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TURKISH AUTOMOTIVE INDUSTRY REPORT

AUGUST 2010

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CONTENTS

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1. Executive Summary

Turkey's automotive sector's foundations date back to the 1950s when the first production under license from Ford, Renault and Fiat, in a heavily protected domestic market, began. Over recent decades, it has grown substantially, due to two main factors: the large size of the domestic market where individuals were gaining increasing purchasing power as the economy developed; and the enormous expansion of international trade especially following the Customs Union Agreement signed with the EU in 1996. These fundamental factors also drive the long-term growth expectations.

In recent years, the automotive sector has become the country's leading exporter, with total exports of USD 16.9 billion in 2009, which constituted 17.4 percent of Turkey's total export revenues.[1] Exports were USD 8.7 billion in the first six months of 2010.[2]

Total production increased with a CAGR of 14.3 percent from 2002 to 2009. During 2009, 869,605 units were produced, with over 85 percent of this figure by four main manufacturers alone.[3] There has been a substantial amount of foreign investment in the sector. Three out of those four main producers, Ford Otosan, Oyak-Renault, and Tofas-Fiat, are partnerships between Turkish and foreign carmakers, while Toyota, the other main producer, is now wholly Japanese-owned.

Automobile ownership per capita has increased considerably in Turkey over recent decades and it is expected to increase further as the current level of 104 cars per 1,000 people is still low compared with countries such as France and Germany, where there are around 500 cars per 1,000 people[5].

The Turkish automotive sector was affected by the global economic crisis. Domestic demand for passenger vehicles held up remarkably well, actually growing by 20.9 percent in 2009 compared with 2008. This rise is largely because of the temporary incentives provided by the government: substantial reduction of the Special Consumption Tax on automobile purchases in March-June 2009 and a more limited reduction in July-September. However exports, which comprise the majority of production, fell by 30.9 percent due to weakness seen in the European markets in 2009.[4]

In 2010, demand patterns are likely to change for the Turkish automotive sector. Considering the first half of 2010, the total production reached 547,022 vehicles, a jump of 39 percent compared with the same period of 2009. Also exports and imports increased by 4.5 percent and 43.8 percent respectively.[2] As the effects of the global financial crisis recede, it is expected that the Turkish automotive sector will reach average annual growth rates of 4.5-5 percent per year in 2011 and follow this trend through till 2013.[5]

The Turkish automotive parts industry showed considerable growth between 2002 and the first half of 2008, in parallel with the increase in vehicle production. However, the supply industry's performance then declined by 27 percent to USD 13.3 billion in 2009. Exports of components and parts, about 70 percent of which go to Europe, doubled in value between 2005 and 2008, reaching USD 7.3 billion, or 33 percent of the total automotive exports[4]. Also affected by the global financial crisis in 2009, the automotive parts sector is expected to recover along with the automotive sector.

Since the beginning of the 1990s, incentives have been granted to investors for vehicle production in Turkey.

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[1] DTM (Undersecretariat of the Prime Ministry for Foreign Trade), 2009

[2] OSD (Automotive Manufacturers Association), June 2010

[3] ISI Emerging Markets

[4] OSD (Automotive Manufacturers Association), December 2009

[5] EIU (Economist Intelligence Unit), 2009

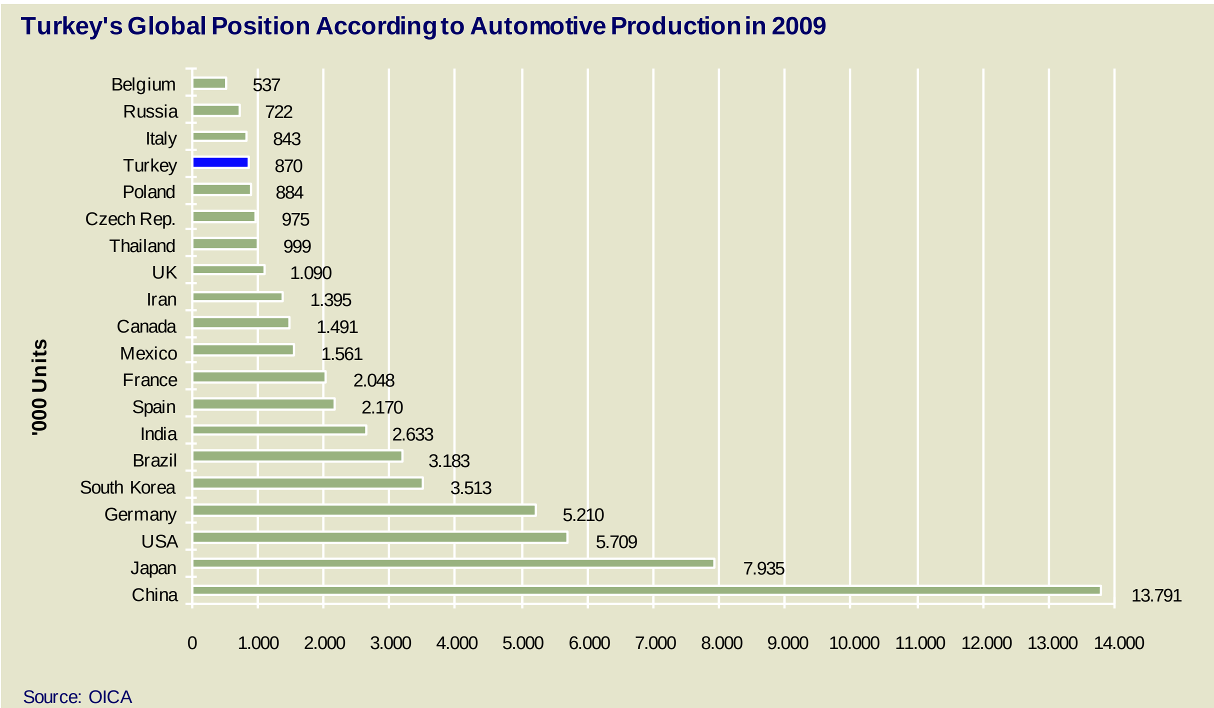
During this period, transfer of technology and foreign capital was encouraged and supported by the government. Modern manufacturing techniques were applied after intense training programs, in particular through the establishment of quality management systems.

2. Sector Overview

2.1 Global Sector

In 2009, global production of motor vehicles was 61.7 million, of which 48 million were passenger cars and 13.7 million were commercial vehicles. Turkey is still one of the twenty largest vehicle producers, although its production fell under one million units in 2009. The industry experienced strong growth over the past five years, mostly in passenger cars, although this came to a halt in the last quarter of 2008 and an overall fall was reported in 2009 due to the global recession. Turkey ranks 17th in global automotive production and 7th in Europe.

Figure 1 – Turkey's Global Position According to Automotive Production in 2009



Growth in recent years has not been uniform worldwide. Production in the United States, which had been the dominant producer for more than 80 years, was stagnating or actually falling even before the financial crisis: US production was 8.7 million in 2008 and 5.7 million in 2009, compared with the level of 13.0 million in 1999. The traditional European producers such as Germany, France, Spain, the UK and Italy experienced slow or negative growth over the past decade, while production increased in newer plants in the Central European countries. Japanese production in 2009 was 7.9 million, having finally overtaken the US in 2006.

