



## İSTANBUL SANAYİ ODASI

**Mr. Minister,  
Mr. President,  
Distinguished Members of the Board,  
Esteemed Honorary Members of the Board,  
Distinguished Guests and  
Valuable Members of the Press,**

Before I share with you my views at our July Board Meeting, I would like to extend my respects and cordial greetings to all of you on my own behalf and on behalf of our Board of Directors.

I thank our Honorable Minister of Customs and Trade, Mr. Hayati Yazıcı, for participating in this month's Board Meeting with his talk on the "Latest Developments in our Commercial Life and in our Economy in terms of the Competitive Power of our Industry."

Mr. Minister, we had hosted you three years before, again in the month of Ramadan. Our institutional connections with the Ministry necessitate continuous dialog and cooperation. The wide participation of our colleagues in this event today is evidence of this.

I would like to take this opportunity to express to you and to all of your esteemed colleagues our appreciation of your presence here as "one of us" and therefore say to you, "Welcome to your home."

### **Distinguished Minister and Members of the Board,**

Here in our country, we are approaching the end of the month of Ramadan, in an environment of peace and trust, with the appreciation of the wealth that we derive from our differences as we live together in love and compassion, experiencing the beauty of sharing.

In this month of Ramadan, which reinforces friendship and brotherhood, we are experiencing the virtues of the month with an exuberance that is very rarely witnessed in the Islamic world and I wish to say that we should all appreciate the value of this.

With these thoughts and in this understanding, I would like to extend my best wishes to the entire Islamic World, to the people of our country and to you on the occasion of the approaching Eid-ul-Fitr.

One of the factors that makes Ramadan so important is the Night of Qadr, the holiest of nights in the Islamic World, and the fact that this occasion will take place tonight makes today's Board Meeting so much more meaningful for all of us. My wishes are that the Night of Qadr will bring you all peace and goodness.

Next month, our country will be electing its President by popular vote for the first time. We believe that this election, which will reflect the direct choice of the people, is very significant and meaningful.

At the same time, the fact that this election will be taking place in a democratic environment, reflecting a great societal maturity, amidst the rampant chaos that prevails over the geography of our region, is very gratifying. In this context, we are confident that everyone will accept the results of the election with the same degree of maturity.

### **Distinguished Minister and Members of the Board,**

Before I share my thoughts with you about the main topic of our meeting, I would like to touch briefly upon some current events that interest our country and the world.

At our board meeting last month, we had talked extensively about the latest developments in the Middle East and the risks that these events represented. The human tragedy experienced in many countries, especially in Iraq and Syria, is now being lived in Palestine. The growing risks that are emerging along with this development carry the potential of throwing the region into a huge conflict.

In the face of the painful tableau that is Palestine, where dozens of innocent people are losing their lives every day, a large part of the world remains silent, in a manner that does not befit the times nor match cherished humanitarian values.

This is a period in which the hearts of people of conscience are truly bleeding.

If the great suffering and tragedy that is being experienced in Palestine does not come to an end as soon as possible, I fear that the spiral of violence that is enveloping the region--from Iraq to Yemen, from Syria to Libya, from Palestine to Afghanistan, from Ukraine to Somalia--will sorrowfully grow even wider.

It was at this point that a civil aircraft was brought down in Ukraine and many people lost their lives. All of us are faced once again with the realization of the importance of acting with sound judgment in this dangerous period, without forcing the boundaries of common sense.

Because of the disproportionate wielding of power in Palestine, it is the most natural right of every person with a conscience to react to Israel. With hundreds of children and innocent people dying, it is time for all commercial, political and material interests to be set aside and a time for all to act with only humanitarian values in mind.

While exhibiting a reaction to the violence is a natural right, it must also be remembered that reactions should never target the innocent people who are not responsible for the violence and who do not condone the politics of violence.

As the Istanbul Chamber of Industry, we invite all who are responsible, before the peace of the region and the world is endangered any further, to use all the tools of diplomacy and

politics to achieve an immediate ceasefire and allow humanitarian aid to reach the people of Gaza.

### **Distinguished Minister and Members of the Board,**

In these days in which we are leaving the first half of 2014 behind, when we look at developments in the world economy, we can see that although we are going through a period of recovery, growth is still weak and greatly fluctuating.

The FED is trying to further an improvement in the global economy by postponing monetary expansion and the European Central Bank is doing its part by increasing its monetary support. In short, since so far no adequate permanent solutions or structural changes have been introduced into the global economy, its fate continues to be shaped in the shadows of the central banks.

In an atmosphere where uncertainties continue to abound in the global economy and risks still prevail in our own region, the outlook on the Turkish economy in the first half of the year is relatively positive.

The economy started out strong by displaying a growth of 4.3 percent in the first quarter and a new balancing process that can be summarized as a "shift from internal demand to external demand" has appeared in the Turkish economy.

