Special Advertising Supplement

TURKEY

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Point of no Return

The transformation of Turkey in the past 4 years, driven by EU accession ambitions and an IMF-backed reform program, has brought tangible improvements and a shift in mind-set throughout the whole country. More than ever, Turks realize that they have reached a point of no return on the road to becoming a modern nation.

A Shared Responsibility

The cover of our last report on Turkey, published shortly after the official opening of accession talks with the EU in October 2005, featured what we believed to be the three foundations that underpinned the country's recent success and that had made Turkey's historic achievement possible: Democracy, Stability and Growth. In recent months, alarm bells have been ringing over the sustainability of current economic growth and questions are being asked about the direction of foreign policy. In response, this report will examine to what extent those three foundation principles still hold true, what the key elements to the continued success that they have facilitated are, and what is at stake should they falter.

Foremost, it is essential to understand that all three elements are fundamentally interdependent and that Turkey is not alone in its power of influence over them. The first, democracy, in itself is in no doubt. Turkey's democratic traditions are entrenched and have evolved over generations. The real issue from the West's point of view is that Turkey should exercise this tradition appropriately, that is to say to keep progressive, free-trade oriented government at the helm. As Turkey is entering a general election phase, the fear is that a feeling of betrayal by the EU could give rise to political instability. If the economy falters and fails to create the new jobs that Turkey's young and growing population needs, there are concerns that it could spark a nationalist revival. In a recent speech, Prime Minister Erdogan warned his ruling AK Party members that in the next elections 4 million young people will vote for the first time. Current trends indicate that as many as 17% of them will vote for the right-wing and very nationalistic Nationalist Movement Party (MHP).

Concerns that the economy, which has out-performed almost all others in the region over the past three years, may be losing its shine are real. High public debt and a ballooning current account deficit are weighing on policy makers' minds, though the reduction in the corporate tax rate from 30% to 20% should prove a stimulus to increased foreign direct investment (FDI). Higher interest rates in the USA and rising rates in the Euro zone mean that global liqui-dity is shifting away from emerging markets, leaving Turkey vulnerable to sharp reductions in foreign inflows. Although much of this was foreseeable one year ago, solutions are less forthcoming. Certain sectors of the economy, most notably in banking, have seen a rise in confidence and international investment recently. The government clearly hopes that this will continue to drive growth and pick up the slack from other sectors, such as tourism, which appear to have temporarily cooled.

To keep the economy on track the country's hard-won stability must continue. To a large extent this requires the continued confidence of the international investment community in the government's capacity to maintain a favorable macroeconomic climate and keep Turkey "out of trouble." Yet recently, the government has invited controversy over its decision to reduce VAT for the textiles industry, leading to criticism from the IMF and castigation from the markets. In the light of these events, Prime Minister Recep Erdogan's decision to nominate Adnan Buyukdeniz, a former head of an Islamic bank and an outspoken critic of the IMF, to the post of Governor of the Central Bank dumbfounded even his supporters and provided easy fuel to the popular belief that his credentials as a secular leader are but a veneer. A certain lack of propriety at home would be more forgivable if not for the perception of growing divergence from allied foreign policy objectives. Undesirable Arab and African leaders have been courted to the chagrin of the USA, the EU and Israel, while Turkey's policies on Iran, Iraq and Syria are taken as indications of Ankara's increasing independence.

Amongst the opponents of Turkish EU membership and of the ruling AK Party these events are cited as the country revealing its true colors and an almost audible murmur of "see, I told you so" prevails. But more objective minds should beware of inducing self-fulfilling prophecies. Who could really blame Turkey's pursuit of its own objectives if the much prized golden carrot of full EU membership is increasingly perceived as elusive as the proverbial gold that lies at the end of the rainbow? Indeed, disillusionment with the EU project which, along with the IMF-backed reform measures, has been the bedrock of success, and reform will only further encourage misguided populist policies. In this regard, Europe is neither powerless nor innocent. It is in the delicate politics of persuasion and reward that the EU can play a vital role in influencing Turkey's future.

