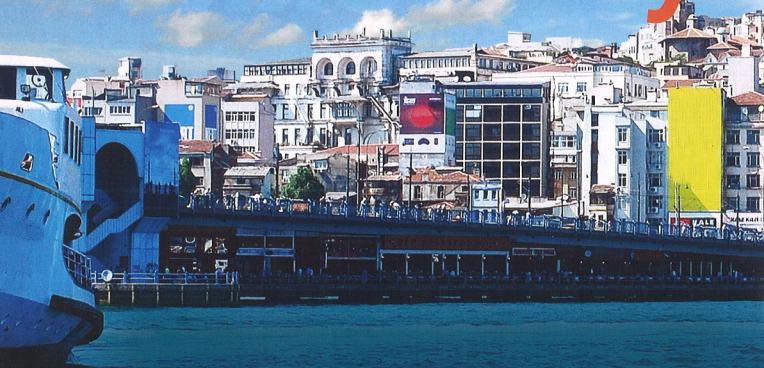


SHIP MANAGEMENT
TURKEY
SPECIAL REPORT




Confidence creeping back into Turkey



If the economic pundits are to be believed, the major maritime force that is Turkey has already started up its engines and is ready to get going.

The economic recovery continues to gain traction as political noise linked to April's referendum abates. Industrial production expanded for the sixth consecutive month in March, while both consumer and business sentiment gained ground in the aftermath of Erdogan's victory in his quest to transform Turkey into a presidential regime.

Economic confidence has been rising in recent months as growth-inducing measures from Ankara continue to be felt among Turkish households. In a bid to shore up Turkey's labour market – the unemployment rate rose to a seven-year high in January – the Government also launched an employment campaign that is expected to be reflected in February's print and onwards. However, there is one warning, and that is that although these measures will provide respite to the ailing domestic economy, massive Government-led stimulus risks creating a hole



“Turkish shipping is generally dominated by family companies and there have been no major entrants into the market over the last three to four years. There is some organic growth”

in the state's finances, with the fiscal deficit already widening substantially in Q1.

When it comes to business confidence overall, this reached an 11-month high in April. Indeed, according to statistics, the Real Sector Confidence Index published by the Central Bank of Turkey continues to improve markedly and in March it reached 111.2. This was well above February's 108.9

and marked the highest reading in nearly a year. As a result, the index lies further above the 100-point threshold and indicates optimism among firms.

April's result was driven by improvements in firms' views regarding future domestic- and export-oriented new orders as well as better expectations of unit costs and

selling prices. Nonetheless, companies' perspectives on production and employment edged down in April, suggesting the pick-up in sentiment was far from broad-based.

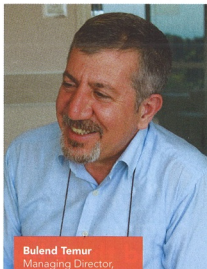
So how is this economic sentiment being felt in the shipping industry, especially considering the current state of freight markets?

According to Bulend Temur, Managing Director of Global Marine Services, a ship supply company specialising in spare parts, main engine port and electronic equipment, while the newbuilding sector in Turkey may be down due to a lack of orders globally, things are strengthening, though there are many issues which still need to be addressed.

"Our maritime industry is still far from the point it should be," he said.

"For an investment to be made in the local maritime sector there are many unnecessary steps which need to be taken. While one Ministry may give permission, another Ministry or Municipality may refuse it, and issues such as these are wearing out foreign investors."

One example he cited related to shipyards in Tuzla which are still operating with temporary licences. Some of the yards in Altinova still have to be provided with asphalt roads.



Bulend Temur
Managing Director,
Global Marine Services

"The State sets the rules and the infrastructure and provides the service. In turn, they also allow the industry to develop and advance and then take a share from the profits.

"What is important is not for investments to be made but for them to be continuous. I would begin by not trying to find palliative solutions but

fundamental solutions to the issues," he said.

"Global Marine Services was formed as a result of my will to put to use my knowledge and 10 years of experience at sea and as an operator of vessels in my own right. Of course, it was not easy in the first few years especially as it was the time that the ISM Code was coming into force. When visiting ship owners, I soon realised they needed assistance," he said.

The company has progressed and has already supplied the first IMO Tier 3 emission level engines manufactured by GE.

