

**Dear Minister,
Dear Chairman,
Esteemed Chairmen and Members of the Assembly of the
Sivas Chamber of Commerce and Industry,
Esteemed Members of our Assembly,
Distinguished Honorary Members of our Assembly,
Dear Guests
and Distinguished Members of the Press,**

I would like to greet you all with love and respect on my behalf and on behalf of our Board of Directors before sharing with you my opinions at our assembly meeting for January.

I would like to thank Mr. İsmet Yılmaz, our Minister of National Defense, for joining us at our monthly meeting themed "A Self-Sufficient Vision for Turkey in Defense Industry and the Contributions of the Developments in this Field in our Economy and Future". We are honored by your presence. Welcome.

Dear Minister, considering that we have not been joined by our Minister of National Defense at our Assembly meetings for a very long time, I would like to especially underline the deep meaning and value we place in your presence today with us industrialists.

Dear Chairman and Esteemed Members of the Assembly,

Dear Chairmen of the Board and Assembly of Sivas Chamber of Commerce and Industry, Esteemed Members of the Board and Assembly; I would like to express our joy to reunite with

you soon enough at our home this time. I would like to welcome you all.

We as Istanbul Chamber of Industry put great emphasis on bolstering cooperation and solidarity between chambers. Furthermore, we visited Sivas in October last year as part of the periodical Anatolian visits we started in an effort to serve the industrial development of Turkey as a whole.

We were offered an unforgettable hospitality in Sivas where the foundations of our Republic were laid while engaging in dialogues that helped expand new horizons for us.

Back in Sivas, I had expressed my faith in the strong synergy and friendships that would be born out of the talks between the two chambers. And now today, this very rare occasion in which we hold our assembly meeting with the Sivas Chamber of Commerce and Industry is the testimony of my faith.

In view of this faith; my precious friend Osman Yıldırım, Chairman of the Board of Directors of Sivas Chamber of Commerce and Industry, and I will be signing a cooperation protocol that will consolidate the friendship and fraternity between the two chambers.

I would like to reiterate my gratitude for all of our friends from Sivas for their exemplary hospitality in October and would like to express my particular wish for the continuation of the cooperation we started with our dear friends in a way that will yield effective and efficient results.

Dear Chairman and Esteemed Members of the Assembly,

I would like to touch upon certain issues on the national and international agenda before sharing with you my opinions on our main agenda item.

The excitement spurred by the drop in oil prices across the globe is replaced by an excitement caused by another development.

European Central Bank has announced the launch of an "expanded asset purchase programme" of 60 billion Euros as of March 2015, in an effort to curb the downward trending inflation rate.

It is indicated that the programme is planned to last until September 2016 and until a permanent recovery is observed in the inflation trend. If the programme lasts until the final date, the assets of the European Central Bank will rise to as high as 1 trillion 140 billion Euros.

I would like to draw your attention to a crucial point here: The European Central Bank has embarked on a new era by announcing a quantitative easing programme far wider than expected and in spite of Germany's opposition.

Meanwhile, the Eurozone started the New Year in a very weak growth rhythm and a deflationist trend with a risk of deepening. In addition to these economic risks, I would like to attract your attention particularly to the political uncertainty

centered on Greece that has built up higher with the latest elections and might potentially extend over the entire European Union.

There are serious structural reasons at the root of the problems of the Eurozone such as demographic pressures, rigidity of the labor market and high levels of indebtedness. Strictly speaking, problems cannot be solved by referring to the monetary policy only. What matters is the attention given to structural reforms. In view of this fact, a delay in structural reforms by governments due to political concerns or a lassitude caused by this quantitative easing undoubtedly poses a grave risk.

Developing countries start the New Year with problems too. They will grow slower than 2014 due to a drop in commodity prices in certain countries, in addition to a weakness in global demands. The economic slowdown in China, one of the biggest commodity importers of the world, plays a major role in this development.

It is expected that the decline in oil prices, the most important development of 2014, will promote global growth on an overall level although it has challenged certain energy companies with high levels of debt.

Let's take a look at certain developments in our national economy in the light of these external factors: The 18.5 billion TL budget deficit of 2013 rose to 22.7 billion TL in 2014, staying within the budget deficit target of 33.3 billion TL. Meeting budget targets is of course good news.

Budget data of 2014 prove public finance as one of the healthiest aspects of Turkish economy. It is expected that meeting budget targets will help alleviate public debts with public finance continuing to promote domestic savings and external balance.

I would like to underline at this juncture that benefiting from this sound and advantageous public finance in support of our industry and investments in the upcoming term will yield fruitful results for our economy and our country.