While to the EU the Cyprus issue remains unresolved and presents the greatest official stumbling block to progress, many Turks believe that it is being used to derail Turkey's accession efforts. Despite the complexity of the situation, a compromise must be found. If it is not, the EU will have missed a historic opportunity to exercise the "soft power" of which Brussels is so proud. In short, Europe needs to look at what it has to gain from Turkish membership and not just fear what it thinks it may lose. It is telling that it is the countries within the EU that have responded the least well to the challenges of the evolving global economy (Germany, France and the Netherlands) that demonstrate the most reluctance towards Turkish entry, while the more confident (the UK, Spain and Scandinavia) are the most willing to embrace the opportunities that accession presents. Resistance to Turkish entry should be seen as symptomatic of the malaise at the heart of the continent, a clear indication of the lack of confidence and leadership from the architects of Europe's grand plan. If the current trend

continues and Turkey is forced to contemplate the status of "privileged membership," the favorite catchphrase of anti-Turkey circles within the EU, relations will further deteriorate and the Turks will naturally start to reappraise whether EU integration should be their primary national policy. This would be a grave mistake.

Yet despite a few political gaffs by the government, the private sector continues to inspire. Germany, at the heart of Euro-skepticism, illustrates a case in point. Politically, Chancellor Merkel has been a vocal opponent of Ankara's EU membership, while, Germany remains Turkey's most important economic and commercial partner within the EU. There are nearly 1,100 German companies operating in Turkey today, and over 3 million German tourists visit Turkey each year. In short, business between the two countries is booming. To those familiar with the Turkish private sector this comes as no surprise. Its corporations are amongst the most dynamic in Europe and are increasingly exercising their influence throughout the region.

Ultimately, concerns about Turkish integration focus on how “different” Turkey is to Europe. If this were the first time that the EU considered extending its boarders, cautions would be more understandable, but valuable lessons can be drawn from the integration into the EU of other Mediterranean countries such as Spain. Once considered an economic backwater, Spain has consistently outperformed most of its northern neighbors for years now. Those who would cite the inherent compatibility and shared cultural values of “Christian” European countries would do well to remember how alien flamboyant, Catholic Spain, with its superstitions, festivals of fire and bull fighting, must have seemed 40 years ago to northern Protestant visitors.

Outside of the grey corridors of Brussels, it is commonly held that the emergence of budget air fares across the continent has done more for European integration and sense of common identity than 40 years of policy engineering. Easyjet, one of the pioneers of European low-cost air travel which now boasts flights to Spain from all over Europe, recently opened a route from London to Istanbul. Given Turkey’s warm Mediterranean welcome, good food and sense of fun, perhaps things don’t look so bad after all.

The Architects of

Often more popular and representative of both how a country sees itself and the potential it holds, the private sector and its leading characters – free from the constraints of party politics and the necessity of appeasing popular tastes – provide some much needed leadership in development. With a long entrepreneurial tradition of its own, Turkey has its own class of established entrepreneurial families and some newcomers that symbolize the dynamism and drive of the

MUSTAFA KOC

The Leader ✓

As head of the country's number one conglomerate, Mustafa Koc wields unparalleled influence in Turkey. The Koc Group, founded by his grandfather during the earliest days of modern Turkey, is a major force in automotive, durable goods, food, retailing, energy, financial services, tourism, construction and IT industries and embodies the dynamism and creativity of the country's private sector.

When asked to describe the Turkish people in one word, Koc replies "courage", explaining that for him the modern equivalent of "courage" is "entrepreneurialism." As he elaborates on his Holding's activities which it is clear that they are words he lives by. His first comment sets the tone, "The purchase of [57.4%] of Yapi Kredi Bank stock was a move dictated by our strategic vision of becoming the leader in the sectors we take part in." Mustafa Koc, you quickly come to realize, means business.

He also knows what it means to be a leader. A good example is Migros, Koc Group's chain of retail stores; it is the largest and most profitable in Turkey with a market share of 19-20%. The company's recent merger with Tansas, a rival supermarket chain, will extend the company's presence around the Marmara, Aegean and Mediterranean regions. Migros has also expanded abroad through its 50/50 joint venture with Enka, another Turkish company. Together they have created the brand "Ramstores" which operate in Russia, Azerbaijan, Kazakhstan, and Bulgaria. Koc sees more room for growth: "Our goal in 2006 is to open a total of 31 stores and 7 shopping centers abroad, to add Ukraine to our country portfolio, and to push our foreign turnover past the $900 million mark."