"Besides our activities in the sales and servicing of spare parts and ships' equipment, we are also very active in our 3,000 tonnes per year capacity steel factory," said Mr Temur.

Turkish P&I is one Istanbul business which is starting to look at good times ahead. Established to meet liability insurance requirements of Turkish maritime interests which arise under



Left to right - Halil Solak, Ufuk Teker, Burcu Berrak and Umur Can

Turkish insurance law, a major purpose of this law is to establish a framework which legally compels Turkish interests to carry liability insurance for risks which are deemed mandatory to be insured under Turkish Laws & Regulations.

As Ufuk Teker, General Manager, told SMI, while the company may be young compared to other players in the market, utilisation of its local perspective

has been to its advantage meaning that "over the last three years we have gained a bigger share of the Turkish market – particularly with coastal vessels, passenger carriers, floating barges and cranes. We now cover more than 2,000 units and are concentrating on coastal fleets of up to 10,000 GT, trading internationally. Business is growing because we are local".

Burcu Berrak, Claims Manager, stressed that due to the large percentage of passenger ships in its portfolio, the majority of claims were personal injury claims rather than collision.

"We have immediate emergency response plans. We know what should be done in the first instance. For recurring claims, we are working closely with our loss prevention department and we also

"the hub of
turkish shipping"...



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“Repair activity in Turkey is still very good when compared to other yards in Europe. Prices are reasonable which is why owners prefer to use Turkish shipyards”

Levent Zorer, Deputy General Manager, TZ Tuzla

hold seminars for our clients because it is important that we educate,” she said.

Mr Teker again: “Our mentality is that of a mutual P&I Club but technically we are a fixed premium facility. But our claims handling is more aligned to that of a mutual. What we are trying to achieve is creating a synergy where we have already earned trust with our ship owners. This has made it easier to make headway in the hull and machinery market. We are using this product as an ancillary, not just on a standalone basis.”

And what of the strength of the Turkish maritime cluster?

“Turkish shipping is generally dominated by family companies and there have been no major entrants into the market over the last three to four years. There is some organic growth. Some are renewing their vessels by adding new tonnage, but some are also quitting because of the market conditions,” said Mr Teker.

The impact of the market certainly on the newbuilding sector is something the

Tuzla-based shipyards have experienced. But, according to Hakkı Sarıkaya, General Manager at Inter-Mar Ship Repair Engineering, concentrating on the other string to your bow such as main and auxiliary engine maintenance and overhauling as well as piston and exhaust valve reconditioning and manufacture is a good way to ride out these tough times.

Inter-Mar was established in June 1990 by Hakkı Sarıkaya and M. Bülent Özkan, both ex-Chief Engineers. And it is this knowledge of what needs to be done and how best to do the job that has put the company in good stead. Indeed, it is this reputation of quality which has ensured it continues to work for quality owners such as Arkas Denizcilik Ve Nakliyat and UN Ro-Ro Liman ISL.

And while the markets may be bad, the vagaries of the international maritime regulation sector have meant some yards in Tuzla are busy with ships getting their scheduled drydocking in ahead of the deadline for the entering into force of the

Ballast Water Management Convention on 8th September.

Indeed, according to Levent Zorer, Deputy General Manager at TK Tuzla, his shipyard, which can accommodate vessels up to VLCC size, is already fully booked until August.

“Repair activity in Turkey is still very good when compared to other yards in Europe. Prices are reasonable which is why owners prefer to use Turkish shipyards,” he said.

Known as the Tuzla Shipyard and operated by ERKAL Uluslararası Nakliyat ve Tic, the facility is the largest ship repair facility in Tuzla Bay and provides drydocking, repair and conversion services with fast turnaround times.

While Turkey is competitive in Europe, competition with China is a different story, although different trading patterns mean that attracting those vessels away from China to Turkey is difficult as they are trading over there anyway.

“Pricewise we cannot compete with China,” said Mr Zorer.

Citing a combination of quality workforce costs and the massive price differential in steel costs between China and the rest of the world, he said ships coming into Europe will still be attracted into Turkish yards because of their cost competitiveness.

And with longevity comes knowledge and experience, something the yard believes puts it in good stead when working with local and international ship owners.

“Being a member for about 50 years of one of the leading ship-owning families providing services to the Turkish



Hakkı Sarıkaya

General Manager, Inter-Mar Ship Repair Engineering

Levent Zorer

Deputy General Manager, TK Tuzla