

**RECENT IMPROVEMENTS  
IN THE INVESTMENT ENVIRONMENT  
AND  
INCENTIVES FOR INVESTORS  
IN TURKEY**

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## ABOUT YASED (International Investors Association of Turkey)

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- A voluntary, non-profit, independent **NGO**
- **Founded in 1980** by 14 MNCs in Turkey
- Around 400 representatives from **265 member companies** representing around 80 percent of FDI in Turkey

### **Mission:**

**To promote proactively an environment for foreign direct investment which matches the best global business practices ...**

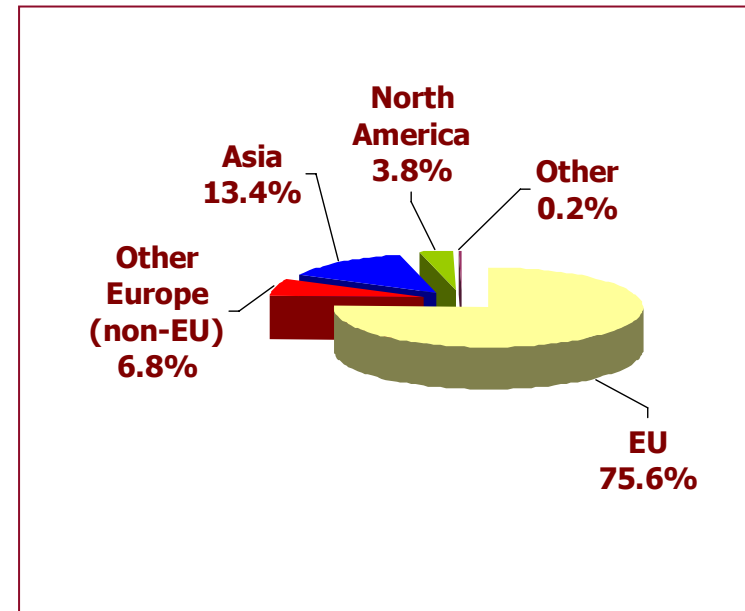
- ✓ To support all structural reforms which help to improve the investment environment
- ✓ To improve the image of FDI in Turkey among all the stakeholders
- ✓ To foster better communication with the members
- ✓ To actively promote Turkey's negotiation process with the EU for the realization of its full membership
- ✓ To be committed in improving the ethical values and corporate governance principles

# FDI INFLOWS TO TURKEY

## FDI Inflow to Turkey

(Million USD)	FDI Inflow*	Number of New Firms
<b>1990s (avg.)</b>	772	-
<b>2000</b>	982	447
<b>2001</b>	3,352	477
<b>2002</b>	1,137	495
<b>2003</b>	1,752	1,105
<b>2004</b>	2,883	2,095
<b>2005</b>	9,813	2,845
<b>2006</b>	20,168	3,350
<b>Jan-Feb 2007</b>	7,252	**216
<b>Cumulative / Stock Data</b>	63,484	15,171

## Breakdown of FDI Inflow by Regions, 2002-2006



\*Including real estate, \*\*January

Source: Undersecretariat of Turkish Treasury, Central Bank of Turkey, UNCTAD World Investment Report 2006

# SECTORAL BREAKDOWN OF FDI INFLOWS TO TURKEY

Sectors (Million USD)	2002	2003	2004	2005	2006	2002- 2006	% Share in cumulative inflows
Agriculture, forestry, fishing	--	1	6	5	6	18	0.1
<b>Industry</b>	<b>180</b>	<b>548</b>	<b>358</b>	<b>832</b>	<b>1,757</b>	<b>3,675</b>	<b>12.7</b>
Mining and quarrying	2	14	75	40	125	256	0.9
Manufacturing	110	448	214	788	1,520	3,080	10.6
<i>Chemicals</i>	9	9	39	174	600	831	2.9
<i>Food, beverages, tobacco</i>	14	249	78	68	252	661	2.3
<i>Basic metals and products</i>	25	1	8	139	161	334	1.2
Electricity, gas and water supply	68	86	69	4	112	339	1.2
<b>Services</b>	<b>442</b>	<b>196</b>	<b>927</b>	<b>7,697</b>	<b>16,054</b>	<b>25,316</b>	<b>87.3</b>
Financial sector	260	51	69	4,016	7,002	11,398	39.8
Transport, warehousing and telecommunications	1	2	639	3,285	6,303	10,230	35.7
Wholesale and retail trade	89	92	103	68	1,496	1,848	6.5
<b>Total</b>	<b>612</b>	<b>745</b>	<b>1,291</b>	<b>8,546</b>	<b>17,446</b>	<b>28,650</b>	<b>100.0</b>

