CONSTRUCTION & INDUSTRY

Contractors find there is no place like home

FOR the first time in many years, Turkish contractors look likely to earn more from the domestic market in 1985 than from the entire Middle East. Thanks chiefly to the continuing slide in regional oil revenues, the value of overseas contracts awarded to Turkish firms in 1984 fell to $530 million, a massive 60 per cent down on the previous year and 90 per cent less than the peak of $5,511 million in 1981. Against this background, opportunities coming up in the Ankara government's externally funded development programme are beginning to look increasingly attractive.

"Until the year 2000, the government's main development priorities will be transport and energy," says Teoman Baykal, special adviser to Public Works & Housing Minister Sefa Giray. Expansion in these sectors is vital if the government is to achieve its aim of establishing Turkey as an international trading power. Foreign financing will be required for most large energy and transport projects, and foreign contractors will be welcome along with offers of external funding, Baykal says.

The government has already shown its commitment to developing transport with the speedy award in May of a $551 million contract for the second Bosporus bridge and associated motorway. The job went to a consortium led by the local Sezai Turkes-Feyzi Akkaya and Japan's Ishikawajima-Harima Heavy Industries, and backed by extremely attractive Japanese concessionary financing. This sparked off a quarrel between the UK and Japan about the latter's allegedly predatory terms compared with the UK funding package which supported the unsuccessful second-lowest bid.

Now the authorities are considering inviting all the unsuccessful bidders to tender for completion of the motorway up to Ankara, using the unit costs prepared for the bridge competition and the funding pledges secured from governments and their official export credit agencies.

Several other large transport projects centre on Istanbul. US-financed feasibility studies are being prepared for a rail tunnel crossing under the Bosporus and an associated city metro scheme which could cost up to $1,000 million, while tenders have already been returned for the $60 million-70 million first stage of a light rail network which eventually will link up with the metro and rail tunnel. At the city's Yesilkoy international airport, a second terminal and expansion works are planned.

Elsewhere, a contract may be awarded soon to a consortium of Canadian consultants for the design of a metro system for Ankara. And the Turkish railways authority, TCDD, is expected to invite tenders in late summer for a four-phase signalling and electrification programme. In total, TCDD plans to spend about $55 million on railway modernisation in 1985, including consultancy studies to upgrade and modernise Istanbul's two main railway stations. With West German assistance, the Public Works Ministry is attempting to speed up completion of the long delayed high-speed line between Ankara and Istanbul.

Other major transport projects in hand or coming up include a $174 million, World Bank-supported programme of works to improve container handling at four ports, and construction of more expressways linking major urban centres and providing cross-country transit trade routes. According to Baykal, the priority to be enjoyed by the various modes of transport will be decided at the end of 1985, when a review is completed of the 10-year transport masterplan initiated in 1982.

In the programme to expand electricity generation, hopes of an early award for the construction at Akkuyu of Turkey's first nuclear power station have been dashed by a stalemate in negotiations between the government and a group led by West Germany's Kraftwerk Union (KWU). The discussions stalled over the amount of exposure the government expected KWU to take in a company to run the plant on completion, through which the German firm would recoup its investment.

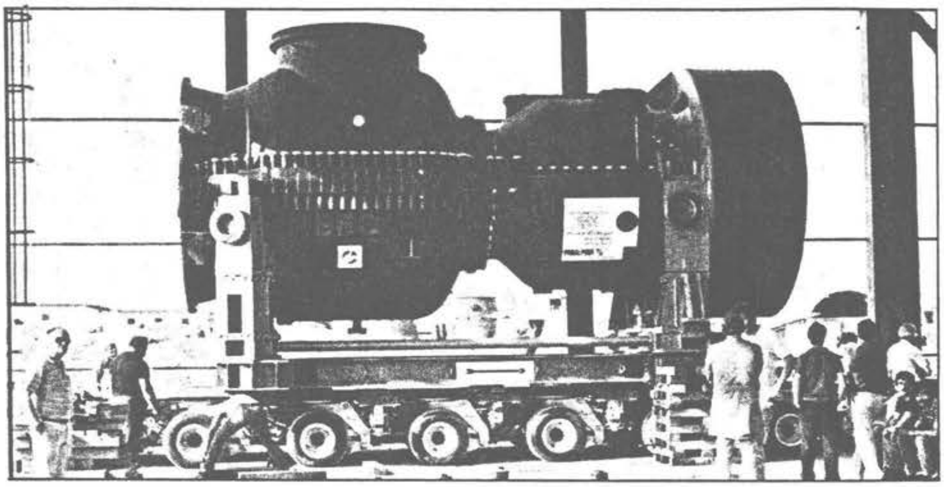
A similar franchise-type arrangement had been sought by the government, without success, for the Bosporus bridge scheme, but Baykal says it is an approach that will continue to be explored for large projects — particularly in the power sector — that require foreign construction expertise and external funding.