The same driving ambition was behind the $4.14 billion purchase of TÜPRAS under the Koc Holding-Aygaz-Opet-Shell partnership. The only oil refining company in Turkey and the seventh largest in Europe, TÜPRAS is one of Turkey's most important economic assets, meeting 70% of the country's petroleum products consumption needs. Koc calmly outlines what he plans for the company, "Our goal is to turn TÜPRAS into one of the most effective and powerful companies in the Mediterranean region." Only a brave man would doubt him.

CHANGE

Turkish private sector. In our previous report, we suggested that Turkish industry benefited greatly from its rich and multicultural environment to succeed in a new era of globalization. Similarly, we now propose that it is precisely the leaders of the county's best companies who are inspiring much of the transformation happening across the whole society today in Turkey. Peninsula Press met with some of the most influential.

GULER SABANCI

The Catalyst ✓

As the eldest child with six younger brothers, the need for flexibility was ingrained in Guler Sabanci from a young age. It served her well. As the Chairperson and Managing Director of Sabanci Holding, she is truly a captain of Turkish industry. When pressed about her role as the highest placed female executive in the country, she responds frankly that she looks at gender as a "strength rather than a weakness" and is nothing more than "part of the diversity and difference that must be managed." With Sabanci's business interests spanning 64 companies and embracing 9 joint ventures, diversity is something Guler Sabanci understands all too well.

First impressions give a good insight into Sabanci's success. In conversation, far from conforming to the modern myth of a hard woman in a man's world, Sabanci is charming and articulate, though her sense of confidence and conviction underpin her every statement. She describes her management philosophy as that of a "change driver" and expands at length on change as a power for good. She holds those same beliefs with regards to Turkey's evolution, "One has to accept change, globalization is about change, you cannot stop it, you cannot prevent it. Accept it and work with it. This is what Turkey is doing. It is difficult, but we are doing it." She also recognizes the challenge that the natural resistance to change presents to Turkey's progress in its EU accession process. "People criticize Europe for not changing, but the future of Europe is about change. Europe is aging and a fear of change is an element of aging. There is a solution for Europe. Turkey with its young population is a solution for Europe."

Her professional experience provides insight into the issues facing the country at large, "We have moved from being a developing market to being an emerging market. That in itself is a great achievement. But Turkey has missed many opportunities to become a brand and to have an attractive image. The last decade was wasted due to instability in the country."

She has a clear idea of where the country's future lies, "Turkey

will be a manufacturing base in Europe but also differentiating itself by adding more value – not trying to compete with China on price." A keen traveler, she highlights the importance of tourism in Turkey's future.

Like her peers, Guler Sabanci emphasizes the importance of education in Turkey's future and actively supports it through the family's Sabanci Foundation, which has invested over US$1 billion to date creating Sabanci University, while carrying out other initiatives across the country. "To be a success you must make a difference" she says. It is not just about the money." Sabanci Holding recently hosted a Picasso exhibition in Istanbul, allowing over 250 thousand people to experience the masters works. That they chose Picasso, himself pioneer who continually changed his style, seems especially fitting.

ETHEM SANCAK

The Believer ✓

The story of Ethem Sancak is fast becoming business folk law in Turkey. In 2001 his company, Hedef, entered into partnership with the UK-based Alliance UniChem Plc. At the time Alliance UniChem was a regional European company with ambitions for growth. As Sancak puts it, "We were the leaders of our own market." The fit seemed perfect, but there were concerns "they were entering into a new market, and rightfully had doubts and worries. It was not a transparent market, and we had some weaknesses regarding accounting standards at that time." Their concerns were well-founded. Alliance UniChem bought 25% of Hedef`s shares from Sancak only to see 50% of the value of their investment wiped out shortly afterwards when Turkey's financial crisis hit.

Understandably, Alliance UniChem was extremely concerned. "They had an option to buy the second 25% of the shares, but they were unimpressed with the terms of the deal as the value of what they purchased had declined by half." Undeterred, Sancak invited his partners to come to Turkey and offered to give them back the full amount they paid saying that he fully believed in his company and his country. Alliance UniChem, won over by his conviction, bought the remaining 25% of the shares then and there." It could be a cautionary tale about imprudent investing in volatile markets. Happily, it is not. Hedef Alliance is now a 50/50 joint venture with $3 billion in revenues and operating in 14 different countries including Egypt, Algeria, Romania, Saudi Arabia and Russia. Sancak sees a broader lesson in the tale, "The relationship [between Hedef and Alliance UniChem] enables the operation to be effective, cheap and rational. This small and simple example illustrates what Europe and Turkey can contribute to each other when they unite." He is already looking at moving in to new markets from the Cairo operations: Tanzania, Libya, Sudan, and also into Eastern Europe.

