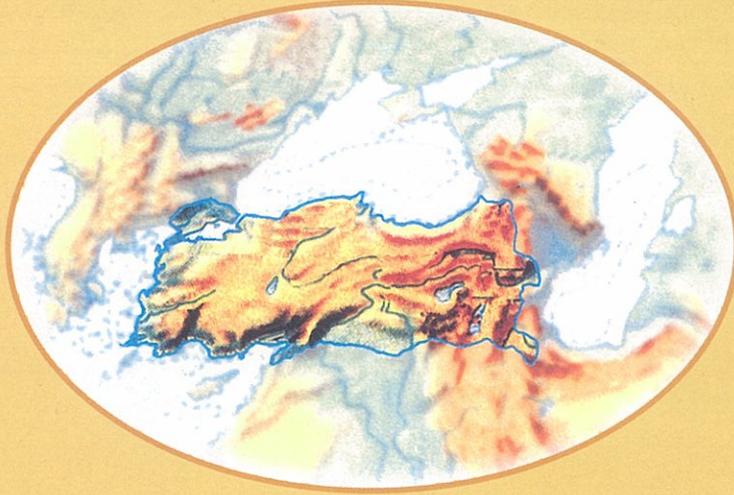




TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION



**OPPORTUNITIES
AND
CHALLENGES
IN THE EURASIAN AREA**

PANEL BY TÜSİAD

November 3, 1997

Çırağan Palace



TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

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CHALLENGES
IN THE EURASIAN AREA**

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(TÜSİAD Publication No. T/97-11/220)

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“Opportunities and Challenges In the Eurasian Area” is made in the text.*

ISBN: 975-7249-41-6

Lebib Yalkın Yayınları ve Basım İşleri A.Ş.

FOREWORD

TÜSİAD (Turkish Industrialists' and Businessmen's Association), which was founded in 1971, in accordance with the principles outlined by the Constitution and the Associations Statute, is a non-governmental organisation working for the public interest. Committed to the universal principles of democracy and human rights, together with the freedoms of enterprise, belief and expression, TÜSİAD works to foster the development of a social structure that conforms to Atatürk's principles and reforms; it also strives to fortify the concept of a democratic civil society and a secular state governed by rule of law in Turkey, where the government primarily attends to its main functional duties.

A primary aim of TÜSİAD is to establish a legal and institutional framework for a market economy and ensure the application of internationally accepted business ethics. TÜSİAD believes in and supports for the idea of integration within the international economic system, by increasing the competitiveness of the Turkish industrial and service sectors, thereby assuring itself of a well-defined and permanent place in the economic arena.

TÜSİAD supports all the policies whose objective is the establishment of a liberal economic system that utilizes human and natural resources more efficiently by means of latest technological innovations and that tries to create the proper conditions for a permanent increase in productivity and quality, thus enhancing competitiveness.

TÜSİAD, in accordance with its mission and through its activities, formulates its position on current issues based on scientific research; this is, subsequently communicated to the public through its sponsorship of open forums.

This Panel on the "Opportunities and Challenges in the Eurasian Erea" was organised by the External Relations Committee on November 3, 1997 at Çırağan Palace, İstanbul.

Representatives from different circles including UNICE-member federations, OECD, European Commission, government officials from European and Eurasian countries as well as the representatives of companies operating in the area participated actively in the discussions.

OPPORTUNITIES AND CHALLENGES IN THE EURASIAN AREA

3 NOVEMBER 1997, İstanbul

PROGRAM OF THE PANEL

- 9:25** Welcome Speech by Sinan Tara, *Vice-Chairman of the Board of TÜSİAD*
- 9:30** Keynote Address by Korkmaz Haktanır, *Undersecretary of Ministry of Foreign Affairs of the Republic of Turkey*
- 9:45-11:15** ***Economic and Political Framework in the the Eurasian Area***
- Session Chairman: Pekin Baran, *Vice-President of the External Relations Committee of TÜSİAD*
 - Nihat Gökyiğit, *Chairman, Turkish-CIS Business Council*
 - Dr. Yuri N. Gluschenko, *Russia's Institute for Strategic Studies*
 - Michael Lake, *Ambassador, European Commission, Ankara*
- 10:45** Debate
- 11:15** Coffee Break
- 11:30-12:45** ***Trade and Investment Opportunities and Challenges:
Financing the Opportunities***
- Session Chairman: Şadi Gücüm, *Vice-President of the External Relations Committee of TÜSİAD*
 - Hüseyin Erkan, *Executive Vice-Chairman, Istanbul Stock Exchange*
"International Market of the Istanbul Stock Exchange as an Alternative Source of Finance in Eurasia"

- John McCarthy, *Country Manager, ING Bank*
“Barriers for Establishing the Institutional Mechanisms for Free Trade and Investment”
- Mehmet Ögütçü, *Principal Administrator, OECD/IEA*
“Eurasian Energy Prospects and Politics: Need For a Long-Term European Strategy”

12:15 Debate

12:45 Buffet Lunch

**13:45-15:15 *Eurasian Area and Europe:
Regional and International Cooperation***

- Session Chairman: Prof.Dr.Çelik Kurdoğlu, *Co-ordinator of the “Eurasian Area and Europe” Study Group of UNICE REX Committee*
- Dr. Jurgen Voss, *Consultant, Directorate for Financial and Fiscal Affairs and Enterprises, OECD*
“Scope for Institution Building, Initiatives and Their Shortcomings”
- Dr. Rosolino Orlando, *Delegate of the President for International Relations, CONFINDUSTRIA and Vice-President of UNICE External Relations Committee*
“European Business and Eurasia”
- Mustafa Akşin, *Secretary General, Black Sea Economic Cooperation Business Council*
“Prospects for Cooperation among Business Communities of the BSEC Countries”

14:45 Debate

15:15 Coffee Break

15:30-17:00 *Business Perspectives*

- Session Chairman: Selim Demiren, *Vice-President of the External Relations Committee of TÜSİAD*
- Eike Lippold, *Chairman of the Board of Management, Mercedes-Benz Türk A.Ş.*
- Christoph Urban, *Executive Vice-President and Financial Director, Siemens*
- Dr. Alessandro Guerrera, *Representative for Turkey, ENI*
- Polat Serdengeçti, *Assistant General Manager, RAM Foreign Trade*

16:45 Debate

17:00-17:15 *Conclusions*

- Concluding Remarks
by Prof. Dr. Çelik Kurdođlu, *Co-ordinator of the "Eurasian Area and Europe" Study Group of UNICE REX Committee*

EXECUTIVE SUMMARY

A Panel on the "Opportunities and Challenges In The Eurasian Area" was organised by Turkish Industrialists' and Businessmen's Association (TÜSİAD) on November 3, 1997, in Istanbul. The main points emphasised by this panel are summarised below.

The Panel was organised in order to activate discussions on the basis of the report on the "Eurasian Area and Europe" drafted by the "Eurasian Area and Europe Study Group". This report was presented to the REX Committee Meeting on June 10, 1997. The co-ordinator of the group, Prof. Dr. Çelik Kurdoğlu, will finalise the report.

Representatives from different circles including UNICE member federations, OECD, European Commission, government officials from European countries and Eurasian countries as well as the representatives of companies operating in the area such as Mercedes Benz, Siemens, ENI of Italy, Ram Foreign Trade of Turkey, and ING Barings, participated actively in the discussions.

There were discussions on the definition of the Eurasian Area. The tendency among the participants of the Panel, as well as the Eurasian Area and Europe Study Group, is to include Balkans into the definition. The main attention paid to the Central Asia still remains the same.

The Panel pointed out that, the EU is by far the most important potential partner of the Black Sea and Caspian Sea regions, both in terms of trade and finance. For example, more than 45% of Russian exports are delivered to EU member countries. In terms of trade, the EU is presently carrying out between five and six percent of its total trade with the 12 countries of the Commonwealth of Independent States.

Central Asia is of significant interest to the EU as a supplier of energy and minerals and as a market for EU capital, know-how, goods and services. Maintenance of stability is a key prerequisite in order to fully exploit the region's resources. This requires that the EU continues to assist these Republics' efforts to complete their transition and to establish the conditions for sustained economic recovery and political stability in lines with Partnership and Co-operation Agreements (PCAs), OSCE documents, and the WTO rules.

Capital markets are the backbone for direct investments in the area. Istanbul Stock Exchange, which has international recognitions by SEC (US Securities Exchange Commission) and JSDA (Japan Securities Dealers Association), has already established an

off-shore international market to achieve this goal. This is the first of its kind and attempts to integrate the companies of the region in world capital markets. In this respect, it established the Federation of Eurasian Stock Exchanges. The Eurasian countries and their stock exchanges are represented in the Federation.

The main barriers for free trade and investment in the Eurasian countries are the relatively weak enforcement capability of legal institutions, arbitrary taxation and customs administrations. Corruption is also closely connected to this. Legal and political as well as institutional reforms are necessary to resolve these problems.

OECD has established, in 1994, Private Sector Development Center in Istanbul, first as a training center for officials and politicians from the Central Asian countries, later on from the Black Sea countries as well. This center has developed to be a forum for periodic and systematic consultations for these countries. The center is now expanding its work to new areas such as enterprise development, capital market development, preparation of basic elements of legislation etc.

There is a need, in order to cooperate, to have a concerted action programme involving all stakeholders in the process: which of course are the governments, EU, international institutions (like World Bank, EBRD, IFC, etc.) and European and local private sectors. The Black Sea Economic Cooperation (BSEC) Declaration of eleven countries in 1992 has led to the creation of an important institution which should be regarded as a principal player and partner in such a programme.

Main guidelines of this concerted action should include the following:

- There is a need for more private sector involvement from the EU and Eurasian sides in the policy dialogues and in technical co-operation programmes.
- Better involvement of the Eurasian countries in the formulation of the EU programs and policies: TACIS and PHARE programs should be more result oriented and proactive. They should be open, also in practice, to the access of the companies of the recipient countries.
- To increase business relations between the Eurasian countries and Europe, there is a need to promote business representative organisations in the region.
- There is a need to work strongly and effectively in favour of SMEs. Development of a market oriented, transparent, stable frameworks in the Eurasian countries are significant for them.
- Synergy of multilateral and bilateral co-operation programmes is essential.
- Combination of technical and financial co-operation is necessary.

- Better co-ordination on the side of donors, providers of assistance but much more important on the side of the beneficiary countries. The institutions in these countries should be invited by the donors periodically in particular areas of policy reform, such as privatisation, enterprise development, and capital market development.

Finally, there is significant interest for the UNICE members in monitoring and evaluating periodically the developments in the Eurasian Area. It is also important for European business to bring these to the attention of the EU institutions and governments.

OPENING OF THE PANEL

Welcome Speech by Sinan Tara ~ Vice-President of the Board of TÜSİAD

Keynote Address by Korkmaz Haktanır ~ Undersecretary of Ministry
of Foreign Affairs of the Republic of Turkey

Sinan TARA

Vice-Chairman of the Board of TÜSİAD

On behalf of TÜSİAD I welcome you to the Eurasia Panel. After the Cold War Eurasian area emerged as a center of interest and the opportunities. The Region attracted the attention of western world as well as its neighbours like China, India and Japan.

Recognizing the importance of the Region, TÜSİAD produced a report titled as “Eurasian Area and Europe”. Today, we are here to receive the feedback necessary to finalize this report and most importantly to let new perspectives arise throughout our discussions. I hope that this panel will be an interactive one where everybody will be sharing their expertise with each other. The final report to be prepared after this panel, will be presented to UNICE (Union of Industrial and Employers’ Confederation of Europe).

Considering that Turkish businessmen have been very dynamic and have acquired significant experience in this Region, I would like to say a few words about Turkey’s economic and business relations with the Black Sea Area and Central Asia. During the last five years, Turkey has signed, Trade and Economic Cooperation Agreements with 7 countries, Agreements on Avoidance of Double Taxation with 6 countries and Agreements on the Protection and Promotion of Investments with 8 countries of the region. In the period of 1989 to 1996, Turkish Eximbank has provided credits of 1,640 million USD to the countries of the Black Sea and Central Asia and it has other projects on its agenda. Turkish companies in different fields are taking an important role in the development of the region. Contractors have signed contracts for more than 300 projects with a value of close to 8 billion dollars. Turkey’s exports to the region are rising % 14 annually. Turkish companies have started investments in banking, insurance, telecommunication, food-processing, textiles, construction materials, automotive parts, real estate and hotels, shopping centers and supermarkets.

Since 1989, Turkey had an open trade policy with the region. The result of its exports to the Region have risen 12 billion US dollars per year. When we add this figure to the official trade figures with Region we can see that the Black Sea Countries and Central Asia constitute an export markets for Turkey in a size comparable to the EU. However, I would like to point out that the countries in the Region offer many more opportunities. Energy resources in the area are huge, there are opportunities for large investments in this field.

The Region also needs big investments and infrastructure. I believe in these fields there are important cooperation possibilities among Turkish and other European companies. Turkish companies with the expertise accumulated over the last decade in these countries can make significant contributions to success of joint projects.

On behalf of Korkmaz HAKTANIR

Undersecretary of Ministry of Foreign Affairs of the Republic of Turkey

Halil AKINCI

Deputy Director of Central Asian, Caucasian, Slavic Countries and Mongolia

Distinguished Guests,

Ladies and Gentlemen,

I would like to thank the Turkish Industrialists' and Businessmen's Association (TÜSİAD) for giving me this opportunity to share some thoughts on "Economic and Political Framework in the Eurasian Area" which has a very particular place on the Turkish foreign policy agenda.

Ladies and Gentlemen,

- The termination of the cold war era has opened a new page in the history of mankind, culminating in a new set of international relations far more different than those of the past. Newly independent countries have taken their place on the stage of history. Eurasia has emerged as a new political entity.

The radical changes experienced in the international scene have not only thrust Turkey into the strategic forefront at the epicenter of Eurasia, but have also tailored a new and leading role for Turkey in this vast geography.

Turkey now has to direct her attention simultaneously to developments on several fronts, ranging from the process of European integration and its new security architecture, to the emergence of a belt of countries of Turkish lineage in the Caucasus and Central Asia, from tragic developments in the Balkans to instability in the Caucasus.

Turkey, a country devoted to secularism, democracy and free enterprise not only set an example for the young democracies of Eurasia but assisted them in consolidating their independence and achieving economic development.

Accordingly, Turkey's role as a stabilizing force in a turbulent part of the world has gained more significance.

Furthermore, Turkey has undertaken crucial responsibilities in the quest for finding peaceful solutions to outstanding disputes taking place in this periphery.

Ladies and Gentlemen,

- The developments in the Balkans with which Turkey shares a common history and which serve as a gateway, have always carried importance for Turkey. Turkey has strongly supported the merit of cooperation in this region.

Bosnia and Herzegovina continues to be a source of concern for Turkey and for the international community. We firmly believe that the Dayton Peace Agreement should be implemented effectively in its entirety, in order to ensure peace and security in Bosnia and Herzegovina. In this connection, all displaced persons must return to their homes, and all war criminals should be punished, we believe that the continuation of the deployment of an international force is necessary to consolidate peace for the foreseeable future. Turkey, attributing great importance to the rehabilitation and reconstruction of Bosnia and Herzegovina has recently granted 10 million US dollars to that country.

Attaching great significance to internal peace and stability in Albania, Turkey also took part in the multinational protection force upon Albania's request. We have welcomed the holding of general elections in Albania as a step towards peace and stability in this country.

- Turkey attaches utmost importance to the maintenance of peace and stability in the Caucasus, a region which has unfortunately been prone to instability and strife in the Post-Cold War period.

I would like to recall that the strategic importance of the Caucasus emanates from various factors. It is not only a region on our eastern border but also serves as our gateway to Central Asia.

Some of the world's largest oil and natural gas reserves are located in the Caspian basin bordering the Caucasus. Moreover, the fact that the Caucasus are located at the confluence of Russia and the Gulf, Turkey and Central Asia, increases its importance. In our view, international community must devote greater attention to that region.

The preservation of the independence, sovereignty and territorial integrity of the Caucasian countries and the peaceful resolution of existing disputes are indispensable prerequisites for a lasting peace and stability in the region.

With these in mind, Turkey has been striving both bilaterally and as a member of the OSCE-Minsk Group, to bring the Azeri-Armenian dispute over Nagorno-Karabakh to a just

settlement. We believe that intensified efforts of the international community could possibly yield better prospects for a prompt settlement.

There is no doubt that the attainment of a just peace will provide the region with a sound basis for cooperation.

A peaceful resolution of the dispute between Azerbaijan and Armenia would certainly have positive implications for our relations with Armenia.

Turkey attaches great importance to the preservation of the territorial integrity, independence and unity of Georgia. We welcomed the meeting of the parties of the Georgian/Abkhazian conflict and the declaration of a joint statement by them on the peaceful solution of this conflict. In our opinion, the international community should deploy all efforts to bring a just solution to this problem, Turkey for its part, supports the United Nations efforts and participates in the UN observer mission in Georgia.

Turkey's interest is to see every state in the region fully independent and prosperous. As an essential part of its foreign policy, Turkey pursues a multi-faceted, multi-dimensional diplomacy in the region. Turkey regards its western and Eurasian vocations as mutually complementary. Thus its western vocation remaining the main reference point, Turkey actively promotes peace, stability and mutually beneficial relations in bilateral and multilateral fora. Turkey has taken concrete steps which should lead to economic stability and lasting peace in the region through comprehensive cooperation.

Turkey will continue, to the greatest extent possible, to assist the Central Asian republics in their political and economic transition. We shall further develop our cooperation as equal partners with the Central Asian republics to which we have a close affinity, Turkey will exert every effort to support their economic and social development within the bounds of democracy and in their drive to integrate with the international community. In this respect, Turkey assumed a leading role in supporting these countries to forge ties with NATO through their membership in the partnership for peace scheme and the Euro-Atlantic Partnership Council.

Turkey, together with Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan holds regular summit meetings of Turkish speaking countries. Turkey initiated the idea of convening summits amongst these countries with the aim of strengthening solidarity, preparing the ground for joint economic and commercial projects, introducing our common heritage to the outside world and devising a new model of cooperation. TURKSOY was also founded to coordinate the cultural activities among these countries.

Turkey has granted 1.5 million US dollars of investment and program credits to Azerbaijan and the Central Asian Republics, the total volume of contracts and investments by the Turkish private sector has exceeded 6 billion US dollars. The total Eximbank credits extended to these countries by Turkey by 1996 IS 916 million dollars, of which 570 million US dollars have already been used up in the form of both export and project credits. Currently, about 8000 students from these countries study in Turkey on Turkish scholarships. Turkey believes that its efforts to help create a more stable environment in the Caucasus and Central Asia must also be complemented by those of the International Community.

The consolidation of the independence of the newly independent states in the region, their successful transition to democracy and market economy, their opening up to and integration with the world would contribute to the maintenance of stability and peace, and facilitate economic cooperation and trade in Eurasia and in the world. A deeper political and economic involvement of NATO and European Union countries in the Eurasian region is essential in this regard. Such an involvement of the Western countries will constitute a psychological boost for the newly independent states.

Eurasia's wealth is a blessing for the region, with its population, educated cadres, large reserves of natural resources, and other economic opportunities. Energy cooperation will constitute the back-bone of interaction between the industrialized world and Eurasia. The size of the petroleum and gas resources could easily make the countries of the Eurasian space one of tomorrow's major oil and gas exporting powers. In the twentieth century, the Middle East has been the West's main supplier of energy. Eurasia will inevitably occupy a significant place in European energy and raw materials demand, which is expected to increase by about 25 % in the 2000s.

As Europe re-asserts itself in the world arena as a unified and wealthy power, it cannot isolate itself from developments in any part of the world. The Eurasian continent is particularly important for Europe, making Eurasian security one with European security.

An important issue relating to the economic development of the Caucasus and Central Asia, is the exportation of the natural resources of these regions to world markets. The realization of the Baku-Ceyhan project to transport Caspian oil to world markets will contribute immensely to the economic development of the entire region.

Economic, technical, commercial and environmental considerations taken into account, this project offers the most viable and secure way for providing world markets with an additional energy source.

Ladies and Gentlemen,

- While discussing the economic and political framework in the Eurasian area, one country we certainly cannot neglect is Russia.

As two powerful players in the region, Turkey and Russia together, should take advantage of the opportunities before them, and strive to achieve peace and stability in the region.

Russia still, as it has been through the ages, is an important partner for us. Our economic relations continue to flourish to the benefit of both countries. Trade, contracting services and tourism are rapidly developing. Our economic and trade relations have reached 5 billion dollars only in the construction field. The estimated 10 to 12 billion dollar trade volume between Turkey and Russia and the fact that one million Russian tourists visited Turkey this year alone, are important indicators of the level of our bilateral relations. We hope that this favourable atmosphere may have repercussions on cooperation in other areas both at regional and international levels.

Turkey is prepared to cooperate with Russia in the Caucasus and Central Asia.

Turkey regards Russia as a partner for cooperation and not a rival to compete with.

- Another visible role played by Turkey, can be seen in its initiatives to promote regional economic cooperation.

