the focus of the Russian exhibition is on innovation and cutting-edge products for the high-tech industry.

Hall 27

©VNESHAVIAKOSMOS

High-Tech Partner Russia

INTERVIEW: HANS GÄNG

› RUSSIA – ALWAYS SURPRISING. IT IS PRESENTING MUCH MORE THAN JUST ENERGY. THE COUNTRY IS INVESTING IN HIGH-TECH AND CUTTING-EDGE TECHNOLOGIES. PROF. DR. ALEXEY LAVROV, PRESIDENT OF THE EXHIBITION ORGANISER VNESHAVIAKOSMOS, SPEAKS ABOUT THE PLANS FOR THIS YEAR'S EXHIBITION.

› Prof. Dr. Lavrov, you were the organiser of the Russian Partner Country presentation in 2005. It served as a model for further Partner Country presentations in Hannover. How does the Russian exhibition in 2007 differ from its Partner Country presentation in 2005?
Vneshaviakosmos was not only the organiser of the Russian Partner Country presentation in 2005, but also the organiser of an extensive exhibition in 2006. In 2006, the focus was on the energy sector. The exhibitions in 2005 and 2006 were both a great success and served as a model in quality for other exhibitions at the HANNOVER MESSE. This year's Russian exhibition in Hall 27 with an exhibition space of 2,500 square metres continues this successful development. This year, the focus of the exhibition will be on innovation and cutting-edge products of the Russian high-tech industry.

In Russia, the problem of introducing high-tech and using existing technological, scientific and intellectual potential has always been an issue. Today, this issue has taken on special significance because Russia made the historic decision to develop a long-term strategy. The Russian government therefore views as the main task of its structural policy to increase innovative activities and to stimulate the high-tech sector. The consistent replacement of basic technologies as a foundation for further technological development is achieved by building upon science, technology, engineering, technology and investment. These are the most important strategic resources for the realistion of an optimistic concept in order to develop Russia's economy and society. The starting point to implement this concept is fundamental research which comprises a broad spectrum of modern science. ›

RUSSIA

MINPROMENERGO
RUSSIA

HANNOVER
MESSE
16.04.-28.04
2007

VNESHAVIAKOSMOS

At the official Russian reception taking place in Hannover's splendid „Neuem Rathaus", German and Russian businessmen will have a chance to network.

› Some achievements of Russian science have been modern rocket technology, space technology, aeronautical engineering, laser technology and others. The solution of the socio-economic challenges faced by today's Russian society can only be found by establishing efficient mechanisms in the manufacturing sectors, which uses our country's vast resource potential and integrates it with our scientific potential. This is the theme of Russia's participation in the HANNOVER MESSE 2007.

› What companies and sectors will present themselves?

The Russian Ministry of Industry and Energy decided to focus on five areas: (1) Innovative technologies and products for the fuel and energy sector; (2) Modern means of transport; (3) New materials; (4) Information and communication technology; (5) Developing innovative technologies and know-how transfer.

In the first area the following products are presented: electrical installations and systems for the handling and gasification of solid fuels (SALUT MMPP, Stand A17); construction of oil platforms on the sea shelf for the recovery of oil and gas, presentation of a floating power plant with two reactors (Sevmash, Stand B22), new technology for electricity generation, projects in the area of non-traditional energy (RAO UES of Russia, Stand B18), floating drilling rigs for the recovery of oil and gas on the Arctic sea shelf, project for the construction of ice-resistant stationary plattforms and exploratory rigs (Zvezdochka, Stand B22); methods for exploration and recovery of hydrocarbons on the sea shelf (CMSTS, Stand A09); monitoring and control systems for pipelines (Transneft, Stand A10); automatic systems for technical and commercial energy metering (Nizhny Novgorod Factory n.a. M.Frunze, Stand A09); projects for the construction and refurbishment of major pipelines (Transneft, Stand A10).

In the second area the following projects are presented: The proposed construction of the "Superjet 100" family of regional jets ", projects for the manufacture of aerospace components within the framework of international industrial cooperation with the participation of Airbus, EADS Socata, Augusta and others (United Aircraft Corporation, Stand B26). Projects for the development and modernisation of civilian ships (Admirality Shipyards, Stand B24; Zvezdochka and Sevmash, Stand B22; CMSTS, Stand A09).

In the third area the following new materials are exhibited: Titanium, aluminium and their alloys as well as products made out of these alloys are exhibited (VSMPO-AVISMA, Stand A13); heatresistant alloys and coatings, thermoplastics, foam plastics as well as X-ray and radiation absorbing materials (VIAM, Stand A09). Projects for the development of new materials with improved characteristics for the aerospace and shipbuilding industry (TsAGI, Stand A09).

In the fourth area, projects for the establishment, development and applied use of the satellite navigation system GLONASS (RISDE, Stand A15); systems and components for satellite communication and data transmission, satellite-based geodesy and navigation, assessment of the state of disaster areas as well as supervision of transport movements (NPM PM, Stand A15), telecommunication and satellite systems, systems for ecological monitoring, projects for exploring the earth's natural resources (VNIIEM), and also information technology for industry application (IVG ITT, Stand B19).

In the fifth area, the exhibition is dedicated to the development and transfer of innovative technologies. Exhibitors are in particular Rosoboronexport (Stand B17), Moskow Industry (Stand A21) and Saint Petersburg Industry (Stand B28).

› Are you planning any major events to accompany this year's Russian exhibition?

The Russian exhibition is traditionally accompanied by an intensive business event programme, the highlight being the Russian-German Industry Forum, which is organised with support from the Federation of German Industries (BDI) and the German Aerospace Industries Association (BDLI).

In the evening of the first day of the HANNOVER MESSE, the official Russian reception takes place in Hannover's "Neuem Rathaus". During the evening dedicated to the Russian exhibition at the HANNOVER MESSE, the Russian and German representatives from business and politics will continue to exchange ideas and information.

The organisers of the Russian exhibition are convinced that such a large participation of Russia at the HANNOVER MESSE 2007 and the exhibition of Russia's innovative high-tech products will contribute to the further enhancement of Russian-German economic relations. ‹

Prof. Dr. Alexey Lavrov, President of Vneshaviakosmos, and organiser of the Russian exhibition

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Michael Ziesemer is member of the Executive Board of the ENDRESS+HAUSER Group and Vice President of ZVEI

Russia is a Big Market

MICHAEL ZIESEMER, MEMBER OF THE EXECUTIVE BOARD OF THE ENDRESS+HAUSER GROUP. INTERVIEW: HANS SEIDENSTÜCKER

› **MICHAEL ZIESEMER OF ENDRESS+HAUSER TALKS ABOUT THE COMPANY'S STRATEGY ON THE RUSSIAN MARKET AND THE GROWTH POTENTIAL FOR EUROPEAN COMPANIES.**

› How is Endress+Hauser represented in Russia?