It will be discussed, for example, with Western groups carrying out feasibility studies for three coastal thermal power stations fuelled by imported coal, and for a proposed geothermal plant in the southeast.

In general, the power plant construction programme seems set to provide both local contractors and foreign equipment suppliers with lucrative awards for the foreseeable future. TEK, the state-owned electricity board, has a 1985 investment budget of TL 400,000 million ($760 million) for thermal power plant building, while about 13 hydroelectric stations are under construction or planned by both public and private clients. Tenders are likely to be called in July for one of the largest of the hydro-schemes, the $570 million Karyaraktepe dam, if the World Bank approves a loan.

The expansion in major project opportunities may suggest boom conditions in the domestic construction sector. In fact, its low rate of growth since 1980 has continued, while its contribution to gross domestic product (GDP) in 1984 was marginally down on the previous year. Conditions in 1984 were bad enough for the government to rule that bids not falling within 20 per cent of engineers' estimates should be rejected in order to dissuade reckless pricing.

However, according to Lutfi Solakoglu, international relations adviser for the Turkish contractors' association, the first few months of 1985 have seen some improvement, especially in the housing market. Although a housing fund introduced by the government in 1984 fell 40 per cent short of its year-end budget, and contractors complained there was not enough to go round, in 1985 it has been supplemented by a 10 per cent levy on electricity sales in addition to revenues from luxury taxes.



BBC Brown Boveri

Power plant expansion offers lucrative opportunities for local and foreign contractors

Solakoglu is not optimistic about the wider Middle East market, however. "Of course, we will hang on and try to do our best," he says, but he notes that Turkish firms are beginning to prospect further afield — one contractor, for example, in joint venture with a Chinese concern, is currently in line for a dam project in Pakistan, while others are chasing opportunities in Malaysia and Indonesia. In the region itself, firms are spreading their nets wider in markets that are relatively new to them — like the Yemens, Egypt and Algeria.

The slump in established markets has been most drastic in Libya, where the value of new contracts won in 1984 plunged to a mere $75 million, compared with a record $4,760 million in 1981. Saudi Arabia has taken over as Turkey's most lucrative market for new work, with orders worth $439 million in 1984.

Turkish firms in Libya have been shouldering a burden of delayed payments totalling up to $700 million for about two years, while the two governments attempt to devise a practicable solution to the problem. Recent talks in Ankara were described as "positive," with a Libyan pledge to repay about $50 million of the debts as soon as possible. Yet this is only the tip of an unquantified amount that remains trapped in the Libyan bureaucratic system and has yet to surface for consideration by the treasury.

A further cause of friction has been the axing of small and medium-size contracts held by about 80 Turkish firms, in a general economy drive and change of development priorities as the Libyan government attempts to make the best of its depleted oil revenues.

Most firms working in Libya continue to struggle on, for fear of losing their stake in a market that still has a potentially lucrative long-term future. Also to be considered are the penalties that would be incurred for pulling out — performance bonds for 71 Turkish contractors working in the country total $1,124 million.

From the Turkish government's point of view, maintenance of good relations with Libya is an economic imperative, not least because of the valuable remittance income generated by the 60,000-80,000 Turkish labourers employed there.

With unemployment in the domestic industry ranging as high as one in five, there is no shortage of recruits for labour forces in Libya or anywhere else in the Middle East. Turkish firms still prefer to use Turkish workers, because of their skills and cultural and religious affiliations with regional markets, even though Asian wage rates may be cheaper.