Turkey has assumed a pioneering role to promote economic cooperation amongst regional countries. The motivation behind that is the fact that regional economic cooperation and development not only breed interdependence but also foster greater political stability and shared economic prosperity for all concerned.

The Black Sea Economic Cooperation (BSEC) is one of Turkey's most significant contributions to regional cooperation. The idea that lies behind the BSEC, covering a geography where 400 million people live, is to ensure that the Black Sea basin becomes a region of peace, stability and prosperity. We strive to create a Black Sea region, free from tensions and conflicts and where democracy and liberal economy flourish. It will most likely be advantageous for the private sector to take over some of the activities that have been carried out by governments under that scheme.

The economic cooperation organization (ECO), embracing 300 Million people, is yet another example of our efforts in realizing regional cooperation. ECO, which was founded by Turkey Iran and Pakistan has been enlarged to include Azerbaijan and the Central Asian republics. To remove trade barriers within the ECO region, to increase commercial relations and trade volume among the ECO members, to liberalize the economic

and trade regimes, to further cooperation in the field of transport, communication and energy are the priorities of our agenda concerning ECO.

The Developing-8, is yet another case in point.

Turkey's main purpose while launching this initiative, was to further economic and commercial cooperation among the eight developing countries, encompassing a vast land mass of 7.5 million square kilometers and a population of 800 million.

Turkey is also considering the ways and means of enlisting the cooperation of the Central Asian republics in the Developing-8,

All these initiatives seek to serve regional peace and prosperity by bringing regional countries together within a multilateral framework for economic cooperation.

Ladies and Gentlemen,

- Turkey is determined to enter the 21st century as a "Global State", a Turkey that maintains mutually beneficial relations with all countries. With special emphasis with those in Eurasia.

Our vision for Eurasia is a region enjoying peace, stability and prosperity, a region where disputes are settled through peaceful means, conflicts are prevented and cooperation and solidarity are adopted as common norms by all.

Thank you.

ECONOMIC AND POLITICAL FRAMEWORK IN THE EURASIAN AREA

FIRST SESSION

Session Chairman

Pekin Baran ~ Vice-President of the External Relations Committee of TÜSIAD

Speakers

Nihat Gökyiğit ~ Chairman, Turkish-CIS Business Council
Dr. Yuri N. Gluschenko ~ Russia's Institute for Strategic Studies
Michael Lake ~ Ambassador, European Commission, Ankara

Chairman (Pekin Baran)- Welcome to the first session of the seminar on “The Opportunities and Challenges in the Eurasian Area”. The main task of this first session is to define the economic and political framework of the area. Indeed, one of the main developments we have all witnessed over the last decade in the countries of this area is the rapid and fundamental transformation both in their economic and political framework. Politically, the main focus has been towards a redefinition of their relationships and political ties with the West of which Europe is obviously the main dominant neighbouring partner. Economically, we witnessed, and not less breathtaking task, in their attempt for passage to a global market economy with the establishment of proper conditions for free trade and privatization. We have today a distinguished panel of speakers to tackle all these issues. One of whom was to be Mr. Ahmet Calik, successful Turkish businessman in the area and also deputy minister of Turkmenistan but unfortunately he was taken ill over the weekend and he could not participate today, we all wish him a quick recovery. We have also in our panel of speakers Mr. Nihat Gökyiğit who has just arrived and Dr. Gluschenko from Russian Institute for Strategic Studies and Mr. Michael Lake, Ambassador to the European Commission, I am told that Mr. Michael Lake is about to arrive any time now, he has just arrived from Ankara, he left the airport and he should be with us in next 15-20 minutes. I shall therefore ask our first speaker to take the floor, Mr. Nihat Gokyigit who is the president of Turkish CIS Business Council and after other speakers have also expressed their views I shall take your questions to the panel. Mr. Nihat Gökyiğit please.

A.Nihat GÖKYİĞİT

Chairman, TURKISH-CIS Business Council

Dear Participants,

There are only 2 countries in the world bordering both Europe and Asia: Russia and Turkey.

Certainly relations of these 2 countries are very instrumental in establishing peace, stability and prosperity in the region.

A mutual trust and friendly relations between Soviet Union and Turkey started developing as a result of the new Soviet foreign policy launched by president gorbachov.

This was followed by an agreement for gas import of Turkey from Soviet Union which triggered the development of our economic relations.

As the agreement had an off-set provision, Turkish essential goods and construction services started to be used on big scale by our neighbours for the first time in history.

Turkish goods and construction services with good quality and reasonable prices were appreciated to such an extent that Turkey started to be looked upon, as a trading partner.

Certainly former Soviet government had reasons for insisting on qualifying Turkish contractors for the huge housing facilities to be built for Soviet soldiers returning home, using German funds.

Over 50% of these jobs were performed by Turkish contractors well in time and good quality.

I would like to elaborate more on Turkish-CIS relations and the role and advantages of the Turkish businessmen in these promising markets.

After the disintegration of the Soviet empire, business started to be concluded directly with the remote local production and administration units of the republics, rather than the central authorities in Moscow.

This is where Turkish businessmen had important advantages, because of cultural and linguistic ties and easy adoption to local conditions.

Turkey, being world refugee shelter for centuries, has accumulated ample supply of interpreters for all 70 plus dialects spoken over these zones.

With easy access and low cost, tourists from our CIS neighbours started pouring into Turkey (last year 1.6 million, this year about 2 million)

They are filling not only their suitcases with Turkish goods but also their minds with new business and partnership ideas.

Tourism has been very instrumental for developing human relations and the training of entrepreneurs starting as luggage traders.

One should not underestimate the Turkish unregistered trade with CIS. It is estimated to be around 7 billion dollars yearly.

About 55 chartered planes, 600 buses, several ships are arriving everyday at Istanbul and Turkish Black Sea ports for handling such trade.

This business, of course will be channeled by time to free zones around Black Sea.

Turkey is a supplier of small and medium size entrepreneurs who are badly needed now by our neighbours as they were completely wiped out by the former communist administrations.

Thousands of partnerships with Turks have been established now in CIS, some of them will certainly grow to be big business by time.

Turks are getting famous not only with their competitive prices but also with their experience on dealing with local administrations and coping with local formalities and conditions of former Soviet Republics. Thus becoming most favoured partners.

There must be reasons for the desire of American firms to make 2 joint business trips with Turks, one to Central Asia and Azerbaijan and one to Black Sea states.

Following these, similar joint business trips were made upon request from Japanese firms, one to Central Asia and one to Baku Tbilisi-Atrau (Kazakistan oil port)

Multinational firms are getting established in Istanbul as it is not only easier to communicate to such remote places but also faster and less expensive to operate through Turkish associates for all types of trade including after sale services.

Istanbul is getting to be a financial and trading center of the region with liberal business climate, modern banks, improved communication, transportation and living conditions, and global ties in several directions and with regional development zones.

Black Sea Economic Cooperation zone, initiated by Turkey is one of them.

The zone has ample sources of energy of all types of oil, gas, coal and resources of forestry and minerals.

To give an idea about the size of the market with 2 figures; yearly housing shortage of the zone is 5 million units and is reaching to unbearable limits.

7 million lines have to be installed every year to cope with telecommunication shortage. Rehabilitation and extension of infrastructural works of all types, industrial plants, agroindustries and energy investments are on the agenda of projects.

US Department of Commerce no doubt, had several justifications for identifying Turkey as one of the big emerging markets.

But one reason certainly was her strategic location being at cross-roads of future export pipelines of CIS oil and gas and at a zone expected to be third after China and India for energy investments.

CIS oil and gas resources are considered to be one of the most important sources of the world.

For the early oil for both north and south Caspian Sea investments are going on.

The north Caspian oil fields are being connected to Novorossysk by new and rehabilitated pipelines.

The connection of the early oil of the South Caspian Sea from Baku to Black Sea will be through 2 outlets: North line to Novorossysk, and west line to Supsa of Georgia.

However, for the export of the main oil of Caspian Sea which is expected to raise to a volume of 150 million tons per year, more radical solutions have to be worked out.

A direct pumping of oil from storage facilities at the Caspian Sea to one terminal on Mediterranean shore seems to be best solution, to satisfy all concerns arising from economy, environmental, security and traffic evaluations.

This new pipeline project should be developed with the consent of Russia and with the participation of the Russian oil companies, who would be willing to have an alternate, brand new, direct outlet to the world markets, besides their aging network of oil pipelines and congested terminals.

As to the gas consumption, BSEC zone is one of the most explosive market of the world.

Just the Turkish demand will increase from yearly 10 billion M³ to at least 60 billion by the year 2010.

I say at least, because Turkey is no paradise for planners and these figures are usually revised upwards.

Europe excluding this Turkish demand is projected to be in need of 100 billion M³ additional yearly supply of gas mostly by Southern Europe.

This dry Gas (or piped gas) can be best met from Russian and Turkmen sources Turkey acting as the energy bridge, which will be crossing one of the zones of the world with the highest potential of gas consumption and extending to South Europe through Northern Greece.

Turkey is trying to import gas from Russia by getting involved on the improvement of pipelines and pumpstations in Ukrain, supplying gas through Balkans to North-West Turkey.

Studies are underway of the Russian gas delivery from North-East of Turkey by both improving the existing line through Georgia and a new pipeline under the deep Black Sea from Novorossyk to Samsun.

This direct pipeline crossing the deepest water avar built, up to this date, can be a new miles tone in Russian-Turkish economic relation.

I will finish by emphasizing the importance of the Russian-Turkish relation as I tried to explore at the beginning of my presentation.

Till about 12 years ago, our total yearly trade with Soviet Union was at a steady level around 400 million dollars.

At that time as chairman of Turkish - Soviet business council one day, I discussed the possible target with Soviet ambassador Albert Chernichev for the year 2000, the volume of trade of two countries.

We agreed on 10 billion dollars and said can not be easily reached but targets should not be easy to catch.

At the end of 1996 our volume of trade with CIS reached to 6 billion dollars from 400 million level, which do not include, unregistered trade (About 7 billion), do not include construction revenues (ongoing construction volume about 6,5 billion) and do not include the tourism revenues of 2 million tourists.

Our target do not seem to be off.

We are telling Russians on every occasion.

“You Russians and we Turks have distintegrated two, 600 years old empires.

What have we got left besides some important lessons?

We learned that it is not easy to govern and make people of many ethnic groups happy and prosperous on a vast geogrophy of land.

We also learned that we can import goodness from neighbouring countries if they are governed by democratic regimes and are prosperous whereas we can only import problems and crises if they are undeveloped and unstable”

And we add “so lets cooperate on economicaley sound projects of developement such as pipelines and not race for political results towards domination over these new states.”

History tells us that prosperity, stability and peace prevail over this part of the world when Russians and Turks get alone fine.

We have no other choise because nether side has the luxury of Jepordizing this economical relation build during the last 12 years through a hardship that can only be appreciated by US.

Thank you for your kind attention.

Chairman (Pekin Baran)- Mr. Gökyiğit, thank you for this first hand account of economic and political ties between Turkey and the area and also thank you for sharing with us your vast experience in this regard to which you have also been a main contributor as a businessman.

Second speaker is Dr. Gluschenko from the Russian Institute for Strategic Studies.

Russia's Institute for Strategic Studies

Despite the various difficulties in economic and political fields, there are some strong reasons for strategic optimism about Russia's future.

First, in domestic politics after the presidential election of July 1996.

Second, in the economy. After five years of fall, Russia's gross domestic product seems finally to be stabilizing and may next year register a real upturn. That achievement, combined with the government's success in the struggle with hyperinflation, that means Russia can focus more on capital investment and economic developments to build a world-class market economy.

Unprecedented transformation toward the development of a free market, now include:

- * an emerging private sector which now produces 70 percent of Russia's national income and employs 55 percent of its labor force;

- * macroeconomic stabilization, including a steady Rouble and sharply reduced inflation, from 131 percent in 1995 to 22 percent in 1996 and to 12 percent in 1997;

- * appreciation of Russia's stock market by 400 percent from March 1996 to March 1997 - with Russians and foreigners able for the first time to trade Russian stocks and bonds;

- * privatisation of more property, over 120,000 enterprises, in a shorter time than any such venture in history.

President Yeltsin has undertaken a bold agenda to stimulate investment and launch Russia on its next phase of economic reform, including:

- * comprehensive tax reform to simplify a streamline value-added, excise, and corporate and individual income taxes;

- * laws to strengthen Production Sharing Agreements needed to realize \$50-60 billion in energy sector investments.

- * tough anti-crime laws, including a criminal procedure code and laws against money laundering, organized crime und corruptions.

But none of the these breakthroughs mean that Russian reform has scored a knockout blow against crime, corruption, or the mismanagement in realization of the government course on privatization.

* *Yuri N. Gluschenko-Pb.D.(Economics), Leading researcher Russia's Institute for Strategic Studies (Department of International Security)*

Today, a democratic new Russia can be described differently. It still suffers from a discouraging line up of technological, legislative, managerial and business challenges, but now it has world-class financial markets and strong banking system.

Third, in relations between center and the regions in context of the strengthening of the Russian Federation.

Central Government and the separatist region of Chechnya have signed first far-reaching economic pact since the end of the bitter war. The deal opens the way for the oil to pass to Russia's Black Sea port of Novorossiysk, one of several potential future export routes to the West from the oil fields off the coast of Azerbaijan.

Forth in the search for the so called "Russia Idea"

At the center of the public discussion are four issues, that have traditionally been vital for Russia and will continue to dominate the debates: the status of ethnic Russians, the relationship between the state and the individual, Russia's attitude to the outside world, and the search for a unique path of development.

Reaching a consensus on the those issues would amount to negotiating a social contract between the public and the authorities and between the various factions of society.

Patriotism is back in fashion in Russian society. Not only communists and nationalists, but also liberal democrats look at the patriotism as a "normal, healthy feeling of national pride."

The rise of patriotism is accompanied by popular attitude for a strong state headed by a strong leader.

One of the central issue in debates on the national idea is Russia's prope position in and attitude toward the rest of the world. Here the basic dilemma is whether Russia can join in international community as an equal partner or does too much interdependence with Western-dominated political and economic system threaten Russia's ability to defend its national interests?

The critical issue for Russia is that we have entered this period of incredibly rapid changes, in which the social and political developments and the integration of global markets are combining to transform everyone's workplace, human and community relations.

And for the Russia to thrive in this world it needs a new, integrated approach to the foreign policy.

So, the profound changes we can observe in Russia's foreign policy.

In relations with the West there was the signing of the NATO-Russia Founding Act in May. The accord codified country's leadership's determination to keep disagreements from undermining cooperation, despite Russian anxiety about NATO expansion into Central Europe.

But, the principal question is still without proper answer, why instead of getting peace dividends Europe should pay a new military burden of 25-35 billion dollars in the next ten years.

Russia today plays an active role in international organizations of which it was a founding member, such as the UN and Organization for Security and Cooperation in Europe. Over past two years, it has become a member of the Council of Europe, agreed to join the Paris Club, strengthened its ties to the European Union, set goal to join the World Trade Organization next year.

Although the foreign policy of the Russia has a significant impact on many different countries, there is often little appreciation in those countries of why specific actions and policies are undertaken. In recent years, the Russia's foreign policy process has grown more complex. It now involves an imposing array of actors outside the established foreign and defense policy bureaucracies; including other executive branch agencies; members of Parliament and a variety of State Duma committees; the press; business and banking and other private interest groups; research institutes; and some public organizations. In addition, the collapse of communist ideology and the end Cold War has removed the major unifying factor which guided Russia's foreign policy, leaving the policy process subject to a wide array of conflicting influences.

Discrete goals

Viewing the Eurasia Area as one of the most important, Russia policy applies disparate standards in pursuit of discrete pragmatic goals.

In the Middle East, it seeks peace between Israel and its neighbors, and economic cooperation with the Gulf countries, where the world's largest concentration of crude oil reserves and big hard currency revenues.

The disintegration of the former USSR into a number of independent states not only had very dramatic political implications, but also far reaching economic consequences, particularly in the world energy sector.

The Caspian Sea is a common heritage of its coastal nations. It plays an important role, in terms of its oil and gas reserves, and the utilization of its biological resources. As the Black Sea, it is also very important as a means of maritime transportation.

The countries surrounding the Caspian Sea have substantial oil and gas reserves estimated, at the end of 1995 in the region of 150 billion barrels of oil and 75 trillion cubic meters of natural gas. These correspond to 15 per cent of total world oil reserves and 50 per cent of world gas reserves. It is generally believed that, with regional co-operation and through creating an investment-friendly environment, higher figures will be achieved by the first decade of the 21st century.

It is also well-known that the energy resources of these countries far exceed their domestic demand and thus the export of surplus production will go a long way, not only to meet global demand, but also to accelerate the economic development of these producing countries. The transport of these exports to world markets is of vital significance.

From the western point of view, the area represents a vital northern adjunct to the Middle East's hydrocarbon bounty. Concern by the world's largest consuming nations for secure oil trade are often blend Caspian and Middle Eastern issues in US and EU foreign policy.

US and EU are interested to promote the rapid development of Caspian energy resources, multiple oil and gas pipelines, and transport corridors which will tie each nation to the other and to the West and help end ethnic conflicts in the area.

The Russia shares the American philosophy, as it is proclaimed Clinton Administration, "to encourage all of the countries involved in the exploration and transportation of oil and gas from Caspian Sea to work together"

But we also know about the geopolitical strategy of American Conservative Revolutionaries such as Sam Brownback (R-Kan), a first-term senator, who chairs the Near Eastern and South Asian Affairs Subcommittee. He views US interests in the region as beating out two hostile competitors, Iran and Russia, for the benefit of multinational companies, that want to control the resources.

Turkey as a regional power, with NATO membership has strong ethnic and linguistic influence along the FSU's southern tier. It controls the vital Bosphorus and Dardanelle Straits through which tankers from the FSU pass en route from the Black Sea to the Mediterranean. Arrangements for pipeline movement of crude oil and natural gas makes

clear, Turkey's position as the bridge between Asia and Western Europe, FSU and Middle East is as crucial now as ever.

Iran performs comparable geographic service between the Middle East and the Caucasus-Caspian region and also has ethnic and religious ties to Central Asia. Its importance as an oil exporter and gas producer is well established.

It has a unique position, bordering by land and/or sea, Azerbaijan, Armenia, Turkmenistan, Kazakhstan, and Russia to the north. To the east, west and south lie ten other countries, including some of the oil producing Arab countries. Thus, Iran, with 15 neighboring countries and with its hands in the Caspian Sea and its feet in the Gulf, could be indeed called the energy bridge of the world. Naturally, it offers economic outlet for the transport of Caspian Sea exports towards their final markets.

In 1996 US Administration endorsed the Iran-Libya Sanctions Act, which mandates trade measures against any company that invest more % 20 million a year in Iran energy sector.

In its relations with Iran, Russia respects all legislation applied by UN or international law, but we, as EU and Turkey have no obligation to apply an American law produced by domestic lobby for narrow interests.

The most important issue of Russian foreign policy is development relations with the new independent states, that were until six years ago, part of the Soviet Union. In this regard, some recent developments have been favorable and encouraging. One was President Yeltsin's landmark visit to Kiev in May this year, which put Russia's relations with Ukraine on a more equitable and predictable footing.

Another is the way Russia is now trying to end the war over Nagorno-Karabakh, ethnic Armenia enclave in Azerbaijan. Now Russia has joined diplomatic forces with US and France under the aegis of the OSCE.

Russia's willingness to cooperate and to internationalize the management of security along its periphery could argue well for its real intentions to reach in the region lasting settlement as well to other conflicts in Moldova, Georgia and Tajikistan.

Some of the CIS countries continue to look to Russia as their main guarantor of security. In particular, numerous economic, cultural, security, political and human links still exist between Russia and Central Asian and Transcaucasian states. Some of those states are even pushing for closer institutional links with Russia.

But there are also many problems in our commonwealth.

On the eve of 6th anniversary Commonwealth of Independent States, as shown October Kishenev summit, still far from healthy and beneficial economic and political relations. Leaders of CIS countries meet from time to time, speak about integration, and sign documents (now more than 600). But there is no question “Will we be together or separate?” Most CIS members are for strong cooperation.

In his “Foreign Affairs” article of early 1994, Peter Drucker called “cross-border alliances” the strongest integrating force of the world economy. We share his view. Given the fact that Russia and other CIS countries economies are still closely intertwined, future talk in CIS should include an agenda for joint action to promote a broader business collaboration and techno-alliances, particularly in the fields of energy, machinery, high-technology, banking and finance.

Russia respects the sovereignty, independence, and interests of all CIS states. We have no interest in anybody dominating the territory of the former Soviet Union, especially in the military-political sphere.

Russia has helped stop hostilities in the hot spots. This cannot be underestimated. And the price-material and human- of maintaining peace is high.

The future of East Central Europe is also linked to the future of the “near abroad”. No one seriously suggests that there is now a Russian threat to the states of the former Soviet bloc.

There aren't really even signs of pressure. There has been no Russian demand for military bases on the territory of the old Warsaw Pact, no extortion of economic privileges, no proposals to create new, Russian dominated regional organization, no allegations that we are trying to manipulate political outcomes in the region.