However, the most dramatic growth was seen in other Asian countries, particularly in China, the world leader. Chinese production overtook the US in 2008 at 9.3 million units, up from only 1.8 million in 1999 and even overtook Japan and reached 13.8 million in 2009.[6]

[6] OSD (Automotive Manufacturers Association)

The last quarter of 2008 and the first half of 2009 were an exceptionally difficult period in many markets and for many manufacturers. The financial crisis caused such a severe damage to confidence that consumers and businesses were reluctant to purchase vehicles and struggled to access loans.

Because of the sector's importance for employment rates, many governments felt compelled to intervene with direct support to manufacturers, the introduction of one-off sales incentives, or both. These interventions were intended to support domestic industry but nevertheless achieved a degree of support to global demand.

The combined effect of government measures and recovering consumer confidence came in the form of a recovery of sales during the second half of 2009 in some markets, with especially strong growth in China where 10.5 million passenger cars were sold in 2009, up around 50 percent from the previous year.[6] Incentives to scrap outdated cars and replace them with new purchases appear to have been particularly effective in sustaining demand in Germany.

Nevertheless, new passenger car registrations worldwide declined by 3.4 percent in 2009 and are expected to increase by 9 percent in 2010. New commercial vehicle registrations, which have received less government incentives, fell by approximately 18.5 percent in 2009 but recovered with an expected growth rate of 14 percent in 2010.[7]

Figure 2 – World Automotive Outlook

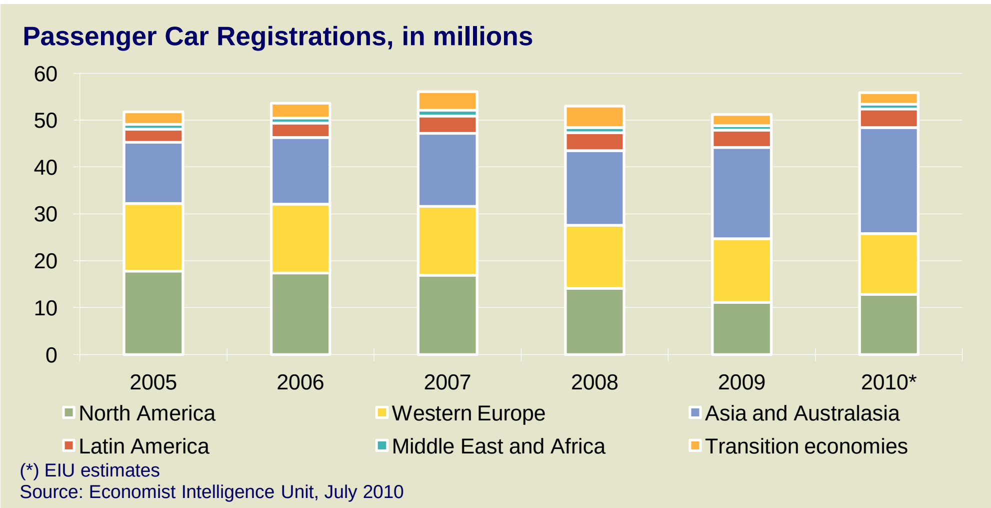
World Automotive Outlook

	2005	2006	2007	2008	2009	2010*
Passenger vehicle production (000 units)	45.389	49.373	52.460	51.993	47.999	na
% change	*6,3%*	*8,8%*	*6,3%*	*(0,9)%*	*(7,7)%*	*na*
Commercial vehicle production (000 units)	18.614	18.223	19.140	16.895	13.739	na
% change	*3,7%*	*(2,1)%*	*5,0%*	*(11,7)%*	*(18,7)%*	*na*
Passenger vehicle registrations (m)	51,9	53,6	56,2	53,0	51,2	55,8
% change	*3,5%*	*3,3%*	*4,9%*	*(5,7)%*	*(3,4)%*	*9,0%*
Stock of passenger vehicles per 1,000 population	122,4	125,1	127,8	129,7	131,2	133,4
Commercial vehicle registrations (m)	19,1	19,1	20,1	18,4	15,0	17,1
% change	*4,0*	*0,0%*	*5,2%*	*(8,5)%*	*(18,5)%*	*14,0%*
Petrol consumption (m tonnes)	865,6	881,9	900,2	901,0	886,5	904,7
% change	*1,7%*	*1,9%*	*2,1%*	*0,1%*	*(1,6)%*	*2,1%*

(*) EIU estimates

Source: Economist Intelligence Unit, July 2010

Figure 3 – Global Passenger Car Registrations

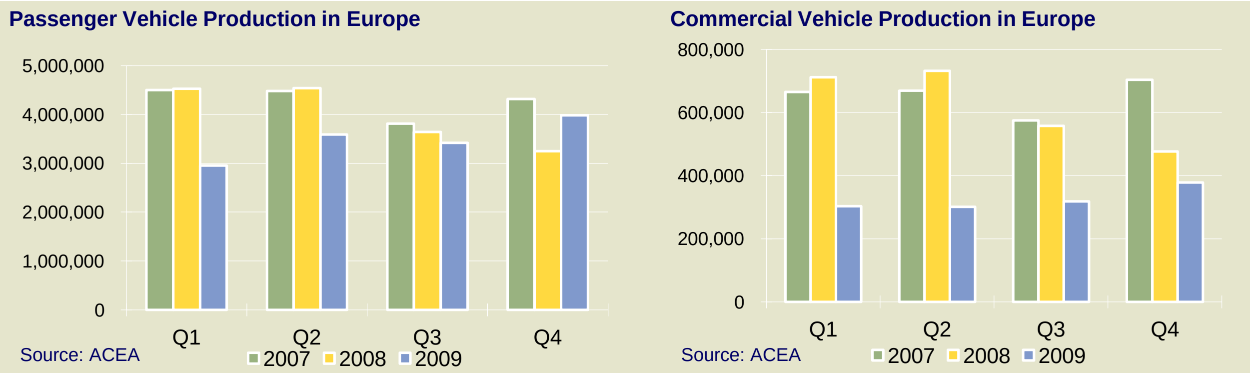


[7] EIU (Economist Intelligence Unit), July 2010

Europe, as the market closest to Turkey and the destination of most Turkish exports, is the region that is vital to Turkish interests. Even before the financial crisis, growth in Europe had been far less robust than in the Far East. In 2009, total production in Europe was 15.2 million vehicles, representing a 17 percent decline year-on-year.

Passenger vehicles were 88 percent of this total (13.4 million) and fell by 13 percent while commercial vehicle production was 1.8 million. Overcapacity has been a long term problem in Europe, as the traditional plants in Western Europe have been supplemented by newer plants in Eastern European countries with lower labor costs, and as few significant closures or restructurings have occurred.[8]

Figure 4 – Vehicle Production in Europe



The long term future outlook of the industry in Europe remains uncertain, but for the moment, governments' support and the strength of union power appear likely to sustain broadly the current number of manufacturers and plants, while demand recovers.