Source: Central Bank of Turkey

# MAJOR MERGERS & ACQUISITIONS IN TURKEY - 2006

## Top 10 M&A in Turkey (2006)

	TARGET COMPANY	SELLER	BUYER	BUYER COUNTRY	PRICE (Million \$)
1	AKBANK	Sabancı Holding	Citibank	USA	3,100
2	FINANSBANK	Fiba Group	National Bank of Greece	Greece	2,760
3	DENIZBANK	Zorlu Holding	Dexia Bank	Belgium	2,440
4	PETROL OFISI	Dogan Holding	OMV Aktiengesellschaft	Austria	1,054
5	MEY ALCOHOLIC BEVERAGES	Nurol-Limak-Ozaltin-Tutsab Consortium	Texas Pacific Group	USA	810
6	YIBITAS LAFARGE	Yibitas Holding	Portugal SGPS SA	Portugal	703
7	TURKCELL	Cukurova Holding	JP Morgan	USA	590
8	AVEA	Telecom Italia	Turk Telekom	Turkey	500
9	DOGAN TV	Dogan Yayin Holding	Axel Springer A.G.	Germany	480
10	CEVAHIR SHOPPING CENTER	Cevahir Shopping Center	St. Martin's Property	UK	421

Source: ISI Deal Watch

**Total Value of Deals in 2006: 19.2 billion \$**  
**(17.3 billion \$ international capital)**

# MAJOR MERGERS & ACQUISITIONS IN TURKEY - 2005

## Top 10 M&A in Turkey (2005)

	TARGET COMPANY	SELLER	BUYER	BUYER COUNTRY	PRICE (Million \$)
1	TURK TELEKOM*	Privatization Administration	Oger Telecom	Saudi Arabia	6,550
2	TELSIM*	Saving Deposit and Insurance Fund (SDIF)	Vodafone	UK	4,550
3	TUPRAS*	Privatization Administration	Koc Holding	Turkey	4,140
4	TURKCELL	Cukurova Holding	Alfa Group	Russian Fed.	3,300
5	ISTANBUL ATATURK AIRPORT*	State Airports Authority	TAV	Turkey	3,000
6	ERDEMIR* (Iron&Steel)	Privatization Administration	OYAK Group	Turkey	2,770
7	GARANTI BANK	Dogus Holding	General Electric Consumer Finance	France	1,556
8	YAPI KREDI BANK	Cukurova Holding	Koc Financial Services	Turkey	1,495
9	ERDEMIR (Iron&Steel)	Oyak Group	Arcelor	Luxemburg	1,210
10	DIS TICARET BANK	Dogan Holding	Fortis	Belgium	1,051

\* Privatizations

Source: ISI Deal Watch

**Total Value of Deals in 2005: 40.3 billion \$**  
**(23 billion \$ international capital)**

# SOME MULTINATIONAL CORPORATIONS IN TURKEY

3M	BRISTOL MYERS SQUIBB	FOSTER WHEELER	LEVI'S	PHILLIP MORRIS
ABB	CARGILL	FOUR SEASONS	L'OREAL	PHILIPS
ABN AMRO	CARREFOUR	FRITO LAY	LG	PIRELLI
AC NIELSEN ZET	CHEVRON	GENERAL ELECTRIC	LILLY	PROCTER&GAMBLE
ACCENTURE	CISCO SYSTEMS	GENERAL MOTORS	LOCKHEED-MARTIN	RENAULT
ACCOR	CITIBANK	GILETTE	MAN	REUTERS
ALCATEL	CLARIANT	GLAXOSMITHKLINE	MCDONALD'S	ROCHE
ALLIANZ	CNN	GOODYEAR	MCKINSEY	SCHERING PLOUGH
AMERICAN EXPRESS	COATS	HENKEL	MERCK SHARP DOHME	SERVIER
ARCELOR	COCA COLA	HEWLETT PACKARD	MERLONI	SHELL
ASTRAZENECA	COLGATE PALMOLIVE	HONDA	METRO AG	SIEMENS
AVENTIS PHARMA	CROWN CORK	HUGO BOSS	MICROSOFT	SOCIETE GENERALE
AVON	DAIMLER CHRYSLER	HYUNDAI	MITSUBISHI	SODEXHO
AVIVA	DANONE	IBM	MOBIL OIL	SONY
AXA	DEUTSCHE BANK	IMPERIAL TOBACCO	NESTLE	TETRA PAK
BANCA DI ROMA	DHL	INTERGEN	NIKE	THAMES WATER
BARCELO	DOW CHEMICALS	ITOCHU CORP.	NORTEL NETWORKS	TNT
BARCLAYS BANK	DUPONT	JOHNSON&JOHNSON	NOVARTIS	TOTAL
BASF	ELECTROLUX	JP MORGAN CHASE	ORACLE	TOYOTA
BAT	ERICSSON	JTI	PARS MCCANN	UNILEVER
BOSCH	FERROLI	KIMBERLY CLARK	PEPSI COLA	VODAFONE
BP	FIAT	KRAFT JACOBS	PERFETTI	VOLKSWAGEN
BRIDGESTONE	FORD	LAFARGE	PFIZER	XEROX