Most Eastern European countries have discovered that it is preferable to have good rather than bad relations with Russia. Many of the Westwardlooking Eastern European countries, following initial attempts to minimize their relations with Russia, are now discovering not only that they remain dependent on Russian oil, gas and other natural resources, but that Russia is potentially a lucrative market and in a nearest future may be a leading foreign investor.

Russia, being a part of Europe, cannot stay apart from process of regional and subregional integration and cooperation.

In the near future Europe will remain the most important geostrategic partner of Russia in the sphere of trade and investment. Russian foreign trade turnover accounts 40% for the EU, compared to 25% for the CIS and 5% for the US, more than 45% of Russian exports

are delivered to EU member-countries, 33% of foreign investment into Russia accounts for 15 EU members.

The Agreement of Partnership and Cooperation signed in June 1994 by EU and Russian Federation has great economic and political importance for Russia.

But one of the big problem now is that Russia is given status of “country with economy in transition”. Due to this anti-dumping sanctions EU can use and use to restrict of some items of Russian export.

Chairman (Pekin Baran)- Mr. Gluschenko thank you for this very detailed and through account of the major transformation that has taken place in the Russian society and for giving us an insight towards the policies that are prevailing today. Our third and last speaker is Ambassador Michael Lake, Ambassador of the European Commission. Thank you for coming all the way from Ankara for it.

Michael LAKE

Ambassador. European Commission, Ankara

Mr Chairman,

Thank you for inviting me to this important conference, which will illustrate the mutual interests which the European Union, Turkey and the countries of the Caucasus and Central Asia have in working more closely together.

Put simply, the European Union is already by far the biggest trading partner of Turkey. Turkey carried out almost exactly half of its trade, exports and imports, with the EU, around a total of \$36 billion annually. This trade has been growing steadily, even spectacularly, and especially since the inception of the customs union between the EU and Turkey in January, 1996. Although investment from the EU, which traditionally supplies about 70 per cent of Turkey's foreign direct investment, has not yet taken off following the customs union, there is a great deal more interest in Turkey as a future trading and investment partner of quite a different order than has been realised so far.

One sign of this is the increasing number of business visitors as well as tourists coming here. Our friends among the airlines have been telling us of 25 per cent increases in their passenger seat miles for each of the last two years. One prominent European Airline says it is turning passengers away.

Although some Turkish authorities complain about the EU surplus with Turkey, much of this is in new capital equipment and raw materials and which is already coming on stream as new export capacity. The EU surplus should start to reduce this year.

Meanwhile Turkey's own manufacturing industries, which have proved that they are competitive within the customs union, have greatly increased their own investment, particularly in the domestic hinterland, building modern new factories and providing new jobs to such an extent as to put new strains on the national and regional infrastructure. Turkey is on the way to becoming a dynamic modern partner in the global village in both manufacturing and services and provides an important jump-off point both for Turkish and for European industries wishing to operate in the Central Asian Republics. My favourite example of this is the German firm known to us all as Siemens - its southern European network includes Turkey and is run from Munich. Its Central Asian network is run from Istanbul.

It should not surprise you, Mr Chairman, Ladies and Gentlemen, to know that the European Union is also by far the most important partner of the Newly Independent States, including the Caucasian and Central Asian States, both in terms of trade policy and financial assistance. In terms of trade the European Union is now carrying out between five and six per cent of its total trade with the 12 countries of the Commonwealth of Independent States.

For all of these countries the transition from their status as Soviet Socialist Republics to modern nation states is, for a variety of reasons, a difficult one. These difficulties range from authoritarian attitudes among the post-communist political leadership where notions of democracy, freedom of speech and the rule of law were virtually unknown, even before communism, to internal conflicts ranging from squabbles to outright civil war in Tadjikistan. These difficulties have hampered the progress of political and economic reforms.

Central Asia is of significant interest to the EU as a supplier of energy and minerals and as a market for EU capital, know-how, goods and services. In order fully to exploit the region's potential in the interest of both the EU and the Eurasian republics the maintenance of stability is a key prerequisite. In our view this can best be achieved through the evolution of broadly-based, representative democratic institutions, the reduction of the potential for conflict and the continuing promotion of economic reform.

This requires that the European Union continues to assist these republics' efforts to complete their transition and to establish the conditions for sustained economic recovery and political stability. EU policy remains to use the means at its disposal to enhance their relations with Europe and to base their future development upon the norms set down in the new PCAs or Partnership and Cooperation Agreements, which we have signed with most of them, on OSCE documents based on the Paris Charter and on the rules of the World Trade Organisation, the WTO which has replaced the GATT.

The following elements form part of such a strategy:

- * Support for sovereignty, independence and territorial integrity
- * Political dialogue on a bilateral and a regional basis
- * Support for the strengthening of democratic institutions
- * Humanitarian aid (particularly in Tadjikistan and Kyrghyzstan)
- * Food aid (in Tadjikstan, Kyrghyzstan and Turkmenistan)
- * Financial assistance, mainly through the TACIS programme
- * Support for peace and reconciliation in Tadjikistan
- * Cooperation and coordination with other major donors.

The special basis of our relationship with these countries is the PCA framework, Partnership and Cooperation Agreements. These are proper external treaties between the EU and the relevant partner: Let me give you a quick rundown on where we stand with some of them.

Armenia, signed in April last year (not yet ratified or in force);

Azerbaijan, signed on the same day, April 22, 1996. Belarus, signed a month earlier. The European Parliament which, as you know, has the right of assent over all external treaties of the EU including financial treaties, has given its assent for PCAs for Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia and the Ukraine. We signed a PCA with Uzbekistan in June last year. Several interim agreements, pending the fullscale PCA, are in force such as with Kazakhstan, Russia, and the Ukraine.

Overall trade with our partners in the Caucasus and Central Asia has increased substantially in 1996, up by 33 per cent in the Caucasus and by 23 per cent in Central Asia.

In the Caucasus, there was an important increase in imports from Georgia (albeit from a very low base), and from Armenia, while imports from Azerbaijan actually fell. EU exports to all three countries rose sharply, with the largest increase again in Georgia. Georgia has now surpassed the other two - perhaps there is lesson here in the debilitating effects of conflict - to become our highest volume trading partner in the region. But the figures are still modest.

In central Asia, overall trade with both Kazakhstan and Uzbekistan rose by some 30 per cent. Uzbekistan remains our highest volume trading partner in the region, and since trade with both Uzbekistan and Turkmenistan is now back in the black (for the first time), I we are in deficit only with Tadjikistan.

In fact, EU exports performed particularly well in Uzbekistan, while imports from Uzbekistan stagnated, explained by the poor cotton harvest. In Kazakhstan, EU exports recovered much, but not all of ground lost in 1995, while EU imports from Kazakhstan increased steadily. This probably reflects continuing demand for Kazakh metals.

In Turkmenistan EU exports increase sharply, while imports from Turkmenistan fell by 55 per cent, again linked to falling cotton exports.

EU exports to Kyrgyzstan continued to increase but EU imports fell sharply, while in Tadjikistan the opposite was the case. Trade with these countries remains at low levels and statistics can fluctuate considerably depending on individual shipments, particularly of precious metals.

In fact, 1996 was rather a positive year. The growth in trade reflects the resumption in economic activity in most newly independent states. It is worth noting that, with the exception of Kyrghizstan, the poorest performance has been registered by countries where the reform process has lagged behind, notably in Azerbaijan and Turkmenistan.

Finally, Mr Chairman, allow me to list for you the totals of financial assistance which the EU has provided to help these countries achieve this state of play, from which we all benefit. There is a tendency sometimes in Turkey, particularly perhaps this weekend, to downplay the impact of the European Union and of the Commission which both initiates and manages much of its policy, a tendency which I suggest is misplaced.

For Azerbaijan, between 1992 and 1997, the total TACIS aid, that is for technical assistance, including training and strengthening for institutions, was 42.5 Mecus. Total food and humanitarian aid for Azerbaijan was 178 Mecus.

For Armenia, Tacis aid was 38.5 Mecus, and total food and humanitarian assistance, 135 Mecus, For Georgia, Tacis support was 39 mecus, food and humanitarian assistance 173 Mecus. For Uzbekistan, Tacis support was 72 Mecus, with no special aid; for Kazakhstan, Tacis aid was 92 Mecus, with no special aid; for Kyrghzstan, Tacis aid was 40 mecus with food and humanitarian assistance at 61 Mecus, for Turkmenistan, Tacis aid 30 Mecus, food and humanitarian assistance 2 mecus, and for Tadjikstan, Tacis support 13 mecus and food and humanitarian assistance was 112 mecus.

Tacis funds alone to the 12 CIS countries has totalled nearly 3 billion ecus; food and humanitarian aid for the central asian countries was well over 600 million ecus with a great deal more for Russia and the Ukraine and Belarus.

In addition the Caucasian and central Asian countries have received loans totalling 429 million Ecus.

So you can see that the European Union has a multifaceted and serious investment in that huge region to the east of here, yet I suggest this is only the beginning.

There is obviously room for more consultation and perhaps cooperation between the European Union and Turkey on our separate and mutual efforts in the region. I know that individual European enterprises are already working through Turkey to reach their new, hitherto impossible goals in these newly-discovered lands. The economics and the politics are bound to change, and we have a mutual interest in seeing that they change for the better.

Thank you.

Chairman (Pekin Baran)- Ambassador Lake thank you very much for this through survey of the relationship between EU and the EurAsian area. Thank you also for the very vital and detailed statistics that you have provided. Ladies and gentlemen we have now completed the round of our speakers. We are somewhat late in our schedule but I don't think we are to blame because we've started late. So, I shall now ask you to come forward with questions to the members of the panel. When putting your question please emphasize which speaker of the panel you wanted to be replied by. Thank you.

Questions and and Answers:

1. I would like to ask Mr. Gluschenko to elaborate on the tax reform which is foreseen in Russia.

Mr. Gluschenko- It is very difficult question, because the tax reform proposal now is a big struggle in Russian parliament and the future of this project is very complicated.

2. I have a question to Ambassador Lake about TACIS programs. You know we have special ties with Central Asia and the Caucasus. What about participation of Turkey in the TACIS programs? You might not know the details but, in general could you develop how Turkey can participate in TACIS programs?

Ambassador Lake- Well, this is another new subject. It was aroused during, I think, first or second year here 1991-92. And indeed I remember raising myself when your Foreign Minister Mr. Giray, if you can remember that far back, Mr. Giray and Mr. Matutes who was then the member of the Commission responsible for relations with Turkey, when they were meeting I raised this question myself. And I must say I am a bit puzzled and indeed bewildered that this has not taken off. I am not really sure why, it seems to me to be perfectly reasonable subject for consultation between the two parties. We have been preoccupied with other matters, particularly the customs union and the fall out from that and we are now engaged in another delicate and very intense negotiation but I would have thought that there was lots of room for improvement in terms of cooperation between EU and Turkey in terms of TACIS. I can't give you any more details about it, I am afraid.

3. *My question is directed to Dr. Gluschenko and Mr. Gökyiğit. They all talk about constructive engagement between Turkey and Russia especially in the Eurasian area as we define it and also we know that there are serious difficulties between the two countries and how both of you see the prospect improving political relations and engaging in regional dialogue in the Eurasia, going beyond this improved economic and trade relations? Thank you.*

Dr. Gluschenko- Thank you for the interesting question. I believe that the main problem in Russian-Turkish relations is not in political or economical sphere but, it is a problem of physiological character. We suffer from historical legacy mutually. There are some nationalist forces in your country and in my country that see Turkey as a rival. And same in your country. But I believe that business should go first.

Mr. Gökyiğit- As I tried to explain in my presentation, the relations between Turkey and Russia has been really reached to a very important level because of the economic relations changing from some \$400 million a year trade to Now, as I said this cannot be very easily jeopardized so, we will be guarding that these relations will keep on being on this very good level. What we should be careful, on the energy investments, I think we should be together with Russia and try to look after economically sound projects. And decide that we want to stay friendly on all issues. Thank you.

Chairman (Pekin Baran)- I think that you are mentioning that two speakers saying the same thing, they said “business first”. Thank you for putting them in the situation of giving such a consistent answer. Any more questions?

4. *My question is to the panel. We are speaking from Eurasia and can we have in the beginning of our conference a definition of this area, because we are speaking the whole time about relationship of Russia and Turkey and Central Asia but I think Eurasia is more. So, it would be good to have a feeling for this area, perhaps the panel can answer it. Thank you.*

Michael Lake- It is difficult to define that almost as it is to define Europe. We are still arguing about what is and how far extends Europe. What is Eurasia? I hope you weren't

thinking I was frivolous when I say, I refer to the American writer and thinker, W. D. Thomas I think this was his name, he said he couldn't quite give a definition to pornography but you would know it when you saw it. And I think you just have to realize to understand Eurasia. In Istanbul, I don't really feel I am in Eurasia but further east I do. Further east in the same country, it is a question of feeling. I don't think it is easy to define.

Chairman- Well regarding pornography you said, I know when I see it but there is also other criteria, you know it when you pay for it and you just gave us the financial debt you have given as EU. Any one else who would attempt this definition?

Intervention by the participants:

- We see Eurasia starting from the Mediterranean and going until Japan, including Europe.

- I think definition is very simple. If you put Europe and Asia together, what you have this huge land must be called Eurasia. Because the name also suggests that. Although the definition of Eurasia is such broader geography, we are talking about, for the sake of this panel. I think we will confine ourselves to Central Asia and Trans-Caucasus. If I understand correctly, it includes Russia as well. Thank you.

- Mr. Chairman, this discussion about what is Eurasia has extended but, I will contribute from conference's own pass out here, it is a study, I guess, done by the Eurasian Area and Europe Study Group and they have defined the frontiers of region, so as to include Croatia and Romania in the west, the Russian Federation west of the Euromountains in the north and Georgia and Azerbaijan in the east. However, today, as I understand from the panel discussions, that at the very least the Central Turkic Republics are also included in this area.

Chairman- I have read this. Actually, I also had same sort of doubts, that is why I so much welcomed your question. But I have the impression that you want to put another one. Please go ahead.

- Perhaps I can give our definition of this area. Because in our company we are speaking of Eurasia, and it is some countries of Balkan not all of them. That is Turkey, Russia and the neighborhood, that is Middle Asia, and then stop. Perhaps it is simple to speak about this area. If we speak about all Europe and Asia than it becomes complicated. I don't know if this area, that we are defining, is also good enough for you. Thank you.

Chairman- Thank you for your attendance.

TRADE AND INVESTMENT OPPORTUNITIES
AND CHALLENGES :
FINANCING THE OPPORTUNITIES

SECOND SESSION

Session Chairman

Şadi GÜCÜM ~ Vice-President of the External Relations Committee of TÜSİAD

Speakers

Hüseyin Erkan ~ Executive Vice-Chairman, Istanbul Stock Exchange

John McCarthy ~ Country Manager, ING Bank

Mehmet Ögütçü ~ Principal Administrator, OECD/IEA

Chairman (Şadi Gücüm)- We start the second session of the day and this time, we will be discussing the trade and investment opportunities and challenges and financing the opportunities. We have three distinguished guest speakers today. We will start with Mr. Hüseyin Erkan, the Executive Vice-Chairman of İstanbul Stock Exchange.

Hüseyin ERKAN

Executive Vice-Chairman, Istanbul Stock Exchange

TURKISH CAPITAL MARKETS

- NO RESTRICTIONS ON FOREIGN PORTFOLIO INVESTMENTS
- FREE REPATRIATION OF PROCEEDS
- REGULATION AND SUPERVISION OF THE CAPITAL MARKET BOARD AND THE ISTANBUL STOCK EXCHANGE
- FULLY-AUTOMATED AND COMPUTERIZED TRADING SYSTEM

TURKISH CAPITAL MARKETS

- ON-LINE, REAL-TIME DATA DISSEMINATION
- CLEARING AND SETTLEMENT IN ACCORDANCE WITH INTERNATIONAL STANDARDS
- ADVANCED RESEARCH, INVESTMENT CONSULTANCY, PORTFOLIO MANAGEMENT AND INTERMEDIARY SERVICES
- HARMONIZATION OF LEGAL STRUCTURE IN LINE WITH THE SINGLE EUROPEAN CAPITAL MARKET REGULATIONS

ISTANBUL STOCK EXCHANGE-MARKETS

(TURKEY: GMT+2)

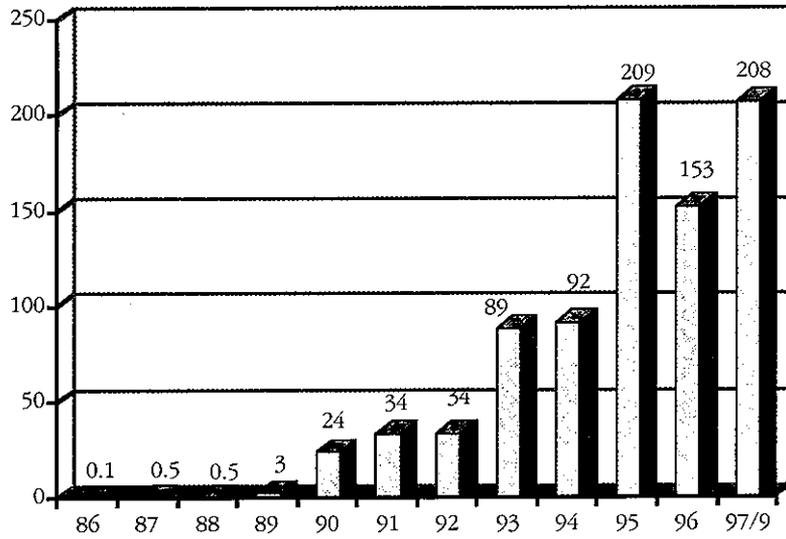
STOCK MARKET

- NATIONAL MARKET
INDEX LISTED & OTHER MAJOR LISTED COMPANIES
- REGIONAL MARKET
SMALL & MEDIUM SIZE UNLISTED COMPANIES
- WHOLESALE MARKET
- WATCH LIST COMPANIES MARKET
- NEW COMPANIES MARKET
NEWLY ESTABLISHED COMPANIES

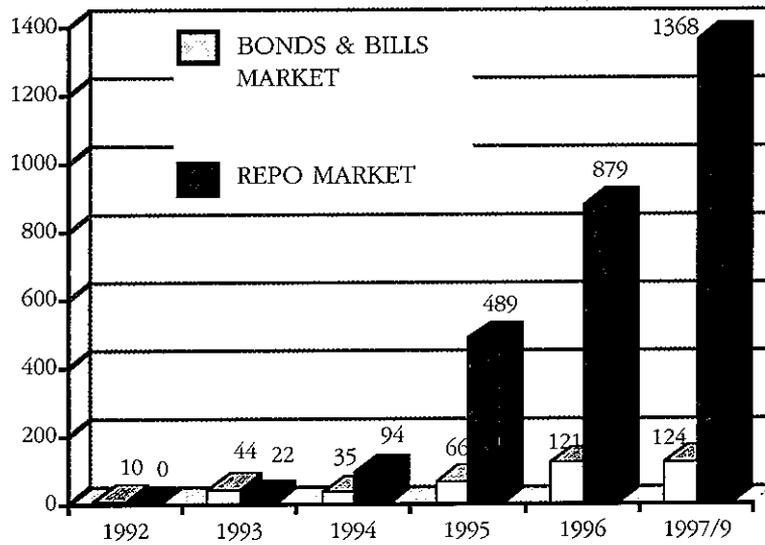
BONDS, BILLS & REPO M.