Endress+Hauser has a Sales and Service company in Russia which is fully owned by the Endress+Hauser Group. But we also work with many other partners. These partners have their competences in sales, in service, in system integration or in production. In production we cooperate with "Teplopribor", an instrumentation company located in Chelya binsk. They produce recorders for the Russian marketplace. We sell the full Endress+Hauser portfolio in the Russian marketplace. This is what our customers are expecting from us. In future, production of products will play a more prominent role for Endress+Hauser, but today our main focus is on Sales, Service, Logistics and Engineering.

› How has your business in Russia changed in recent decades?

Endress+Hauser has been in the Russian market for decades. But the business has changed fundamentally since the transformation of the former Soviet Union into a number of independent countries. In the past all business was conducted through the centralised ministries in Moscow. Today, we have to be in different regions. Business has turned local. This means a lot. Our people today are deployed throughout the country.

› Where do you see the biggest potential for growth in Russia?

The Russian market is very dynamic. The fastest growing industries today are oil and gas and the primary sector. The world is hungry for energy and raw materials. Russia is very rich in natural resources. So the potential is immense. Next to the Middle East we see the biggest growth potential for us in this very market. And this market will change. Today it is still very much focused on raw materials. In the coming years the market will turn more into the downstream processing, since the Russian government and Russian companies want to keep more added value within the country.

› What is the competitive situation in the Russian market?

All our competitors are there! Process Automation and Instrumentation are a truly global business nowadays. Fundamentally, we find the same competitors around the world. In Russia we still have some local competitors. But this is a temporary situation. They either turn into competitors on a global level, or they will disappear. Negative scale effects by selling just in one market cannot be compensated by low wages in this high-tech industry where you need dedicated silicon chips, software, digital protocols and micro systems as elementary sensors, at least as long as we talk about process instrumentation. Service and system integration are a different matter.

› How difficult is it to develop the Russian market?

Russia is still a country with a lot of bureaucracy. Trying to set up a branch office somewhere is almost as complicated as setting up a fully-blown company. Import procedures can sometimes take as much as two weeks. Another speciality: without certificates – particularly GOST-certificates – nothing goes. So, to be successul in this market requires an „admission fee“. But is this really so different from other markets? If you ask people from other countries about the German market they will tell you how well protected it is by all kind of standards and norms.

3RD GERMAN–RUSSIAN PARTNER DAY

High-ranking representatives of the German and Russian electrical and electronics industry exchange ideas, focusing on Russia's oil and gas industry.

GLOBAL BUSINESS FORUM, Hall 6
17 April 2007

› As Vice President of the ZVEI you represent the interests of the German electrical engineering and electronics industry. The ZVEI organises the Russian-German Partner Day during the HANNOVER MESSE. What do you expect from this year's event?

Russia is a market offering huge opportunities for European companies – for the major players and for the small and medium-sized businesses. We have a huge emerging market on our doorstep! European products – especially German and Swiss products – enjoy an excellent reputation in Russia. Russia is close to us, both in terms of distance and culture. The German-Russian Partner Day offers a platform to meet partners, for Russian and European entrepreneurs alike. This year may be even more exciting since we have a really hot topic: oil and gas. ‹

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Full of Optimism

INTERVIEW: CAROLINE STOLZ

› PETRU IANC, GENERAL DIRECTOR OF THE ROMANIAN MINISTRY OF ECONOMY AND COMMERCE, EXPECTS THAT THE COUNTRY WILL REAP THE BENEFITS OF EU MEMBERSHIP.

› On January 1, 2007 Romania joined the EU. How did this affect the interest of German firms in Romania?

German industry benefits from Romania's EU accession. All obstacles that used to exist regarding trade with the EU have been removed. Capital market rules have been harmonised and became more transparent. With its low corporate tax of 16 percent – the lowest in any of the new member states – Romania has attracted many investors. We will invest large sums in infrastructure as the EU is providing 31 billion euros in structural funds between now and 2013. As a result, companies will not only benefit from the improved infrastructure, but also from the increased demand for their products and services. The growing interest in Romania is underlined by foreign direct investment which rose to 9.1 billion euros by the end of 2006. The new investment act will create favourable conditions for foreign investors, who have also been attracted by Romania's easy access to neighbouring markets such as CIS, Middle East, Asia or Turkey.

› In which sectors do you see the most potential for growth?

Romania has seen strong economic growth in recent years. The IMF is forecasting GDP growth of 5.5 percent for this year. I see particular strong potential in the automotive, construction materials (especially cement), and home appliance industry as well as in the renewable energy, biofuels and IT sectors.

› Which are the most interesting locations for investment for German companies in Romania?

We have established numerous industrial parks. These offer special fiscal and financial incentives both to Romanian and foreign invesotrs involved in manufacturing operations and related services. The Moldova region is also an attractive investment location, offering a proper infrastructure, a qualified labour force and both vocational as well as university education.

› How successful has German-Romanian cooperation been?

Numerous examples of successful cooperation exist. Just to mention a few: IBD and GTZ GmbH work together with the central administration to promote the Romanian industry on the German market. A Romanian-German centre for technological assistance and training in macro- and nanotechnology has been established at the Institute for Micro Technology in Bucharest. It is located within the scientific and technologic park for micro- and nano-technologies. The 300,000 euro project is run in partnership with the German Fraunhofer Insitute. In addition, the German-Romanian Chamber of Commerce and the regional Romanian Chambers of Commerce as well as Aprel and ZVEI cooperate.

› What are your expectations for HANNOVER MESSE 2007?

The HANNOVER MESSE has long been an interesting event for the Romanian commercial producers. Romanian participation became permanent after 1990, in two business areas – machinery and electrotechnology. Romania is interested to cooperate with Germany and other EU member states in the field of research and has organised a stand within the fair. Romania will be represented by a national pavilion which will bring together 29 companies on an area of about 400 square metres.

The Romanian participation was organised within two stands: The first concerns "Industrial Subcontracting for Foundry and Forged Components", where 20 companies will exhibit. At the second stand nine companies exhibit "Electronics and Electrotechnology". The Minister for Economy and Commerce, H.E. Varujan Vosganian, will attend the HANNOVER MESSE, starting with its opening on Sunday and on the Romanian Day, a symposion that celebrates its twelth anniversary this year.

The HANNOVER MESSE will help to intensify the Romanian-German relations in the fields of automotive components, electric motors, foundry and forged components, bearings, components for machines and tools, electrotechnology aggregates, new technologies for renewable energy sources etc. ‹

The foundries in Central and Eastern Europe produce about ten percent of all foundry products in the European Union.

