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Logistics Leaders



Gaining Efficiency in
North America

Walter Lowe
Ford Motor Company

High and Heavy

Turkish Logistics

Service should not be
a commodity

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Turkey well-posed development

The Turkish automotive and supplier industry is concentrated in the Marmara region, mainly in Bursa. It produces passenger cars and commercial vehicles for multinational companies such as Ford, Honda, Hyundai, Renault, Mercedes Benz, Fiat and Toyota.

The Turkish automotive supplier industry produces almost all types of components and

• spare parts such as engines and engine parts,
• power train parts, brake and clutch parts,
• hydraulic and pneumatic systems, suspension
• systems, security systems, rubber and plastic
• parts, chassis frames, casting and forging,
• electrical equipment, lighting systems, batteries
• and seats.

The strength of the Turkish automotive sector is underpinned by several factors such as Turkey's involvement in the EU membership process, consistent foreign investment, a strong capital structure within the sector and joint-ventures with the leading automotive players world-wide. Turkish companies' conformation to international



Positioned if ent goes ahead

Turkey's automotive industry is one of the most substantial in Europe but, as *Sam Ogle* reports, it is not without its challenges.

quality systems and technical regulations, the existence of a qualified labour force and of a strong supplier industry are other advantages enjoyed by the sector.

On the other hand, inadequate domestic demand for automotive products, a surplus of production capacity, high levels of sales taxes and low levels of exchange rates are challenges the sector could well do without.

In 2008, Turkish automotive industry exports increased by 16% and were worth \$24.7 billion. This accounted for approximately 19.4% of total Turkish exports. The industry closed the year with \$5.5 billion external surplus, an increase on the \$3.5 billion in 2007.

"The Turkish automotive industry has developed tremendously within the last ten years," says Ilhan Cetinkaya, chairman of Ilce Transportation, one of Turkey's largest logistics providers. "In the nineties, there were only Fiat, Ford and Renault as the main car manufacturers in Turkey plus six or seven commercial and tractor manufacturers. Since then, Toyota,

Hyundai, Honda, Mitsubishi commercials and others have come to Turkey. The Turkish automotive industry's production levels have reached almost 1.8 million units from only 400,000 in the nineties. Some 70% of the production in the last four years, before the crisis which began in October last year, was exports. Out of that 70%, around 80% was to EU countries. This underlines the quality of the production and the integration of OEM and other businesses into Turkey."

The domestic market had record years in 1999 and 2000 but Turkey had its own financial crisis in 2001 and ended up with a 140% devaluation of its currency. That created a 75% decline in the domestic automotive market, which is almost a unique figure anywhere in the world. Then, from 2002 until 2008, the market grew to 750,000 units.

When the economic crisis struck in October last year, the automotive market crashed again. "We have been one of the industries worst hit by the recession," says Cengiz Kabatepe, MP&L assistant general manager at Ford Otosan.

“Our proximity to locations such as the Middle East, South Africa, the CIS countries and eastern Europe gives Turkey a great advantage. Sevket Basev



“This year, total production has decreased by nearly 30% compared to last year. Capacity usage has decreased by 80% in heavy commercial vehicles and 50% in medium commercials. Government incentives, especially in the second half of the year, led to a market recovery both in sales and production. There was a reduction in the special consumption tax including VAT. 2007 was a record year and production was around 1.1 million units. This year we are expecting to finish with perhaps 850,000. Exports were 920,000 in 2007 and this year will reduce to 650,000. The market shrinkage in the EU has led to our export volumes reducing significantly. We think that there will be a recovery in 2010 but not to 2007 levels. The total market will be similar to this year and we are expecting a recovery in production and exports in line with the EU. We may recover to 2007 levels in two to three years.”

“In the middle of February this year the Turkish government introduced a three month subsidy programme for automotive,” says Cetinkaya. “This was especially beneficial for sales of small cars and all stocks were sold in the three month period. From October 2008 to March 2009 the passenger car market declined by 50%, but in March, April and June there was a big peak. The government extended the scheme with half of the original subsidy until the

end of September and domestic sales for the first nine months of the year were slightly higher than for the same period in 2008. The subsidy is now over and the October and November figures are showing declines of 25 to 30%. Production capacity utilisation is around 50% and export figures are still low; not as low as last year but still down on 2007 figures.”

Sevket Basev is the managing partner at IMAP Turkey, the country’s leading mergers and acquisitions specialists and a keen automotive industry observer. He believes that the government should introduce a scrapping incentive next year similar to those which have stimulated market growth in other countries. “We had a scrapping incentive in 2003 which was very significant and saw the domestic market grow by 20%,” he points out. “Over 300,000 vehicles were taken out of the system. If the government could do the same thing next year it would be very useful and would keep the domestic market alive.

“The measure has already been debated and we should look at it from two angles. I think we need to consider not only the economic factors but also the preservation of the environment. A scrapping incentive not only helps to boost domestic sales but also it helps in the fight against pollution, which is a significant threat to our world right now. The ending of Western European scrapping schemes will