The unprecedented fall in demand in late 2008 and 2009 triggered a much more drastic reorganization of the US industry. GM and Chrysler went into bankruptcy protection and re-emerged from it with accelerated plant closure plans and slimmed-down liabilities to bondholders and for pensions and healthcare. Ford had presciently extended its debt maturities shortly before the crisis, leaving it with a safer cash position, but is likely, nevertheless, to struggle financially for the coming few years.

Toyota of Japan in 2008 replaced GM as the world's largest automotive producer and achieved production of 7.2 million vehicles in 2009. Toyota recorded substantial financial losses as sales fell and the Japanese yen exchange rate strengthened, although its sales and results are now starting to recover. Toyota was followed in 2009 by GM (6.5 million), Volkswagen (6.1 million), Ford (4.7 million) and Hyundai (4.6 million).[9]

Electric and Hybrid Automobiles

A new era of electric vehicles may be approaching, due to environmental concerns and new taxes on CO_2 emissions, unstable oil prices and new regulations by the governments. Most of the original equipment manufacturers have already announced their plans for electric vehicles powered by an electric motor and an on board battery pack. Toyota, Honda and Ford are well-positioned in the emerging EV market and already released hybrid products. For the moment, the range, performance, reliability and profitability of these automobiles are still questionable.

[8] ACEA (European Automobile Manufacturers' Association), EU Economic Report March 2010

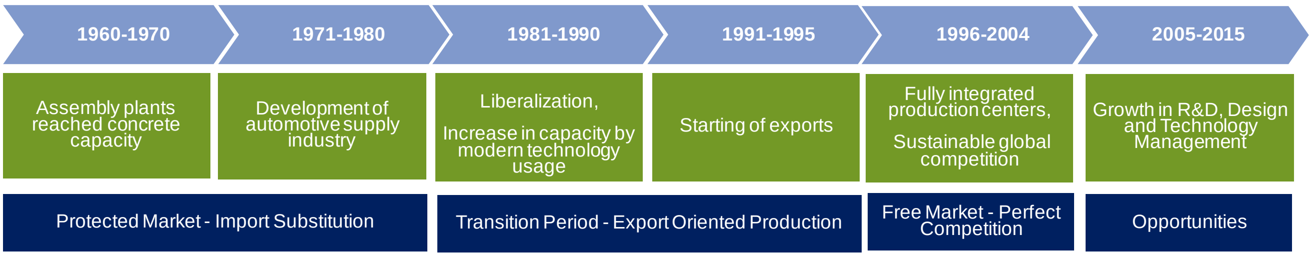
[9] OICA (International Organization of Motor Vehicle Manufacturers), 2010

2.2 Domestic Sector

2.2.1 Overview

The Turkish automotive sector is one of the economy's pioneering sectors. It is highly international: around 76 percent of Turkish vehicle production in 2009 and 73 percent in the first half of 2010 was exported, mainly to Europe. Meanwhile, around 56 percent of motor vehicle sales in Turkey during 2009, and 57 percent in the first six months 2010, were imported vehicles. This growth of both exports and imports occurred as the major global manufacturers integrated their Turkish plants into their global production planning: increasingly, specific models are produced in Turkey for global or regional sales, while other vehicles that are not produced locally are imported. Turkey's inclusion in this type of global production planning is made possible by the Customs Union Agreement with the EU, which has been in force since 1996.[10]

Figure 5 - Timeline of the Development of the Turkish Automotive Industry



Source: Automotive Manufacturers Association

There are currently 15 passenger and commercial vehicle manufacturers in the country, in addition to seven tractor manufacturers. The total capacity of the OSD members (15 manufacturers including two tractor manufacturers) amounts to 1,561,155 vehicles as of 2010.[12] These manufacturers, together with the spare part producers, employ more than 265,000 people, ranking in the top 10 globally.[11]

The growth in production from 2002 to 2008 registered a CAGR of 22.1 percent (production in 2008 was 1,147,110 vehicles; in 2002 it was 346,565 vehicles). Although this is partly because 2001 and 2002 were the years of financial instability, the growth over the past decade exceeded that of most other major producing countries. Production in 2009 fell by 24 percent compared with 2008 and ended up at 869,605 vehicles. However this is set to change and production performance in the first six months of 2010 was 39 percent higher than the same period of 2009.[12]

Turkey is one of the largest exporters of passenger cars to Europe, with total exports of USD 16.8 billion in 2009 and USD 8.7 billion in the first six months of 2010, up by 31 percent when compared with the first six months of 2009.[11] Considering all exports, 2009 exports rose to an estimated 628,970 units. Exports in the first six months of 2010 reached 399,000 units with an increase of 44 percent when compared with the previous year. Toyota, Ford Otosan, Tofas and Oyak-Renault rank among Turkey's top ten exporting companies. Imports were 313,917 units in 2009 and 166,126 units in the first half of 2010, increasing 4.5 percent compared with the same period of 2009.[12]

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[10] OSD (Automotive Manufacturers Association), June 2010

[11] ACEA (European Automobile Manufacturers Association)

[12] OSD (Automotive Manufacturers Association), June 2010

Figure 6 – Automotive Sales and Production in Turkey

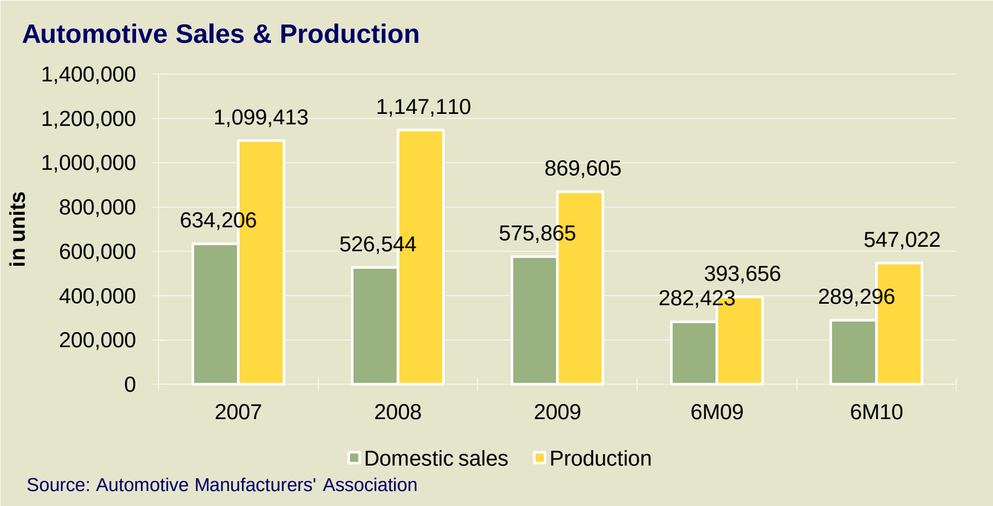
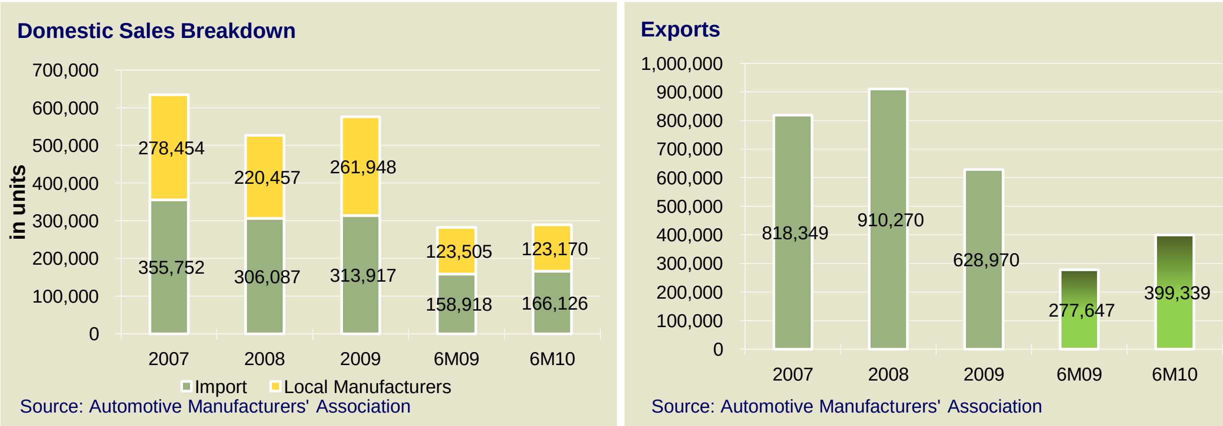