- GOVERNMENT BONDS & TEASURY BILLS MARKET
- CORPORATE BONDS MARKET
- REAL ESTATE CERTIFICATES MARKET
- REVENUE SHARING CERTIFICATES MARKET
- REPURCHASE AGREEMENTS (REPO) MARKET

**ISE - STOCK MARKET
AVERAGE DAILY TRADING VALUE
(MILLION US\$)**



**ISO - BONDS BILLS & REPO MARKET
AVERAGE DAILY TRADING VALUE
(MILLION US\$)**



**Funds Raised Through The
Istanbul Stock Exchange
(US\$)**

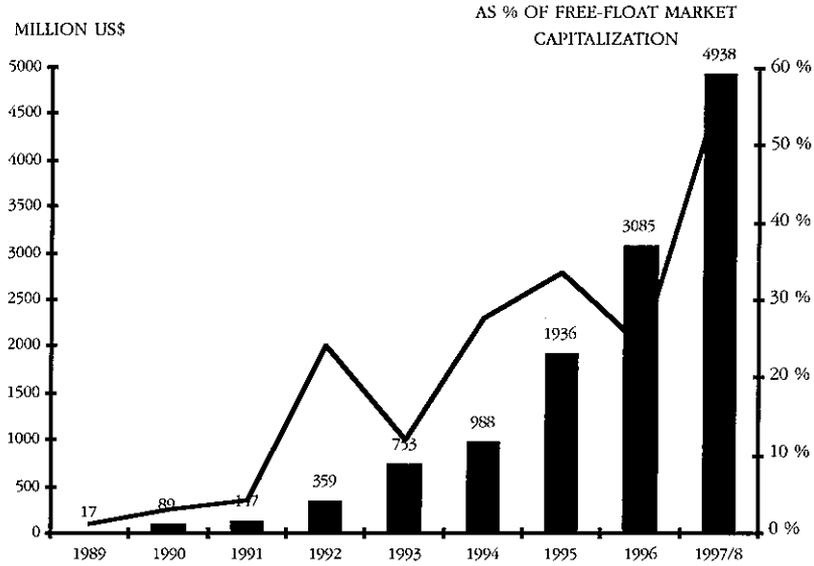
	CAPITAL INCREASES (US\$) (A)	PUBLIC OFFERINGS (US\$) (B)	NUMBER OF COMPANIES TRADED
1986-1990	1.511.596.546	985.311.000	110
1991	1.435.894.586	391.627.000	134
1992	952.877.585	94.424.000	145
1993	856.617.248	152.470.000	160
1994	1.044.171.123	270.480.000	176
1995	893.295.888	246.783.000	205
1996	655.194.820	167.921.000	229
1997/9	645.388.042	355.537.000	250
Total	7.995.035.938	2.664.553.000	
A + B	10.659.588.938		

INTERNATIONAL RECOGNITIONS

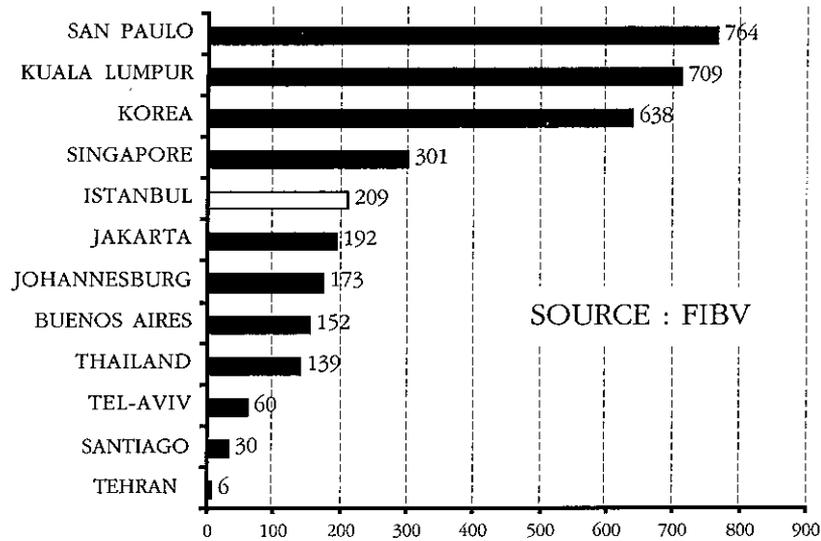
ISTANBUL STOCK
EXCHANGE - ISE

- SEC (US SECURITIES EXCHANGE COMMISSION)
- JSDA (JAPAN SECURITIES DEALERS ASSOCIATION)

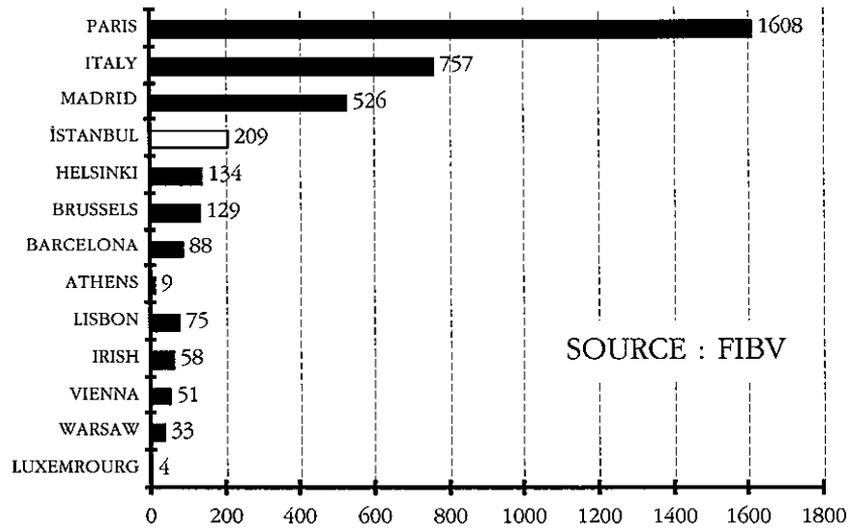
EQUITY PORTFOLIO HOLDINGS IN TURKEY BY FOREIGN INVESTORS



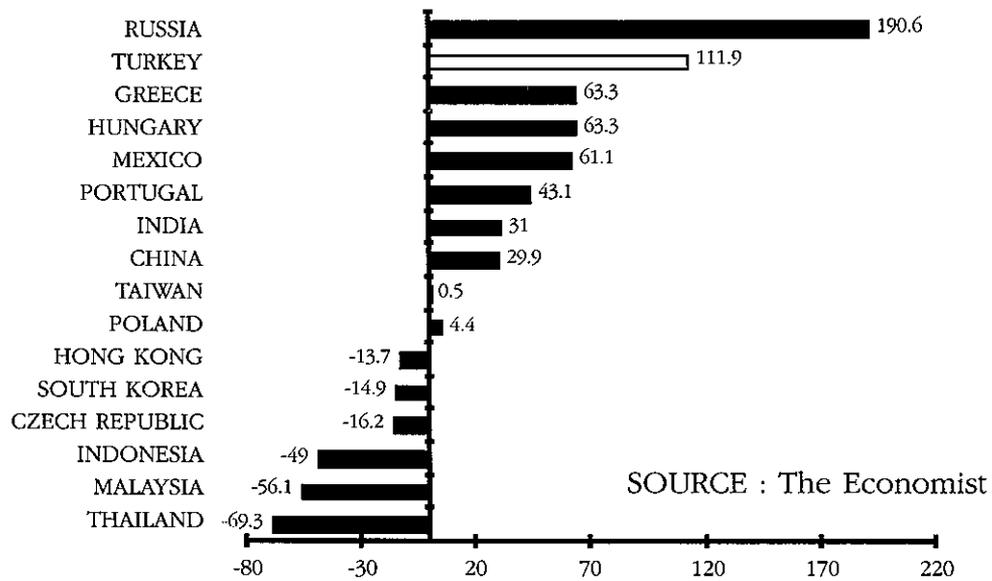
AVERAGE DAILY VALUE OF STOCK TRADING IN 1997/9 (MILLION US\$)



**AVERAGE DAILY VALUE OF STOCK TRADING IN 1997/9
(MILLION US\$)**



% RETURN IN US\$ TERMS (DEC 31, 1996 - OCT 22, 1997)



**NET LONG-TERM RESOURCE FLOWS TO
EMERGING MARKETS (BILLION US \$)**

Source	1990	1991	1992	1993	1994	1995	1996
Public Sector Development Finance	56.3	65.6	55.4	56.0	45.7	53.0	40.8
Private Loans and Bonds	16.6	16.2	35.9	44.9	44.9	56.7	88.6
Equity Portfolio Investments	3.2	7.2	11.0	45.0	32.7	32.1	45.7
Direct Investments	24.2	33.5	43.6	67.2	83.7	96.6	109.5
Private Sector Capital Inflows (Total)	44.0	56.9	90.6	157.1	161.3	184.2	243.8
Net Resource Inflow (Total)	100.3	122.5	146.0	212.0	207.0	237.2	284.6

**MARKET CAPITALIZATION OF DEVELOPED AND
EMERGING MARKETS (Million US\$)**

	1990	1996	CHANGE %
EMERGING MARKETS	614,585	2,225,957	262.19
DEVELOPED MARKETS	8,784,770	17,951,705	104.35

**RATIO TO TOTAL MARKET CAPITALITON OF
WORLD STOCK EXCHANGES (%)**

	1990	1996	CHANGE %
EMERGING MARKETS	6.54	11.03	68.65
DEVELOPED MARKETS	93.46	88.97	-4.8

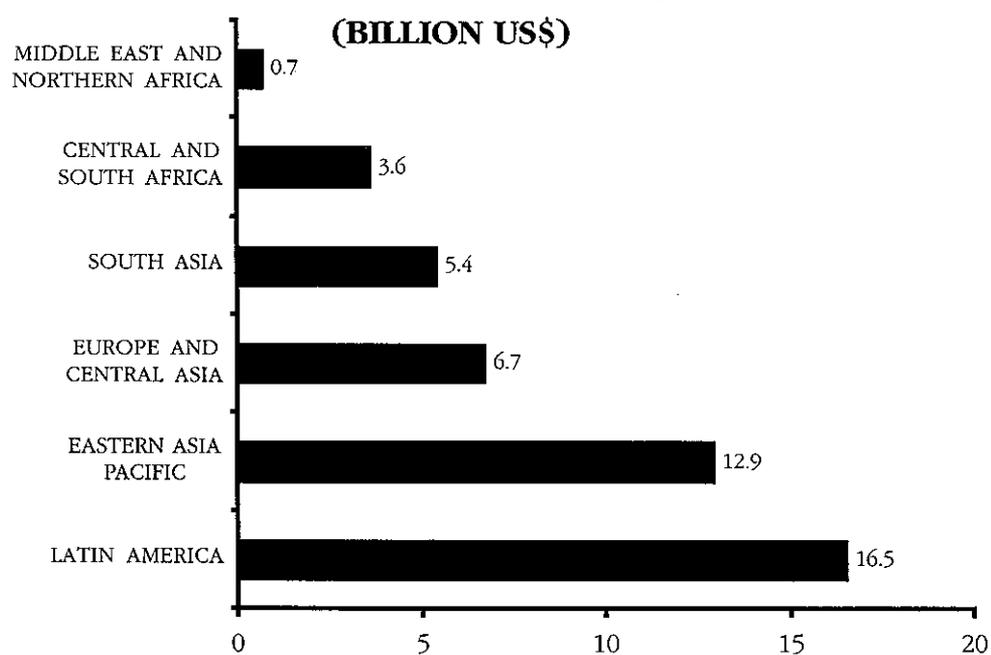
**TRADED VALUE OF EMERGING AND DEVELOPED
MARKETS (MILLION US\$)**

	1990	1996	CHANGE %
EMERGING MARKETS	900,045	1,586,818	76.3
DEVELOPED MARKETS	4,614,006	12,011,057	160.32

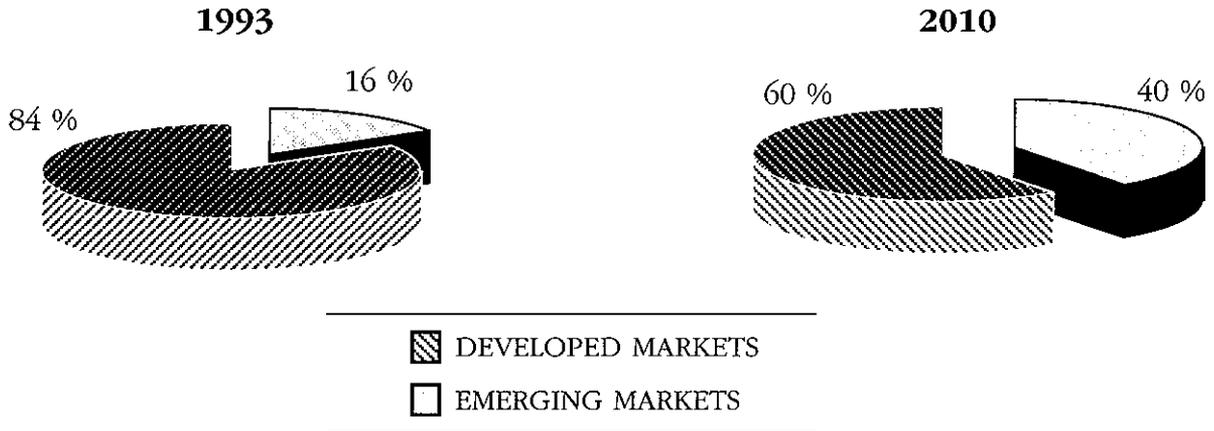
**RATIO TO TOTAL TRADED VALUES OF WORLD
STOCK EXCHANGES (%)**

	1990	1996	CHANGE %
EMERGING MARKETS	16.32	11.67	-28.49
DEVELOPED MARKETS	83.68	88.33	5.56

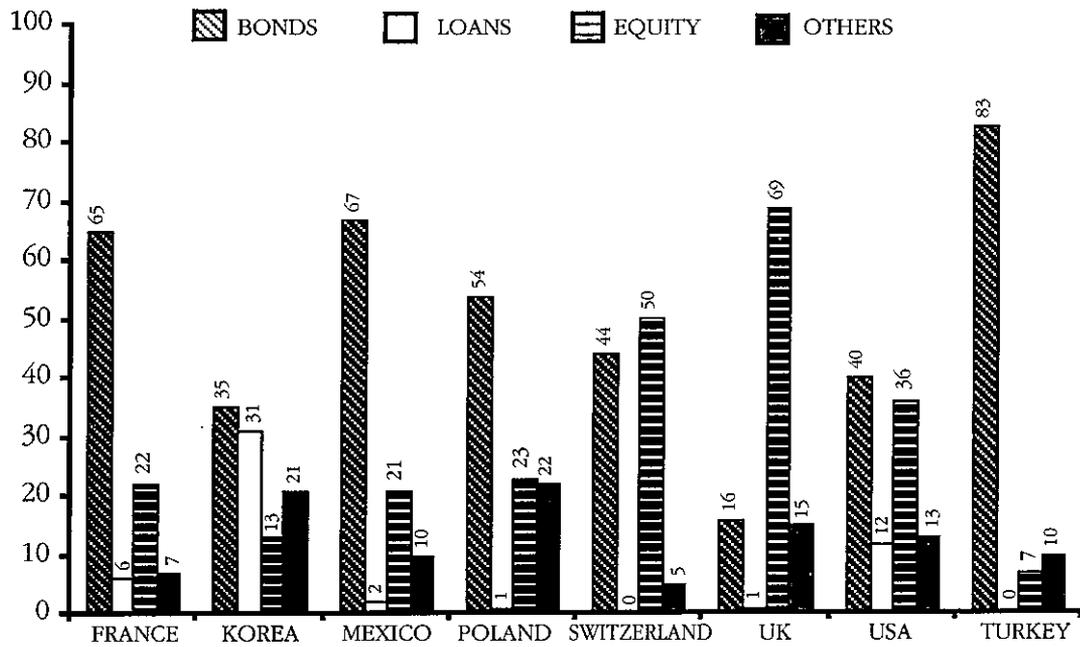
**EQUITY PORTFOLIO INVESTMENTS
TO EMERGING MARKETS - 1996**



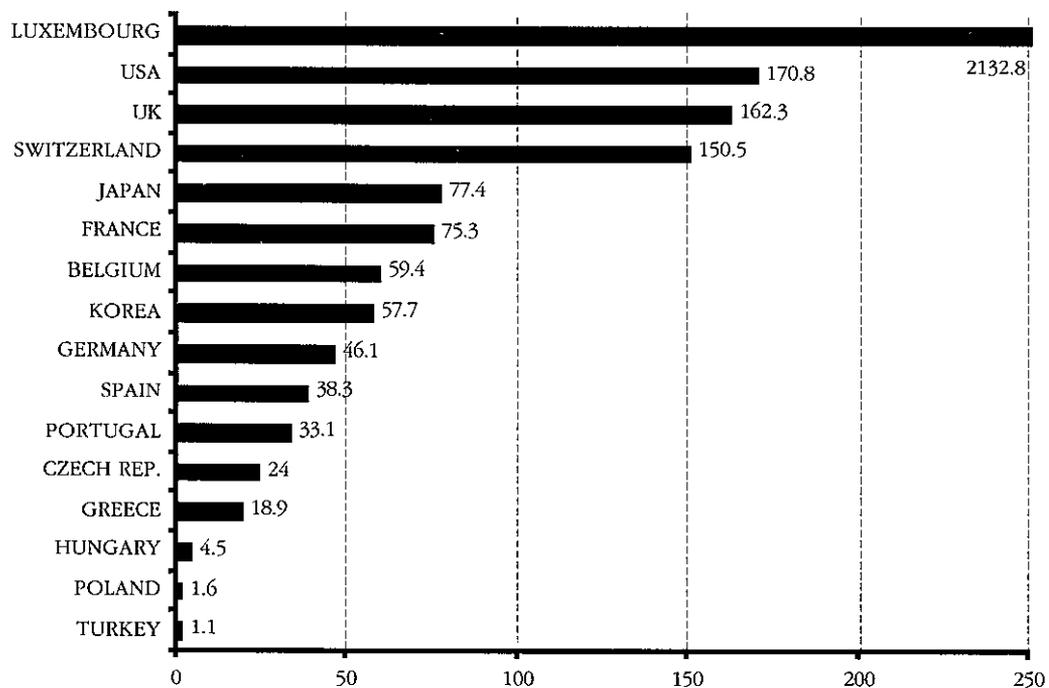
GROWTH IN EMERGING MARKETS



PORTFOLIO COMPOSITIONS OF INSTITUTIONAL INVESTORS (%)



**RATIO OF THE TOTAL FINANCIAL ASSETS IN
INSTITUTIONAL INVESTORS' PORTFOLIOS TO GNP 1995(%)**



SOURCE : OECD

INTERNATIONAL MARKET

- FREE TRADE ZONE: NO TAXATION
- DEPOSITARY RECEIPTS OF FOREIGN EQUITIES
- EUROBONDS AND OTHER FOREIGN BONDS
- MUTUAL FUNDS
- REPO TRANSACTIONS
- CONTINUOUS AUCTION WITH A MARKET MAKER FOR EACH TRADED COMPANY
- TRADING IN HARD CURRENCIES
- FULLY AUTOMATED SCREEN-BASED TRADING
- 90 AUTHORIZED ISE MEMBERS

INTERNATIONAL MARKET

- TARGET COMPANIES
 - SMALL AND MEDIUM SIZED COMPANIES OPERATING IN EASTERN EUROPE AND CIS COUNTRIES
 - TURKISH COMPANIES OPERATING IN THESE COUNTRIES AND EUROPE
 - MULTI-NATIONAL COMPANIES OPERATING IN THESE COUNTRIES
 - INTERNATIONAL MUTUAL FUNDS

FEAS - FEDERATION OF EURO-ASIAN STOCK EXCHANGES

- ALBANIA
- ARMENIA
- BANGLADESH (2)
- BULGARIA
- CROATIA
- IRAN
- ISRAEL
- JORDAN
- KAZAKHSTAN (2)
- KYRGYZ REPUBLIC
- MACEDONIA
- MOLDOVA
- PAKISTAN (3)
- SLOVAKIA
- TURKMENISTAN
- TURKEY
- UKRAINE
- UZBEKISTAN

INTERNATIONAL MARKET

SUB MARKETS

- DEPOSITARY CERTIFICATES (DC) MARKET
Shares of the companies established outside Turkey are traded.
- INTERNATIONAL BONDS AND BILLS MARKET
Bonds and bills issued outside Turkey are traded.
- FOREIGN MUTUAL FUNDS MARKET
Foreign mutual funds are traded.

ADVANTAGES OF INTERNATIONAL MARKET

FOR THE INTERMEDIARY INSTITUTIONS

- + TAX EXEMPTION
- + EXTRA REVENUES
- + EXPERIENCE FROM THE ISSUE OF
SECURITIES ON AN INTERNATIONAL
PLATFORM
- + RECOGNITION IN INTERNATIONAL CAPITAL
MARKETS

ADVANTAGES OF INTERNATIONAL MARKET

FOR THE ISSUERS

- + NEW SOURCES OF FUNDS FROM
INTERNATIONAL MARKETS (NEW INVESTORS)
- + PROMOTION TO THE REGION
- + TAX ADVANTAGES FOR INVESTORS

Chairman (Şadi Gücüm)- Thank you Mr. Hüseyin Erkan for the nice insight into ISE. Now I would like to invite Mr. John McCarthy, the Country Manager of ING Bank to address us.

John McCarthy

Country Manager, ING Bank

Good morning ladies and gentlemen.

My topic this morning concerns the barriers which block the development of free trade and investment in the huge, resource rich landmass we are calling Eurasia.

I was asked to join this panel three weeks ago, just before I was to travel to London.

For this trip, because of heavy demand for rooms in London, I was having difficulty in finding hotel accommodation. Consequently I finally booked a room at my club - which like most of these institutions, is perfectly adequate - if a bit spartan and eccentric.

The Oriental Club was founded in 1824 by the Duke of Wellington as a retirement home for returning officers of the East India Company. To this day, the main criterion for membership is to have conducted one's profession - whether in the military, government or administration, or commerce and finance - somewhere east of Suez.

Staying there at this historic club and mindful of my talk this morning, I reminisced in the Oriental's library on the origin and history of what became known as "The Honourable Company"

The Honourable English East India Company was established by Royal Charter on New Year's Eve, 1660, by Queen Elizabeth 1.

To its Tudor merchant - adventurers, freedom of trade was much like freedom of conscience. Wherever English shipping called, the argument for free trade was vigorously promoted.