Steeled for Success

TEXT: DR. KÁROLY BAKÓ, PRESIDENT, ASSOCIATION OF HUNGARIAN FOUNDRIES

› **THE EUROPEAN FOUNDRY INDUSTRY IS A HIGHLY SKILLED SECTOR WITH A LARGE NUMBER OF SME BUSINESSES, ESPECIALLY IN THE MARKET FOR COMPLEX BUT LOW-VOLUME METAL CASTINGS.**

The MEGI, the acronym of Central European Foundry Initiative's original German name "Mitteleuropäische Giessereiinitiative", was founded in the early 1990s after the political-economical changes in Central Europe. Leading foundrymen from the Austrian and German Foundrymen's Societies intended to support their Czech and Slovak (that time in the Czechoslovak Republic), Hungarian, Polish and Slovenian colleagues adapting the new laws and rules, adjusting to the European Union's social, economical and industrial conditions. The delegates of the six, later seven societies' formed an alliance free from administrative and financial restraint.

RAISING COMPETITIVENESS THROUGH TRANSFORMATION PROCESS

Casting production in the Czech Republic, Hungary, Poland, Slovenia and Slovakia e. g. altogether before 1990 exceeded four million tons and in 2001 it formed 1.5 million tons. At the same time the EU countries produced 15.2 million tons, so that the share of candidate countries represents only ten percent. The foundry industry in those countries in the last decade went through a transformation and privatisation process. A considerable excess of free capacities remained here. Now it faces another important phase consisting in association of the national economies with the EU, and all that under the conditions of globalisation.

In the USA and Japan this phenomenon was met before ten years and now they feel it also in Central European countries as the Czech Republic, Slovakia, Poland and in short everywhere. Globalisation concerns nearly every commodity, not only castings. Among many reasons for this, one of the most significant is the glut of worldwide capacity. One of the most important changes the globalisation has brought is the global purchasing of goods.

GLOBALISATION IS HERE NOW

The companies found out that their competitors are often far away. The competitors for grey iron cylinder blocks were located in Mexico and Brazil and for SG iron castings they were in China and Turkey.

In the foundry industry the companies not only compete with each other, but cast parts can be replaced with items made with other materials and technologies. The reason for production migration often has little to do with the technology level but with fiscal and governmental reasons as well as more strict environmental regulations. This situation is difficult to control and an individual foundry firm or an individual foundry society is unable to resist. To avoid making mistakes it is necessary to cooperate. It is just very important for the foundries in Central Europe which are joined in MEGI.

LACK OF SKILLED WORKERS

Foundry managers – not only in MEGI countries – are complaining about the increasing shortage of professionals and skilled workers, a shortage which frequently makes the daily operation a difficult task in a period, in which the economy's development needs specialists on all levels.

Starting in the last decade, to satisfy the demand on skilled workers of the foundries in some MEGI countries is getting more and more difficult. There is absolutely no interest to state, as a consequence the training in vocational schools came to an end. Nowadays the solution could be the vocational training in courses outside of the school system, where the foundry could register its own unskilled labourers, respectively the unemployed directed by the labour centres. The trained persons could at the end of these courses get a certificate authenticated by the local chambers of commerce and industry, or rather by schools for vocational training.

FOCUS ON ENVIRONMENTAL ISSUES

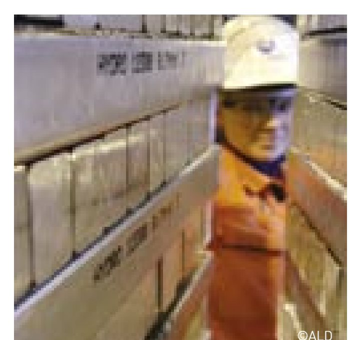
Environmental issues in MEGI work are the cooperation on Best Available Technologies BAT analysis (analysis and biological relevance) and reminder procedure, including the exchange of information on implementing the European Environmental Protection Regulation IPPC (Integrated Pollution Prevention and Control).

In 2006, representatives of the foundry industry and the metal unions signed a so-called Social Dialoque Agreement on quartz dust exposure in the European Union. The partners agreed to reduce the quartz dust content in the air in working areas. This is just one example for a European regulation which will have consequences for all foundries. As a result, it is important to stay informed and to discuss experiences that have been made.

After 14 years of harmonised collaboration MEGI turned to World Foundrymen Organisation WFO to work closer together, suggesting to form the first WFO Regional Foundry Alliance, which could be followed by similar alliances in the South European, Central and South American or other regions in the world.

THE AUTOMOTIVE INDUSTRY IS A KEY CUSTOMER

Companies of the automotive industry belong to the most important customers of foundries. In eight ›



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CASTING PRODUCTION[1] OF MEGI PARTNERS

Country	in 2005
Austria	342,383
Czech Republic	519,043
Germany	**5,108,007**
Hungary	156,832
Poland	804,500
Slovakia	84,805
Slowenia	163,310
Total	7,178,880

[1] in metric tons. Source: Modern Casting, Dec. 2006

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Foundries in Central and Eastern Europe face excess capacities.

More than 85 percent of the rapidly growing products of the non-ferrous foundries, mainly zinc and aluminium-based castings, are exported. More than 60 percent of these castings are cast for the European automotive industry.

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› countries that joined to the European Union last year, the number of cars will double up to 2015 according to a new study of the Bank Austria Creditanstalt. Countries of Central and Eastern Europe will continue to be a territory oriented to export with considerably higher production. The greatest part formed the Czech Republic, Slovakia, Hungary and Poland.

In the Czech Republic and in Slovakia new car assembly plants and subcontractor's production plants are being established. Up to two million cars will be assembled in the territory of the former Czechoslovakia, about 800,000 of them in Slovakia.

NEW FACTORIES

A new plant TPCA in Kolin (CZ) is one of the most efficient in Europe. Skoda Auto is a highly profitable firm at present and the production of the Roomstar model has been moved to the Czech Republic. In Slovakia the Korean car manufacturer KIA builds a great plant near Zilina and the French manufacturer Peugeot will build another plant near Trnava. In such a way the Slovak industrial basis will be significantly increased and the Slovak economy can continue in the grow.

Besides car manufacturers it is possible to mention a great number of examples of investments in plants producing car components. The company Siemens will build in Ostrava a new plant for the manufacture of car electrocomponents with 1,200 working places.