Saudi Arabia is Turkey's most reliable overseas contracting market at present, but ever-increasing competition and keener prices, particularly from South Korean firms, are posing a serious challenge. The Turks are also being squeezed by stricter enforcement of the rule that requires at least 30 per cent of main contracts won by foreign firms to be subcontracted out to local companies. This inevitably reduces the amount of subcontract work available to Turkish firms, which hitherto has been a vital component of their Saudi market share.

In the long term, one of the biggest threats to Turkey's general civils contractors is the shift in emphasis towards more high-technology contracts as Saudi Arabia aims for industrial self-sufficiency by diversifying into downstream and non-oil sectors.

Meanwhile, the backlog of delayed payments experienced by many firms in Saudi Arabia in 1983 has eased, and finding financial support for Saudi business is less of a problem now that four Turkish banks have been included on the Saudi Arabian Monetary Agency (SAMA) guarantee list.

The third-largest overseas contracting market for Turkish companies is Iraq, but new contracts there totalled only $20 million in 1984. There are about 20 Turkish firms working in the country, mainly on irrigation schemes and industrial installations. Iraqi payment terms are reasonable, whether on an oil-barter basis or in cash. For their part, Turkish contractors say they have an advantage over other foreign firms in their readiness to accept payment in oil rather than cash, and in cheaper transport costs across the common border for workers, equipment and building materials.

Contract financing for Iraq is agreed at a government-to-government level, and the two countries recently signed an overall debt-deferral agreement for the third year running. Performance bonds provided by Turkish banks carry counter-guarantees from Iraqi banks — at present, 20 firms have bonds lodged, totalling $78 million.

Iran, by contrast, has been a difficult market to penetrate, with stiff conditions about the involvement of scarce local labour and contractors, and risky oil payment terms. However, the log jam appears to have been broken now that agreement has finally been reached for a downpayment to be made on a $93 million cement factory contract. In mid-May, moreover, an Iranian mission visited Ankara and Istanbul to discuss the possibility of assistance from Turkish firms in irrigation and dam construction.

Like many other international firms, Turkish companies are pinning their hopes for a surge in new regional work opportunities on an early end to the hostilities between Iran and Iraq.

Baytur steps in where others fear to tread

BAYTUR, contracting subsidiary of the giant Cukurova group of companies, won its first foreign awards in Iraq and Libya in 1979. Its total annual sales have risen steadily since then, almost trebling between 1981-83 to $63 million. Last year it won contracts totalling $110 million in Saudi Arabia and Iran, but its largest market abroad is still Libya, despite the present squeeze on work opportunities there.

"Libya is now at saturation point for Turkish firms," says a senior company executive. But he is not unduly pessimistic about the future for Baytur there, and thinks Libya's cash-flow problems will start to improve in the next two years as industrial recovery in the West generates increased demand for oil.

Though the firm is not bidding at present in Libya, it is reviewing two or three proposals and considering the possibility of taking over work that other Turkish firms have failed to complete. Its substantial workload includes two large housing jobs at Aziziya totalling $80 million, both of which will be completed by mid-1986. It is about to finish a $20 million infrastructure contract in Tripoli, and in joint venture with another Turkish firm, Tek-Ser, it has sewage treatment and piping contracts worth a total $154 million at Misurata and Tobruk.

In Iraq, Baytur has been taking payment in fuel oil for the past two years, the executive says. Since 1979 the company has won about $200 million worth of contracts in Iraq, mainly drainage and irrigation projects for the State Organisation for Land Reclamation. Again, it has been working in joint venture with another Turkish firm, Oz-Gu. It is hoping to start soon on a $60 million road running from the northeast to the southeast of the country.

"A lot of foreign contractors in Iraq have not been able to survive because of oil-barter terms," the executive says, "but it's easy for Turkish firms to do that kind of deal because we can more easily arrange transportation and are more flexible." As in Libya, Baytur is hoping to take over work left unfinished by other foreign firms which have been forced to pull out.

