

UKTI DSO PRIORITY MARKET BRIEFS

DEFENCE & SECURITY OPPORTUNITIES: TURKEY



WHY THIS MARKET IS IMPORTANT

Turkey is one of the top importers of defence equipment and is one of UKTI DSO's priority markets. The Turkish defence market presents opportunities for foreign suppliers in terms of direct sales but, more recently, contractual successes have been achieved through co-operation with the country's growing defence industry.

DEFENCE & SECURITY OPPORTUNITIES

The main opportunity areas in the Turkish Defence Market are:

- Rising potential of Turkey
- Technological Transformation
- Significant Internal Market
- Market Expansion
(Technology parks, developing commercial industry, qualified cost effective manufacturing and engineering, Network Centric Warfare, Unmanned Vehicles, guided missiles, platform design and development, long term requirements, search for alternative suppliers, transformation of traditional markets)

Potential cooperation areas:

- Talarion Advanced UAV Programme
- Heavy Lift helicopter
- Software Defined radio
- A400M ISS

Other cooperation areas:

- Naval Acoustic Technologies
- Radar/Sonar Technologies
- Attack Helicopter
- C-IED Systems, Jammers
- Tank Modernisation/Armoured Vehicles
- Underwater/Coastal/Airborne Surveillance
- Stabilized Weapon Systems
- Air Defence Systems
- Future Soldier Systems
- UAVs
- Design and production of military training aircrafts and combat aircrafts by TAI
- Procurement of 600 Class Coast Guard Ship
- Development of Turbojets engines.
- Development of National Force Group Project, regarding primarily on tank platform and other ground and naval vehicles.

New business opportunities are available on SSM's website at www.ssm.gov.tr under "project announcements".

ECONOMIC BACKGROUND (2009 FIGURES)

GDP (Current prices)

	2009	2010	2011	2012	2013	2014	2015
National currency (billions)	953.974	1,094.02	1,197.88	1,308.54	1,417.15	1,536.29	1,661.65
U.S. dollars (billions)	615.329	710.737	743.395	778.698	801.947	826.743	852.379

Source:IMF

GDP Per Capita (Current prices)

	2009	2010	2011	2012	2013	2014	2015
National currency	13,524.30	15,316.34	16,561.32	17,865.85	19,107.50	20,455.73	21,849.13
U.S. dollars	8,723.41	9,950.39	10,277.86	10,631.76	10,812.70	11,008.08	11,207.95

Source:IMF

DEFENCE ECONOMICS

2008: US\$16.4bn-/2.2% GDP

2009: US\$14 billion / 2.3% GDP

With a total defence spending of USD16.4 billion in 2008 Turkey has the seventh largest defence budget in NATO and is ranked 15th globally. The defence budget cuts and expected stagnant growth in Spain means that Turkish defence spending has overtaken in recent years.

THE TURKISH DEFENCE MARKET AND HOW TO DO BUSINESS

The following general information is intended as a preliminary guide to help UK defence companies understand the Turkish Defence Market. It is not intended to be exhaustive.

The Turkish Defence Market

Turkey is a member of the UN, NATO, the Council of Europe, the Organisation for Security and Co-operation in Europe (OSCE), Organisation for Economic Co-operation and Development (OECD), an Associate Member of the Western European Union, and is a candidate for accession to the European Union. Turkey has the second largest armed forces in NATO.

Turkey has made considerable strides towards its goal of modernising its armed forces and indigenous defence industry. Turkey aims to reduce its dependency on defence imports and cultivate its own export markets. It is Turkish Government's policy that defence procurement should, through joint ventures with overseas companies, provide the stimulus for industrial development. The Turkish Government has encouraged foreign investment, and there are a number of very significant co-production deals between Turkish and foreign companies involving important transfers of advanced technology to Turkey. Turkey is keen to export and remain competitive in the defence sector.