As Sancak expands on his philosophy, it becomes clear that he possesses a strong sense of historic perspective. "For 700 years the Ottoman Empire ruled the world of antiquity. But what was world trade then? The raw material flow from the East to the West, the Venetian trade route, the route of Marco Polo, was known as the Silk Road. These caravans of the Silk Road were from Anatolia [in Turkey] due to the strategic importance of its location. Now, capitalism is again trying to regain the Asian markets. The process this time does not involve the transfer of raw materials from Asia to Europe, but the transfer of finished products from the West to Asian markets. In other words, a new Silk Road is being established." And again, Turks like Ethem Sancak are the merchants of this new trade route.

CEM BOYNER The Visionary ✓

Cem Boyner is accustomed to looking at life from different perspectives. In conversation, he peppers his anecdotes with colorful references to comic books, hunting tales and graphic visual images. It comes as no surprise to discover that he is an accomplished professional photographer. You would believe him equally if he told you he was an astronaut or rodeo star. Yet it was to his family business that he turned his inspiration and energy to transform Boyner Holding into a textile empire.

When he joined the company Boyner activities were 80% manufacturing and 20% retailing. Today it's about 90% retailing and 10% manufacturing. He is quick to point out that manufacturing has not decreased in absolute value, but that the retail businesses developed much faster. He explains how he sees the industry's evolution, "Ten years ago it was like the big fish east small fish, now it is the fast fish eats the slow fish and Turkey is extremely fast."

Boyner rejects the idea of Turkey becoming the sweat shop of Europe. "We are going to make a difference by our speed and accuracy and creativity, definitely not by price. Our price advantages are soon to be over. Our competitive advantages relative to cost are not to stay forever."

Cem Boyner also once entered into politics, trying to bring some of his flare and vision to the archaic national institutions, but, as with many visionaries, he was too far ahead his time for popular support. Many of his policies, however, have since been adopted by the mainstream.

He still has strong opinions about the direction the country should take, highlighting the importance of building a "brand" for Turkey that symbolizes the country's dynamism. He knows that this is a huge task and has no illusions about current perceptions. "It took a while for coffee to become Colombia's best known export," he commented wryly. He sees ample synergy for Turkish integration into Europe, "Europe is tired, but we are dynamic, we are fun, we are forward-looking."

It is this belief in the youth and creativity of his country inspires Boyner himself. "We hosted an international bank's board for lunch recently," he explains with enthusiasm, "The CFO told me afterward that when they go to other countries the discussion is all about 'How are we going to preserve the status quo?' It's about protection and it's about dullness. Here you talk about 'How are we going to compete against China? How we enter the Egyptian market? How will we do something fresh?' It is about changing, building something, breaking it down, and building it up again. In Turkey this is happening everywhere and it really excites me." His enthusiasm is contagious.

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The Great Opportunity

The participation of Turkey in EU foreign policy objectives provides a unique opportunity for the Union to achieve greater influence on its eastern flank – and brings it closer to realizing its goal of becoming a credible and united global political force.

If the European Union seeks to act as a united political force on the international stage, it is an aim that has so far struggled to become a reality. The divisions amongst EU member states over the Iraq issue showed the fundamental limitations of realizing a united EU foreign policy. Even when consensus is reached, the continent's inability to resolve situations such as that in the ex-Yugoslavia, without assistance from the USA, demonstrates the military and political impotence of the EU as a single entity. This context raises the debate on the effect that Turkish integration could have on the EU's ability to exercise an effective single foreign policy.