# SOME OF SWISS COMPANIES IN TURKEY

## Food & Tobacco



(1875)



## Pharmaceuticals & Chemicals



## Other sectors



# IMPROVEMENTS IN THE INVESTMENT ENVIRONMENT

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- ✓ **New Petroleum Law (January 2007)**
- ✓ **New Communiqué on Investment Incentives (December 2006)**
- ✓ **Liberalization Programme in the Energy Sector (August 2006)**
- ✓ **Tax System Reform (June 2006)**  
Corporate tax rate decreased from 30% to 20% as of 2006; also a set of measures to simplify tax structure and to increase efficiency was introduced.
- ✓ **Investment Support and Promotion Agency of Turkey (June 2006)**
- ✓ **Law on Real Estate Acquisition of Foreigners In Turkey (2006)**
- ✓ **Regional Development Agencies (July 2005)**
- ✓ **Improvements in the Protection of Intellectual Property Rights (2005)**  
Consensus reached between local and foreign pharmaceutical companies alongside the efforts of the Government on Data Protection with the contribution of YASED since long years
- ✓ **Inflation Accounting (2004)**
- ✓ **New Law on FDI (June 2003)**

# STRUCTURAL REFORMS

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## ❖ **Public Sector**

- Public Procurement Law
- Rationalizations in financial management, employment, budget and investment in the public sector
- Code of Ethical Conduct for Civil Servants
- Law on Freedom of Information for Citizens

## ❖ **Financial Sector**

- Regulation and Supervision in line with EU standards
- Strengthening Private Banks (Capital Adequacy Ratio Improvement)
- State Bank Reform
- Resolution of Non-Viable Banks

## ❖ **Social Security System**

- Social Security Administrative Reform Law (passed in April 2006)
- Pension and Universal Health Insurance Reform Law (passed in April 2006)

# STRUCTURAL REFORMS (cont'd)

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## ❖ **Tax System**

- Corporate Tax Law (enacted in June 2006)
- Personal Income Tax Law (amendments on rates – enacted in April 2006)
- Establishment of Large-Taxpayers Unit
- Establishment of Tax Policy Unit (enacted in February 2006)

## ❖ **Enhanced Role for Private Sector**

- Deregulation in Key Markets (Energy, Telecommunications, Tobacco, Sugar)
- Accelerated Privatization
- Improvements in the Investment Environment

## ❖ **Institutional Reform**

- Investment Support and Promotion Agency of Turkey (ISPAT)
- Regional Development Agencies

# GENERAL INVESTMENT INCENTIVE SCHEME

## ❖ **Exemption from Customs Duties**

- Imports of machinery and equipment for investment are exempt from customs duties
- No customs duties on industrial goods imported from the EU Countries (Customs Union)

## ❖ **Exemption from Value Added Tax**

- Imported and locally purchased machinery and equipment for investments are exempt from VAT

## ❖ **Support for Interest Expenditure of Investment Credits**

- For investments in low-income regions, investments by SMEs, R&D and environmental investments (with an investment amount between 200,000 and 2 million New TL for SMEs and a minimum 1 million New TL for other investments)
- 5% of interest expenditures for New TL credits, 2% for FX credits
- In the first four years' payments of the credit and upto a total amount of
  - o 300,000 New TL (~220,000 USD) for R&D and environmental investments
  - o 200,000 New TL (~140,000 USD) for SMEs
  - o 1 million New TL (~700,000 USD) for investments in low-income regions