Figure 7 – Domestic Sales and Exports



The domestic market has shown long term growth and benefited from the stable economic conditions observed from 2002 onwards. However, unlike many other developing economies, the Turkish economy showed some signs of slowing down in 2007 and 2008, due to domestic factors even before the financial crisis. Domestic sales of passenger cars and commercial vehicles both fell in 2008, by 17 percent overall, and recovered by 9.4 percent in 2009. The main cause of the decline in 2008 was the loss of consumer confidence caused by the global financial crisis in the last quarter of the year. Although the origins of the crisis had nothing to do with Turkey and the domestic financial sector was considered to be sound, with no financial rescue package needed, there was a temporary sharp liquidity squeeze and a devaluation of the Turkish lira (partly reversed in 2009). In addition to its effects on confidence, this reduced the availability of credit and raised both interest costs and the TRY cost of imported cars.

The Turkish government reacted to the crisis by announcing a temporary reduction in Special Consumption Tax (SCT), which together with VAT is one of the main taxes on vehicle purchase, from March - June 2009. This reduction applied equally to imported and domestically produced vehicles, and the reduction was highest (from 36 to 18 percent) for smaller-engine vehicles up to 1,600cc, which form the bulk of the market and domestic production. At the end of the three month period, the government continued with half of the tax reduction for a further three months until September 2009.

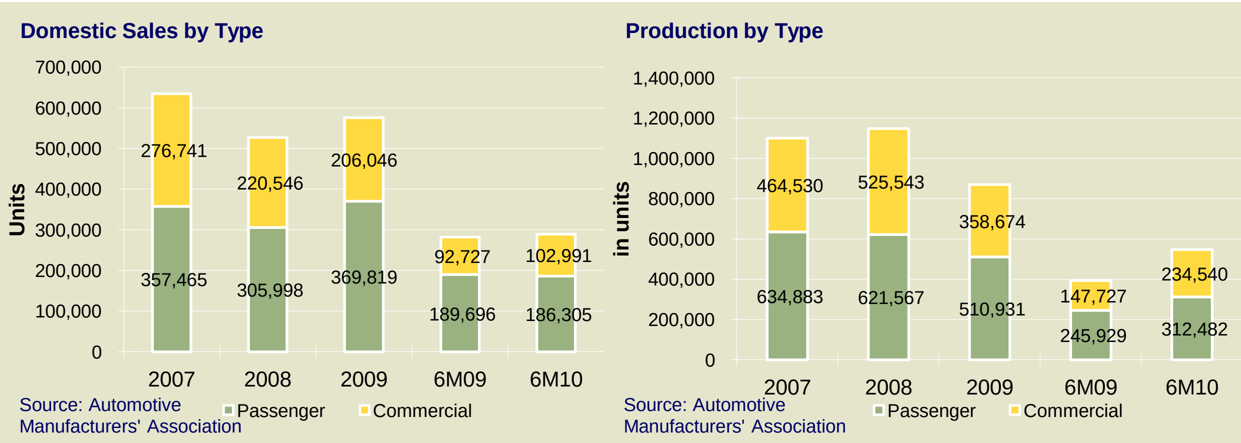
Thanks to this SCT reduction, total domestic sales grew by 9.4 percent in 2009. The growth trend appears to be continuing in 2010 as well, although the rate is not as rapid: domestic sales in the first six months of 2010 were slightly higher (2.4 percent increase) than in the same period of 2009.

Although total domestic demand has thus held up well, individual months showed dramatic swings in 2009 because of the SCT changes: for example, June 2009 sales were 63,102 vehicles, while July 2009 sales were only 30,246, then September 2009 sales were 83,403. The monthly sales of the first half of 2010 showed similar patterns as in 2009. In the past years, monthly sales were usually broadly stable except that December sales were often 50-70 percent higher than other months.

Similarly, dramatic changes were observed in the subcategories of passenger and commercial vehicle sales in 2009, however the trends actually appear to be returning to normal: the 20.9 percent increase in passenger car sales in 2009 was followed by a slight 1.8 percent fall in the first half of 2010, and the 6.6 percent fall in commercial vehicle sales in 2009 was followed by an 11.1 percent increase in the first half of 2010.[13] Sales of light commercial vehicles had previously been very buoyant: they rose at an annual rate of 50 percent during 2002-2005.

More seriously for producers, exports had been badly hit by the weakness in many European markets. Exports in 2009 were 628,970 vehicles, down 30.9 percent compared with 2008. The situation appears to be recovering rapidly, with total exports in the first six months of 2010 (399,339 vehicles) surpassing the total in the same period of 2009 (277,647 vehicles) by 43.8 percent.[14]