The procurement policy is implemented by the Undersecretariat for Defence Industries (SSM). SSM undertakes technical, financial and industrial evaluation of projects. Their website is www.ssm.gov.tr

The strategic priorities of SSM are:

- Procurement Management
- Industry and Technology Management
- International Cooperation

The '2007-2011 strategic plan' policies published by SSM include:

- To have 50% of system requirements met through local infrastructure (i.e. Turkish companies) by 2011

- Using cost+ contracts for R&D and local development.
- To achieve defence exports valued at US\$1bn per annum by 2011.
- To participate in a minimum of four multinational programmes from the beginning and to lead minimum one international programme by 2011
- To increase the participation of Turkish defence industry by 4 times in NATO defence projects by 2011

Fundamentals Needed to Succeed in the Turkish Defence Market

It is worth discussing your prospects initially with the UKTI DSO Turkey Desk Officer or UKTI Ankara.

Routes to Market

It is essential for any company seeking to do business in Turkey to employ an effective local agent. An agent is necessary to provide visibility for your product, to use his contacts to monitor progress and influence decision-making and to ensure that conditions are as favourable as possible for success.

It will often be necessary, and sometimes essential, for programmes sponsored by SSM, to enter into a partnership with a Turkish company and provide for local manufacture of some or all of your products in Turkey. Working with a good local partner should not only provide much of any required offset, but will also give you additional lobbying power and presence

HMG Support

Most defence business is carried out in Ankara and companies new to the Turkish defence market are strongly advised to discuss as early as possible what prospects may exist for their products with both the UKTI DSO Desk Officer in London and the Trade and Investment Manager in Ankara. The defence section in the British Embassy in Ankara comprises a Defence and Military Attaché (Colonel level) and a Naval and Air Attaché (Commander level).

A sound knowledge of US export controls/ International Traffic in Arms Regulations (ITAR) and processes for applying for US import/export licenses. A Technology Assistance Agreement (TAA – see para on Export Controls) may be required in order to share technology and deal with US companies;

UKTI Overseas Market Introduction Service (OMIS)

The OMIS service will allow us to provide you with a package of research and in-market support, including briefings, market analysis and identification of potential business partners. It could also cover information on competitors and local regulations. More information about this service is given on UKTI website (Export – How we can help – accessing international markets – OMIS).

Security Clearance

Applications to export controlled goods and technology should be made to the Export Control Organisation (ECO) in the Department for Business, Innovation and Skills (BIS). The ECO website is on the BIS website at www.bis.gov.uk/exportcontrol.

Applications to release classified information overseas should be made to the MOD. MOD Form 680 and the guidance on completing the form are available on the MOD website.

ARMED FORCES – MILITARY STRENGTH

Active	510,600
Army	402,000
Navy	48,600
Air	60,000
Paramilitary	102,200
Reserve	378,700
Army	258,700
Navy	55,000
Air	65,000
Paramilitary	50,000

Source IISS and the Military Balance 2010

NB. Turkey is implementing a major reform of the army leading to a 20-30% reduction in size over the next few years

SECURITY ISSUES

Memberships:

- NATO (North Atlantic Treaty Organization)
- OSCE (The Organization for Security and Co-operation in Europe)
- Member of the UN
- Associate member of the Western European Union
- Candidate for accession to the European Union

Involvement in overseas deployments:

Afghanistan, Arabian Gulf & Indian Ocean, Bosnia-Herzegovina, Cyprus (Northern), Iraq, Lebanon, Serbia, Sudan.

IDENTIFIED DEFENCE IMPORTS AND EXPORTS 2005-09

Turkish Defence Import Procurement:

Total: \$8.5 Billion

Top Five Country

Suppliers/Market Share:

	\$BN	%
USA	3.5	42
Italy	2.5	29
Germany	1.3	15
South Korea	0.65	8
Israel	0.3	3.5

Source: UKTI DSO Survey of Defence Exports & Various Open Sources

Identified Turkish Defence Exports:

Total: \$1 Billion

Key Customers:

	\$M
USA	257
NATO	156
Malaysia	114
South Korea	97
Iraq	91

Source: UKTI DSO Survey of Defence Exports & Various Open Sources

COMPETITORS

The Turkish defence procurement market is dynamic with USA, Israel, Russia, China, Italy and South Korea all jockeying for position. Since summer 2010, the current deterioration in the Israeli bilateral has led some commentators to suggest that "space" may be created in the market that other competitors can exploit, perhaps creating more opportunities for UK companies too.