Bosch has opened a new pump plant in Jihlava. This investment of Bosch Diesel will ensure the manufacture of high-pressure pumps for CPIH diesel engines. The company already employs 5,000 people and will add a further 1,000 working places. The manufacture of parts for prestigious cars has started in Karvina. For instance, a fuel system of the American manufacturer Stant Manufacturing. A technological centre aimed at research and development of parts for world car manufacturers has been opened in Plzen. Up to 200 research workers would work in it.

RAPID GROWTH OF NON-FERROUS FOUNDRIES

The Spanish manufacturer CIE Automotive is preparing to invest in Valasske Mezirici which will double its output in the Czech Republic. From Slovakia it is possible to give an example in Martin where a new engineering plant for machining of parts for gearboxes of the Spain firm Amana Telluria is building just now.

In Hungary the iron foundry Wescast produces exhaust manifolds. To a smaller extent the iron foundries RÁBA in Györ and in Budapest, the Csepel Metall Iron foundry are castingmakers for the automotive industry. The investment caster Magyarmet manufactures steel castings for the European carmakers under the slogan European castings for Europe. The rapidly growing products of the non-ferrous foundries, mainly Zn- and Al-based castings, are exported more than 85 precent (more than 60 percent of these castings are cast for the European automotive industry). The main producers are: Alcoa and Suoftec for low gravity aluminium wheels, Hydro Aluminium (cylinder heads), Le Belier Hungary, Prec-Cast, ADA cast (which won the Q1 award in 2005 from Ford), FemAlk (producing yearly 5 M pcs engine holder for VW) and Csaba Metall for different kind of castings, inclusive automotive castings.

HIGH EXPORT SHARE

Cu-alloy castings are exported more than 50 percent. Mg-alloy high pressure die casting started in 2005. Similar to the Czech Republic, Poland and Slovakia, the still competitive labour and average cost levels are an advantage compared to other members of EU. The famous carmaker Audi, which has a continuously enlarged engine assembling plant in Györ, manufactured 1.7 million engines (worth approximately four billion euros) in 2005. The TT Coupé & Roadster production is also worth mentioning. The Suzuki company in Esztergom, producing small cars, increased the number of cars in the first three months of 2006 by 56 percent compared to the same period in 2005. The target is a production of 180,000 cars in 2008, focused on Swift, SX4 and the new WagonR+. In 2006 40,000 FIAT-Suzuki SUV will be produced.

As supplier one has to mention the Bosch Group: it purchases aluminium boxes for electronic units.

FOUNDRY SITUATION IN CENTRAL EUROPE

In Poland the number of foundries amounts to 390 plants, 180 iron, 36 steel and 245 non-ferrous foundries. About ten percent of these are with 100 percent foreign capital, 83 percent Polish and seven percent with mixed capital. There are about 24,000 employees working in the foundry industry in Poland. 94 percent of the foundries are SMEs, and 73,4 percent work with less than 50 people.

MAKING USE OF OPPORTUNITIES

Aluminium castings' share runs to about 35 percent of the ferrous catings' share. 50 percent of the nodular cast iron sales are directed to the automotive industry, while over 30 percent of the total export of castings, inclusive ferrous and non-ferrous, goes to the carmakers.

There are interesting news in Europe outside the EU: In Russia, VW will produce in 2010 up to 250,000 Skoda Octavia cars. Romania with it's cheap Logan is an other provider on international markets.

But despite this huge boom of automotive manufacturers, the domestic foundries – excluding the manufacture of aluminium alloy castings – participate in this boom far too little as regards the ferrous alloys and they don't use that huge opportunity. It is a great opportunity for the foundry industry also in neighbouring countries. If we do not make use of this opportunity, the semiproducts for assembly will also be imported from distant territories. It is a call for more development and research and the necessity for university educated technicians – not only for foundry industry. ‹

www.foundry.matav.hu

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Cooperative Regions

TEXT: PROF. CHRISTOPH STROSCHEIN

› FROM CLUSTER NETWORKS TO A NEW AXIS CONCEPT OF EUROPEAN REGIONS: THE EU HAS TO DEVELOP NEW PROGRAMMES AND PERSPECTIVES FOR CROSS BORDER COOPERATION.

Globalisation and the EU enlargement are two topics that are tightly interconnected with one another.The world map of the flow of trade, economic interlinkage and regional differences with regard to the pace of development throughout the globe have alone in the last decade advanced unexpectedly dynamically.In the next decade, Europe has to get the balancing act between finding a future-oriented, powerful role within competitive globalisation and not losing its multicultural roots.

The backbone of European innovation development is the cooperation between research and small and medium-sized enterprises. Whereas over 90 percent of the US small and medium-sized enterprises industry never leaves its home market and does no foreign business, European small and medium-sized enterprises are faced with the challenge of having to enlarge their regional home markets and small national structures due to global competitors. This includes broadening cooperation clusters on an international level.

MINIMISING TRANSACTION COSTS

In order to minimise transaction costs for individual companies and to enlarge collaboration capabilities in research, development and production as well as adjusting to the global competition, the development of new cooperation regions within Europe is necessary. These have to bear the stamp of own identity, excellent infrastructure, common economic interests and a critical research mass, varied job markets and specific economic foci. The key lies in the setting up of numerous meta-networks that will support communication and people meeting.This strategy leads to the development of new European metaregions. Starting point is EU enlargement to the east and the old historic north-south axis of Central Europe.

The first already developing metaregion is in the north: the Baltic Sea region with its first focus life sciences and biotechnology. Perfectly mirrored one can find the Adriatic-Alps region in the south as a potential second metaregion.

For the third metaregion, interconnecting the two others, the Scandinavian-Central European economic area, initiative projects are currently being developed. This metaregion spans Norway to the Øresund region, Berlin, Prague, Vienna all the way to the Adriatic Sea. It encompasses seven capital city regions, eleven countries, represents about 110 million people and contains both the innovative Scandinavian regions as well as the strongly growing regions of new EU members.

DEVELOPING A TRANS-EUROPEAN TRANSPORT CORRIDOR

It is criss-crossed by all important East-West axes. Two of these can develop to trans-European transport corridors, both ending in eastern German states. Apart from Greek harbours, Asian shipping companies are momentarily buying into Adriatic ports. A megahub for transports in and out of the Baltic Sea region is also being discussed there.

In Central Europe the currently largest European automotive cluster is being set up. With Norway we have gained the second-most important European energy supplier as a partner, also to develop alternative energy forms. One project is the setting up of a European hydrogen highway, competing directly with North America.