Dear Chairman and Esteemed Members of the Assembly,

A major area of concern is how the Turkish economy will be affected by the quantitative easing programme based on asset purchasing announced by the European Central Bank. Although it is too early to make any forecasts on this issue, it is possible that an increase will be observed in hot money flows, a critical element in economic activities. However, I would like to remind you that excessive depreciation of the Euro will have repercussions in our exports and current account deficit. On the other hand, I would like to hereby highlight the fact that our exporters will face challenges competing in markets in the presence of European producers.

As regards our economic growth, with gradually-recovering domestic demands as a result of the inflation outlook for 2015 as well as the relative improvement in purchasing power, it seems reasonable to expect an approximate 3.5 growth rate for the time being.

I would like to lastly call your attention to what I think is an important issue. The *Global Economic Prospects 2015 Report* of the World Bank mentions the need for developing countries to adapt their monetary policies and exchange rate policies to the new and harsher financial conditions. Certain developing countries will therefore need to rebuild their financial resources.

It is at this juncture that I believe our industrialists should cast aside conservative attitudes in using alternative sources of finance and should look into ways to benefit from different instruments such as bonds and bills, public offering, long-term financing, partnerships, risk management and hedging and absolutely make use of these instruments.

Our concerns grow even bigger in view of the latest developments and risks because risks grow larger in size. Cross rates will incur substantial loss. Consequently, there is a need for urgent innovation in finance just as is the case in other areas.

In an environment where the financing expenses of our companies extend 53% beyond their operating profits, we need to orient ourselves towards a new consideration and perspective in financial innovation. Even if you manufacture a new product in an innovative way, it will be hugely problematic if you spend a large amount of your profits on financing. This is precisely the reason why financial innovation is crucial for us industrialists.

Dear Minister, Dear Chairman, Esteemed Members of the Assembly and Distinguished Guests,

Having briefly touched upon certain issues on the national and international agenda, I would like to now share with you my opinions on our main agenda item.

Just like in every other area, the world is going through a massive change in defense industry, security, nature of wars and war strategies.

We witnessed the transformation of military technologies and tactics in the aftermath of the Cold War. The Gulf War of 1991 was the first war in which new military technologies were commonly used. This war was not fought with mass armies and on battlefronts but with technological systems and weapons such as air strikes, precision-guided missiles and radar systems, causing a large number of losses.

Additionally, the basic conflict manner changed as well. Wars between nations seem to be replaced by civil wars and by international intervention to these civil wars.

What's significant here is that traditional definitions fail to account for the fundamental dynamics of conflicts extending from the North Caucasus to Afghanistan, from Nigeria to Gaza

as well as the attacks on Twin Towers and the latest inhuman terrorist attacks in Paris.

While it has been impossible to explain these developments with traditional definitions, the latest *Global Risks Report* issued by the World Economic Forum indicates a world of increasing tensions with an emphasis on war as the top global risk.

With a growing risk of war, I would like to particularly note that we are going through a period in which security concerns and security measures adopted have reached a level unprecedented in the history of humanity.

Our defense industry demonstrates great achievements in an age when concerns for security and new wars expand both on a global scale and in our territories. Outstanding success stories include the attack helicopter ATAK, the warship project MİL-GEM, national tank project ALTAY and our domestic unmanned aerial vehicle ANKA. These success stories are not only of great interest to us but are sources of national pride as well.

As Istanbul Chamber of Industry, we believe that our country will take the accomplishments in this area further in the upcoming years. I would like to hereby add that we will be listening with great interest and enthusiasm to the opinions of Mr. Minister on this topic.

Dear Chairman and Esteemed Members of the Assembly,

As I have just mentioned, defense industry is of indispensable importance for our country considering its strategic position and the ongoing instabilities in the region.

Defense industry is not only crucial for the internal and external security of a country but for its industrial development as well.

On the other hand, we shouldn't regard defense industry only in terms of weapons and ammunition or military vehicle manufacturing. I believe that we should consider this sector as an organism with a far wider scope including commercial activities to meet defense needs, R&D activities for defense systems, building construction; foods, clothing, health and logistics.

The production demand created by the defense industry in developed countries as well as technological feedbacks contribute substantially to many sub-sectors such as machine, chemical, automotive, information technologies, construction and shipbuilding industries.

For instance, many technological innovations such as internet and communications technologies, Teflon coating used in lasers and rockets to prevent friction have first emerged in defense industry and were later incorporated into our daily lives through civil industries.

Now we are so happy to be observing the value-creating relationship between military industry and civil industry in our country as well.

In addition to companies including ASELSAN and TUSAŞ that are among the 100 largest defense companies and the strategically important State-Owned Enterprises, our domestic production for the defense industry continues to grow with an increasing number of private companies as well.