The going has been tougher in Iran, but the company has finally received the downpayment which will allow it to start work on a $93 million contract for construction of a 750,000-tonne-a-year cement plant at Ardabil, close to the Turkish border. One of the factors holding up the downpayment was the need for all the Iranian parties concerned to agree necessary price adjustments for the oil in which the contract will be settled.

In Saudi Arabia Baytur is busy tendering for more work to add to its $54 million worth of subcontracts in hand. These are for a heavy equipment research laboratory at Dhahran's University of Petroleum & Minerals, and a housing scheme at Al-Jouf. "Prices have fallen very low," says the executive. "Even big names in Western contracting now tender for the smaller jobs. It all depends on a contractor's ability to mobilise quickly."

A measure of Baytur's adventurous approach to the search for new work is that it is now prospecting the Jordanian market. The company admits that Jordan's construction sector is not exactly teeming with tender calls, but it is clearly prepared to spread its net wide in order to bolster turnover.

STFA success heartens local firms

SEZAI Turkes-Feyzi Akkaya (STFA), one of the first Turkish contractors to venture into overseas markets, carried off a major domestic job recently to counterbalance the foreign work that has dominated its turnover for the past decade. As an added bonus, the award in question — to build the second Bosporus bridge and associated motorway — has been the subject of much international attention. STFA heads the consortium which, with the backing of concessionary Japanese finance, will carry out the $550 million project.

STFA's success is also a heartening sign for other Turkish construction firms, which have been looking for an upturn in the domestic market to offset their fading fortunes elsewhere in the Middle East. "The local construction sector for major projects is booming," says STFA's marketing director Ayhan Sayrac, pointing also to the company's recent $15 million award for a thermal power station at Orhaneli, south of Bursa. As a further cushion against gloomy prospects in the Arab world, STFA is prospecting foreign markets further afield, and has been bidding with particular energy for contracts in Malaysia.

For the time being, however, the bulk of the company's work in hand lies firmly in the Middle East, which has fuelled a steady expansion in net pre-tax profits from $107,000 in 1974 to $25.8 million in 1983, with a peak of $42.5 million in 1982. However, the decline in its regional workload is clearly reflected in annual turnover figures, which fell from $236 million in 1982 to $205 million last year.

Founded in the early 1930s, STFA first worked abroad in 1973 on a contract in Libya for the construction of a breakwater at Tripoli harbour. This was followed by several other Libyan harbour works jobs in the 1970s. Libya is still the company's main source of work in the region, although its earnings there fell sharply last year to $94 million, compared with $166 million in 1983. It is currently completing about $250 million worth of port construction, and is involved in lengthy negotiations for another $350 million harbour contract, part of the $3,000 million Sirte port and industrial area scheme.

The company moved into Saudi Arabia in 1978 with a contract for the Muna tunnels in Makkah, and has a Saudi joint venture, Rio STFA. There have been further contracts in Makkah since then, and the joint venture is hoping for highway construction work to sustain its Saudi turnover in 1985.

Saudi Arabian clients still pay in cash, but the company has been forced to deal on barter trade terms in most of its negotiations for new Middle East contracts, particularly in Libya. Barter terms also apply in Tunisia and Morocco. In Tunisia, STFA is looking at port construction, airport extensions and roads; in Morocco, it is interested in plans to build a phosphate export terminal near Layoun.

At home, the company has been preparing to take advantage of forthcoming opportunities in the government's ambitious power plant construction programme. A new subsidiary, STFA Enerji, has been formed recently to consolidate the group's expertise in construction of transmission lines, power plants and telecommunications systems. Another new firm, STFA Teknolojik Montaj, has been created to keep the group abreast of the latest developments in construction technology.

Entes looks to Libya for new building work

FROM small beginnings, as an offshoot of the Ozkoseoglu industrial group, Entes has emerged as a star performer. Led by its president, Yavus Kilic, it has established itself among the top six Turkish companies that specialise in turnkey industrial contracting. Its five main rivals are Gama, Guris, Tekfen, Enka Holdings' Cimtas, and Alarko.