The U.S., always well-placed, may take advantage: it already has two routes to market: Foreign Military Sales (FMS), administered by the Defense Security Cooperation Agency, and Direct Commercial Sales (DCS). Regarding U.S. assistance, as part of their co-operative effort to enhance Turkish economic & military self-reliance, the U.S. has already loaned and granted Turkey over US\$12.5bn in economic aid and more than US\$14bn in military assistance. U.S. companies such as Sikorsky, GE and United Defense have direct investments in Turkey.

France's President Sarkozy is planning to visit Turkey late-2010 or early in 2011 but is a vocal opponent of Turkey's bid to join the EU, which may hamper relations and restrict trade opportunities. China and Russia (S-300) are both competing in Turkey's competition for a SAM system.

South Korea is forging closer ties with Turkey. Korea Aerospace Industries (KAI) and Turkish Aerospace Industries (TAI), their respective principal aerospace companies, are due to deliver their first jointly manufactured basic trainer aircraft, the KT-1T, to the Turkish Air Force (TSAF). Turkey's SSM and KAI signed in 2007 a US\$350 million contract to produce 40 KT-1Ts for the Turkish Air Force. Production of the aircraft is near completion. There are already close ties between the two countries and their defence industries. Turkey builds howitzers under South Korean license and a South Korean company is providing technical assistance to Turkish efforts to design, develop and manufacture Turkey's first main battle tank (MBT). The countries are also keen to develop economic and energy ties. However, negotiations over the construction of nuclear power plants (four nuclear reactors) have come to a halt due to various disagreements. Their leaders had been expected to reach a deal during the Seoul G20 Summit, but that did not happen, and while talks are expected to continue, Turkish officials have hinted they intend to start negotiations with Japan and other countries.

Italy's Finmeccanica announced in November 2010 that AgustaWestland had been awarded a contract for nine T129 combat helicopters; these will be assembled by TAI and delivered by mid 2012 in a basic configuration, one year earlier than the 51 T129s already on order. This contract increases the total ordered by the Turkish Land Forces Command to 60. TAI is the Prime Contractor for the overall ATAK Programme, with Aselsan as the supplier of avionics and mission equipments while AW is acting as subcontractor to TAI. In April, the SSM announced that Turkish company Aselsan had been selected to develop/manufacture the Helmet Integrated Cueing System (HICS) for the helicopter, with France's Thales selected as their main partner.

Turkey's ambitions to build up domestic capabilities may afford potential opportunities for U.S. and European companies as subcontractors (suppliers and service providers) to Turkish prime contractors. The trend towards globalisation has seen some foreign-owned companies, including ones with UK based subsidiaries, play an increasing role in the global market. Such companies may be in direct competition to UK-sourced solutions, whilst in other cases their UK subsidiaries may be able to leverage business opportunities in Turkey through corporate-led activity and/or partnerships.

PROCUREMENT ORGANISATION

Undersecretariat for Defence Industries (SSM)

SSM is the second organ that was established by the Defence Industry Law, and it was given the main duty of putting into effect the decisions taken by the Executive Committee. In this regard, SSM was given a special legal entity of its own, as well as its own extra-budgetary financial resources. Along those lines, the main tasks and responsibilities entrusted upon SSM are as follows:

- Putting into effect the decisions taken decisions taken by the Defence Industry Executive Committee;
- To reorganize existing Turkish Industry in line with the prerequisites of defence industry;
- To plan the production of modern arms and equipment at private and public sector entities;
- To realise research and equipment of modern arms and equipment, to have their prototypes built, to make advance payments, plan advance orders and determine other financial and economic supports.