Some 170 years before Adam Smith was to urge the logic of free trade in his "Wealth of Nations", the merchants of the East India Company relied on their Queen's standard letter of introduction to eastern princes and which declared:

"In his infinite and unsearchable wisdom, God had so ordained matters that no nation was self-sufficient, and that out of the abundance of fruit, which some regions enjoy, the necessities and wants of others should be supplied. Thus, several and far remote countries should have traffic with one another and by their interchange of commodities, should become friends."

But surely as long as free trade has been conducted among nations, there have also been barriers to inhibit its success and protect local or national interests. So let me now leave the theoretical plane and descend to the realities which exist today in the CIS.

I am not going to speak to the issues of trade barriers from the perspective of a banker conducting his own banking business. Rather I have been able to canvass a number of our good clients, some European, some American, some Turkish, to obtain their input as to the principal trade barriers they face in various, selected CIS countries.

I will also not speak to the issues relating to the institutional, regulatory and technological development of sound financial systems in the CIS. The level of development of the respective indigenous capital markets and banking systems varies significantly from country to country. But these are issues for the supranational and regional organisations - such as the World Bank, the IMF, EBRD, IFC and EIB, etc. As a publicly-traded bank, owned by private shareholders, and working with the trust and assets of depositors, our focus is on financing trade flows and intermediating direct and portfolio investment.

In order to be specific and stay within my time limit, I would like to focus on four CIS countries, which from our vantage point from Istanbul, seem to have the greatest significance (after Russia) for our clients, namely the Central Asian Republics of

Azerbaijan;

Kazakhstan

Turkmenistan, and

Uzbekistan

Azerbaijan is a new republic making the transition to a market economy. The legal framework inherited from the Soviet Unions is gradually being replaced by new rules and procedures. Regulation is characterised by weak administration and a lack of transparency. Although necessary new laws are being adopted under the guidance of the World Bank and IMF, Azerbaijani laws are often vague and take on meaning only through implementing decrees and regulations. There is no official gazette. Decrees are usually published in leading newspapers, but regulations usually are not. There are often differences between policies established by the government and procedures followed by executive agencies. The latter frequently lag behind the former.

Corruption is perhaps the major problem that foreign investors face in Azerbaijan. Although state leaders have repeatedly proclaimed the struggle against corruption a most urgent task, the situation has not improved.

The lack of a western-style banking system makes almost impossible to verify the financial bona fides of potential partners who want to work with western firms. The Azerbaijani banking system is small, weak, and plays a minimal role in the economy, which mostly functions on cash.

Foreign investors may be required to put 15% to 25% of their operating capital into a “reserve fund” which cannot be withdrawn from the country while operations are ongoing in Azerbaijan. The government has in the past frozen bank accounts of companies which have not met all their tax obligations.

Oil revenues are not expected to flow before 1999 so government funds are scarce. Around 60% of Azerbaijan’s 24,000km of roads are in poor or bad condition. One third of its 2,000km railway network needs rebuilding. Its telecommunications infrastructure needs to be updated.

Storage facilities are limited and prices may vary considerable depending on shipment schedules.

The lack of clarity in the tax regime can lead to unanticipated tax claims from various levels of taxation authorities.

The Azerbaijani legal system does not contain a transparent body of commercial law. There are no effective means for enforcing property and contractual rights. The Economic Court, which has jurisdiction over commercial disputes, is weak. There is a new bankruptcy law, but it is untested. Azerbaijan is not a member of the Washington Convention nor is it a member of the New York Convention of 1958. Judgements of foreign courts are not accepted by local courts. Azerbaijan is not a member of the CIS arbitration court.

On July 16, 1996, Azerbaijan’s parliament passed a land law which allows for private ownership of land but precludes ownership of land by individual foreigners.

Under the guidance of the IMF, Azerbaijan announced a new, simplified import tariff schedule, effective July 1, 1997. All imports are at uniform rates of 15%, 5% or 0%, whereby most goods are subject to 15% import customs duties. Customs duties do not apply to goods imported under bilateral free trade treaties between Azerbaijan and foreign states.

In addition to customs duties, a 20% value added tax (VAT) is charged on certain imports. Goods from other CIS countries (except Kazakhstan) are assessed VAT in their country of origin, not in Azerbaijan.

The government regulates the export of strategic commodities produced in Azerbaijan. At present, strategic commodities are: petroleum products, cotton, electric power, and non-ferrous metals. Potential buyers of such commodities must get approval of the state commission on supervision of foreign economic relations.

Lastly, there are no free trade zones or bonded warehouses in Azerbaijan. However, it is developing a Special Economic Zone (SEZ) project in the second-largest industrial city of Sumgait (25 km north of Baku) with assistance from UNDP and UNIDO.

Moving to Kazakhstan, the legacies of the Soviet system, including an inefficient and murky bureaucracy, hinder Western investment. Another obstacle to foreign investment is corruption against which there is little chance of recourse through Kazakhstan's judicial system.

Kazakhstan has increased import tariffs on a number of Western products since forming a Customs Union with Russia Belarus and the Kyrgyz Republic. However, as recently as March 1997, the Kazakhstani government stated publicly that upon joining the WTO, it would leave the Customs Union (and thereby eliminate these tariffs).

The overall trade-weighted import tariff is 12%, and a value added tax (VAT) of 20% applies.

Kazakhstan's customs system is often an obstacle to doing business, particularly because customs procedures are not always conducted in an orderly, consistent and business-friendly manner. The U.S. Agency for International Development (USAID) and U.S. Customs Services are providing training and technology to improve Kazakhstani customs.

Other non-tariff barriers include a weak and often contradictory system of commercial law, arbitrary implementation of laws, inadequate local financing to service loans, and a fragile banking system.

The government offers new incentives to attract investors, but the law does not provide clearly defined procedures for open & fair competition.

On the transportation front, distribution networks are in their infancy. There is a high cost of transportation because Kazakhstan is the world's largest landlocked country.

Another barrier frequently mentioned by our clients is that except for Almaty, it is hard to find an English speaking labour pool. Also it is hard to find local managers with Western work experience and a business education.

Turning to Turkmenistan we note that the commercial code is unfinished as yet.

Most of the local officers are unfamiliar with Western business practices and internationally accepted norms, and business is often a matter of personal influence and politics. Most of the marketing methods employed in the West do not work well. Commercial advertising in Turkmenistan is controlled by the government. Large scale contracts are signed at presidential level.

Excise taxes constitute the most significant trade barriers in Turkmenistan. The law on value added tax states that foreign investors must pay a 20% tax on the volume of goods and services sold.

Turkmenistan has not negotiated either a bilateral investment treaty or bilateral tax treaty.

Turkmenistan lacks both copyright legislation and an agency to enforce such legislation.

Communication systems are not modernised, but updating projects are planned.

The banking system is weak and no formal capital market infrastructure exists. Turkmenistan does not have laws, regulations or penalties to combat corruption effectively, nor is there a legal system in place to enforce property and contractual rights.

Lastly I turn to Uzbekistan.

Duties average from 10% to 20% with exemptions granted to goods imported as a contribution to the authorised capital of a joint venture and equipment produced by, and imported for foreign companies with total direct investment in Uzbekistan exceeding 550 million.

The value added tax (VAT) is 17%.

Export duties range from 5% to 50% and there are state controls over the export of key commodities.

Uzbekistan raises levies on exports but has no duties on any imports except those of tobacco products.

Foreign trade is still quite centralised; most imports are subject to bulk state orders and strategic exports are controlled by the state.

Although imports are virtually tariff free, there are 58 exports on which customs duties are levied. Tariff rates range between 10-50% of FOB value.

There are no preferential tariff rates for countries or organisations.

Companies can apply for duty relief this benefit can only be granted by the Cabinet of Ministers.

Uzbekistan's tariff structure is not bound by the General Agreement on Tariffs and Trade.

There are many restrictions on the amount of money a person can draw from his account at one time.

The Central Bank sharply limits the amount of cash in circulation and stipulates that virtually all transactions by enterprises, with the exception of wages and travel, must be paid by interbank transfer rather than cash sums. Interbank transfers can take anywhere from several days to several months to clear.

Foreign firms and joint ventures are required to obtain a special license to convert and repatriate their earnings. The process of obtaining the license is filled with bureaucratic obstacles. Limitations on the number of bank accounts that foreign firms and joint ventures may hold often complicates the process of wiring foreign exchange. Companies earning hard currency are obligated to exchange 30% of their revenues for sum at the official exchange rate. This surrender requirement occasionally results in foreign firms and joint ventures accumulating unwanted non-convertible currency accounts.

The bureaucratic process governing the process of registering a foreign firm or joint venture is reportedly frustrating.

As final notes I would point to the severe health and environmental damage caused by the degradation of the Aral Sea. And the declining GNP, high inflation, low productivity rates are all factors which are inhibiting Uzbekistan from achieving its potential.

I would conclude with the comment that the items I have thrown out to you this morning are representative, but not exhaustive.

Clearly as these transitional economies mature they will recognise the benefits of free trade and liberal market economies. It is in our interest to give as much support to their efforts as possible.

Thank you.

Chairman (Şadi Gücüm)- Thank you Mr. McCarthy for the detailed challenges that face us in Eurasian market. And our final speaker this morning will be Mr. Mehmet Öğütçü, the principal administrator at OECD International Energy Agency.

Mehmet ÖGÜTÇÜ

Principal Administrator, OECD/IEA

Thank you Mr. Chairman. With your permission I would like to speak from the panel. I was planning to kick off my presentation with a discussion about the definition of Eurasia, which is so controversial; but one of the participants on the floor already has raised the issue. I don't have to enter into this seemingly endless debate. For the sake of this presentation, my definition will be confined only to Central Asia, and Trans-Caucasus. For reasons of convenience we may also call this region Caspian Sea basin, which is precisely the area on which my presentation will focus. Given the 15 minute time limitation it is impossible to cover all the issues which I implied in the title of my paper but the good news is that I have a 60 page long paper which will be distributed by TÜSİAD afterwards to those interested.

Eurasia is such a fascinating topic of interest for scholars, businessmen, investors, financiers, military strategists, intelligence officers, diplomats, religious groups, you just name it. We listened to some of them earlier this morning.

My focus will be as expected from the energy and geopolitics perspective only. While estimates of the size of regional oil and gas reserves vary widely, the Eurasian world around the Caspian Sea is potentially one of the world's most new energy-producing regions and could rank third in the world after the Middle East and Russia. The value of its oil and gas reserves exceeds \$ 4 trillion. The Caspian Sea Basin is made up of the five littoral states of the Caspian Sea namely Azerbaijan, Kazakhstan, Russia, Turkmenistan and Iran. Known for its energy reserves this entire region has great promise as a trade and transport corridor linking Europe with Asia - a corridor with energy transport at its heart. Although the Caspian may never rival the Persian Gulf, Caspian production can have important implications for world energy supplies on the margins.

The region is a gateway to three regions that are of great strategic importance to the West: to the east lies China and the rest of Asia; to the south lies Iran, Afghanistan and the Islamic world; to the west and north lies Russia, Turkey and Europe. The oil and gas producing states of Central Asia and the Trans-Caucasia are trying to adjust to the changes in their political and economic institutions while attempting to stabilize their economies through integration into the world energy markets. This is a region much larger than

Western Europe in terms of land size. Future developments in Eurasia will therefore affect fundamentally, not only the security of energy supplies, but also the traditional geo-political equation in that part of globe.

In order to better understand the significance of Eurasia in the world energy, I would like to highlight the global energy landscape up to 2010. Then we can better appreciate why Eurasia is so important. We at the OECD, make long term projections for all the regions of the world. The idea of making long term projections is to provide some quantitative analysis for policy makers to predict the future, although not always with precision. Projecting long term global energy involves considerable uncertainties including policy changes, the geological potential of unexplored regions, technological developments, use of non-commercial energy and future preferences of energy users.

It is certain that we are going to have a fossil fuels-based energy future. Oil will continue to dominate the world energy demand, with about %40 of the world primary energy demand expected to come from oil by 2010. And oil demand is likely to increase from around 72 million barrels per day in 1996, to between 92 and 97 million barrels per day in 2010. OECD countries' share in this global energy demand will decline from the current %57 to about %54. And this loss will be picked up by dynamic Asian region to which I'll come in a moment.

By 2010, Asian demand will have doubled from its current level to about 22 million barrels per day. Another forecast is that, by 2020, OECD countries which now dominate about two-third of the world economy, will be controlling %60 of the world economy Asian countries' share in the global economy will jump from current %10 to %20. And the combined GDP of five big developing countries, namely China, India, Indonesia, Russia and Brazil, will exceed those of current G7 economies by 2020. As a result, there will be a significant shift, not only in energy terms but also in economic and geo-strategic terms.

Where will this oil come from to meet the growing demand? This is the basic question we have to address. Many people are worried that we are going to run out of fossil fields, especially oil and natural gas. This has been a worry since people started to use oil in large quantities. But, belying the forecasts, the oil industry keeps on finding new producing regions, developing more effective methods of finding oil fields, reducing costs, and coming up with innovative technology. Saudi Arabia has the largest resource base and also the spare capacity to fill up any gap that may occur in world energy market. Projected sharp increase in world energy demand, led by Asia as I mentioned earlier, will most likely be met by three key producing regions: Gulf OPEC, CIS, and Atlantic basin.

One of the speakers in the morning mentioned that Eurasia might provide the bulk of energy supplies in the next century. I think I have to contest this view because in the longer term, the greatest potential for crude production still remains in 6 OPEC countries - Saudi Arabia, Kuwait, Iraq, Iran, UAE and Venezuela. These countries have large resource base that can be exploited at relatively low cost. The role of Eurasia here should be considered as a swing producer. Because by 2010, the oil production in the Caspian basin, countries are not expected to exceed 3 million barrels per day (now 1 m b/d) which is currently the production level of Russia. Also in the world oil production, we estimate that their share will be around % 4-5 by 2010. So we are talking about 97 million barrels per day of the total world production and Eurasia producing only 2-3 million barrels per day.

23 years have passed since the 1974 energy crisis. Important changes have reshaped the world energy industries and markets. And things still keep changing. Currently Eurasia ranks seventh in the world in proven reserves - Saudi Arabia, Iraq, Kuwait, Iran, Abu Dhabi, Venezuela and the former USSR, followed by Mexico and the US. Recent estimates of proven and probable crude oil reserves for the Central Asian/Trans-Caucasian region vary between 15 - 40 billion barrels, with about 150 billion barrels of additional reserves possible. As much as 50 - 60 % of these reserves are in Kazakhstan, with 20 - 30 % in Azerbaijan. The region's proven reserves represent some 1.5 - 4 % of world proven reserves. For comparison, Kuwait's proven reserves are 95 billion barrels. However, much of the region has not been thoroughly explored; its known reserve base could therefore increase as exploration projects intensify.

Oil markets have been globalized. Confrontation has given way to dialogue and cooperation between producers and consumers. Oil is no longer a political weapon in the hands of producing countries. It is an internationally traded commodity. And, thanks to growing inter-fuel competition and publication of more and more data, analysis, the energy markets today have become more transparent than they were two decades ago. And now the non-OECD countries such as China, India, Brazil and Russia have become increasingly important in the world energy balance as discussed earlier. Throughout the world, governments have been withdrawing from ownership and from direct intervention in the energy industries. Increasingly public utilities are being privatized. Private sector investors from all over the world are being encouraged to participate in energy construction projects.

Among the nations of the Caspian Sea region, Iran possesses the largest total oil reserves, though it is least interested in the immediate development of Caspian oil deposits,

both its own and in the larger Caspian basin. Nevertheless, Iran cannot continue to remain isolated from the distribution of Caspian energy resources. Russia has a large oil complex that includes a powerful export sector and a well-established system of pipelines. Although its oil deposits are not as large as those of Iran, Russia is similar to Iran in that it does not have to speed investment or production in its sector of the Caspian Sea. Other regions of Russia, most specifically the Western Siberian oil and gas fields, mean that Russia can afford to wait some time before needing to invest in the extraction of Caspian region oil. Turkmenistan, unlike the other states in the Caspian basin, is less concerned with oil deposits than natural gas. It has large reserves of natural gas, and its immediate goals are much more concerned with exporting gas and in establishing infrastructure that would allow this to take place without great dependence on any other country. Eurasia will be only second to the entire Middle East if the potential reserves are confirmed. Using a world market price of \$ 20 per barrel, 200 billion barrels of oil can translate into potential revenues of about 4 trillion US dollars provided, I repeat, that potential reserves are proven and confirmed. Providing that investments continue to be attracted at the current pace, and sufficient export outlets are developed to justify such flows, annual oil production from the four Eurasian countries could reach 75 million tonnes or 1.5 Mb/d by 2000, and 143 million tonnes (2.9 Mb/d) by 2010.

After Western Siberia, Central Asia is the second largest natural gas-producing region in the former Soviet Union. Estimates of proven natural gas reserves for the Central Asian/Trans-Caucasian region vary between 6.7 and 9.2 trillion cubic metres, with perhaps 8 trillion cubic metres of additional reserves possible. As much as 40 - 50 % of these reserves are in Turkmenistan. The region's proven reserves represent some 6 % of world proven reserves. For comparison, Iran's proven gas reserves are 21 trillion cubic metres. Known reserves could increase as exploration continues. These reserve volumes are greater than the US and Mexican reserves combined. So the estimates can vary quite wildly.

I'd like also to say few words about the pipeline routes that have become the pet topic for many. I have no intention to give a lecture about what options are available and which ones are more viable. I discussed this issue in my paper if you are interested. There are tens of pipeline route schemes spanning all over the region. Turkey, Russia and Iran are competing to route the rich resources of Central Asia through its territory. Two basic schemes are being proposed for pipelines to transport oil from the Caspian Sea region. Turkey is pressing for a pipeline that would carry oil through Iran, Armenia or Georgia and

then across Turkey to the Mediterranean. Russia on the other hand is promoting a pipeline across the Caucasus to the Russian Black Sea port of Novorossiysk. From there oil would be transported through Turkey's Bosphorus Straits or via a proposed pipeline from Bulgaria to Greece en route to Europe. It may not be proper to venture into other Central Asian pipeline options involving China, Pakistan, India and Iran. Europe focuses its attention only on pipelines destined for its own markets. But for the Eurasian oil and gas, there are enormous opportunities and potentialities in other regions as well. What are the potential markets for Eurasian supplies? The European oil demand has increased only % 13, in the 24 years since 1973. We can safely say that the demand in Europe is quite weak and will remain so in the foreseeable future. Europe's total energy use has grown by a mere % 12 in the 24 years since 1973. Even in the period since 1986 - after the collapse of the international oil price - the average annual increase in energy use has been under % 0.5.

To date, however, the realpolitik of European issues remains supply-side oriented. The former dependence of Europe on external oil suppliers has become one of dependence by the suppliers on the market opportunities in Europe. The prospects for continuing high flows of oil from Europe's productive basins -notedly in the North Sea province-continues, while new basins have already yielded to major discoveries. In essence, Europe is going to remain self sufficient in oil as it has recently become until well into the first decade of the 21st century at the earliest. The North Sea is important to world energy markets because it is Europe's main oil and natural gas producing area. Also, the region's large natural gas reserves make it a key supplier of European gas. A small note of caution: North Sea production is likely to peak in the early years of the next century.

Therefore for oil the European markets are highly competitive and there will not be strong oil demand from Europe. So where else this could go?

The next market opportunity could be perhaps in Eastern Europe, which is trying to reduce its heavy dependence on Russian supplies. Then the steadily growing Mediterranean markets, with your permission, Mr. Chairman, I will try to focus here on two important markets - Turkey and East Asia (or more precisely China).

What happens in Eurasia is critical to Ankara for a variety of reasons. Turkey's geographical location makes it a natural "energy bridge" between major oil producing areas in the Middle East, Central Asia and the Caucasus and, consumer markets in Europe. Turkey is important to world energy markets. It has been designated as one of the world's ten "Big Emerging Markets" (with a rapidly-growing energy sector). It is concerned about establishing a variety of reliable sources of supply, and particularly anxious about

avoiding too much dependence on Russia. The Caspian region is a natural source of energy for Turkish economy, and Turkey can provide a reliable and economic export route for Caspian and Central Asian oil and gas.

The Turkish market deserves special mention for political and economical reasons. While Turkey depends upon external source of energy, it enjoys a geographically strategic position that enables it to serve as an "energy bridge" to Europe for both Middle Eastern and Central Asian oil and gas exports. I want to draw your attention to the fact that Turkey is not only a transit country as many people keep focusing on particularly in relation to whether or not Baku-Ceyhan pipeline will pass through Turkey. I think this is secondary to Turkey's status as a large energy market for future Caspian supplies of oil and gas. The energy demand has skyrocketed in Turkey making this nation one of the biggest emerging energy markets in the world. Turkish oil consumption has increased in recent years. Oil provides nearly half of Turkey's total energy requirements, and reliance on imported crude has grown. Major suppliers of crude to Turkey are Saudi Arabia, Iran, the UAE, Libya, and Russia. Demand for natural gas is projected to increase dramatically in Turkey over the next 10-15 years, with the prime consumers expected to be industry and power plants. Several independent estimates see Turkey's consumption nearly tripling to 740 billion cubic feet (bcf) by the end of the decade, and reaching 1,400 bcf by 2020. Current gas production in Turkey meets just 2.8 percent of its consumption requirements. The bulk of Turkish gas demand is met by imports. Currently Turkey's main supplier of natural gas is Russia (nearly 85 % of Turkey's gas supplies). As I said before, we are now in a buyer's market and not in the seller's market. Therefore, the Russians, Iranians, Turkmen are trying very hard to get into that Turkish natural gas market. Some of the Central Asian republics, then LNG suppliers are vying among themselves to penetrate into the lucrative Turkish market.