ABDULLAH GUL
Minister of Foreign Affairs

While the small new EU nations effectively might only rubber stamp stated foreign policy objectives proposed by Brussels, there is a fear that Turkey, which is set to have the largest population in the EU and already possesses significant military clout and real influence in the region, could limit the Union's ability to achieve consensus. Ankara insists that while, due to its unique historical and geographical context, its approach to dealing with different foreign policy issues may sometimes differ from that of Washington or Brussels, its broader aims - to uphold freedom and democracy - are fully aligned. As Foreign Affairs Minister Abdullah Gul puts it, "We are definitely two different countries and we may have very different approaches to developments from time to time. But we are able to convey our message to each other and overcome any possible problems." Criticisms of Turkey's pursuit of independent foreign policy aims, notably in dealing with Iran, Iraq and Syria, must be viewed through this geopolitical context: no one would doubt that the country is in a tough neighborhood. As a NATO stalwart that stood solidly between the USSR and the Middle East during the Cold War for 50 years, Turkey, and particularly its powerful generals, feel they have more than proved their credentials. In fretting over potential problems in policy formulation, it is vital not to overlook the enormous contribution that Turkey could contribute to EU influence, most predominantly in three key areas: the Balkans, Central Asia and the Middle East.

In the first case, the EU and Turkey both consider the Balkans a priority policy area. Greater cooperation in that region could strengthen the interests of both sides and help galvanize stability. In parts of the former USSR, most notably in the Central Asian Turkic republics, EU policy remains unclear and a low priority. Since the collapse of the Soviet Union, no power in the Caspian or Eurasian region has emerged as decisively predominant. Historical and cultural links with this region mean that the promotion of a "Turkish Model" coupled with leadership from Ankara would have a far greater chance of success of acceptance than any other model available. Furthermore, in the volatile Caucasus, energy supply issues mean that Turkish influence, aligned with EU objectives, could prove invaluable for maintaining European energy security. Finally, Turkey maintains a special historic relationship with the Middle East and Arab world and understands its motives and aspirations. As a Muslim country, Turkey's participation in foreign policy directives would give considerable credibility to the EU's claims to be a union of values and not a religious club, and raise its moral standing, and effectiveness, in the region. Abdullah Gul is in no doubt about the contribution his country could make "Together with Turkey, the EU will be a very important player in the world. A Muslim country is fulfilling European cultural criterion. This is very meaningful. This means that democracy and Islam can go together." It is a message that cannot be repeated too many times.

Money talks

A flurry of acquisitions in the Turkish banking sector reveals a quantum shift in the health of the country's financial institutions and heralds a new era of international participation.

If Turkey would wish to be judged by the progress of one single sector of the economy, there is a good chance it would be banking. The regulatory and fiscal reforms introduced in the wake of the financial crisis that engulfed the country five years ago saw state-owned banks restructured, asset ratios for banks in the commercial sector improved, risk management practices strictly exercised and the autonomous financial bodies – such as the Central Bank, the independent bank authority BRSA and other regulatory authorities – either established or strengthened. Since then, the government has continued its commitment to reducing the number of state-owned banks in the sector, currently at 30%. These stabilizing measures have ushered in a wave of activity in the sector and awoken the interest of many international banks.

The rationale is fairly straight forward: with a young population and a relatively underdeveloped financial services sector, the growth potential is excellent and banks and other institutions are rushing to seize a piece of the pie. Italian concern Unicredito's decision together with its Turkish partner Koc Bank to buy 57.4% of Yapi Kredi Bank was a response to the need for critical mass in the sector, explains Mustafa Koc, the CEO of Koc Group. "Although the results we achieved in the field of banking, especially in the aftermath of the Unicredito partnership, were successful, we were far from being a leader when judged in terms of magnitude." As a well-established and large institution with valuable brand recognition amongst Turkish consumers, Yapi Kredi Bank was a prized acquisition. Other big name players include General Electric's purchase of 25% of Garanti Bank, the country's third-largest publicly traded bank for $1.8 billion in 2005. This came hot on the heels of Belgian Fortis Bank completing a $1m purchase of Dis Ticaret Bankasi (Disbank) and BNP Paribas's 50% take-over of Turk Ekonomi Bankasi (TEB) for $216 million. In a prelude of further activity, Rabobank of the Netherlands has signaled its interest in acquiring a majority share in Sekerbank. Guler Sabanci, head of Sabanci Group, which owns market leader Akbank, expresses the sentiments of the whole sector well "We enjoy the activity. Every time there is a new sale the unit value goes up. The value of the banking sector goes up. This is great." Akbank has retained UBS to handle participation and acquisition enquiries. By all accounts, there is quite a queue.