Currently, under discussion as the most important steps for developing the economic region are: Accelerating TEN (Trans-European Networks), Energy, Creative Industries, Logistics, Biotech & Life Sciences, ICT, Nanotechnology, Developing SME & Research Networks. ‹

www.coinco.nu

In the Heart of Russia

TEXT: **MILA CHAIKOVSKAYA**, TYUMEN CHAMBER OF INDUSTRY AND COMMERCE

› TYUMEN LOCATED IN THE CENTRE OF RUSSIA AND BORDERING ON KAZAKHSTAN IS ONE OF THE MOST DYNAMIC REGIONS OF THE RUSSIAN FEDERATION. THE REGION PRESENTS ITSELF TO POTENTIAL INVESTORS AT THE HANNOVER MESSE 2007.

The administration of Tyumen is actively promoting investment in the region. Being one of Russia's most dynamic regions, it has already attracted a number of investors who have been convinced by the region's advantageous geographical location, its large market and attractive conditions for investment.

TYUMEN IS LOCATED IN THE HEART OF RUSSIA

Tyumen is located in the centre of Russia, approximately 2,000 kilometres east of Moscow in the Urals Federal District. The Trans-Siberian Railroad and four federal highways cross the Tyumen region providing easy access to surrounding regions and neighbouring Kazakhstan. Today, Tyumen is an important centre for the Russian oil and gas industry, shipbuilding and mechanincal engineering. The living standards in the region are excellent. Its 3.3 million people earn approximately 670 euros per month on average – second only to Moscow. Tyumen is therefore an attractive market.

FINANCIAL AND OTHER SUPPORT FOR INVESTMENT

To provide further incentives for investment, the administration has taken steps to ensure financial and nonfinancial support of investment projects. Due to the individual access to investors, numerous investment projects are currently being implemented. Prime examples are the big international and Russian companies that have chosen to locate in Tyumen. Among them are Schlumberger (France), Halliburton (USA), OMV (Austria), Shell, Salym Petroleum Development, Bentec Drilling Oilfield, KCA Deutag Drilling GmbH (Germany), Transneft, TNK-BP and Lukoil.

MUCH INVESTMENT POTENTIAL

Potential investors are always welcome in Tyumen and a visit can easily be arranged. Additional, extensive information on investment projects and on potential locations are gladly provided. Potential for investment exists in many fields. For instance, opportunities exist in the oil and gas industry, the chemical industry, the food industry, construction and infrastructure – just to mention a few. ‹

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Ob als Outsourcingobjekt oder als temporäre Lösung bieten sich im Schenker-Messelogistiklager innovative Vorteile – auf 6.500 m². Standbaumaterial und/oder Exponate werden anforderungsgerecht gelagert und auf Wunsch fachkompetent wertschöpfend behandelt. Nicht nur die Belieferung des direkt benachbarten Messegeländes ist just-in-time darstellbar, sondern auch die Nutzung des Lagers als globale Drehscheibe Ihrer weltweiten Messeaktivitäten.

Messe-Kompetenzcenter
Unternehmen in den Branchen Holzbearbeitung, Metallbearbeitung, Biotechnologie, Meß- und Regeltechnik, IT, Agrarwirtschaft und Intralogistik haben mit Schenker-Hannover für alle Messen, an denen Sie sich deutschland-, europa- und weltweit beteiligen, nur einen Ansprechpartner mit hervorragenden Branchenkenntnissen. Wo auch immer Sie ausstellen: Wir sind da. Mit globaler Präsenz und lokaler Kompetenz bietet Schenker, als integrierter Logistikdienstleister, das gesamte Spektrum der Messetransportlogistik aus einer Hand.

Messe-Kompetenz TÜRKEI
Im besonderen stehen Unternehmen mit dem Interesse an dem Messeland Türkei türkische Mitarbeiter zur Verfügung, die den beschriebenen Fullservice kompetent liefern. Mit eigenen Büros ist Schenker dort präsent, wo Sie Präsenz zeigen.

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Being the official contractor of the Deutsche Messe AG Schenker works at the world-biggest fairground. Here, our well-skilled staff takes over the handling with its local know-how and global full-service competence for your exhibition project. As an integrated service-provider for logistics Schenkers ensures that your goods and exhibits reach your stand in-time.

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Companies in the sectors of woodworking, metalworking, biotechnology, measuring- and control elements, IT/EDP, farming and Intralogistics find their logistic-service provider in Schenker for their participation in Germany, in Europe and worldwide: One face to the customer! Whereever you go, we serve you. With global presence and local competence Schenker, as an integrated logistics-provider, offers the entire spectrum of exhibition-transport-logistics, single sourced.

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Particularly companies which are interested in participating at exhibitions in Turkey find their personell contact in our turkish staff with us who supply our „full-service“ to you. Having our own local Schenker branch-offices in Turkey our strength lies in our local presence.

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Deutsche Messe

Asian Giants

TEXT: ARIANE KREITMEIER, SR. MANAGER OPERATIONS, FEDEX EXPRESS EUROPE, MIDDLE EAST, INDIAN SUBCONTINENT & AFRICA

›CHINA AND INDIA ARE TURNING OUT TO BE MORE COMPLEMENTARY THAN INTERCHANGEABLE. BUSINESSES WITH OPERATIONS IN INDIA OR CHINA WOULD BE WISE TO INCREASE THEIR SPEED-OF-RESPONSE BETWEEN THESE TWO MARKETS.

As Asia has grown in economic prominence over the past 30 years, it became a manufacturing market – one which exports goods to the rest of the world. China and India are often lumped together in the global low-cost manufacturing sector. The experience of the express air cargo industry, however, reveals something more complex.

Along China-India routes, major logistics players are adding much-needed air cargo express capacity. This reveals a dynamic economic integration between India and China, and an escalating trade relationship that is one of the most important economic stories of the decade: China and India are more complementary than they are interchangeable.

Businesses with operations in China or India would be wise to increase their speed-of-response between these two markets. The infrastructure is in place to support this. The air express industry is aggressively ramping up its connectivity not only to and from, but also within the Asia-Pacific region. At FedEx, next-day delivery from Delhi to Shanghai is now a reality and capacity has been recently doubled along the Asia-Europe route, adding more than 850,000 pounds per week. India and China already have a trade relationship that includes not only consumer goods, but textiles, chemicals, pharmaceuticals, aluminum, iron ore and ferrous metals. The high-tech industry promises even more potential advancements, as India's strong software competence could complement China's expertise in the production of hardware.

IMPORTANT PLAYERS

The two countries share the same challenge of diversifying their economic foundations. India is already an important player in world information technology services, but now it must develop a strong manufacturing sector to sustain its rapid growth.