# INVESTMENT INCENTIVES IN LOW INCOME REGIONS

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- ❖ In 49 provinces with a GDP per capita less than 1500 USD
- ❖ For investors generating a minimum of 30 jobs
- ❖ **Exemption from withholding tax on wages paid by employers**
  - 80-100% depending on location of investment
- ❖ **Exemption from social security premiums of employees**
  - 80-100% depending on location of investment
- ❖ **Exemption from energy expenditures**
  - 20-50% depending on employment (at least 10-30 employees depending on location of investment)
- ❖ **Free Land Allocation**
  - 20-50% depending on employment (at least 10-30 employees depending on location of investment)

# SPECIAL ZONES

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## ❖ **Organized Industrial Zones (OIZ)**

- 100 OIZs providing free land with infrastructure facilities upto 20,881 ha.
- 94 new OIZs are under construction to provide 20,195 ha of land for investments until 2009.

## ❖ **Industrial Zones**

- Land provision for large scale and technology-intensive investments
- All necessary applications/ transactions are completed within three months.
- Areas deemed appropriate by the Ministry of Industry and Trade can be allocated as IZs by the Council of Ministers upon the application of domestic and/or foreign investors for a high-tech individual investment project –at least 75 million New TL and 150,000 m<sup>2</sup>.
- The Council of Ministers has the authority to decide on the type of incentives applicable for investments in IZs under the Investment Incentive Decree.

# LOW INCOME PROVINCES AND OIZs PROVIDING FREE LAND



49 low-income provinces where tax, insurance premium and energy support is provided along with free land



Provinces where free land is provided in Organized Industrial Zones

# R&D INCENTIVES

- ❖ **TÜBİTAK Grants** upto 60% of the value of R&D projects of industrial establishments for a period of 3 years.
- ❖ **Technoparks / Technology Development Zones**
  - Income and corporate tax exemption until end of 2013.
  - VAT exemption for deliveries of application software for system management, for data management, for business applications, for different business sectors, for the internet, mobile phones and military command control produced exclusively in the zones until end of 2013.
  - Salaries paid to researchers, software, and R&D personnel employed in the zones for their research, software, and R&D work will be exempt from all taxes until end of 2013.
- ❖ **Outside technoparks, it is possible to deduct 40% of R&D expenditures from income/profits.**
- ❖ **Draft for expanding income tax exemptions to R&D personnel employed outside technoparks is on the way.**
- ❖ **There is 2-5 basis point of government support for interest expenditures in R&D investments.**

# INVESTMENT ADVISORY COUNCIL (IAC)

- ✓ A high-level private-sector driven platform to advise the Prime Minister and his cabinet on measures to improve the flow of investment into the country.
- ✓ The aim of IAC is to bring together the expertise and experience of top business leaders of major international companies.
- ✓ IAC convened on June 28-29, 2006 for the 3rd time and will convene on June 11, 2007 for the 4th time.
- ✓ YASED is a natural member of IAC (along with TOBB, TUSIAD and TIM)
- ✓ As YASED, we contributed to IAC on the following headings
  - Prevention of unrecorded economy
  - Reducing indirect taxation
  - Putting into effect the "Legal Reform"
  - Decreasing burdensome obligations upon investors

Alshaya  
American Int. Group  
Arcelor  
BNP Paribas  
Cisco Systems  
Citigroup  
Corus Group  
Daimler Chrysler AG  
Eldorado Gold Corp.  
Fiat  
Ford  
Groupe Danone  
Hyundai  
Indesit  
Iscar  
Lafarge  
Metro AG  
Mitsui  
Nestle  
Newmont  
Nortel  
Nunza  
Pirelli SpA  
Rio Tinto  
Siemens  
Telecom Italia SpA  
Toyota  
Unicredit  
Unilever

# INVESTOR CONFIDENCE ON THE RISE

## □ UNCTAD World Investment Report - FDI Inflow Ranking

2003 → 52nd (1.8 billion USD)

2004 → 37th (2.8 billion USD)

2005 → 22nd (9.7 billion USD)

2006 → Turkey will probably be **among the first 10 countries** with an FDI inflow of 20 billion USD

□ In **A.T. Kearney's FDI Confidence Index** 2005, Turkey has moved up from 29th place to **13rd** place among the top countries investors have confidence in.

□ According to the 10th Annual **Global CEO Research** prepared by Pricewaterhouse Coopers, CEOs think that the E7 countries including Turkey has the greatest financial opportunities.

BRIC (Brazil, Russia, India, China) + Indonesia, Mexico, Turkey  
→ E7 (Emerging Seven)

*Thank You ...*

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**International Investors Association of Turkey**

**[www.yased.org.tr](http://www.yased.org.tr)**