But the most remarkable and inspiring acquisition of all was the deal reached in April of this year when the National Bank of Greece acquired 46% of Finansbank for 2.3 billion euros ($2.78 billion). That business commonsense can overcome the complicated and often fractious relationship between Greece and Turkey should reassure global investors. It is held that business and commerce have made a significant contribution to improving Greek-Turkish relations. The move should encourage more foreign direct investment (FDI) across all sectors and should help to further stabilize the economy and entrench reform.

Further activity in the sector is likely. Despite jitters in the economy, growth rates of 7% in 2005 still promise attractive returns. Ersin Ozince, CEO of Isbank, says "like many of its peers [Isbank] grew by five times in the last four/five years." As the sector matures further consolidation is inevitable, Ozince adds "when the market comes to a saturation point, I believe that mergers will naturally follow." In the medium term, though, Turkey's young and urbanizing population will be avid consumers of financial and credit services.

CEO of Deniz Bank, Hakan Ates sees the activity prevailing in Turkey's banking sector as a reflection of broader changes "We [Turkey] are living through a transition nowadays, but the world is also changing; there is a paradigm shift in the global economy. So banks, including ours, are looking for strategic partnerships to comply with the necessities of the globalized world"

Although Turkish banks have been getting more expensive Ates remains up-beat about continued foreign interest, "If we compare with the banking sector in Eastern Europe Turkey is still cheap. Their NPL ratios are pretty high and their provisioning is much less than ours [60-70%]. There is still is a way to go in Turkey. That explains the foreign appetite for the sector."

"Taking into account mergers and acquisitions around the world, we can see that size does matter in this business," he adds with a smile. Turkish banks are set to get bigger and better in the coming years. That is, if the money continues to do the talking.

Steady at the Top

Fortis's acquisition of Disbank in 2005 reflects not only its own ambitious expansion plans, but also the increased foreign interest in the Turkish banking sector. Former head of Disbank and current CEO of Fortis in Turkey, Tayfun Bayazit, talks to Peninsula Press about why the banking sector is so hot right now in Turkey and Fortis's own plans to be part of it.

TAYFUN BAYAZIT
CEO of Fortis in Turkey

There has been a tremendous surge in investment by European banks in the Turkish banking system in the last six months. Why has it happened so suddenly?
First of all, banks are not the fastest institutions in the world. Secondly, conviction that the structural reforms have really produced good results for the past three to four years needed some time to be absorbed. Perhaps most important was December 2004, when Turkey reached an agreement with the European Union to start accession negotiations. That and inflation coming down to single-digit levels meant that all of these factors showed real improvements in the economy that are here to stay and that has really convinced foreign banks. In the past, foreign banks controlled just 2% of the total banking system, whereas today we are talking about 15-20% depending on how you value 50/50 ventures.

How do you evaluate the bank's first year of operations in Turkey?
Our mandate in Turkey is to expand by organic growth not only in retail, but also in commercial and corporate banking activities, and if there are possibilities for other acquisitions to capture a more dominant market share we can also explore those. The first six months were very intense, making sure that organizational alignment and the integration process were learned correctly. At the same time, we rapidly took on the task of re-branding Disbank into Fortis. In November of last year, we re-branded all of our close to 200 branches.

The process of adaptation by the staff must have been quite a big challenge.
I think that it has been surprisingly smooth as far as Disbank integrating into Fortis is concerned because close to 90% of our staff are university graduates and we spend the most per capita on training among the banks in Turkey. So, we had quite a well-educated and well-trained staff, most of whom speak English. In that sense, I can easily say that the adaptation has been quite easy.

Fortis traditionally has expertise in niche markets. What do you think will be the core business of Fortis in Turkey?
There are probably three different banks within Fortis Turkey. In retail and small business, we will continue to expand in this area, which is a very competitive part of the bank. On the commercial banking side and the private banking side, with the help of Fortis's network, we will continue to excel. On the merchant banking side, in areas such as shipping, commodity finance, global acquisition finance and on currency exchanges or in derivative products, we have actually reorganized ourselves so that we can cater to our clients' needs better. So in all these areas we have growth plans, but the expansion in the next five years will be on the consumer and retail side more than anything else.

What will be the specific services to drive the consumer market?
In the consumer market, mortgages offer a very interesting development in Turkey. We still don't have a secondary market in mortgages in the sense that we know in developed markets. But the banks have started to lend longer terms for housing finance. So the banks, including Fortis, are in the process of building up a mortgage book for the future. The credit card business has been an expanding one, and I think there is still quite a lot of room to develop, even though from a technological and knowledge capabilities point of view, it is quite an advanced market when we compare it to other developed countries.