Our defense industry has expanded considerably in especially the last decade by turning its technological infrastructure into products and has worked towards supplying the needs of the Turkish Armed Forces from domestic resources. 15 years ago, domestic production in our defense industry was below 25% whereas this rate is as high as 55% today. It is crucial that this rate is brought even higher with investments in technological developments and in R&D in the upcoming terms.

In view of this fact, it is of critical importance to observe that the Turkish Exports Strategy and Action Plan for 2023 designates defense industry as one of the priority sectors for R&D incentives and TÜBİTAK (The Scientific and Technological Research Council of Turkey) projects in strategic areas with high import-dependency.

On the other hand, I would like to hereby express how much we as Istanbul Chamber of Industry appreciate the fact that benefiting from the domestic industry infrastructure will be the fundamental policy of the Undersecretariat for Defense

Industries with a vision to a "self-sufficient Turkey in defense industry".

Dear Chairman and Esteemed Members of the Assembly,

Over the course of years, the Undersecretariat for Defense Industries has played a major role in product and technology development for defense industry projects with incentives and supports.

The sector has expanded to external markets thanks to incentive laws enacted for this purpose, cooperation between universities and industries and the foundation of technocities. Currently, defense and aviation industries have the highest rate of product and technology development spending. In statistical terms, spending in this area exceeded 3 billion dollars between 2010 and 2013 approximately three quarters of which generated from incentives.

Expanding confidently thanks to these incentives, defense industry has attained a turnover growth rate of more than 65% in the last four years, nearing 5.1 billion dollars in 2013. The increase in orders within the sector indicates that the boom will continue.

In line with this landscape, the exports of the sector neared 1.6 billion dollars in 2013, making the sector a net exporter. It's just another good news to see how the defense industry has started to create a positive effect in the current account deficit of our country.

Dear Minister,

We believe that as part of this process, Istanbul will play a major role in the coming years with its qualified workforce, more than 40 universities and as a city with the highest number of R&D centers.

As mentioned in our Work Programme for 2013-2016, we as Istanbul Chamber of Industry, continue to work on turning Istanbul and its hinterland into the most important production center with qualified companies in the defense industry.

The contribution to our defense industry by member companies of the Istanbul Chamber of Industry shouldn't be limited to weapon, ammunition and military vehicle manufacturing. I would like to hereby express my full belief that our companies have the potential and the competency to meet the needs of our Turkish Armed Forces and our defense industry in a wide range of areas including cold-proof, sweat-proof and waterproof apparels; boots and other products resistant to all climates and geographical conditions; food; health, chemistry, furniture and textile.

Dear Chairman and Esteemed Members of the Assembly,

Due to the decline in defense budgets of developed countries, it is expected that the major players in the sector will expand businesses in developing markets in the upcoming term. This will come to mean higher levels of competition for our companies.

Consequently, in order to constantly maintain the development of recent years, the sector needs to focus more on increasing product diversity, expanding to new markets at lower prices with increased efficiency, technological transfer and foreign partnerships.

Lastly I would like to reiterate what I see is an important issue. While our defense industry needs domestic and quality products, our industrialists would like to benefit from the opportunities in this area.

When we take a look at the Budget for the Ministry of National Defense; we observe that purchase of goods and services constitutes 41% of the nearly 22 billion TL budget in 2014. I would like to share with you the need for correct and informed guidance in order for our industrialists to benefit well from the opportunities in this area. It is therefore highly crucial that the bureaucracy within our defense industry and the private sector engage in a strong cooperation and communication, complementing each other.

Dear Chairman and Esteemed Members of the Assembly,

Having expressed my opinions on the main item of our agenda, I would like to now share with you a piece of information.

On behalf of the Istanbul Chamber of Industry Assembly, Board of Directors and Members of the Assembly, a group of our Members of the Assembly will reunite with Mr. Fikri Işık,

our Minister of Science, Industry and Technology on Saturday, February 21, 2015 in order to discuss the current developments in the economy and industry as well as the problems of industry.

I would like to inform you that the sectoral committees that will take part in the meeting will be announced in the coming days. I would like to also express my expectation from you, our esteemed members of the assembly, for a bigger turnout in this meeting.

Dear Minister, Dear Chairmen, Esteemed Members of the Assembly and Distinguished Guests,

The citizen of a country with a developed industry including defense industry is a happy and peaceful citizen. I would like to conclude my speech by underlining the statement by Mr. Minister: "We want to leave a stronger Turkey to future generations." I would like to welcome again our Minister of National Defense, Mr. İsmet Yılmaz and distinguished guests and I would like to greet you once more with love and respect on behalf of myself and our board of directors.