While China is rapidly becoming a global manufacturing center, the country needs to build a strong service and technology industry. At first sight, trade figures seem to follow the logic of the potentials of cooperation: In 2006, the China-India bilateral trade volume is believed to have risen by 40 percent, reaching 20 billion US-Dollars, a goal formerly set by both of the countries for 2010. For comparison, although trade between India and Germany grew by 38 percent in 2006, it reached only about ten billion US-Dollars. China is now India's second largest trading partner behind the USA, and it is slated to take the Number 1 position in a few years time. India was ranked China's 20th trading partner in 2003; in 2004 it moved up to position twelve; and in January 2007 it became China's Number ten trading partner for the first time. In South Asia, India is China's largest trading partner and has become one of its most important overseas project contracting markets.

CLOSER TIES

A closer look at more traditional market data makes the growing ties between China and India clearer still. India is one of the world's fastest growing economies, with an estimated GDP growth rate of 7.6 percent in 2005.

Growth is forecasted to climb over the rest of the decade, spurred in part by India's integration with the global economy. According to the forecast of the latest budget, India's exports will reach 150 billion US-Dollars by the fiscal year 2008/09. With manufacturers sourcing and selling globally, the air express industry is taking advantage of the increase in fast-cycle logistics solutions to streamline the supply chain.

Yet when the overall picture is broken down, we see China and India acting together – leading to the widespread use of the term „Chindia." It is clear that China is clearly the economically stronger partner in this relationship, and that both countries still have more to do to achieve true complementary cooperation:

China's economy has been running at full steam for over a decade. By contrast, India has only quickened its pace in the past three to four years. China is the world's second-largest recipient of foreign direct investment (FDI). According to preliminary 2006 estimates from the United Nations Conference on Trade and Development (UNCTAD), it received 70 billion US-Dollars in FDI in 2006. This contributes greatly to its recent, rapid economic development. Meanwhile, India received just 9.5 billion US-Dollars in total FDI in the past year, seven times less than China.

HU IS PROPOSING A FREE TRADE AREA

India, as a market for Chinese industrial commodities as well as a distributor of low-priced materials and raw materials, has, according to the German Institute of Global and Area Studies (GIGA), a rather marginal meaning for China. On the other hand, China has since become one of the most important trading partners for India.

Although about 150 Indian companies have invested in China, they have not yet explored its domestic market, since they either sell to multinational companies in China or export their products out of China to their traditional buyers. Although Indian companies are successfully working as IT-instructors in China, this could, according to GIGA, also be part of the Chinese strategy to become less dependent on India's software expertise.

There are also political challenges which have a considerable influence on economic and trade cooperation between India and China. The Indian government frequently rejects proposed Chinese investments in India, for example, for reasons of national security. This is due in part to border issues which have yet to be resolved.

Nonetheless, it is likely that trade and investments between China and India will continue to grow significantly. This will encourage every foreign company operating in the Asia-Pacific region to keep up with this development, and incorporate business relations between India and China into their strategic considerations.

This point of view was supported by the four-day visit of Chinese President Hu Jintao to India in November 2006. Hu said India and China have started a joint feasibility study on a regional trade arrangement, which should be completed in 2007. What sounds rather harmless is nothing less than a proposal by Hu to establish a free trade area between China and India. Although the Indian government has waved aside this bold suggestion for the time being, it has agreed to take a closer look at the possibilities of the next few years. Both India and China intend to expand bilateral trade, increase mutual investment and upgrade economic, trade and investment cooperation.

THE IMPACT OF "CHINDIA"

When making strategic decisions, companies operating or planning to operate in Asia must consider the potential impact that "Chindia" could have for their business. These considerations should take into account the macroeconomic environment in light of the business cycle, where global growth is cooling down after the explosive trade activities of previous years.

However, a cool-down does not mean a recession. Taking the region as whole, the past has shown us that Asia is significantly reshaping the global order. From Japanese and Asian tiger economies to India and China, Asia's influence on the world economy is constantly growing. Global integration is conducted through goods, assets, technology, services and labor channels. In all these areas, Asia is playing a significant role. This is partly evident from Asia's increasing share in global merchandise trade and capital flows. The emergence of India and China as a major component of the global portfolio establishes Asia's prominent position in the global supply chain.

Over the course of the next 20 years, we will see some fascinating trade activity between India and China. However, to anyone who has been closely monitoring the air express cargo industry, this will be of little surprise. ‹

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Expanding in Asia

TEXT: HANS SEIDENSTÜCKER

DEUTSCHE MESSE AG AS ORGANISER OF THE HANNOVER MESSE IS RAPIDLY EXPANDING ITS PRESENCE IN ASIA. WITH NEW EXHIBITIONS IN INDIA, THE COMPANY SEEKS TO BENEFIT FROM INDIA'S BOOMING ECONOMY.

In May 2006, Deutsche Messe AG took another major step in expanding its global trade fair operations. The Hannover-based company signed a cooperation agreement with the Indian Machine Tools Manufacturers Association (IMTMA) to market the new Bangalore International Exhibition Centre (BIEC) in Bangalore, India. IMTMA organises India's largest machine tool fair, IMTEX, which was held until now in Mumbai. In 2007, IMTEX will for the first time be held at the new fairgrounds in Bangalore.

NEW EXHIBITION CENTRE

The BIEC was built by IMTMA and opened in the beginning of 2007. The facility comprises three large halls, which can accommodate 40,000 square metres exhibition space and is coupled with a 5,000 square metre congress building and further training rooms spanning another 3,000 square metres. The state-of-the-art infrastructure is suitable for all kinds of events – from large exhibitions to small training workshops. The floor has a load baring capacity of 30 tonnes per square metres so that even heavy machinery can be displayed easily.

In October 2006, Deutsche Messe AG also signed a cooperation agreement with the Fiera Milano S.p.A. – based in Milan, Italy – to further expand its reach in Asia and in other international markets. Together, the two trade fair organisers seek to jointly promote and stage trade fairs in selected growth markets around the world, including the booming markets of India and China.

INDIAN ALLIANCE

The first events to emerge from the new Indian alliance will be held from 27 to 30 November 2007 in the BIEC. Three trade fairs representing key sectors behind India's fast-growing economy will take place simultaneously. The Industrial Automation INDIA addresses all sectors and aspects of industrial automation. The Motion, Drive & Automation INDIA (MDA INDIA) is dedicated to power transmission and control technology and also features a special showcase for the entire energy value chain and all its target markets. The CeMAT INDIA covers the entire field of intralogistics from transportation to storage and warehousing, as well as packaging and order technology.