Says Muammar Arikan, the company's area manager for Libya: "There is fierce competition, but we are one of the few distinguished erection and installation firms in Turkey and we are very proud that of the 350 jobs we have been awarded to date, not one has been left unfinished."

At home, Entes has built refineries and petrochemical, chemical, and fertiliser plants, cement and lime works, food and textile factories, and metal processing and mineral dressing plants, as well as non-industrial buildings.

Outside Turkey, its work has ranged from the restoration of Giad castle in Makkah to building bakeries in Iraq, and sewerage and ancillary projects in Libya.

Entes' first two contracts in Libya are about 98 per cent complete; the company is now bidding for a further four projects there, valued at about $300 million.

Asked why the company goes on bidding for work in Libya when many Turkish contractors are known to be facing substantial problems there, Arikan replies: "Yes, we too are still owed a substantial amount of money [about $13.5 million], but we have successfully completed our job and we think we have an edge over some other firms."

Arikan is optimistic about long-term prospects for Turkish contractors in Libya: "Things aren't going to stay like this for ever. They are bound to get better some time, we are sure."

The company is also keeping a keen eye on Iraq. Says Arikan: "The war must finish some day, and then we want to be in that market." It has also paid somewhat inconclusive visits to Iran, but like many Turkish contractors, feels that the country is not quite ripe for doing business.

The group is currently bidding for a cement works contract in Algeria, a power plant in Egypt (as subcontractor to K H International Company of South Korea), and a water and sewage treatment project in Jordan. As far as domestic prospects are concerned, it is chasing the contract for the Akdeniw Gubre fertiliser works, various highway construction jobs and the Istanbul traffic signals project.

It is also building the 1,400-bed holiday complex at Palmiye near Kemer, 40 kilometres from Antalya. The venture, which should be one of the Turkish tourism industry's main attractions, is expected to open for business in 1987.

The group put in consortium bids for the second Bosporus bridge and the second Iraqi pipeline. "But in both cases," says Arikan, "the US companies we were dealing with chose to withdraw from the consortium at very short notice. We didn't have enough time to regroup the consortium and participate. We were only given three days' notice for the withdrawal on the second Bosporus bridge. Board decisions seem to have been responsible."

Arikan says international financing for Turkish contractors is still rather difficult to obtain. "And with the two contracts I just mentioned, we lost two of our biggest chances in a decade," he adds.

Industry counts the cost of recovery

THE Turkish government might well be pleased with its achievements over the past year. There are encouraging signs that industry is responding to its prescription for recovery. Manufacturing output looks set to grow by about 8 per cent in 1985, while private investment is likely to rise by 6 per cent — the best showing for several years. Factories have now increased their capacity utilisation from 61.5 per cent in 1984 to 78 per cent this year.

Attempts to alleviate the labour problems that bedevilled Turkish industry before 1980 have also paid off. Apart from a few minor strikes, industrial unrest looks like being slight for the next few years. At the moment, wage increases in the private sector are not lagging too far behind inflation, with the textile and metal industries granting rises of more than 100 per cent over two years.

But these achievements have their price, and many companies are suffering. Says one Istanbul businessman: "Turkish industry is going through a restructuring process and that is bound to hurt. But what many people don't appreciate is that conditions are a lot tougher than the government would have us believe. We have to run hard to stay where we are. It is not just a question of high interest rates, but also of general conditions of profitability."

Prime Minister Turgut Ozal's government has taken a calculated risk in assuming that the large holding groups, oriented towards the domestic market and easy credit terms, will be able to survive more than half a decade of deflationary policies, realistic rates of exchange and constant credit restrictions.

Undoubtedly, the companies that have taken up Ozal's challenge and made forays overseas stand a better chance of success. Indeed, the division between exporting and non-exporting industries is likely to grow more pronounced with time. "One would predict strong growth for the exporting sector of Turkish industry," says one US economist. "But the outlook must be much bleaker for those sections of industry which don't export."

Revival

One sector enjoying an unexpected revival is the motor industry, where sales of cars, trucks and tractors have all done reasonably well. This is despite the government's willingness to open up the sector to foreign competition, resulting in strong challenges from manufacturers such as Volkswagen, Audi and Opel.