Figure 8 – Sales and Production by Type



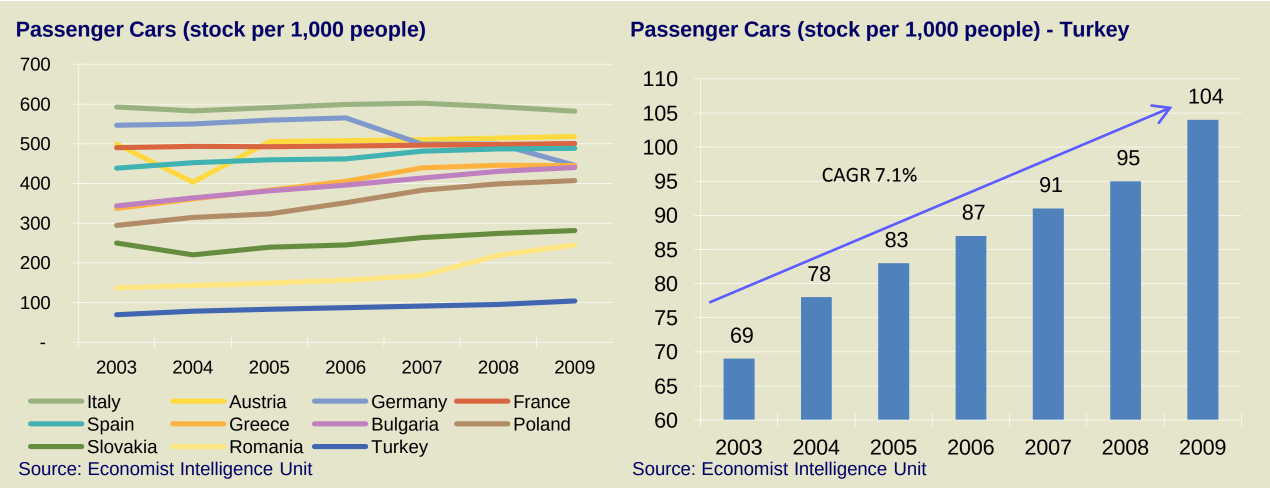
Automobile ownership in Turkey rose rapidly between 2003 and 2009, with a CAGR of 7.1 percent. An estimated 75 percent of households still do not own a car, so the potential for continuous long-term growth remains strong. There is an estimated 104 cars per 1,000 people in 2009, compared with around 500 per 1,000 in countries such as France and Germany.[15]

[13] OSD (Automotive Manufacturers Association), June 2010

[14] OSD (Automotive Manufacturers Association), June 2010

[15] EIU (Economist Intelligence Unit)

Figure 9 - Passenger Cars: Stock per 1,000 People



The growth of car sales and car ownership in Turkey has been achieved despite the very substantial tax burden which is imposed on new passenger car sales. This burden is the same for the domestically-produced and imported.

The total tax burden is approximately 60 percent on top of the pre-tax price for an automobile with an engine of up to 1,600 cc. Above 2,000 cc, the tax burden exceeds 100 percent of the pre-tax price. Thus, the market is biased towards smaller-engine automobiles.

In addition, the vehicle excise tax paid each six months is significant and petrol prices are some of the highest in Europe. If these burdens were to ease in future, the growth of car sales could be expected to accelerate further.

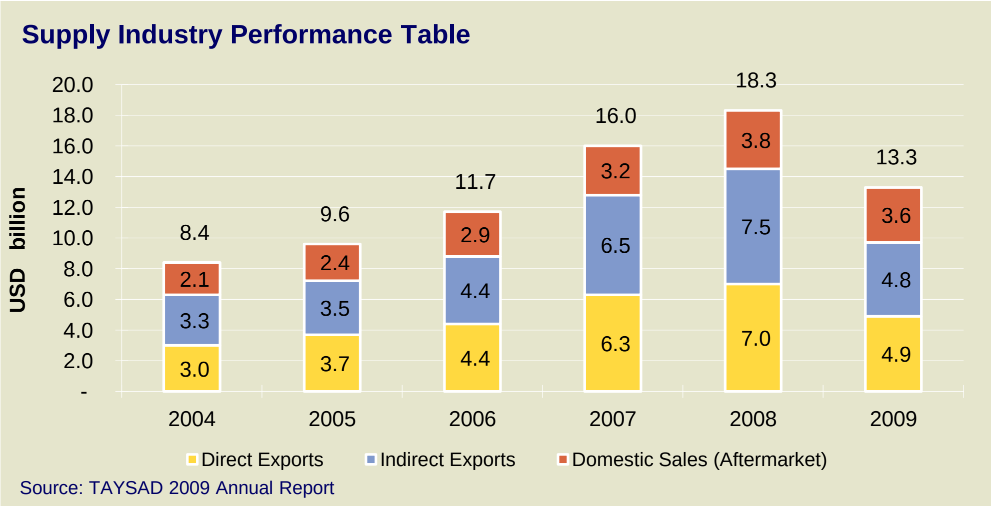
Automotive Parts

In parallel with the rise in vehicle production, the Turkish automotive parts sector registered strong growth between 2002 and 2007, as well as in the first half of 2008. However, it is observed that the supply industry's performance declined by 27 percent to USD 13.3 billion in 2009.[16] The sector comprises a mixture of major multinational producers and local companies, which now produce a very wide range of injection-moulded parts, tyres, batteries, spark plugs, carburettors, castings, fuel injection systems and transmission parts among others. Exports of components and parts doubled in value between 2005 and 2008, reaching USD 7 billion. This represented 32 percent of the total automotive exports. Like the vehicle exports, around 70 percent of the component exports go to customers in Europe.[17] The automotive parts producers have been affected by the same global problems as the Turkish vehicle manufacturers, and are expected to recover along with the automotive sector.

[16] TAYSAD (Association of Automotive Parts and Components Manufacturers)

[17] EIU (Economist Intelligence Unit), 2009

Figure 10 – Supply Industry Performance Table



2.2.2 Main Players

There are 22 automotive manufacturers in Turkey. The total capacity of the OSD members (15 manufacturers including two tractor manufacturers) amounted to 1,561,155 vehicles in 2010.[18] The capacity seemed to stay stable for the first six months of 2010 and the capacity utilization was 72 percent. Most Turkish manufacturers have established joint-ventures with foreign car makers.

The four main producers are Ford Otosan (US; mainly Transit commercial vehicles); Oyak-Renault (France; passenger cars only); Tofas, a joint-venture between Fiat (Italy) and the Koc Holding conglomerate (mainly LCVs and also passenger cars); and Toyota (Japan; passenger cars). The four main manufacturers accounted for approximately 88 percent of all vehicles manufactured in Turkey in 2009.[19]

Figure 11 - Foreign Car Makers in Turkey

Global Brands In Turkey

Company	Region	Operation Type
Fiat	EU	JV (Tofaş)
M.Benz	EU	JV (Daimler AG)
Renault	EU	JV (Oyak Group)
MAN	EU	FDI
Peugeot	EU	Licence
Land Rover	EU	Licence
Ford	non-EU	JV (Koç Group)
Isuzu	non-EU	JV (Anadolu Group)
Hyundai	non-EU	JV (Kibar Group)
Toyota	non-EU	FDI
Honda	non-EU	FDI
Mitsubishi	non-EU	Licence
Tata	non-EU	Licence

[18] OSD (Automotive Manufacturers Association), June 2010

[19] TSKB (Industrial Development Bank of Turkey), November 2009

Figure 12 – Automotive Production by Manufacturer (2010, 6 months)

Automotive Production by Manufacturer (2010, 6 months)