Given the rapid expansion of the Indian economy, the increasing demand for modern machinery and the large investment in the country's infrastructure make India an attractive market. As Asia's sleeping giant has awoken, the country offers good prospects for many industries – a development from which trade fair organisers such as Deutsche Messe AG seek to benefit. The parallel staging of three trade fairs gives visitors and exhibitors a comprehensive overview of industrial markets and interrelated technology. Deutsche Messe AG seeks to repeat the success this concept has enjoyed in Hannover and Shanghai. The first indications provide reasons for optimism. The Power Transmission and Control Association of the German Engineering Federation (VDMA), the Italian Association of Manufacturing and Trading Companies in Fluid Power Equipment and Components (ASSOFLUID) and the Italian Association of Gears and Transmission Elements Manufactures (ASSIOT) have already commited to the MDA India.

STRONG ASIAN PRESENCE

With its forray into India, the Deutsche Messe AG expands on its successful business in Asia. The company already has a strong presence in China. The Shanghai New International Exhibition Centre (SNIEC), for example, enjoyed another record year in 2006. According to Ernst Raue, Member of the Board, Deutsche Messe AG's "early involvement in foreign markets enjoying strong growth has paid off". In 2006, the company organised 98 events – 50 trade fairs and exhibitions in Germany and 48 in other countries. Ernst Raue explains the growing importance of foreign markets for Deutsche Messe AG: "We are accompanying our customers into prospering regions of the world as a marketing partner and communication service provider, while simultaneously making the Hannover Exhibition Centre more attractive on an international level." ‹

Strong Saxon Suppliers

TEXT: **BURKHARD ZSCHEISCHLER**, WIRTSCHAFTSFÖRDERUNG SACHSEN GMBH

› **AS A RESULT OF THE STATE'S STRENGTH IN RESEARCH AND DEVELOPMENT, INFRASTRUCTURE INVESTMENT AND LOW LABOUR COSTS, SAXONY HAS DEVELOPED INTO AN ATTRACTIVE INVESTMENT LOCATION. ITS SUPPLY INDUSTRY HAS WITNESSED PARTICULARLY STRONG GROWTH.**

Around 1850, Chemnitz was called „Saxon Manchester“, because approximately 150 mechanical engineering companies, primarily in the textile machine engineering, had settled there. In the GDR, the mechanical engineering and automotive companies around Chemnitz and Zwickau were showcases – huge state combines with thousands of employees. Because their customer relations were focused on the east, none of them survived after 1990. But the existing know-how, the excellent education level of skilled workers, in combination with technical universities and their research institutes were the foundation for Saxony's success.

SUCCESSFUL TURNAROUND AFTER UNIFICATION

New beacons were added around which a supply structure along the entire value chain developed. This is equally true both for the mechanical engineering and automotive industry as well as for the microelectronics location Dresden-Freiberg, which today is among a handful of global locations. The private company network "Silicon Saxony" includes 234 companies with a combined workforce of 17,000 employees and an annual turnover of three billion euros. The microelectronic competence, which was already concentrated around Dresden during the time of the GDR, was the starting point for the cluster. It led to the selection of the location by AMD after German reunification.

A cluster that has so far garnered relatively little attention is developing in the energy sector centred in Freiberg. The renewable energy sector already employs 5,200 people in Saxony, 1,500 alone in photovoltaics – with the rising trend continuing. Today's German sun city Freiberg on the edge of the Ore Mountains has obtained its knowledge for the technology of the future from the know-how in metals and minerals it collected during centuries of mining. Today's know-how ranges from the raw material silicon to the finished solar power kits.

Volkswagen Sachsen GmbH with its 7,000 employees and factories in Zwickau-Mosel, Chemitz and Dresden laid the foundation for today's "Autoland Saxony". BMW and Porsche followed Volkswagen to Saxony. The automotive Saxon value chain today consists of approximately 440 companies. Including mechanical engineering companies and companies with less than 20 employees, 1,000 companie with a total of 100,000 employees are active in the automotive industry.

The economic upswing experienced since 2006 has resulted in a four percent growth rate in Saxony – the state thus took the top position among all of Germany's federal states.

STRONG AUTOMOTIVE SECTOR

Fortunately, all three automotive manufacturers located in Saxony are optimistic, all modernise their production with new models, new motors or new components. For instance, Porsche has just started manufacturing the new Cayenne and intends to build the sport coupe Panamera in Leipzig beginning in 2009. It is expected that this investment will create a further 600 jobs. Additional jobs will be created by suppliers as well as service and logistics companies.

The neighbouring BMW factory will in future be the sole manufacturer of the BMW 1 Series. And two years after the start of the 3 Series production, a new type will be launched. The car manufacturer has so far invested 1.3 million euros in Saxony. The motor plant Chemnitz, where more than eight million motors have rolled off the assembly line, is preparing itself for the new common rail motor, whose series production will start this autumn. Chemnitz, declares VW, possesses the "launch competence" for such a project.

NEW INITIATIVES

By supporting network initiatives, Saxony aims to further strengthen the supply competence of its companies. The Verbundinitiative Maschinenbau Sachsen VEMAS for the mechanical engineering industry and the Automobilzulieferer-Verbundinitiative AMZ for the automotive supply sector combine the know-how of all of Saxony in order to develop technologies until they are ready for series production.

By initiating and organising strategic networks, these initiatives increase the competitiveness of companies. Through targeted cooperation, the strengths of small and medium-sized structures, such as quick response abilities, flexibility and technological strengths when it comes to details are supported. Weaknesses such as low market strength, missing system competence and low capitalisation have been reduced. For instance, with the online company network CarNet, the AMZ has created a platform used by more than 500 automotive suppliers.

AIRFREIGHT HUB

DHL's European airfreight hub in Leipzig, which will begin operations in 2008, will make Saxony an even more attractive investment and supply location. The airport will then have two independent runways suitable for intercontinental traffic. All express freight airlines will be able to use it round the clock. Located at the crossroads of two motorways (Berlin-Munich and Dresden-Magdeburg), Leipzig has a capable freight centre for road and rail traffic.

Saxony also ensures well-educated employees. 30 university-based and non-university-based research institutes exist. Four universities, five universities of applied sciences, eleven Fraunhofer Institutes, six Max-Planck-Institutes and seven Leibnitz Institutes provide innovation.

INVESTORS WELCOME

Saxony, especially its economic development agency Wirtschaftsförderung Sachsen GmbH, is always looking for investors and "missing links" in order to increase the supply competence for its OEMs and those in the enlarged Europe. In Saxony, companies find high flexibility and freedom in structuring their industrial relations. The 40 hour work week is as common as individual agreements. Only ten percent of companies are bound by union pay rates.


©VOLKSWAGEN

Volkswagen's Transparent Factory in Dresden – just one of Saxony's car factories.