The electronics industry has been singled out by the government for special attention. A decree to encourage the sector was rushed through more than a year ago, and imports have been liberalised to enable companies to keep up with international developments. Growth of around 12-14 per cent a year is expected during the fifth five-year plan (1985-89). Such expansion will be fuelled by Turkey's substantial investment in telecommunications, and by the development of the colour television and video markets.

One market leader is likely to be Vestel, a joint venture between Thorn EMI and the Asil Nadir (Polly Peck) Group. Vestel opened its Manisa factory in May, and has already succeeded in denting the prestige of Japanese firms in Turkey. In a country that has so far opted solidly for the Betamax video system, Vestel appears to be succeeding — thanks to a massive advertising campaign — in persuading many Turks to think seriously about the rival Video Home Services (VHS) system. As well as developing electronics, the new five-year plan lays emphasis on other industries, notably shipbuilding and aircraft manufacture.

Management is one area that must be strengthened if Ozal's industrial policies are to succeed. Informal and family contacts, more than any other factor, still determine recruitment and promotion — even in many of the big groups. Another problem is that, although management courses are run in the larger universities, the more successful students tend to emigrate to countries where the salaries are higher.

Says one ambassador to Turkey: "Management training is the weak area of Turkish industry. If the Turks can learn how to bring management and organisation up to the topmost international levels, then I would be a lot more optimistic about the success of the Ozal government's policies."

Privatisation goes full steam ahead

PRIVATISATION on an unprecedented scale is taking place in Turkish industry. The move will not only transform the country's industrial profile, but — if successful — could mark an end to state ownership of manufacturing, and certain service industries.

At present, state economic enterprises (SEEs) account for about two-thirds of fixed-capital investment in Turkey, but change is already in the air. Among those who have to date enjoyed a monopoly, or virtual monopoly, in their sectors are spirits and tobacco manufacturer and distributor Tekel, the Turkish railways authority (TCDD), the post, telephones and telegraph (PTT) administration, T Seker (Turkish Sugar Factories Corporation), CAY-KUR tea processing, and petrochemical plants.

While SEEs also dominate such areas as paper, lignite and fertiliser production, they face stiff competition from the private sector in textiles, cement and animal fodder.

The first SEEs were set up in the 1930s to supply basic goods such as ceramics, glass, textiles, and iron and steel. Over the years, however, they have multiplied to become disparate and unwieldy.

Critics point to a wide range of shortcomings: over-staffing, low-pay, bad management and, often, poor geographical location are among those most frequently voiced. The huge cost of the enterprises — largely through state price subsidies — has been a worry for some time.

Over recent years, however, attempts have been made to bring the SEEs under control, and many now show an operating profit. Expenditure has been curbed and investment programmes trimmed. Many SEEs are allowed to set their own prices, and staffing — in some cases — has been reduced to realistic levels.

Still, there is a long way to go, and the IMF has been pressing Turkey to take more direct action on the enterprises. When Turgut Ozal became prime minister in 1983, he rushed a law through parliament allowing the government to issue bonds in revenue-sharing schemes, and to sell shares in the SEEs.

Aware that the SEEs were sacrosanct in some circles, Ozal fought the 1984 local elections on the privatisation issue, and emerged victorious. Armed with a new mandate, he pushed through a major reorganisation of SEEs linking them directly to ministers of state, whom he intended to act as troubleshooters.

In November 1984 an initial TL 10,000 million ($19 million) of revenue-sharing certificates for the Bosporus bridge were put on the market, and sold out within hours. They were rapidly followed by a further TL 40,000 million ($76 million) in certificates for the Keban hydroelectric dam in the southeast. The initial amounts issued were deliberately small and were handled by one bank — Turkiye Is Bankasi — which guaranteed in advance that it would buy out any shares left unsold after a fortnight. A second float of revenue-sharing certificates is to go on sale in July.

In the summer of 1984 the government decided to privatise state carrier, Turkish Airlines. This was to be the first of 32 SEEs to be earmarked for privatisation. Government bodies involved are the State Planning Organisation — headed by the prime minister's younger brother, Yusuf Bozkurt Ozal — and the Mass Housing & Public Participation Fund, headed by Vahit Erdem. Planning appears to be carried out by several sections, with Adnan Kahveci, the prime minister's chief adviser, being a key decision-maker.