	Pass.Car	L.Truck	Mid.Truck	Pick Up	Bus	Mini-Bus	Midi-Bus	F.Tractor	Total
Anadolu Isuzu	-	465	-	349	-	-	587	-	1,401
B.M.C.	-	-	648	-	262	-	-	-	910
Ford Otosan	-	-	1,432	104,738	-	6,655	-	-	112,825
Hattat	-	-	-	-	-	-	-	872	872
Honda Türkiye	10,296	-	-	-	-	-	-	-	10,296
Hyundaı Assan	34,602	-	-	-	-	-	-	-	34,602
Karsan	-	249	183	10,721	-	65	-	-	11,218
M.Benz Türk	-	-	4,629	-	1,211	-	-	-	5,840
Man Türkiye	-	-	-	-	549	-	-	-	549
Otokar	-	-	-	317	137	151	347	-	952
Oyak Renault	169,003	-	-	-	-	-	-	-	169,003
Temsa	-	675	-	195	350	-	208	-	1,428
Tofaş	60,669	-	-	99,417	-	-	-	-	160,086
Toyota	37,912	-	-	-	-	-	-	-	37,912
Türk Traktör	-	-	-	-	-	-	-	13,335	13,335
Total	**312,482**	**1,389**	**6,892**	**215,737**	**2,509**	**6,871**	**1,142**	**14,207**	**561,229**

Source: Automotive Manufacturers Association (OSD), TSKB Research

Figure 13 – Automotive Production and Capacity (2010, 6 months)

Automotive Production & Capacity (6M10)

	Production	Capacity	Capacity Usage
Light Vehicles	535,090	721,614	*74.2%*
Truck	8,281	25,602	*32.3%*
Bus	2,509	4,248	*59.1%*
Midibus	1,142	6,366	*17.9%*
F.Tractor	14,207	22,752	*62.4%*
Total	**561,229**	**780,582**	***71.9%***

*Light Vehicles include pass.car, pick-up and minibus.

Source: Automotive Manufacturers Association (OSD), TSKB Research

The presence of foreign manufacturers dates back to the 1960s when Tofas, Renault and Ford Otosan established production plants in Turkey, all as joint-ventures with leading Turkish investors. These joint-ventures remain in place today, almost 50 years later.

More recently, the Customs Union Agreement with the EU and rising demand in the 1990s attracted investments from Far Eastern manufacturers such as Toyota, Hyundai and Honda, which sought to establish a low-cost base to supply the local market and from which to export to Europe.

Toyota entered the Turkish market through a partnership with a leading Turkish conglomerate, Sabanci Holding, in 1989. In 2001, Toyota Turkey became wholly Japanese-owned, with Toyota holding 90 percent of the share capital and a Japanese conglomerate, Mitsui, the remaining 10 percent. The company began producing almost exclusively for export in 2002 at its plant in Adapazari, about 150 km east of Istanbul. In 2004, Toyota expanded its annual production capacity from 100,000 units to 150,000 units, which is the current capacity.[20]

Oyak-Renault, manufacturing only passenger cars in Turkey, is the largest vehicle producer in Turkey. It was formed in 1969 as a joint-venture between the French car maker Renault and Oyak, the army pension fund, which has equity investments in 27 companies concentrated in the automotive, cement, financial and services sectors. As of June 2010, Oyak-Renault produced 54 percent of all passenger cars in Turkey.

[20] OSD (Automotive Manufacturers Association)

Tofas is the second largest passenger car producer with a share of 20 percent, followed by Toyota with 12 percent and Hyundai with 11 percent.[20]

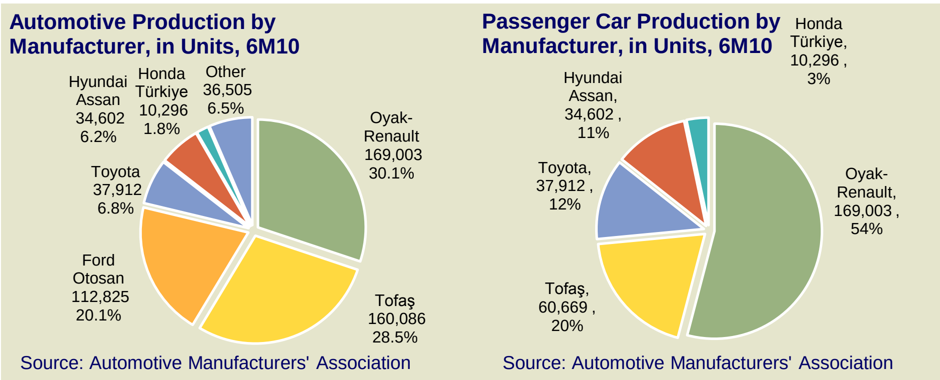
Tofas, owned by the resurgent Italian group Fiat and Koc Holding (the leading Turkish family-owned conglomerate that is also in a joint-venture with Ford), is Turkey's second-largest producer as of June 2010. The company mainly produces light commercial vehicles: around 60 percent of its production is comprised of LCVs. In 2009 Tofas accounted for 29 percent of the total automotive production.[20] Tofas is a listed company on the Istanbul Stock Exchange (ISE) and has a market capitalization of TRY 2,925 million as of July 23, 2010.[21]

Ford Otosan's main activities include the production assembly and distribution of trucks, pick-ups, mini-buses and cars under Ford license, as well as spare parts and accessories. It operates two manufacturing plants in Kocaeli and Eskisehir, and has a spare parts warehouse in Istanbul. Transit Connect and other Transit branded vehicles are manufactured in the Kocaeli plant, whereas Ford Cargo trucks and their engines are manufactured in the Eskisehir plant. Ford Otosan is also involved in research and development studies through a branch. It offers products and services throughout Turkey, as well as in European countries such as the United Kingdom, Spain, Germany, France and Italy.

Hyundai Assan is a joint-venture between Hyundai and Kibar Holding, a leading Turkish industrial group with interests in the aluminium and other sectors. Hyundai Assan started its manufacturing activities in 1997.

Honda Turkiye was founded as a joint-venture with Anadolu Group, a leading Turkish group of companies operating in various fields; production started in 1998. Since January 2003, the company has been 100 percent owned by Honda Japan.