While increases in exports are relatively strong, imports are contracting as expected and with the positive contribution of the foreign trade deficit, which is the main determinant of the current accounts deficit, the current deficit continues to fall. The inflation rate increased to almost twice its target in May but we see that as from June, it has started to recede.

The trend in industrial production however is exhibiting a relative slowdown. Although an increase of 4.7 percent was recorded in the period January-May, the changes in April and May indicated a loss of momentum in industrial production, albeit a slight one, over the second quarter of the year. The 5.7 percent fall in the production of capital goods was particularly striking. The fact that capital goods production has receded to its lowest level of the year suggests a negative picture for the months ahead in terms of investments.

In the light of the data accumulated in the first half of the year and the expectations about the second six months, it looks like calculating a growth of around 3.5 percent for 2014 will be a reasonable estimate. That growth estimates, which were in the vicinity of 2 percent at the beginning of the year, are being revised in an upward direction is certainly a positive indication in terms of our economy.

On the other hand, the high level of the current accounts deficit despite the contraction, the failure to push inflation back as quickly as was expected, and the fact that unemployment has stubbornly remained in the 9-10 percent

range are other indications that the "quality" of growth is still an issue.

The possibility that the FED's calendar for increasing interest rates may come into play toward the end of the year, other developments that may have an impact on recovery in Europe, as well as internal and external political uncertainties, are the fundamental risk factors for Turkey in the second half of the year that must be followed closely.

**Distinguished Minister, Mr. President and Members of the Board,**

After taking a look at our economy in the light of events around the world in this way, I would like to mention another matter that I feel is very important in this context.

We are in a period in which we are in need of new economic momentum. We believe that our industry and industrialists will be taking on some important roles in this process, as they have done in the past.

In this context, I would like to say that this new economic momentum needs the impetus of an integration between industry and the universities, something that has long been awaited but has not been realized in the degree desired. This cooperation must be established sooner than later.

In the light of this perspective, as the Istanbul Chamber of Industry, we have started a course of action to engage five well-established state universities in a quality, realistic and result-oriented cooperative effort toward this end.

I would like to make the point that this effort is not just directed at our industry and industrialists in Istanbul and that we hope the model that will bring together the Istanbul Chamber of Industry and these five established state universities will be an example for our industry and our chambers all over the country.

**Mr. Minister,**

On behalf of the Istanbul Chamber of Industry, I would now like to talk about some of the issues that our industry and industrialists face that have to do with matters within the jurisdiction of your Ministry. I will share with you the expectations about solutions to these problems.

The Turkish Commercial Code, which came into force in 2012, brought about many innovations in our commercial life that we find very important. Basically, these innovations were related to institutionalization, transparency and benefiting from new technologies.

We believe that not only our industrialists but also everyone with responsibility in different segments must make more of an effort in achieving these objectives.

There is one matter that I want to call your attention to with regard to achieving the goals set out by the innovations in the Turkish Commercial Code. This has to do with establishing the rule of law in every branch of business.



At the same time, we value the words of our honorable minister, speaking as a man of law, namely that "the most valuable asset is the human being, and the most superior power is law and justice." It is a fact that having a powerful legal system that focuses on the human being is the leading criterion for becoming a nation and a global player.

I would now like to call your attention to how important establishing a comprehensive NACE system is for our industry. The Ministry of Customs and Trade greatly supported our process of establishing NACE codes within the whole of Turkey. Thanks to the support given to our efforts in adopting this very comprehensive NACE system, a common system of codes was developed, a huge accomplishment of benefit to our industry.

At ISO, we have learned that our members are experiencing various difficulties with the system. In line with the expectations of our companies, let it be rest assured that we will fulfill our duty in working with the Ministry to revise the NACE and grouping system.

The efforts in this context have resulted in the accumulation of a data bank that many will benefit from. It will be very useful, under the guidance of our Ministry, to structure a network so that the data of the Finance Ministry, SGK (Social Security Administration), the Ministry of Science, Industry and Technology, TOBB and the information related to the Chambers can be used freely and a common database can be implemented.

We believe that this methodology will foster the development of collaborations between institutions and open the way to much greater cooperation.

The congestion at the Istanbul customs offices poses various difficulties for our industrialists. Because of this, we are very closely interested in the subject of having the Halkalı customs office moved to Çatalca as a solution to clearing up the backlogs at the harbors and customs stations. We find the Çatalca customs project very positive and we would like the project to be concluded as soon as possible.

Another major problem our industrialists are facing at the customs stations is the overtime fees that add to costs for our exporters.

The slow processing of approval procedures, the breakdowns in computer systems and other similar factors cause our industrialists to have to pay overtime fees. We believe that speeding up customs procedures and bringing down additional costs of overtime to a minimum will contribute to enhancing the competitive power of our industrialists.