Another potential market is China. Central Asia could become one of the major suppliers of oil and gas to China in the next century. Because China has been growing at impressive rates of growth about % 11 last year, which may stabilize perhaps between %8-9 over the next decade, China is not able to meet the growing demand. It has to import. As from 1993, China has already become a net oil importer. Its imports of 10 millions tons per year are expected to rise to 50 million tons by 2000, and to 100 million tons by 2010. So China is going to significantly change the outlook in the world oil market. Currently it is excessively dependent on Middle Eastern supplies. It is also importing from some of the Southeast Asian nations such as Indonesia; but we know that

Indonesia will also become net oil importer in the first few years of the next decade. India already imports % 50 of its oil from external sources. I think only Brunei will be the net oil exporter in the entire Asian region with the rest importing from the Middle East and Central Asia.

So, when we talk about the pipeline routes, I think we have to consider all these export markets. Where ever the market is, the pipelines will move in this direction towards the Turkish markets, the Chinese markets, the South Asian markets and the Mediterranean market.

As natural gas, Europe has more or less secured its energy supplies up to the year 2007 or 8, but from that point onward, Europe should be looking for additional gas supplies. Currently North Sea provides bulk of its gas, so does Algeria, which politically unstable we know, so Eurasia might be a viable source of natural gas to Europe in the long run.

One of the objectives set out for this Panel was to provide input to the UNICE "Eurasia" paper. Although the demand outlook in Europe is quite weak, I believe that Europe has a multiple of interest in Eurasia. And energy is just one of them - the most important one in my opinion. In this context the Union is actively developing ideas for energy co-operation on a sound, workable basis with Central & Eastern Europe and the former Soviet Union, conscious of the growing problems in those areas which could put pressure in future on the world energy markets and particularly on the former Soviet gas supplies. And on this scope the (initially European) Energy Charter Treaty deserves a special mention. It is unique as a multilateral treaty, limited in scope to the energy sector, which establishes within that sector legal rights and obligations with respect to a broad range of investment, trade and other matters, and in large part provides for their enforcement. The fundamental purpose of the charter is defined as opening up the energy resources of the former Soviet Union and Eastern Europe, encouraging investment and free trade, and ensuring reciprocal access to markets, as well as supporting transition towards democracy and market economy. So this is a very important legal instrument in the hands of the investors. It is also a useful means for Eurasian countries because they would like to have security of demand, while Europeans are interested in security of supplies. Unfortunately, the EU doesn't yet have a single internal energy market. There have been discussions, however, on the matter. There are still considerable differences of opinion between the Commission and most of the member states as to the precise balance between market and regulation. The EU needs a common external energy policy as well given the fact that nearly half of its energy requirements are now being met by imports and its dependence

is likely to increase in the longer term. I am not sure whether we are going to face the same situation in the Union as experienced in the common foreign and security policy.

It is correct to say that the internal dynamics of the EU foreign policy-making and various constraints i.e. finances, conflicting national interests among member states, competition with other policy areas and geographical priorities (Eastern & Central Europe and the Mediterranean) are currently holding back the development of an effective EU policy response towards Eurasia. But at a time when there are quite a number of major external players in the region competing with each other and there are many European oil/ gas companies operating in the region, we believe that the EU cannot afford to stand idly on the sidelines or be indifferent economically and politically to this important geography. It should join forces with the regional countries in designing a political, economic and security strategy in which energy diplomacy is destined to play an increasingly important role. Such a strategy must also ensure strong support for the continuing transformation of Russia itself towards greater democracy and a free market economy.

Before winding up, just few words about the geopolitical situation and major players in Eurasia. This could be an endless subject for endless debates and theoretical discussions. Central Asia and the Caucasus have a long history of numerous geopolitical struggles from the conquests of Alexander the Great, Genghis Khan, and Tamerlane (Timur) to the 18th century expansionist drive of Russian empire. In the Caucasus, this drive led to a clash with the Muslim world of Iran and Turkey. In the 19th century Central Asia, it culminated in the Great Game played by the Russian and British Empires. Today, a new Great Game or some might say a clash of civilizations may be underway in these regions, with post-Cold War Russia, Turkey, Iran, China, and the West competing for influence.

The geopolitical and security issues in Eurasia can be the subject of debates and theoretical discussions *ad finitum*. The geopolitical issues of interest to this paper are only in the context of oil and gas issues that could affect the economic and political relations among the countries in Eurasia and outside. At stake in Central Asia and the Caucasus are extensive natural resources, vast reserves of oil and natural gas as discussed earlier, as well as the world's largest gold mine. Furthermore, the region represents a strategic, economic crossroads, the legendary "Silk Road" connecting China in the East with Europe in the West.

I will not enter, due to the time constraint into these controversial debates that Eurasian energy development should not be a game considered as a zero-sum. In our judgement, all the new states in the region and external actors can benefit from the region's rapid and sustainable energy development. The time is of the essence here. We have the opportunity to help these countries to rebuild themselves from the ground up to encourage them to continue their strong independent stances. Nobody would like to see a monopoly on Eurasian energy resources, be it Russia, US, Iran, China or Turkey for reasons of energy supply security and geopolitical balance of power. It is definitely a positive-sum game in which all involved can reap benefits from enormous opportunities.

Thank you.

Chairman (Şadi Gücüm)- Thank you Mr. Ögütçü, now we have roughly 15 minutes for question and answer. Please when you ask question use the microphone and mention to whom you are addressing the question.

Questions and Answers:

1. I have been to these countries for many years. And soon I'll be working for another company doing the same thing. What do you suggest Mr. McCarthy? What you've told us has always been true since the last 10 years. And Mr. Ögütçü gave us optimist point of view, so, where is the truth, what should we do? You are a banker, it is natural that you are very conservative and Mr. Ögütçü, on the other hand, has tried of course to sell the idea of the rich natural resources there, we have been through all of these; every one has positive and negative feelings at the same time. But what should any company be doing from today on concretely? What is your suggestion?

John McCarthy- I think as I mentioned in my presentation, my perspective is that of a commercial bank. My capital belongs to my share holders, my working funds belong to the depositors. I have an immediate obligation towards the short end. So, when I look at these high risks, I want to have a bias towards the short term. I am looking at self liquidating transactions and by implication, I am suggesting my clients do the same. I am not going to put my money in long term because my depositors wouldn't want that. On the other hand, that doesn't mean that the development of role is not necessary and desirable. What the OECD does, what the other super national do, I think, that is entirely within their belief and when they lay a commercial framework, they don't lay it for any specific industry whether it would be steel industry or technology or even banking, they lay it for the benefit of development of country. But, that is a bit more altruistic than the profit motive, because it means a commercial bank. So I am on the short term, my clients tend to be on the short term. Would I go into long term, they go in their own resources or with the help of super nationals? It is that simple.

2. I have comment on the presentation of Foreign Affairs and then a question to Mr. McCarthy. Concerning the reserves of the Caspian basin, one should remember that during the Soviet times this area was kept as a strategic reserve of the Soviet Union. For that

reason the area is not fully explored. Whatever figures we have for the resources of the region are the minimum ones. Particularly with respect to oil and gas. Mr. McCarthy do you see international arbitration as a solution to the business partners, given the lack of mechanisms?

John McCarthy- I think, we are proud to say that Turkey is not in the same stage of development as the four countries that I mentioned earlier. We have a developed economy in Turkey, but I know there are number of you, out there who have been following over the half dozen years the development of the power industry here, in Turkey. And if we look at the issue of BOTs or BOOs and eventually coming down to how do we finance these deals. One of the major step today has been the question of arbitration. And that's in a country like Turkey which we say it is recognizably well developed. I think, it is a make or break issue in long term investment from the commercial side, I am not saying from the developmental and super national side. But certainly for the commercial side it is. I think Huseyin Erkan made a point in terms of a stock market investment, portfolio investment say rather than direct investment which I am more talking of. I think there is a strong bias forgoing when is a developed, reliable infrastructure not only to back up the investment, to enable to hold the investment with some security and safety. So yes I think it is a key issue.

3. My question will be to Hüseyin Erkan, as you have mentioned that the South East Pacific region is the most attractive region for foreign investment, many research and article focus on South Asian miracle that takes the role of the state as one of determining factors in creating the miracle. Mr. Rodric in his article named as the Miracle of East Asia dwells upon the subject and says that the selective incentives that the states play a very major role in creating the miracle. But, as you have mentioned in Turkish case, Turkish political risk is one of the hurdles that lies before us in attracting the foreign investment so will you please elaborate more on your project to attract more foreign investment to Turkey, is it a sort of by passing the state in contrast what the South Eastern countries did?

Hüseyin Erkan- Well when I mentioned something about the political risk of Turkey, I, of course,, had in mind the frequent changes in politics in Turkey effecting the development of capital markets and effecting the liquidity on the capital markets in Turkey. Not necessarily saying that Turkey is a risky country, no. If it was, then we would not have seen so many foreign investors coming into Turkey, and now owning more than %50 of the stocks traded on the Istanbul Stock Exchange. So, what I merely say is that, no international investor is going to take on the effects arising from the political arena in Turkey when they have in mind to buy and sell another issue coming from another country. So, what we are trying to do is actually to bridge Europe and Asia to the rest of the world where the capital is plenty. So, the projects that we have, at least the international market, is not to attract foreign capital into Turkey. No, it is to attract foreign capital to the region outside Turkey. Because the international market is set for trading and listing of securities coming from outside Turkey, not the issues coming from Turkey. So, these are not Turkish companies to be traded in the international market, it is only for foreign companies coming from essentially any part of the world.

4. The headline of this session was financing the opportunities and my question is to the panel. Which are the countries Turkey is giving the financing conditions? Are there differences or are you saying the complete area of Kazakhstan, Turkmenistan? Are there differences Turkey is giving support to any of these countries?

John McCarthy- I'll just briefly comment only the four countries which I mentioned and as Hüseyin Erkan also touched on. Kazakhstan has been successful. In fact we have been involved in two of the issues. For what in Kazakhstan there is a large bank, Kazkumietz Bank has come to market both in the equity and the debt side, successfully. From the other three countries I mentioned, there has been no similar activities. So, I am speaking purely from the capital market point of view. We, as a bank, have been involved really in financing on ventures in all four countries. We typically are involved, as I said, keeping things short we use different techniques than standard letters of credit in straight advance system. We heavily involved in tolling activities, we are involved in credit export agency and super national credits. All in a direction to reduce as much as possible or to eliminate if possible any of the in- country risk.

5. *I have a question for each of the three panelists. The OECD representative if I am not mistaken, gave me the impression that the Caspian Sea basin is not really what it is advertised to be. Unless I misunderstood, by the year 2000 the total production from that region, Eurasia would be about 2 billion barrels which I thought you said is only minuscule compared to the Middle Eastern capacity. First of all, I'd like to know if that is correct and if he would elaborate please.*

Mehmet Öğütçü- Thank you for the question so that I can speak more in detail about this issue. I didn't say that the Eurasian oil and gas reserves are insignificant. They are so significant but today's findings and exploration show that the unexplored reserves are about 90 billion barrels of oil and the national gas, as I already explained but this can change any time. This is what today's geologists and explorers find out. But as Mr. Akıncı already indicated, this region was held back during the Soviet period. It is not explored at all. So, this is a totally virgin area especially in the Caspian basin. So, there are suggestions that this might go up to 200 billion barrels per day. But if you see from 90 billion to 200 billion, there is a significant difference between the two. We also have been told over and over in the past that the oil reserves are about to be depleted and we will face a chronic oil shortage. What we have seen is technological discoveries. Now, in North Sea and also the Bohai sea in South China, they are using two dimensional, horizontal drilling going further deeper in the oceans. They are doing this also in Atlantic Ocean, in Nigeria and US opened now Gulf of Mexico which was not planned before. Therefore about the oil and gas reserves, what I can tell you is that, whatever estimates are available now, these are very tentative and can change anytime. In today's technological exploration techniques this is the figures they found out that it might change. Also, Middle Eastern producers are quite anxious that Eurasia might beat them in competition involved energy markets so, they may try to influence the decisions by oil companies. So, some oil companies may try to reduce the reserves in order to get the Middle East again to the forefront, therefore we have to be very cautious and prudent in evaluating various estimates. Since I have the floor there is one more point I'd like to make.

The energy industries are capital intensive and requires long lead time investments. The level of energy consumption today is the result of investment decisions taken decade ago. So the decisions taken in 1970's and 80's determine today's oil supply. The same goes for long terms. So if we are going to discuss 2010, 2020, whatever decisions you take today will determine world energy supply situation in those years.

Chairman (Şadi Gücüm)- Before I close the session, I'd like to comment that we are going to have a lunch hour for about one hour and will be back here with very interesting speeches and lunch will be served when you go out here on the left, it is an open buffet lunch. At this opportunity I'd like to thank all the panelists for their contributions and for their patience. Thank you.

EURASIAN AREA AND EUROPE :
REGIONAL AND INTERNATIONAL
COOPERATION

THIRD SESSION

Session Chairman

Prof. Dr. Çelik KURDOĞLU ~ Co-ordinator of the "Eurasian Area and Europe"
Study Group of UNICE REX Committee

Speakers

- Dr. Jurgen Voss ~ Consultant, Directorate for Financial and Fiscal Affairs and
Enterprises, OECD
- Dr. Rosolino Orlando ~ Delegate of the President for International Relations,
CONFINDUSTRIA and Vice-President of UNICE External
Relations Committee
- Mu: tafa Akşin ~ Secretary General, Black Sea Economic Cooperation
Business Council

Chairman (Prof. Dr. Çelik Kurdoğlu)- Ladies and gentlemen we kick out for our afternoon session. Let me, at the outset, express my satisfaction personally, the turnout has been most impressive. When we were planning this particular working group meeting, we had different ideas in mind but we never thought that the subject would attract so many distinguished personalities. This, you are aware, is exercised and organized by TÜSİAD but that would contribute to the work of UNICE in its work looking into different parts of Europe, how to develop business, what kind of difficulties European businesses encounter in Europe as well as in other parts of the world. The so called controversy this morning as to the definition of Eurasia was of course interesting and I find it sort of similar to the definition of an organigram for any company. Whenever someone tries to prepare an organigram for a company those who have a longer experience always say, an organigram is a living thing. You never create an organigram to remain valid through the life of the company, you start with the president, with the board of directors, with the consultants and so fort; by the time you are through with it you see that it doesn't meet the expectations. When we started off and when I was asked to chair this group by TÜSİAD, I already had a draft paper that was prepared by other people and I would like to express our thanks to them who have given their efforts. We have worked on that paper, there was of course already a need to define Eurasia. So we attempted a definition. We have exchanged views with other UNICE member working groups, some added some views. Some said such and such countries do not really belong to UNICE so we arrived at a sort of compromised UNICE geography.

This, I say, because I feel one has to damp certain expectations, what we are after is to identify a region that is not already serviced by other institutions, by other regional groupings. There is also the EU which services a number of countries in Europe per se, and there are initiatives that look into the business opportunities in other countries. The main idea in defining Eurasia, as it is defined in the paper that is before you, is like two circles that intersect. And within the intersection, you find a group of countries that would be of interest of European companies, that was correctly underlined with the emphasis by the first chairman of the session this morning, Mr. Baran. Business is the first thing. What would be of interest to Europe is business, what kind of obstacles should we identify and can we come up with some policy recommendations for UNICE to take up within itself, in cooperation with other similar organizations in Europe, which constitute in bodies of member groups of UNICE like CONFINDUSTRIA, CEOE of Spain and CNPF and all the rest ?

So the emphasis has been on a business perspective. What are the business opportunities, what kind of difficulties do our businessmen run into in those countries? Some have been exemplified by John McCarthy this morning, he was focusing more into Central Asia. And in what way can you put there difficulties as well as the suggested solutions to those difficulties, hopefully to bring some corrections on the way to make life easier for the business community.

What we would very much like to come up with at the end of the day, is sort of a list of suggestions, a working plan, something of the sort of an action plan as proposed at the end of the paper, we would very much like to have the contribution of every single person in this room in the way of contributing to that action plan which will be taken up by the REX committee at UNICE, and really make this body, which is having its first meeting here, an influential and useful and productive body within UNICE.

After having said all this, let me welcome the three panelists, beginning from the right. Mr. Jurgen Voss is from the OECD, he has vast information about the region, in particular about Ukrain. But not necessarily limited to Ukrain. Mr. Voss has been involved in many initiatives concerning the region.

Dr. Orlando is from Italy, from CONFINDUSTRIA. I had a privilege of working with him in the context of Turkish Italian Business Council, years ago. It gives me a distinct privilege to see him again in Istanbul.

Ambassador Mustafa Aksin, who is the Secretary General of the Black Sea Economic Cooperation Council, which one may find in the same sort of geography in the same sort of intersection of the circles that I've referred to. But the perspective of the Black Sea Economic Cooperation Council was different from what we are doing now. And I think it does no harm in tackling the question through different windows. The final purpose is the identification of obstacles before business and the necessity to come up with some policy recommendations.

I would like to begin with Mr. Voss. As long as we keep it compact so we have room for possibly a second round and room for questions. Mr. Voss.

Dr. Jürgen VOSS

***Consultant, Directorate for Financial and
Fiscal Affairs and Enterprises, OECD***

Good afternoon, Ladies and Gentlemen,

I realize that I have the hazardous task of luring you into the jungle of technical assistance activities in Eurasian countries right after you enjoyed the delights of Turkish hospitality in the form of a sumptuous lunch. Let me further push my luck by - I don't want to say to questioning, how could I dare, but - by inviting further thoughts on two points raised in the draft study of our Chairman on the "Eurasian Area and Europe": Creating private sector-friendly environments, pro-active approach and focus on fundamentals.

Both points concern critical comments related to technical cooperation projects in Eurasian countries, notably projects under the PHARE and TACIS programs of the European Union.

It has firstly been suggested that technical assistance projects are frequently supply-driven, i.e., that they are initiated by Western consultants who wish to market their expertise and that they are not sufficiently responsive to the needs and priorities of the recipient country. Secondly, questions have been raised whether these activities are sufficiently result-oriented.

While I fully agree that assistance programs must be driven by the needs and priorities of the beneficiary countries, I would like to suggest that advisory projects on policy reforms in transition economies need to be designed and implemented in a pro-active fashion. If assistance agencies sit back and just wait for requests from Eurasian institutions, I am afraid that they might miss issues at the core of progress towards well-functioning market economies in the Eurasian region. In the current historical situation, advisory programs on economic and legal policies must be more than just a transfer of technical know-how. They must comprise a process of "moral persuasion", i.e., they must broaden and deepen convictions in the various political constituencies in the transition economies that changes are needed, what changes are needed and why they are needed.

There are two interrelated reasons for this. One is the fact that the ranks and files of Eurasian bureaucracies are still filled with officials who have grown up in the "ancient regime" of centrally administered economies; they are understandably hesitant in changing

convictions nourished over decades and embrace fundamental reform measures branded as treason until some seven years ago. It must be realized that introduction of market economies means more than structural reforms in these countries; it means dismantling entrenched institutional infrastructures without knowing precisely how new ones will work, and it means giving up practices that have been cherished for decades without experience in the ones required for facilitating market relations.

Let me illustrate my point on the topic of land ownership. In many Eurasian countries, private ownership of land is still restricted due to widespread political resistance against privatizing land. In order to achieve changes on this matter it is not sufficient just to explain how ownership laws and title registration systems function in Western market economies. What is needed in the first place is a strategy and an active program, almost a campaign, designed to persuade political constituencies, from local communities up to parliaments, of the necessity of introducing such systems. It must be explained to them that private land ownership is a basis for financing investments, including investments in providing decent housing, and the potential benefits of asset based financing to transition economies must be demonstrated.

The second suggestion made in the aforementioned draft study is that technical assistance activities should be more result-oriented. Who could take issue with that proposition? Yet, there is a trap. The suggestion could be misunderstood as an advise to concentrate on micro-projects where results can be achieved within scheduled time periods. Building a centre for management training, for instance, has the charm that eventually a new physical installation can be inspected; preparing feasibility studies for reorganizing (privatized) enterprises after some time allows a determination as to whether the enterprises have actually been reorganized in accordance with the studies and have achieved specified targets.