Figure 14 – Production by Manufacturer, 6M10



[21] ISI Emerging Markets

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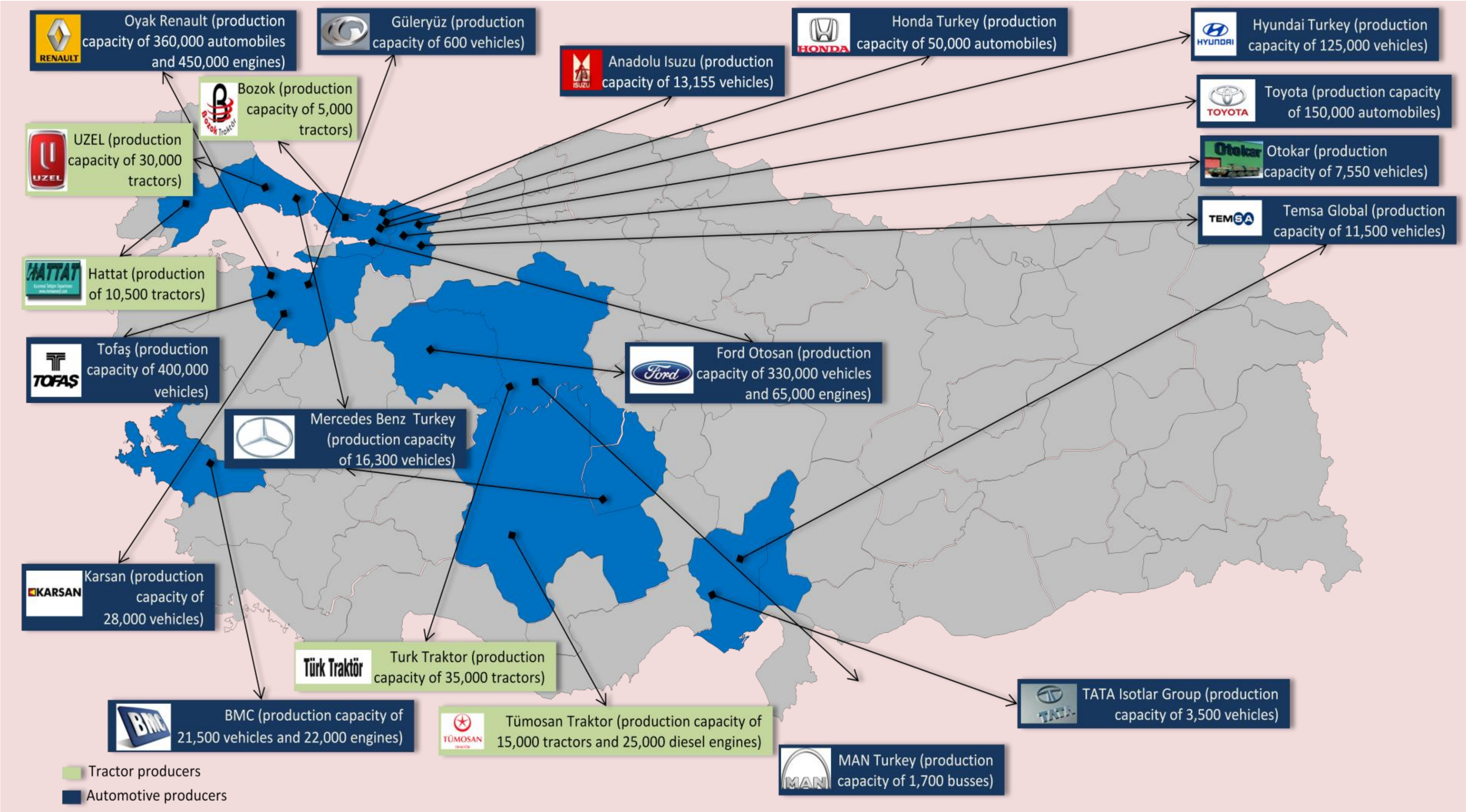
2.3 Positioning Map



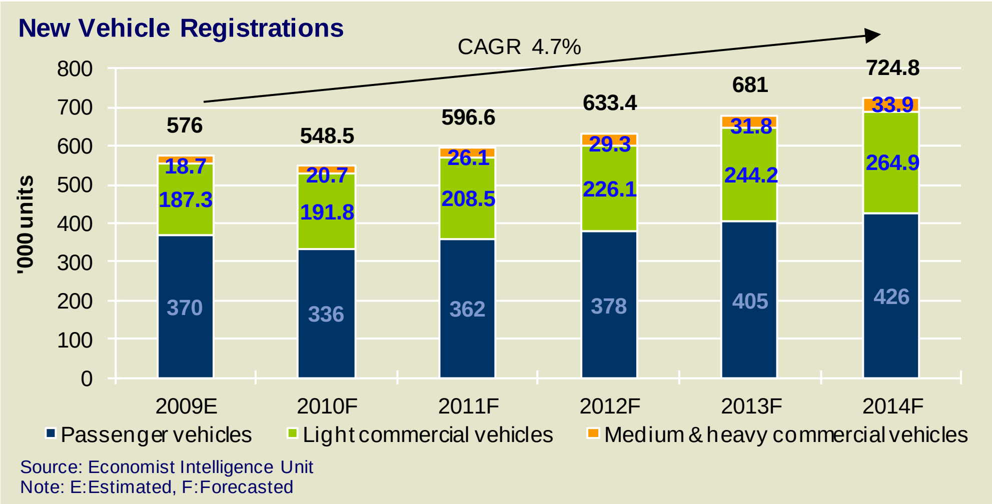
2.4 Sector Outlook

The short term outlook for the sector in Turkey depends on exports, and therefore on the strength of demand in Europe. Many observers expect that recovery will continue in 2010, albeit slowly. Domestically, the incentives offered in March-September 2009 may have boosted sales, but from the second half of 2010 domestic demand patterns are likely to resume their former stability and growth. Monthly sales should become more stable in 2010, enabling a more efficient and profitable production planning.

Once the effects of the global financial crisis recede, it is expected that the Turkish automotive sector will reach average annual growth rates of 4.5-5 percent a year in 2011, and follow through till 2013[22] thanks to:

- ✓ High export volume, enabled by Turkey's status as an alternative supply center, where labor costs are highly competitive and modern plants are located advantageously with respect to export markets such as Europe and the Middle East,
- ✓ The untapped potential in the domestic market, evidenced by the fact that 75 percent of the households in Turkey do not own a car,
- ✓ Incentives granted to investors in various forms including tax exemptions, social security premium contribution to the employer's share, land allocation, R&D support, training and recruitment subsidies and others,
- ✓ Free Zones, designed to encourage trade to and from Turkey, boosting the automotive sector.

Figure 15 – New Vehicle Registration Projections



Electric Vehicles in Turkey

Turkey's Ministry of Industry and Trade has been studying the trend towards electric and hybrid-powered vehicles and aims to make Turkey a leading electric vehicle producer. Incentives will be granted by the government for electric car producers and investments will be made in R&D. Charging stations will be introduced, while arrangements and deals will be made with electric distributors and oil stations.

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[22] EIU (Economist Intelligence Unit), 2009

2.5 SWOT Analysis

Strengths

- Geographic proximity to Europe and Asia makes Turkey a strong production base
- Lower labor costs compared with EU countries and a well-trained workforce
- Four of the country's top 10 overall exporters are automotive firms, reflecting the importance of the industry to the economy
- Customs Union with the EU reduces tariffs on exports
- R&D experience on OEM and OES levels

Weaknesses

- Special Consumption Tax and VAT raise the domestic purchase price of a vehicle to 60 - 100 percent+ above the pre-tax price. Taxes on petrol are also high. However, if such taxes were ever to fall, faster domestic growth would be likely.

Opportunities

- With three-quarters of households still not owning a car, there is great potential for market growth
- Expected increase in per capita income will boost consumer spending power
- The opening of Iraq's borders provides Turkey with an opportunity to become a major supplier and increase exports
- Further incentives, including tax exemptions

Threats

- The transfer of production which could be expected from high-cost EU countries to Turkey is resisted by the strong labour unions in EU countries.
- Dependence on EU markets
- Rapid growth in China and India

Since the beginning of the 1990s, the government has granted incentives to assist the development of the automotive sector in Turkey. The government facilitated and encouraged the transfer of technology and foreign capital. At the same time the domestic market has grown, as the conquest of previously high inflation and government deficits brought stability and more rapid GDP growth.