To facilitate selection, an inventory of state ventures was compiled. The list, including small plants and scattered enterprises, was longer than might have been supposed. The SEEs were then grouped into five categories. The first consists of firms which, like Turkish Airlines, can simply be sold off. The second comprises companies which are potentially profitable, but need some reorganisation before being sold. The third groups ventures which can be leased or contracted to private investors. The fourth lists uneconomic concerns which should probably be shut down, and the fifth includes enterprises which can never expect to be privatised.

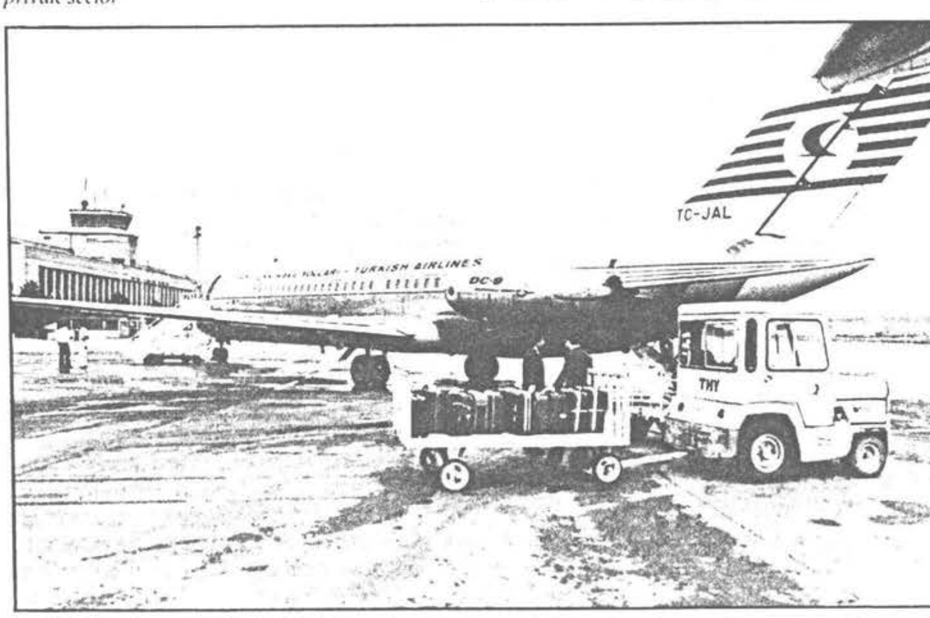
In the spring of this year, the government invited eight foreign consultants to submit privatisation proposals for the 32 ventures finally selected. These were returned by 23 May and are now being assessed. The firms invited to participate were Morgan Guaranty Trust Company of New York, Chase Manhattan Bank, First National Bank of Boston, and accountant Arthur Young — all of the US — and the UK's Morgan Grenfell & Company, N M Rothschild & Sons, Lazard Brothers, and Henry Schroder J Wagg & Company.

Meanwhile, some privatisation has already taken place. The government has broken the state monopoly on tobacco and cigarette production by allowing Best — a venture involving the UK's Rothman International and local partners — to set up a factory in Bitlis. Production is expected to start in October. In addition, Liptons, part of the Netherlands' Unilever group, is investigating the possibility of a joint venture in the tea industry, currently the preserve of CAY-KUR.

A new law has also opened up minerals exploration and exploitation to private investors, both local and foreign. Included are strategic metals such as thorium — a radioactive substance — which were previously banned from private exploration.

Electricity production is another area where a state monopoly has been eroded. In its determination to make Turkey self-sufficient in electricity by 1989, the government has allowed the private sector to become involved. Two private firms, Cukurova Elektrik and Kepez, have been producing about 7 per cent of the country's electric power for several years. Now a number of local industrial groups are considering building power plants, and three ventures have already been issued with construction permits. State electricity board TEK has set up a company specifically for joint ventures in energy production.

Turkish Airlines — first on the list for sale to the private sector



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