An approach focusing on measurable results within specified time limits, however, tends to neglect the importance of developing the broader macro economic, legal, institutional and administrative frameworks in transition economies. In the realm of policy reforms, tangible results are much more difficult to sustain and show for than in focused micro - projects. Nevertheless, if we recall the main barriers to economic recovery in transition economies - and Mr. McCarthy has already outlined them this morning from the practical experience of a banker - we cannot escape the fact that it is deficiencies of the general enabling framework that pose the main stumbling blocks on the road towards functioning market economies in the Eurasian region. Such deficiencies include a lack of

stability, transparency and consistency of the legal framework, weak enforcement institutions, arbitrary taxation and customs administrations, lengthy administrative procedures, inefficient and sometimes even corrupt bureaucracies. If we are serious about helping Eurasian countries in developing functioning market economies able to compete in a globalized economy, we have no option but to focus on these problems and search for remedies. This necessarily implies a long-term process, there is no quick fix, there is no Aladdin's wonderlamp which could immediately enlighten the situation. It is a long-term, yes, a tedious process, but it is a necessary process through which the countries and with them the assistance agencies have to go.

How do these observations relate to the role of technical assistance programs in facilitating private business in Eurasian countries, both foreign and domestic private business? I suggest to distinguish between two basic types of business project in this respect. These are on the one side large self-contained projects, especially infrastructure projects in energy, transportation, telecommunication, etc. Facilitation of these projects in Eurasian countries requires cooperation in financial and legal engineering. The catchword here is "project financing", these projects need to be structured almost as some kind of enclaves in their host countries, insulating them from the host country's macro-economic, political and institutional risks. The focus here is logically on the individual projects rather than on the macro-economic, legal and institutional framework of the country.

On the other side, there is the bulk of small and medium size of business projects. They can not be structured so as to be self-contained and insulated from the country but have no choice but to operate within the countries overall framework. In order to facilitate these business activities-and I repeat these are the bulk of business activities-there is no alternative to developing business-friendly, transparent, consistent and stable framework conditions in the countries.

Let me in this conjunction add a word on the value of special investment promotion programs. As you know, many Eurasian countries embark on special incentive and guarantee programs in order to attract badly needed foreign investments. I have been involved for almost a professional life in the conceptualization and negotiation of instruments and programs designed to promote international investment. Experience has told me not to overestimate such endeavors. Instruments like investment protection treaties, investment insurance programs or international arbitration facilities do have some benefit, and they can to some extent help address temporary problems of transition economies. However, they cannot substitute for getting fundamentals right.

Any review of investor reports on the major problems that discourage them from investing in certain countries, will quickly lead to the conclusion that foreign investors usually refer to the very same problem areas which also prevent domestic private business from thriving. Thus, special incentive programs addressed to foreign investors are *not* the most effective way to attract these investors. Most investors, and especially those which best contribute to the economic development of their host countries, are not attracted by special privileges and preferences (even though they of course happily accept them); what they want is fair, stable and transparent overall business conditions - precisely the same conditions that domestic business needs to prosper. Promotion of foreign investment into Eurasian transition economies thus again boils down to the core task: developing framework conditions for the private sector which are commensurate with those established in successful market economies.

Public-private policy dialogue partners in development

Private sector development is fashionable these days. And there is no shortage of programs serving this objective. Many, if not most of these programs, are designed and implemented by bureaucrats in assistance agencies and consultants like myself in cooperation with government officials of the recipient countries. More often than not, public officials are amongst themselves in developing conditions for private business. What is frequently missing in private sector developing programs is the private sector. This in my view reveals a major shortcoming. Developing private sectors in transition economies, requires "concerted actions" of the stakeholders in the process: transition economy governments and parliaments, support agencies and - not least - the private sector both in the transition economies and on the plane of international investors.

Let me now outline five suggestions towards concerted private sector development programs in Eurasian transition economies:

- (1) more involvement of private sector representatives in the policy dialogues with Eurasian transition economies and in technical cooperation programs;
- (2) better coordination of private sector development programs, both on the side of providers of assistance and on the side of beneficiary countries;
- (3) synchronization of multilateral and bilateral cooperation programs;
- (4) combination of technical and financial cooperation; and

(5) networking cooperation, i.e. building networks of institutions in the beneficiary countries and in the cooperating countries on a long-term basis.

Let me now briefly comment on these suggestions.

(1) Private sector involvement

The proposal more to involve the private sector itself in carrying out private sector development programs serves three interrelated purposes.

Firstly, it is necessary to familiarize policy-makers in transition economies with the needs, constraints and decision making processes of private business operators. Policy-makers can only develop business-friendly enabling environments if they know what business needs and wants and if they can properly assess the impact of their policies on business behavior.

The second purpose follows from the first one. Policy-makers must understand what it takes to unleash the productive forces of the private sector. Let me give you an example from my work as coordinator of the Ukrainian-German law reform cooperation program. We are currently trying to persuade the Ukrainian Parliament to adopt a new modern civil code. At present the civil code from 1963, i.e. the Breshnev era, is still in force. In this context, we have now invited the Commission in charge of the parliamentary debates of the new draft civil code to Germany. The invitation is not primarily intended to bring the Ukrainian deputies together with German parliamentarians or law professor; the focus is rather on business representatives and bankers. We felt that business representatives and bankers can best demonstrate to skeptical deputies the importance of a modern civil code for the functioning of business in a market economy; and business representatives can best explain the economic costs of a deficient legal basis for commerce.

The third purpose relates to the necessity of developing techniques for overcoming difficulties during the transition period. Developing private sector-friendly environments takes years if not decades. If investors waited until this task is accomplished, transition economies would collapse. Techniques must be developed encouraging business operators to proceed with good projects during the transition period despite temporary difficulties and uncertainties. For large projects, the catchword in my view is “project financing”, as I mentioned before. But transitional arrangements may also be possible with respect to the bulk of small and medium sized projects even though they depend on the overall framework in the country. With respect to protecting contract rights, for instance, the objective must be to

create a sound substantive legal basis and effective courts which enforce them. During an interim period, however, it might be possible to rely on facilities for commercial arbitration which can be faster shaped up than the state judicial system. In developing effective transitional arrangements, advice from private business is needed on what arrangements would provide investors with sufficient comfort for seizing opportunities.

Some beginnings of public-private sector policy dialogue with respect to transition economies have-already been made. Thus, the periodic "West East Conferences of Ministers of Economy, Industry and Trade" of the so called G-7 countries and the Reforming Countries of Eastern and Central Europe regularly bring together economic ministers and business leaders of these countries under the motto "Partners in Transformation". The conference of ministers is regularly preceded by a meeting of business representatives who work out proposals for developing business conditions in the participating transition economies. In the context of the Black Sea Economic Cooperation, a Business Council has been established and Ambassador Aksin will talk about this shortly. In some transition economies, such as the Russian Federation and - most recently - Ukraine, so called "Consultative Committees on Investments" have been created where the leadership of the country periodically meets with business representatives to discuss the direction of policy reforms. These in my view are good starts. They could and should be systematically developed and expanded.

(2) Coordination of private sector development programs.

I cannot recall participating in any conference of assistance agencies without hearing appeals for coordination. Unfortunately, the results do not measure up to the rhetoric. Where coordination works, it is mainly due to individual officials of assistance agencies who know each other and have found ways of cooperating in informal ways. Donor coordination, however, is not what I want to talk about today.

Probably more important than coordination of assistance agencies is coordination and cooperation among beneficiary transition economies. How can it be achieved? I see an as simple as effective approach: Bringing together institutions from the beneficiary countries in charge of particular areas of policy reforms, such as privatization, enterprise development, capital market development, investment promotion, for regular consultations, where they compare their reform programs, the assistance they have received from abroad and the results they have achieved. In this way, institutions can learn from each others experiences,

avoid mistakes others have already made and replicate approaches that have worked successfully elsewhere. Also they can compare the value of the consultancy advice received from abroad and thus help avoid squandering scarce assistance funds for reinventing wheels.

Systematic consultations among policy reform institutions of transition economies offers a far more important opportunity than inherent in the aforementioned aspects; the opportunity of approximating legislation, institutional structures and administrative practices of the emerging market economies. Such approximation in my view is of paramount importance for trade and investment in the region. After disintegration of the former Soviet Union into 15 independent states the development of different laws, administrative procedures and institutions can create considerable difficulties and expenses for traders and investors forced to familiarize themselves with all these different structures. With approximation, commerce across borders becomes much easier and cheaper.

The time for approximating business conditions is now when these conditions are developed in the countries from the scratch. Once different structures and systems have been established in the various countries, it will be much more difficult to harmonize them.

A third opportunity emanating from cooperation among policy reform institutions is competition or - better - benchmarking. If institutions periodically and systematically compare their reform programs and together assess their failure and successes, they are driven into a process where they compete amongst each other for developing and applying practices that work best.

(3) Synchronization of multilateral and bilateral cooperation

Under this - admittedly misleading - heading I wish to propose an approach which combines technical assistance projects in individual transition economies with multilateral cooperations amongst institutions from transition economies. The purpose of this exercise would be to develop jointly in a multilateral framework concepts, procedures and practices in particular areas of policy reforms which could be used by all or at least a number of transition economies. The projects in the individual countries would then implement these jointly developed concepts and tailor them to the particular conditions and interests in the countries concerned. In this way, duplication of efforts could be avoided and approximation be furthered. As a first step into this direction, project leaders from participating transition economies could be brought together in order to compare the experience with relevant projects in their countries and draw common conclusions.

(4) Combination of technical and financial cooperation

This heading is frequently associated with the activities of the World Bank and the International Monetary Fund and the famous - or in some people's eyes infamous - conditionally systems developed by these institutions. Under these systems, a set of policy conditions is incorporated in loan agreements in a way that implementation of certain policy reforms is made a condition for disbursement of the loan. I wish, however, to suggest this concept here in a different sense, namely as a proposal to link private sector development programs with foreign private investment. Development programs could be designed with the view to mobilizing private investments for particular projects. This could probably best be achieved with respect to project financing; a program is designed with the view to create enabling conditions for private sector financing of particular infrastructure projects which then will be actually carried out.

(5) Networking

In my experience, one-time seminars, conferences and other events are usually nice but achieve little. Participants tend to go home, shelf the materials they have received and forget the discussions. What is needed is to build long-term relationships amongst institutions working in related areas and encourage cooperation amongst them. For instance, chambers of commons, eximbanks, investment promotion agencies, privatization agencies, investment finance institutions, and SME development agencies all pursue activities which interface and - at least potentially - supplement each other. It would be as challenging as potentially rewarding an undertaking to help build cooperative relationships amongst those institutions so that they interact with a view to maximizing synergies.

*The OECD Centre for Private Sector Development:
a forum for policy cooperation among Eurasian transition economies*

Mr. Chairman, looking at you and at the same time at my watch that I realize that I have left myself with little time indeed for making propaganda for the institution here in Istanbul which sponsors me. This institution is the OECD Center for Private Sector Development. The Centre was established by the OECD and the Turkish International Cooperation

Agency (TICA) with the support of the German Government in 1994. At first, it served as a training center for officials and policy-makers from Central Asian and Caucasian transition economies; later the Slavic successor states of the former Soviet Union followed and more recently the remaining Black Sea Economic Cooperation countries (Albania, Bulgaria and Romania) joined. Thus, some 16 transition economies of the former Soviet Union and Black Sea Economic Cooperation benefit now from the Center.

The Center has attracted the cooperation of the renowned international economic organizations, including the World Bank Group, EBRD, UNIDO, UNDP, UNCTAD, UNECE, the Energy Charter Secretariat, the Black Sea Economic Cooperation, the Business and Industry Advisory Committee to the OECD, the International Chamber of Commerce and the International Association of Credit and Investment Insurers (Berne Union). Thus far, some 1500 policy-makers from transition economies have participated in the Center's activities. Since 1997, the Center also publishes a quarterly periodical "Private Sector Development Journal" in English and Russian which disseminates the results of its activities throughout the Eurasian region.

Over the last two years, the Center has changed its focus from training to providing a forum for periodic and systematic consultations of policy reform institutions of participating transition economies. Cooperation amongst investment promotion agencies has progressed most; there is now an established network of these agencies with annual meetings of the chief executive officers and working groups that compare policies and administrative practices and prepare documents for use by these agencies.

The 1998 program of the Center extends this cooperative approach to seven areas: Enterprise development with the focus on small and medium sized enterprises, financial sector development, export development, foreign investment issues and project financing, network of foreign investment agencies, rule of law issues and measures against economic crime. Typically, there will be a combination of technical workshops or export groups and annual meetings of senior policy makers in each of these areas.

I have left on the shelf copies for you of the 1997 program and the aforementioned quarterly periodical, the "Private Sector Development Journal". This allows me to refrain from further overdrawing my time account and testing our Chairman's patience.

Thank you very much, Ladies and Gentlemen, for your attention and thank you. Mr. Chairman, for your indulgence.

Chairman (Prof. Dr. Çelik Kurdođlu)- Thank you Mr. Voss. Let me say though that your criticism to picking up of TACIS and PHARE was not fair. But, you have really validated those points and come up with very constructive suggestions as to how to enrich the initiatives that are been launched under the names of TACIS and PHARE. I am sure we are going to put them among our list of proposals.

Now, Dr. Orlando, from the CONFINDUSTRIA..

Dr. Rosolino ORLANDO

***Delegate of the President for International Relations,
CONFINDUSTRIA and Vice President of UNICE
External Relations Committee***

To focus in the right way the problem dealing with the subject that I have to talk today, "The deal between UNICE & EURASIA", we have to understand clearly why UNICE was created, its aim and mission. In the 15 countries of EU the industrial enterprises of the private sector are organised in Confederations of Industry, that, in my country, is called "CONFINDUSTRIA", in France "Le Conseille National du Patronat" and in Germany "BDI-Bundesverband der Deutschen Industrie", etc. All these Confederations are represented in Bruxelles in an organization called "UNICE-Union of Industrial and Employers' Confederation of Europe", just to influence the European Commission to take the right policies in favour of the Industries, to increase competitiveness and producing the environment in which enterprises can prosper and multiply.

So, is not so much what UNICE can do for Eurasia, but what policy can do the 15 Confederation of Industries to improve trade and investment in these new countries, just now opening to a market policy.

Much of this must be done inside UNICE Working Groups, dealing with the economics of Central and Eastern Europe, already operating in these issues.

Which are the mains problems that this Committee has to deal with?

First of all, we must always keep in mind that to develop private industry we have safeguard two important points:

- Political Stability
- Monetary Stability

This is very important for big, medium and small enterprises.

The second point that we must have clear in our mind is that no association of employers can influence the decision on investment and trade of the big companies that generally are multinational. Instead we have to work strongly and effectively in favour of SMES.

A good thing that Turkey, and especially TÜSİAD, could do to increase business relations between Eurasia Countries and Europe is, first, to help them have a similar

organization of the private enterprises as we have in our countries. When I am saying “the creation of a national federation”, I am thinking to an organization which could coordinate interests of its sectorial organizations.

With sectorial organization, I mean an association of companies manufacturing the same products, also with different technologies, and whose activities, market and competitiveness have the same focus. This is what we have in Europe and I think it is very effective. Personally, I am President in Italy of Assomet, the Association of Non-ferrous Metals (Alluminium, Copper, Zine, etc), which collects and represents the Italian producers of semi-products in these different metals for the need of the internal market and for export in the outside market. We have the same organization in Germany, the Wirtschaftvereinigung Metalle, in France the Association de Metaux Non-Ferrous, in England etc. All these European organizations come together in Bruxelles in one Association called “Eurometaux” of which I have been President for 4 years. These associations are very effective to deal with local government on all different problems, from environment to imports, from labour cost to fiscal problems, etc. These associations are very numerous, let me mention only some of them: textile, garments, working tool machinery, food Industry, packaging, steel, etc. I am saying this to stress the importance to have the same organization just to better understand with whom we are talking with and of what we are talking. This is very important for small and medium enterprise.

Today we are living not only in a global economy but also in a very specialised business community, where time is very precious and business decisions must be taken in a very short time. A good organization can really help reduce the time of matching two entrepreneurs, leaving up to them to find ways and means to do business.

Another point that can give a big help to understand much better the needs of these countries is, in my experience, the organization of international fairs where industrialists can present in a well defined space and at a fixed time their productions, their quality and their price. The organization of these exhibitions could be helped financially by national government but also by the European Institutions.

We have spoken about organizations, we have spoken about fairs and exhibits: we need also to know much more about these new countries of Central Europe. In this case let me quite frank with you: a great effort must be done, by your side, to promote the Black Sea Economies of which very little is known, with the exception of companies that already have developed operative interests in the mineral or oil sectors. The trade both way

between Italy and these countries is very unsatisfactory and we are one of the most successful world exporters in Europe, after Germany.

Let me briefly resume the action that can be undertaken to promote trade investment in this region.

Accepted that we have political and monetary stability, with the help of "Central and Eastern Europe Working Group", we can establish a dialogue between national federations and the BSEC-Business Council Secretary in Istanbul, to identify sectorial interests to develop this area. The small staff of UNICE in Bruxelles cannot be overcharged with new tasks. The Community have already opened too many tables: Mercosur, Med, ASEM, EAS Countries.

At national and European level, we have to ask, the support of public institution to finance infrastructure development (port, airport, railways, etc).

We need more presence from the countries interests in this collaboration to identified those sectors to be developed at SME level. We need from their side a much more active action of P.R., just as we have from the much more known ASIAN countries, and, in this, they will get all the support from the national federations.

Chairman (Prof. Dr. Çelik Kurdođlu)- Dr. Orlando, thank you very much. I was particularly interested in the way that you have tried to define the region which I think reflects the priority of Italian industry. Priorities of Italian industries particularly address to this part of the world where you have relatively less information. Whereas the countries that have been tentatively included on the map from let's say, Croatia, Romania etc. are the ones who also need the kind of attention that from Italy's point of view, is already there. We know that Italy is very much present, up to number of certain countries let's say west of Croatia, it is Germany that's also heavily involved, but from Croatia onwards including Albania one sees more of an Italian presence.

On the other hand, particularly on your last remark, I think this country, Turkey, has fairly long experience of over ten years in establishing, more or less, structured type of relationship through what we call the bilateral business councils. I refer to the Turkish-Italian business council. I refer to the Turkish-Italian business council, I think we can successfully claim that we have achieved our objective. Joint business council meetings are held every year, where we have the privilege of welcoming important business delegations often addressed by the prime ministers or presidents. We have also taken steps to include other countries, other business councils, let's say Japan or the US with whom we've organized joint trips into Central Asia, into the Caucasus area. Very recently a Turkish-Japanese delegation has visited Azerbaijan, Georgia, Russia and you are very right, it is extremely important to organize such visits.

Now I will turn to Ambassador Akşin, who is going to comment on the Black Sea Economic Cooperation Council which in a way is an outgrowth of the Turkish experience which is based on bilateral business council experience.

Mustafa AKŞİN

Secretary General, BSEC Business Council

Mr. Chairman,

The title of my presentation is Prospects for Cooperation Among the Business Communities of the BSEC Countries. Let me start by explaining that BSEC stands for Black Sea Economic Cooperation. This initiative was launched 5 years ago and brings together 11 countries of the Black Sea basin stretching from Albania in the west to Azerbaijan in the east. The BSEC Business Council represents the business communities of these 11 countries and was launched a few months after the intergovernmental BSEC initiative. The Business Council is an international nongovernmental organization designed to promote cooperation among the business communities of the 11 countries and this is precisely the title of my presentation.

After these introductory remarks, let me make some observations about the environment in which we operate. Historically, the region of the Black Sea was a well-integrated, natural economic area with different peoples, cultures, religions interacting extensively with one another on a day-to-day basis. The Cold War destroyed this historical pattern and brought about an artificial division that we are now trying to overcome. The establishment of the Black Sea Economic Cooperation in 1992 was a major step in this direction. The coming into existence of the BSEC is an expression of the recognition that the Black Sea basin is a natural economic area. The coming into being of BSEC also demonstrates the existence of a strong political will among the 11 participating states to integrate their economies and promote their economic wellbeing through expanded cooperation. With growing prosperity, there is bound to be greater stability and security in the region.

Although we believe that the role of the private sector will be very important in expanding economic cooperation among Black Sea countries, we must also recognize that Governments too must be fully committed to this process if we are to achieve our goals in a reasonable period of time. In this context, it is important for the transition economies to complete the process of reforms as early as possible so that market forces can come fully into play and traditional channels of trade can be restored while new ones are being

established. There are positive signs that the main difficulties in this process are being overcome and that economic growth is resuming throughout our region.

Economic reforms can only be meaningful to the extent that the appropriate institutions are created and the legislation revised so as to allow market forces to operate more freely and effectively. In this context, it is important to secure the elimination of administrative and legislative barriers to the free flow of capital, goods and services among our countries. The elimination of protectionist measures is of particular importance. The harmonization and simplification of procedures for clearing cargoes through customs is a question that needs to be tackled on a priority basis. Improvements in infrastructure and transport will be to no avail if trucks remain stuck at border crossings. Similarly, the issue of elimination of crime and the establishment of the rule of law must be addressed with determination. Agreements for the elimination of double taxation and safeguarding investments are very necessary. The legislation on the private ownership of land must eliminate uncertainties that may still exist. National banking structures should be encouraged to cooperate with their foreign counterparts to solve problems arising from payment difficulties and delays. This wish list could well be extended.