Also, the practice of "Authorized Obligor," which has newly started, is a pleasing step in the right direction in resolving these issues. However, considering the arduous conditions surrounding this practice, it would be useful to introduce a "past performance " application as an alternative in an effort to prevent backlogs at the customs offices in the short term and facilitate the procedures of more companies. Establishing a trust-based system with companies may help to lessen the congestion.

Customs stations are the most important barriers in protecting our industry from the adverse effects of unfair competition with regard to goods entering the country from abroad. Inspections of substandard import products are necessary, particularly of goods entering the country from the Far East. At this point, we believe that the best solution would be to establish a more deterrent system in cooperation with the authorities concerned, particularly TSE, to control the entry of sensitive goods.

With the changes made in Customs Law, since 2010, customs consultants have been working on a minimum wage schedule. This practice, however, brings our companies importing intermediary and capital goods an additional financial burden and adversely affects their competitive power.

In an effort to protect the competitive power of our industry, we believe it would be best to abolish the practice of minimum wages and as before, allow wages to be determined under free market conditions.

The Law on Protecting the Consumer came into force in May 2014. The new law brings with it new regulations and sanctions which are more detailed in many fields compared to the previous legislation.

However, the extra obligations and costs it brings is a matter that has a direct influence on the competitive power of our industrialists and I would like to talk about this now.

To prevent the regulations from putting the market into deadlock or from standing in the way of trade, market surveillance auditing must be practiced effectively. If this is not done, the new Law will not protect the consumer but instead only serve to develop the unrecorded and unregistered economy."

### **Distinguished Minister and Members of the Board,**

The Istanbul Chamber of Industry continues to take a snapshot of Turkish industry and to pass this on for the information of the general public. Last month, we published our survey on "Turkey's 500 Largest Industrial Enterprises." Following this, yesterday we disclosed our survey on "Turkey's Second 500 Largest Industrial Enterprises."

As we do every year, we will share the results of our survey with you, our esteemed members of the board.

"Turkey's Second 500 Largest Industrial Enterprises" is a survey mirroring relatively smaller-scale enterprises and when we look at their 2013 results, we can say that Turkey's small and medium-sized enterprises, the companies that will be steering Turkey toward the future, performed very well with their openness to innovation, flexibility, and their capability of differentiating and adapting more quickly to change.

When we compare these results with those of the First 500 data that we disclosed last month, we can see that these companies are ahead, especially in developing technologies.

Again, when we look at their export figures, we can see that the performance of the Second 500 Large Companies is more successful than both Turkey's biggest and the First 500 Largest. These companies expanded their exports by 3.7 percent and it is particularly striking to note that they also raised their share in Turkey's total exports.

We are witness to the fact that these companies also exhibited superior performance in creating employment opportunities. Despite the adversities of the past year, it is important to register that employment figures in the Second 500 Largest Industrial Companies in the private sector increased by 6.4 percent.

This data indicates that the capital-holding actors in the infrastructure of the Turkish economy are strong. It must be said however that this capital is not being supported with the right financing model. In other words, we have the optimism, we have the courage, we have the entrepreneurship, we have the potential to make good use of opportunities... But when it comes to utilizing financial instruments effectively and creating alternatives for these companies, we fail the class.

We can see this very clearly and note that the financial ratios of the Second 500 Largest Industrial Enterprises have deteriorated as much as the First 500. How else can we explain the fact that while these companies have pulled their net sales up by 13 percent and pushed their operational

profits up 50 percent, more than half of their profit is lost in financing?

The main reason our companies are experiencing this is because the ratio of their debts to their assets exceeds 60 percent.

If Turkey is to move ahead with these companies into the future in terms of production, it is absolutely necessary to nurture our industry and our industrialists with the right financial instruments.

And our industrialists need to give up being conservative and use these globally valid instruments, seeking ways of utilizing borrowing instruments such as bonds, bills, public offerings, long-term financing, partnerships, risk management and hedging. Whereas when we look at our companies today, we can see that most of them customarily prefer to survive on bank-based borrowing.

It is sad that our industrial companies, so successful in their own fields, cannot show the same success in finding and utilizing financing resources. It is at this point that I must underline the importance of strengthening the finance departments of our companies and urge them to benefit from different financial consultancies.

Especially in the case of small and medium-sized companies, if these issues can be resolved, our economy will rapidly

reach the levels we have so long aspired to in many areas-- from employment to added value, from exports to technological transformation. And this will be one of the most important gains that we can contribute to the integrated development of Turkey.

All of this data tells us a great deal about the future of our industry. The most important is what it tells us about Turkey's need to increase the quality of its products and its competitive power if it aspires to becoming successful in a globalizing world of intense competition.

As I end my words here, I thank our honorable Minister and our distinguished guests once again and extend to all of you, on my own behalf and on behalf of our Board of Directors, my most cordial good wishes and respects.