As a result, international investors such as Toyota, Honda and Hyundai have entered the Turkish market and the previous entrants Ford, Fiat and Renault have extended their investments. The parts suppliers have also made major investments. The leading foreign automotive parts manufacturers have established a presence in the country through joint-ventures, which dominate production and exports. Automotive parts giants such as Bosch, Autoliv, Pirelli, ZF, Valeo, Denso and many others are present in the Turkish market. There has also been substantial locally-owned investment by parts manufacturers.

The effects have been that:

- Quality of production improved dramatically, especially through the establishment of quality management systems;
- The industry has adapted to EU regulations and has established an efficient and exemplary co-operation with public institutions in the transformation of EU regulations to national regulations and their implementation.
- Exports have risen sharply, and Turkish production has been integrated into manufacturers' global planning. The export potential of the automotive parts sector, coupled with the presence of major international automotive manufacturers, has attracted an increasing number of foreign investors.

Other investors have opted to buy shares in Turkish companies in the sector. Below is a list of M&A transactions by foreign investors in the Turkish automotive and automotive parts industries between 2002 and 2010:

Figure 16 - Selected M&A Transactions in the Turkish Automotive & Parts Sectors (2002 – 2010)

#	Acquirer	Origin	Target	Date	Stake	Deal Value (USD million)
1	**Auto Sueco (Coimbra) Lda**	Portugal	Volvo Otomotiv Turk (ASC Turk Makina Ltd.)	July-10	100.0%	61.5
2	**ALJ Lubnatsi**	Saudi Arabia	Toyotasa Toyota-Sabancı Pazarlama ve Satış	August-09	65.0%	85.0
3	**Mayer's Cars and Trucks**	Israel	Isotlar Group *	May-09	49.3%	N/D
4	**Pirelli Group**	Italy	Türk Pirelli	January-09	25.8%	39.2
5	**Pirelli Group**	Italy	Çelikord	August-08	48.0%	24.0
6	**Pirelli Group**	Italy	Türk Pirelli	August-08	3.2%	3.4
7	**Continental**	Germany	Otomotiv Lastikleri Tevzi	July-08	89.7%	8.2
8	**Fuji Heavy Industries**	Japan	Baytur	April-08	10.0%	5.0
9	**UniCredit**	Italy	Martur	March-08	20.0%	N/D
10	**Bekaert**	Belgium	Beksa Çelik Kord	February-08	50.0%	59.3
11	**Mahle Group**	Germany	Mopisan Motor Gömlek Piston	February-08	60.0%	N/D
12	**Gestamp Automoción**	Spain	Beyçelik Kalıp	June-07	50.0%	N/D
14	**Bancroft Private Equity**	UK	Standard Profil Otomotiv	September-06	100.0%	90.0
15	**Kennametal**	USA	Kennametal Türkiye	January-06	36.0%	N/D
16	**Nursanlar Holding**	Turkey	Takosan Otomobil Göstergeleri	December-05	42.5%	1.3
17	**Brose**	Germany	Pressan	December-05	40.0%	N/D
18	**Hayes-Lemmerz**	USA	Jantas Alüminyum Jant	November-05	20.0%	N/D
19	**Access Turkey**	Netherlands	Olgun Çelik	October-05	100.0%	N/D
20	**Toyota Boshoku**	Japan	Takanichi Otomotiv İç Döşeme	August-05	73.2%	N/D
21	**Magneti Marelli**	Italy	Mako Elektrik	February-05	51.0%	18.0
22	**Michelin Kronprinzwerke**	Germany	Tekersan Jant Sanayi	July-04	62.7%	2.6
23	**Honda Motor Company**	Japan	Honda Anadolu Motorsiklet , Anadolu Honda Otomobilcilik	April-02	50.0%	37.0

Source: MergerMarket

* The Isotlar Group became a 50% partner of Hungarian KSI HUNGARY KFT as of 18.05.2011.

Key factors which attract foreign capital inflows to Turkey mainly include the market size, consumer composition, friendly investment legislation and liberal banking system together with other attractiveness arising from highly skilled human resources in production and management, the unsaturated domestic market with high potential, easy access to neighboring (regional) emerging markets, and low labor cost.

The Turkish automotive market, comprised of passenger cars, commercial vehicles, tractors, and automotive components sub-segments, offers foreign investors attractive investment opportunities, from automotive and components manufacturing (particularly viable for aftermarket and first tier suppliers) to joint production development for global car models, R&D and testing houses, technology transfer, as well as in electronics – diagnostics, safety (air bags, side protection systems), lighting (HID - Xenon), security (theft protection devices), comfort (smart seating), audio / navigation and larger and sophisticated moulds.

2.6 Establishments and Institutions

Figure 17 – Establishments and Institutions

Establishments and Institutions	Code	Description	Website
Automotive Manufacturers Association	OSD	The Automotive Manufacturers Association (OSD) held its preliminary meeting on 11 January 1974. The main goal of the Automotive Manufacturers Association is To aid in improving the manufacture of various motor vehicles made in Turkey, including p.cars, trucks, pick-ups, trailers, buses, minibuses and tractors, and in developing the industry as a whole.	http://www.osd.org.tr/
Automotive Distributor Association	ODD	Association which has founded in 30 September 1987, aims to increase the ownership of land vehicle and provide the continuity of the sector.	http://odd.org.tr/
Automotive Consumers Association	OTD	OTD aims to increase satisfaction of Turkish automotive consumers and develop Turkish Automotive Sector.	http://www.otd.com.tr/
Automotive Recognized Dealer Association	OYDER	OYDER has founded in 1989 and combined with OYD in 2 December 2005 to confine 3S Recognized Dealers.	http://www.oyder-tr.org/
Association of Automotive Parts & Components Manufacturers	TAYSAD	Established in 1978, TAYSAD is the sole and most competent representative of the Turkish automotive supplier industry with 269 members	http://www.taysad.org.tr
Uludağ Exporters' Association	UİB	UIB has been established in 1986 with the aim of increasing exports, organizing the professional relations and activities of exporters, finding solutions to all type of problems and guiding the exporters.	http://www.uib.org.tr
Authoritive and Experienced Research & Development Center	OTAM	Automotive Technology Research and Development Center (OTAM) was established in collaboration with Automotive Manufacturers Organization (OSD), The Scientific and Technical Research Council of Turkey (TUBITAK), Istanbul Technical University (ITU), Association of Automotive Parts & Components Manufacturers (TAYSAD) and Uludağ Exporters' Association (UİB) in order to carry out of pre-production research and development and product testing efforts of the automotive industry and its suppliers in cooperation with the university and to institutionalize this cooperation.	http://www.otam.itu.edu.tr

LIST OF FIGURES

ABBREVIATIONS

ACEA	European Automobile Manufacturers' Association
CAGR	Compound Annual Growth Rate
EIU	Economist Intelligence Unit
EU	European Union
GDP	Gross Domestic Product
ISE	Istanbul Stock Exchange
ISPAT	Republic of Turkey Prime Ministry Investment Support and Promotion Agency
OICA	International Organization of Motor Vehicle Manufacturers
OSD	Automotive Manufacturers Association
TAYSAD	Association of Automotive Parts and Components Manufacturers
TRY	Turkish Lira
TSKB	Industrial Development Bank of Turkey
UK	United Kingdom
US	United States
USD	US Dollars

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