Energy Corridor Provides Opportunity

Here is a simple exercise. Take a map showing the European and Asian continents from Portugal to the Caspian. On the right-hand side you have the Caucasus, Russia and Central Asia, which together with the Middle East account for more than 70% of the world's proven petroleum and natural gas reserves. On the left you have Europe, a $12 trillion economy with scarce natural energy resources. Now look at the trends: Europe, already the world's largest gas import market, will be importing 70% of its natural gas requirement by 2020. This is the East-West Energy Corridor. In commercial terms the situation seems simple: the resource-rich and resource-hungry nations need each other to balance the energy equation. Economically, and moreover, geopolitically, the question is less to do with supply and demand and more to do with transportation.

Of the two, gas is far more critical for European energy security than oil, which is more easily transported and more diversely supplied. At present there are three existing gas corridors to Europe; from Russia, from the North Sea and from North Africa. Keen to diversify supply shock risks, the EU has expressed clear support for the development of a fourth artery to Europe. A brief glance again at your map reveals why Turkey has been declared the fourth artery to Europe and could provide a useful north-south link connecting Russian resources into Israel. Turkey's ability to fulfill its potential as the "Fourth Artery" depends both on projects to bring gas to Turkey, and Turkey's own through-put capacity. Existing gas feeds into Turkey include the Blue Stream pipeline from Russia under the Black Sea and a direct natural gas pipeline from Iran, Azerbaijan and Turkmenistan, which will be extended to the Trans-Caspian Natural Gas Project providing an artery for the gas rich resources of Turkmenistan and Kazakhstan. Iraqi gas could also reach Turkey in 2008. In through-put terms a favored route known as the Nabucco Project, which connects Turkey to Austria via Bulgaria, Romania, and Hungary, has the blessing of the EU. Similarly, a Turkish-Greek-Italy Inter-connecter project will be the second pipeline to carry natural gas from Turkey to Southern European countries.

More than just the promise of transit fees, Turkey, itself a net importer of energy, needs to secure its own supply requirements, which are set to double by 2020 compared to current levels. As an EU candidate Turkey, which has the strongest military and thus the greatest influence in the region, has a unique role to play as an energy corridor and energy trading center in Europe's multifaceted gas transference strategy. In a politically divided Europe the continent's energy supply equation is one area where consensus is essential. It is therefore one area where recognition and support for the contribution Turkey can make should be unanimous.

The Sky's the Limit

The view from the window of the airplane as you arrive over Istanbul is humbling. The Black Sea and Marmara Sea are clearly visible as well as the ends and beginnings of Europe and Asia, so close they almost touch, separated only by the magical Bosphorus, the rasion d'être for the city itself. As the city below booms, the importance of the skies above it are taking on a new dimention. Istanbul is fast becoming a major destination for air travel, not just to access Turkey but as a regional hub. Projected air traffic volumes have prompted plans to build a third major airport for the city. The national carrier, Turkish Airlines, is taking full advantage of the country's booming economy and growing influence. Expansion over the last few years has been brisk - 24 new routes were added in 2006 and the fleet size has steadily increased. Turkish Airlines announced that profits in 2005 were $103 million. Its CEO, Temel Kotil, has a vision of "Turkey as a major European hub, for our region, for the Middle East, for the Central Asia." In Central Asia, Turkish Airlines operate more routes than any other Western airline – once again capitalizing on historic ties. Growth is not restricted to just the big incumbent player. Pegusus Airlines, a small national airline specializing in domestic flights, also sees plenty of scope for growth and has also launched an ambitious expansion plan. Currently operating 14 aircraft, its fleet will grow to 32 by 2013. Its CEO, Ali Sabanci, is using innovative techniques to inrease productivity and drive growth, "A month after we acquired the company, we announced a profit share scheme. This is unheard of in this sector." Sabanci believes that this incentive has created "quasi-entrepreneurs" within the company. "The pilot knows what the fuel price is, or the ground-crew who is bargaining on Pegasus's behalf with a contractor is thinking about the bottom line. This has been very important." Unheard of, but clearly effective. Watch out for other airlines following his lead in the future.

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