To coordinate export and offset trade issues relating to defence industry products, of which the major ones are as follows:

- Armoured and tactical vehicles
- Combat and support vehicles
- Aircraft and helicopter modernisation
- Unmanned air vehicles
- C4I systems
- Electronic warfare and sensors
- Simulators
- Weapon systems and ammunition
- Repair and maintenance services and logistics products

SaSaD (Defence Manufacturers Association)

SaSaD was established in 1990, in Ankara with the encouragement of Ministry of National Defence. SaSaD members are manufacturers, which received orders and/or produced defence equipment for Turkish Armed Forces or export.

Basic functions of SaSaD can be listed as follows:

- Establishes cooperation and support among its members;
- Provides cooperation between procurement authorities and defence industry companies;
- Announces NATO, NAMSA and domestic requests/ invitations for procurement;
- Follows developments in defence industry activities in Europe; US and others to inform its members and related authorities;
- Being a member of Aerospace and Defence Association of Europe (ASD) contributes to the activities of ASD;
- Proclaims for difficulties encountered by its members to related authorities;
- Encourages the participation of its members to national and international defence fairs / exhibitions / conferences;
- Presents Turkish defence industry;
- Conducts a yearly survey on the financial profile of the Turkish defence industry and publishes the result;
- Organises special committees / working groups and carries out activities for the development of defence industry.

SaSaD started with 12 companies in 1990, as of 2007 they have 66 members and 19 associate members in the communication link.

OFFSET POLICY

In its efforts to support local industry, the new offset directive was adopted on 14 February 2007. The Turkish government aims for 50% overall local production in defence procurement. It has been stringent in seeking to procure equipment from indigenous industry or, failing that, to seek full offset arrangements from a foreign manufacturer run for a defence-related contract or a co-production deal involving foreign and local contractors. The emphasis on domestic production could, in the longer term, mean a decrease in business for some Western defence suppliers for whom Turkey has provided a lucrative export market. At the same time, the emphasis on co-production has led Turkish defence manufacturers to seek foreign contracts.

KEY PERSONALITIES

Minister of National Defence	H.E Mr Mehmet Vecdi Gonul
Commander of Turkish Armed Forces	General Işık Koşaner
Commander of Turkish Naval Forces	Admiral Uğur Yiğit
Commander of Turkish Land Forces	General Erdal Ceylanoğlu
Commander of Turkish Air Force	General Hasan Aksay
The General Commander of Gendarmerie	General Necdet Özel
Commander of Coast Guard	Rear Admiral İzzet Artunç

FURTHER INFORMATION

UKTI Defence & Security Organisation

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OTHER USEFUL WEBSITES

UKTI – Doing Business in Turkey
<http://www.ukti.gov.uk/export/countries/europe/southerneurope/turkey/doingbusiness.html>

The Export Credit Guarantees Department (ECGD) is the UK's official Export Credit Agency. It provides a range of services including risk protection, bank loan guarantee and political risk insurance in overseas markets. The ECGD website is:

www.ecgd.gov.uk

Turkish General Staff:
www.tsk.tr

Turkish Ministry of National Defence:
www.msb.gov.tr

Turkey Travel Advice

Travel information and general embassy contact details can be found at:

<http://www.fco.gov.uk>

Foreign Consular Offices in the Turkey

Media, travel, careers, business and state links/ information can be found at

Visa Services and Links
<http://ukinturkey.fco.gov.uk/en/>

The CIA World Factbook

Provides information on the history, people, government, economy, geography, communications, transportation, military, and transnational issues for 266 world entities. The Reference tab includes: maps of the major world regions, as well as Flags of the World, a Physical Map of the World, a Political Map of the World, and a Standard Time Zones of the World map.

<https://www.cia.gov/library/publications/the-world-factbook/>

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