



HEAVY LIFT

& PROJECT FORWARDING INTERNATIONAL

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Wallenius
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Great expectations?

Turkey's location makes it an ideal transshipment point for cargoes moving between markets in the East and West. Political and economic developments have tarnished perceptions of the country in recent years – but all is not lost, writes *Megan Ramsay*.



Given the sensitivity of project and heavy lift transportation to both the political agenda and economic fluctuations, it is not surprising that Turkey's potential to grow has stalled of late.

Omer Cetin Nuhoglu, president at trailer manufacturer Tirsan and chairman of the International Transporters' Association of Turkey, explained: "The Turkish economy lost its growth momentum in 2018 because of the very hard depreciation experienced in the Turkish lira and the substantial interest rate hikes following the rapid rise in inflation."

This caused a serious decline in domestic demand, with a knock-on effect for investments in the manufacturing, construction, industrial and energy sectors.

"This has affected many service providing sectors as well as project transportation," Nuhoglu observed, pointing to the imbalance between supply and demand.

Despite rising inflation and the depreciation of the lira in 2018 and 2019, and the resultant hike in costs for service

providers, passing on those higher costs to customers was not an option. Heavy lift and project transport firms have thus seen a drop in turnover and profitability during the last two years.

"In addition, increasing interest rates in the USA have pushed up the cost of loans – in dollars – that are funding many of Turkey's infrastructure and power projects. For those firms that borrowed in foreign currency during this period, 2018 and 2019 were a "survival process", Nuhoglu said.

"Thus, the economic crisis, which started in 2018, continued to show its effects as an economic downturn, high inflation and unemployment in 2019," he concluded.

Perception

Some in the industry are concerned that external perceptions of Turkey are overly pessimistic and are contributing to the slowdown in its growth.

Bahadır Erdil, global projects director at Logistics Plus and managing director at Logistics Plus Turkey, said: "For new investments and projects, Turkey is



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– Omer Cetin Nuhoglu, Tirsan

Kira Logistics said that investment in Turkey slowed during 2019, with fluctuating exchange rates and higher interest rates making it hard to borrow money. However, the prospects for 2020 are better.

financially and politically stable right now. But people do not see it like this from outside. They watch the arguments between American, European and Turkish politicians on the news."

Turkish President Recep Tayyip Erdogan has been strengthening the country's ties with Russia, whose state-owned Rosatom is constructing Turkey's first nuclear power plant at Akkuyu in Mersin.

The decision to purchase Russian fighters rather than US-built planes has only added to the tensions between Turkey and its fellow NATO members.

Relations with the USA are particularly tense at present. In October, for instance, the USA pushed up tariffs on Turkish steel to 50 percent, and called a halt to all trade negotiations with Turkey, citing the country's actions in neighbouring Syria.

Erdil said the fluctuating tariffs between the USA and Turkey are affecting projects, both directly and indirectly. For example, in 2019, companies involved in US transmission line projects tended to avoid importing Turkish products due to the uncertain trade relations between the two countries.

On top of the political divergence between the USA and Turkey, the latter is experiencing instability on its southern border, serious immigration problems arising from the civil war in Syria and threats of terrorism from various organisations – plus international disagreements regarding how best to solve these problems – all of which are creating greater uncertainty.

Infrastructure complications

An ongoing difficulty for the project logistics sector in Turkey is the country's infrastructure and its effect on the cost of delivering logistics services.

"Unfortunately, the Department of Transport, municipalities and the General Directorate of Highways are not in good concordance with each other and the industrial zones," Erdil explained. "Manufacturers have been unable to transport their products to the nearest ports due to new tunnels, bridges and viaducts.

"I can count more than ten projects in Turkey that have been lost due to high logistics costs. In Q1 2019, new projects were tendered by European companies active in the CIS, and those European manufacturers were selected for the projects instead of Turkish manufacturers.

"The reason is simple," Erdil continued. "Turkish factories are spending fortunes on their FOB [free on board] costs. At the end



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– Bahadır Erdil, Logistics Plus

of the day, not only are the factories losing business but also the logistics companies, Customs brokers, warehouses, ports and all other related parties. It is a domino effect."

'Wrong approach'

Another part of the problem is what Kaan Aydın, business development manager at Bati Innovative Logistics, defines as "the wrong approach to logistics", especially project logistics.

He observed: "As Bati Group one of our biggest achievements has been lowering the logistics budget of our customers; however, this is only possible if we can engage with them in the early stages [of a project]."

The tendency among shippers is to approach logistics companies only at a late stage, once all parts are produced. "This leads to higher costs and inefficient shipment methods, which take more effort, cost and time," Aydın said.

There are also onerous bureaucratic processes to contend with in Turkey. While



Project cargo between Turkey and Iraq, such as these cement mills that Kita moved, is quiet at the moment.

technology is continuously developing, enabling faster, more efficient transport of ever-heavier and larger shipments, the regulatory framework is lagging behind.

Nuhoglu outlined: "Necessary permits that must be obtained from the regulatory offices, engineering approvals, restrictions for heavy transport at night, high costs, and escort vehicle obligations are some of the bureaucratic obstacles that the sector faces."

Legislation that is harmonised with the European Union is a must for the development of the sector, he feels, as is proper implementation of the World Trade Organization's Trade Facilitation Agreement – which has yet to yield benefits for Turkey, in Nuhoglu's view. Working groups that bring together the public and private sectors could also facilitate the development of project logistics.

Brighter view

In spite of the difficulties, there are causes for optimism. Ernie Eldener, managing director at Kita Logistics, agreed that investment in Turkey slowed in 2019 compared with the previous year, with financing more expensive and subject to delays.

"But 2020 looks good, certainly better than was expected six months ago when we had a fluctuating exchange rate and higher interest rates were making it hard to borrow," he said.

"Inflation has dropped to about 10 percent and the cost of borrowing has also fallen, so

we expect a boost for projects in 2020. The government is also expecting [economic] growth of 2.5-3 percent in 2020."

Although some power generation projects have been postponed, infrastructure projects such as expressways, tunnels and metro systems are still in progress, and Nuhoglu expects that those put on hold will be restarted in 2020, with interest in Turkey from foreign investors likely to increase.

Amid speculation over a possible global



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– Ernie Eldener, Kita Logistics

recession in 2020, he believes that the Turkish economy would spend the year attempting to ensure stability and minimising the effects of the ongoing crisis.

"As of the third quarter of 2019, it can be stated that there have been promising developments in general with the increase in confidence in the Turkish lira and decreases in interest rates. As a matter of fact, while the projects that were put on hold started to come up again, there were positive increases in production – even though they did not regain their previous volume," he added.

Mega projects

The Turkish government is continuing to invest in mega projects such as new airports and bridges. Investors are still becoming involved in local wind, thermal and geothermal power projects. Some of Turkey's power plants are being dismantled and shipped to African countries, Eldener added.

Plus, there are various natural gas pipeline projects under way. The TurkStream pipeline was commissioned by Gazprom in January. It links Russia via the Black Sea to the west of Istanbul and then on to Bulgaria and Greece, as an alternative to the existing Blue Stream pipeline that also supplies Turkey.

Furthermore, a 45 km-long canal linking the Black Sea to the Sea of Marmara, passing alongside Istanbul, continues to be discussed by the government and environmental groups.