A further plus are the attractive labour costs. While the manufacturing industry in Western Germany has – with an average wage of 28 euros per hour – the third highest labour costs worldwide, Saxony can ensure its competitiveness with an average wage of 17 euros per hour. Productivity in Saxony increased by 30 percent since 2000, while wages increased only moderately – unit labour costs sank.

The state government does its part to contribute to further growth: The investment rate in 2006 was 24.2 percent. Saxony spends 1.3 percent of its GDP on research and development. Investors should remember only one thing: Saxony is location Germany plus 30 percent wage advantage. ‹

www.invest-in-saxony.de

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Centre of Europe

TEXT: **EVA HENKEL**, INVEST IN GERMANY GMBH

› GERMANY IS RIGHTFULLY DESCRIBED AS A "CLASSIC" INVESTMENT OPPORTUNITY FOR INTERNATIONAL COMPANIES. ALMOST 22,000 FOREIGN COMPANIES MAINTAIN A PRESENCE IN GERMANY, INCLUDING NEARLY ALL MAJOR "GLOBAL PLAYERS".

Germany has two advantages over other European economies: It is the largest economy in Europe in terms of population (82 million), and it is in the geographical centre of Europe. With a total population of nearly 500 million, the EU is the biggest contiguous market in the world and borders Norway and Switzerland, two wealthy nonmembers. In addition, thirteen EU countries belong to a monetary union, of which Germany is the centre.

Surveys of international investors' show that market size and market access continue to be the most important criteria in the selection of investment locations, notwithstanding the significance of other factors.

EXCELLENT INFRASTRUCTURE

On the subject of market access, Germany has nine European markets in its immediate vicinity, all of which can be reached very quickly. Companies can benefit not only from Germany's location and market proximity but also from the country's market expertise and inter-cultural competence that has traditionally made the German market a pivot point for Eastern European companies operating in Western Europe and vice versa. As a result, the German economy is at the centre of the international flow of traffic, goods, and services.

Germany has the densest and best developed transport and communications infrastructure of all European countries. Professional training for the logistics industry in Germany is exemplary. With the major seaports of Hamburg and Bremen plus the biggest air freight terminal and turning platform in Frankfurt, and with its 17 international airports, Germany has a global network at its disposal.

However, the logistics industry is not the only industry that is strong, efficient, and innovative here in Germany. In the sectors of bio- and nano-technology, IT, and optics Germany gives vivid testimony of its cutting-edge technologies. In the field of renewable energies and resources Germany is reinforcing its position as world leader.The European Union and the German government are both supporting this industry through investment incentives and stated goals channelling energy use toward renewable sources, and with the commitment that both Germany and the European Union are showing toward combating climate change and encouraging the use of renewable energies, this growth is sure to continue.

TECHNOLOGY LEADER

Germany is ahead in many areas in the development of renewable energies. Especially in photovoltaics, Germany is not only the world leader in terms of volume, but can also claim to be the technology leader. By the year 2020 the market share of renewable energies is expected to surpass 20 percent of the German energy market. Germany foresees increases in investments in all areas of renewable energies, such as solar (PV), bioenergy, wind power, geothermal, hydropower, and bio-based chemicals. Furthermore, by 2020 the industry should employ 500,000 people and be a leading exporter—continuing Germany's tradition as an export champion.

NUMBER ONE FOR RESEARCH

Germany is Europe's number one location for research, say business leaders from all over the world in a 2005 survey. Internationally renowned universities and research institutes, such as Fraunhofer Institutes and Max Planck Institutes are serving as innovative motors educating world-class engineers, scientists, and managers offering globally active companies excellent employees for the future. It is thanks to these renowned institutes and universities that Germany was able to record 23,044 patents in 2004; this number was twice the number of patents of England and France combined. ‹

INVEST IN GERMANY (IIG)

is Germany's official investment promotion agency. IiG's mandate is to assist and consult international companies about investment opportunities. The services include strategic planning, market research, and competitive analysis. Companies planning to establish or expand business operations in Germany can obtain detailed information on the legal and corporate investment framework, tax regulations, regional and federal financial support, and visa requirements. IiG handles all requests discreetly and confidentially. All services are free of charge. Investors can contact the IiG headquarters in Berlin or its offices in the US, Japan, and China.

Invest in Germany and Germany – Land of Ideas will meet visitors in the IiG-Business Lounge located in **Hall 6, Booth G31.**

www.invest-in-germany.com

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Business Potential

TEXT: ECKHARD FORST, MEMBER OF THE NORD/LB NORDDEUTSCHE LANDESBANK BOARD OF MANAGEMENT

› TURKEY, PARTNER COUNTRY OF THE HANNOVER MESSE 2007, OFFERS MUCH BUSINESS POTENTIAL. WITH DIVERSE ACTIVITIES, NORD/LB IS PRESENT ON THIS RAPIDLY DEVELOPING MARKET.

Around 2,000 kilometres separate Hannover and Istanbul. We could also say: Only four flying hours separate the two cities. Speaking about distance in this case is actually out of place in a globalised world.

INCREASING TRADE RELATIONS

In an economic sense, the links between Germany and Turkey have been growing steadily ever since the two countries signed their first agreement on economic cooperation in 1958. Today, Germany is undisputedly Turkey's most important trade partner. The volume of trade is increasing by the year and last year, with the volume at more than 23 billion euros, a new record was achieved. The trade volume between Niedersachsen and Turkey amounts to just over two billion euros. Economic links between the countries can certainly still be reinforced – to result in considerable potential for business activities. This is why I am delighted that Turkey is this year's partner country at the HANNOVER MESSE.

AN EXTREMELY VIABLE FUTURE

NORD/LB Norddeutsche Landesbank opened up the Turkish market a long time ago. Today, our overall commitment in Turkey amounts to around 200 million euros, with the focus on ambitious structured financing activities and here, in particular, on project and ship financing. In international bank syndicates, we are financing three gas powered plants in Adapazari, Izmir and Gebze, as well as in the construction of a dam and a water treatment plant and its supply network in the region around Izmit. In the area of ship financing we service several shipping companies as house bank and syndicate bank.

We believe that the Turkish market will continue to be extremely viable and attractive in future too – particularly in terms of project and ship financing. Many German and Niedersachsen companies – big players and medium-sized companies as well – will thus be making their way to Turkey in future. And by the same token Turkish companies and investors are very welcome to our business region of Niedersachsen, Saxony-Anhalt and Mecklenburg-Vorpommern. As a Landesbank and partner of the savings banks and with our knowledge of international financing and with excellent products and services, we support these cross-border activities as a reliable partner. With these activities we also wish to contribute towards reinforcing current trade relations between the two countries and to open up new business potential for both sides. An obvious thought – also in view of the proximity of Hannover and Istanbul. ‹

www.nordlb.de