Much has been accomplished over the last few years and I am glad to say that BSEC, as a regional organization, can claim some credit for these accomplishments. However, much still remains to be done in the transition economies and BSEC will no doubt continue to contribute to process of transformation.

We, in the Business Council, have incorporated numerous recommendations in reports addressed to our Governments seeking to simplify or eliminate visa formalities and to make it easier for businessmen to travel freely throughout the region. One of the tasks of the Business Council is to act as a lobby to make sure that Governments are kept informed about the needs and wishes of our business communities. In the last few years, the flow of businessmen and tourists within the BSEC region has been growing noticeably. Similarly, the volume of trade, both official and unregistered, is increasing. As new trading firms become established, as financial institutions develop, as new free economic zones come into existence, the present large volume of unregistered trade will be replaced with conventional trade. There are strong signs that this is already happening.

On the subject of trade, I should like to point out that last February, the Special Meeting of the Ministers of Foreign Affairs adopted a historic Declaration of Intent to move progressively to establish a free trade covering the BSEC region. This is further proof that

BSEC is headed in the right direction and will become an integral part of the greater European architecture.

We expect international investments within the BSEC region to grow as the present uncertainties are progressively removed. The Business Council is doing its best to render legislation more liberal. There are already, relatively speaking, considerable Greek and Turkish investments in Romania, Russia and Azerbaijan while Bulgaria, Moldova and Georgia are becoming more attractive to investors. Turkish contractors have a significant presence in Russia and if certain difficulties relating to land ownership can be cleared, international construction activities within our region should experience further healthy growth in the near future.

The vast oil and gas reserves of the Caspian basin and the need to market all this oil and gas will require the construction of pipelines, tank farms, pumping stations and marine terminals on a massive scale. This is a field which will call for much closer cooperation among BSEC countries.

Much of the infrastructure of the BSEC region needs developing or upgrading. Roads, railroads, ports, airports, telecommunications are mostly inadequate. This infrastructure needs to be developed, not only to meet the requirements of the BSEC countries, but also to meet the transit needs of adjacent regions. Because of its central location, all transit traffic between Eastern Europe and the Central Asian and Middle Eastern countries has to cross the BSEC region. As the BSEC countries develop their infrastructure to strengthen their regional integration, they will also hasten their integration with the global economy. We are confident that the private sector will assume an increasing role in the development of infrastructure.

Since the mandate of the Business Council is to promote cooperation among the business communities, an effort has been made to bring businessmen together. To this end, a number of sectoral and general meetings of businessmen have been held in recent years. In April 1996, a Black Sea Business Forum was held in Bucharest which brought together businessmen, ministers and senior officials. Heartened by the results of this get together, the Business Council organized a Black Sea Business Conference in Istanbul in April 1997. This was followed by the BSEC-Mercosur Business Conference held in Kiev two weeks ago. The Business Council has also arranged meetings of businessmen in a particular sector such as tourism where participants exchanged views about matters of mutual interest. At this point, I should like to mention the meeting of representatives of the Stock Exchanges of the BSEC countries held in the spring of this year. We are persuaded

that such meetings bringing together business people with public officials and experts can do much to accelerate the development of the private sector in the transition countries, create awareness about business opportunities and generate new business.

I would now like to say a word about the place of Small and Medium Sized Enterprises (SME) in our economies. For both the countries in transition as well as for Greece and Turkey, the role of SMEs is crucial for the development of the private sector, for creating jobs, for spreading the benefits of industrialization throughout our countries and for promoting exports. I am glad to report that a Workshop on Networking Between SMEs was held in İstanbul in May 1997. This was the first of three Workshops designed to bring SMEs in BSEC countries closer together in order to strengthen their ability to contribute to economic development.

The establishment of joint ventures, the development of regional trade and the strengthening of the private sector will receive a substantial boost once the Black Sea Trade and Development Bank comes into operation. The preparatory stage has finally been completed and we expect the Bank to become operational early next year. In carrying out its mandate, the Business Council expects to have very close working relations with the Bank.

The work of the BSEC Business Council has been hampered in the past by the fact that there was a fully developed private sector only in Greece and Turkey. In the countries in transition, the private sector was still at a relatively early stage of development and very often, the organizational structures of the private sector were either non-existent or at an embryonic stage. We are glad to note that the development of the private sector in all of the transition countries is proceeding at an accelerating pace. In line with this development, the Business Council is conducting a restructuring exercise to respond better to the changing circumstances of our countries. One of the features of the restructured Business Council should be that it have responsibility to transmit the experience of Greece and Turkey in the field of private sector organizations to our partners who are trying to set up similar institutions in their countries.

This brief and only partial account of recent developments in the BSEC region and of the activities of the BSEC Business Council should give you some idea of the exciting adventure of rediscovery, reintegration, cooperation and development now taking place in the Black Sea region. Given its rich human and natural resources, we expect the Black Sea basin to be one of the principal fast growth regions of the world. The economic development of this region will also have a positive effect on the prosperity and stability

of the adjacent regions stretching all the way from Central Europe to the Balkans, to the Caucasus, to the Caspian basin and to the Middle East. All of the actors on the international scene that are concerned with the future of these regions have a duty to support the cooperation activities of the BSEC Countries.

Thank you.

Chairman (Prof. Dr. Çelik Kurdoğlu)- Thank you Ambassador Akşin. Let me add few words to remind some and possibly to give information to others in the audience as to how the BSEC Council operates and in what way it relates to what the Ambassador very kindly referred to as BSEC, I would say official or BSEC proper. The BSEC initiative was signed back in 1992, this is the arrangement between the foreign ministers of 11 countries from Albania to Azerbaijan. The foreign ministers meet every six months, there is a secretariat here in Istanbul, currently presided by a Bulgarian diplomat. Previously, the Director of the Secreteriat was a diplomat from the Russian Federation. So, the director position rotates every three years. This is, of course, the “sovereign” BSEC exercise. This does not extend to private enterprise by itself. That is why the BSEC Council was established. The BSEC Council has its own board of directors who are the co-chairmen of business councils that Turkey has with the ten other participating states. Previously, there were no other such structures. The board of directors meets regularly and particularly prior to the meetings of the foreign ministers. It reports its recommendations to the Meeting of Foreign Ministers. In that way it interlinks between the governmental channels and the private industry. After having said this, it is obvious that UNICE can usefully cooperate more intensively with BSEC because UNICE on the one hand, BSEC on the other as well as other national chambers of industry would complement each other as “polls for communication”. Since we have this organized attempt like UNICE and BSEC in this part of the world, it makes only sense that we establish dialogue between the institutions so that things that we have been addressing could materialize. We could thus get to the day when there is more efficient environment for business. This is all I wanted to add before we opened the floor to discussions, we have 25 minutes before the coffee break, the floor is yours.

Questions and Answers:

1. I would like to bring another dimension to the discussion about regional cooperation and international cooperation. The panel already discussed BSEC, experience of European business, the OECD institution building. I would like to raise another type of regional cooperation or integration. What about intra-Eurasian regional initiatives and schemes. Because, as we well know especially EU is quite keen on expanding its dialogue with regional groupings like ASEAN, now ASEM. Is it desirable to have regional groupings in

Eurasia? You know that CIS already exists but it is a very weak regional integration model and President Nazerbayev of Kazakhstan has a vision of Eurasian Union which will seek to build a super national organization more tightly knit than current CIS. Mr. Schevardnadze is talking about a grant plan for Eurasian transit corridor and there were some proposals for Central Asian Economic Union. It might be, from the business perspective as well, more preferable to have such a regional grouping. How do you see the prospect for such a regional economic or trade grouping in Eurasia for the panel?

Chairman (Prof. Dr. Çelik Kurdoğlu)- Before the panel I can share with you the information that Ambassador Akşin has already given, namely the BSEC conference that has recently taken place in Kiev. Countries from Mercosur region have also participated in this conference, because it was partly due to Ukranian diaspora in Latin American countries like Argentina and others, but I am sure Mr. Akşin has more to say on this.

Mustafa Akşin- Yes. First, let me refer to what you said Mr. Chairman, I think that the Mercosur has perceived us being a very successful experiment in regional integration. And their experience demonstrated that a lot of new trade has been created without causing trade displacement so, this is something that we should emulate if possible. As I mentioned before, the Black Sea countries have decided and the ministers have signed declaration of intend by which BSEC would become free trade area by the year 2010. This is going to be of course a gradual progress as it must be, but this is the intention which we are moving. So, BSEC already includes fairly large part of the geography of the Eurasian countries. Now, if you want to go beyond that, and to include Central Asia, I think then, you have to start talking about the OSCE, the Organization for Security and Cooperation in Europe, which in any case, has an economic basket. Perhaps, in that forum you could take up economic cooperation in that vast scale. When you become too big, it almost becomes global because when you include US and all the other countries from Vancouver and Seattle, all the way to Vlady Vostok, then, you will pretty much cover most important parts of the world. You might as well go to the UN if you are thinking on that large scale. But at regional level, BSEC doesn't look very homogeneous at this stage, although the Black Sea is the common denominator and it does have a certain cohesive effect, it does constitute historical linkage between the countries that form part of this setup. From the figures which were cited this morning you heard Mr. Nihat Gökyiğit when he mentioned

that Turkey's trade with former Soviet Union has gone from 400 something million dollars to 6 billion dollars, not to mention all the other economic interaction.

But the progress is discernible and our goals are set and good habits have been established of working together. I think if we had more countries, it would become too great. Perhaps, we might lose momentum but we are aware of other reasoning groupings. We have contact with the EU and Central Europe initiative, we had a meeting with Baltic set up, we even had the secretary general of the ECO who was at the secretariat of Black Sea Economic Cooperation, here in Istanbul, where they consulted on areas of mutual interest. So, we are not unaware of the other regional groupings but I think that anything bigger than BSEC would be perhaps too centrifugal. Maybe, it would be too great and that would cease to be effective. But this is a personal opinion. Thank you.

Dr. Jurgen Voss- Let me try to be short. Of course regional integration is useful in certain areas but I think it is something which has to be thought always carefully and with respect to how it relates to the world. Because you do not wish to create complicated hybrid structure of integration schemes which make international trade investment at the end, much more complex than it is today. To give you just two points on this, in BSEC you will have difficulty in creating free trade area and already in determining the impact of the relationship of many countries with the EU. Greece is a member of the EU, Turkey has full Customs Union, others have partnership agreements. You all know, once you have a free trade area with one country, then this country has it with a third country so, you basically connect the two regions in some way. This, I think will invite many complexities. Also you have to take into account of the international non discrimination regime under the GATT and WTO. To give you one final observation which has just occurred me in Ukraine, where I am now in charge of providing advise, with a group of lawyers, on implementations of the partnership and cooperation agreement. This agreement with the EU and Ukraine has provided in favor of special privileges for trade among these countries, for Ukraine and other CIS countries. But interestingly enough, now this is under a phase of provision. This, of course, gives an indication that regional group integration, beautifully but in synchronization of broader cooperation structures and after all at the end of the day with the principles of liberalizing world trade investments in the frame of globalized economy.

Mustafa Akşin- I just would like to add one small bit of information. There is another grouping. If we don't mention them it would be unfair. There is the Economic Union of Kazakhstan, Uzbekistan and Kyrgyzstan. And now, we are encouraging them to extend this union to Turkmenistan and Tacikistan. If they can succeed in doing so, there will be one Central Asian economic area which will be able to attract investment because there will be one economic and legal climate. Moreover, they will be able to better utilize the infrastructure that they held it from the Soviets. So, such regional groupings, when linked as a whole to the other international groupings, might prove to be very beneficial to the region and to the development of trade without doing any detriment to the overall free trade. Thank you.

Rosolino Orlando- I can't understand one thing, may be Mr. Ambassador can explain it to me. Today, with the community we have the military on the table, we have old time relation with Russia, why can't we make a table with this country different than today. Just preparing, for these countries, a special program from financial and the economic supporting point of view. At that moment, you will also have counterpart industrial federation in these countries and a very clear policy towards them. This policy will take a long time but, could really help these countries to have a kind of economic integration, a market policy and upgrading of their economies. This would be just a special table made by the Community to have these countries together. This could be a proposition that we can use with UNICE.

Mehmet Öğütçü- Mr. Chairman I hesitated to take the floor but I want to add my voice to Mr. Orlando. He is speaking of his experience of course, from the business world. The EU has this newly initiated mechanism with the ASIAN member countries plus China, Korea and Japan. Once a year they organize head of state level summit meetings. I don't expect the same level to be taken with the Eurasian countries, but this is a very worthwhile proposal, I think this should be pursued with vigorous attention. Thank you.

Chairman (Prof. Dr. Çelik Kurdoğlu)- Of course it is an open question as to how that table at the EU level might be organized as we still have the European Conference, who is going to be to sit there, who is going to be standing outside waiting.

Rosolino Orlando- But the important thing is that the Community can start thinking about this problem, it will talk to different national federations for different issues for Russia to Germany, for Mediterranean policies to France and Italy.

Chairman (Prof. Dr. Çelik Kurdođlu)- I must thank the panelists, this was a very lively discussion.

BUSINESS PERSPECTIVES

Session Chairman

Selim DEMİREN ~ Vice-President of the External Relations Committee of TÜSİAD

Speakers

- | | |
|-------------------------|--|
| Eike Lippold | ~ Chairman of the Board of Management, Mercedes-Benz Türk A.Ş. |
| Christoph Urban | ~ Executive Vice-President and Financial Director, Siemens |
| Dr. Alessandro Guerrera | ~ Representative for Turkey, ENI |
| Polat Serdengeçti | ~ Assistant General Manager, RAM Foreign Trade |

Chairman (Selim Demiren)- From, the opening speech of Mr. Akıncı who had represented the Under Secretary of the Ministry, this morning, we heard that Turkey is willing and determined to enter the 20th century as a global state and for this of course it is necessary also to have a look at the business opportunities in this region. Although the business environment is still far from idle there are a lot of companies which are already operating very successfully in that region and we have here, today, four representatives of four different companies, they will tell us about their experience from business perspective. I would like to introduce Mr. Eike Lippold, from Mercedes Benz, who is also the first speaker, and Mr. Christoph Urban from Siemens. Dr. Alessandro Guerrera, Representative for Turkey of the company ENI and Mr. Polat Serdengeçti the Assistant General Manager of RAM. May I, now, ask the first speaker Mr. Eike Lippold to take the floor.



MARKET POSITIONING



- ✓ PRIVATE COMPANY RANKING IN TURKEY '96 : 7th
- ✓ LARGEST PRIVATE EXPORTER COMPANY '96 : 3th
191 Mio USD
- ✓ MARKET SHARE IN TURKEY ' 97
 - 62 % BUS
 - 29 % TRUCK
 - 29 % CAR (Imported luxury car segment)
- ✓ PRODUCTION CAPACITY ' 97
 - 2,400 BUS
 - 6,000 TRUCK



MILESTONES



- ✓ 1967 **FOUNDATION OF "OTOMARSAN"**
with 3 founder shareholders (Daimler-Benz 36%, Has 32%, Mengerler 32%)
- ✓ 1970 **FIRST EXPORT BUSINESS**
- ✓ 1984 **GENERAL REPRESENTATIVE OF MERCEDES-BENZ AG**
- ✓ 1986 **INAUGURATION OF THE TRUCK AND MOTOR FACTORY IN AKSARAY, CENTRAL ANATOLIA**
- ✓ 1988 **BUSINESS WITH EX-FORMER SOVIET UNION**
- ✓ 1990 **RENAME IN "MERCEDES-BENZ TÜRK"**
shareholders structure changed
- ✓ 1994 **INAUGURATION OF THE NEW BUS FACTORY IN HOŞDERE, ISTANBUL**
- ✓ 1995 **RECEIPT OF THE "ISO 9001-CERTIFICATE" MBT**
- ✓ 1996-1997 **1ST EXPORTER IN AUTOMATIVE INDUSTRY**
191 Mio USD in 1996
118 Mio USD in 9 months-1997 **41 %** of all Automotive Export

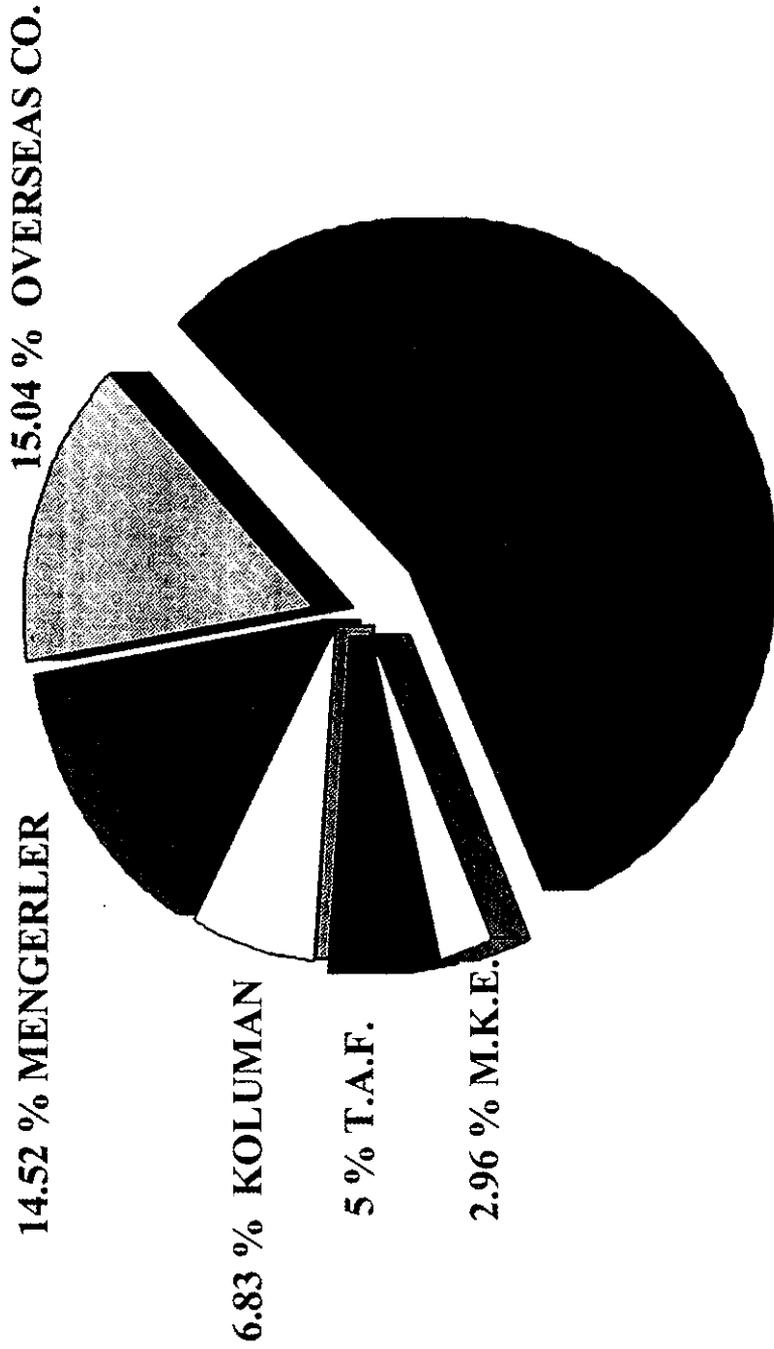


Mercedes-Benz Türk

DISTRIBUTION OF SHARES



Eurasian





HOW WE SUCCEED !!



- ✓ Acceptable Product
 - ⇨ Special Technical Design for the Central Asia Market
- ✓ Competitive Price Policy
- ✓ Good Price - Quality Ratio
- ✓ Good Reputation

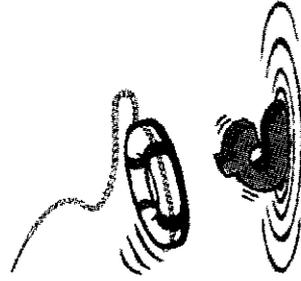
- ✓ Experienced **Sales Team** in Istanbul & Moscow
- ✓ Well organized & Resident **After-Sales Team** in the Region
- ✓ Well established **Mercedes-Benz Dealers** in the Central Asia

- ✓ Long-term Sales & Marketing Policy
- ✓ Investment Projects
- ✓ **Flexibility** Thinking & Planning
- ✓ Close Follow-up of the Market
 - ⇨ Political & Economical
- ✓ Good & stable personal relations



USAGE OF ALL POSSIBLE FINANCIAL TOOLS

- ✓ **Special Natural Gas Account** Former Soviet Union
- ✓ **Turkish Eximbank Credits**
 - ⇔ Direct Loan
 - ⇔ Insurance System
- ✓ **The World Bank Financing - Tenders**
 - ⇔ Russia I-II, Latvia, Turkmenistan
- ✓ **International Financing Institutions**
 - ⇔ World Bank
 - ⇔ EBRD
 - ⇔ Islamic Development Bank
 - ⇔ Asia Development Bank
- ✓ **Daimler-Benz Financing**
- ✓ **Commercial Bank Financing**





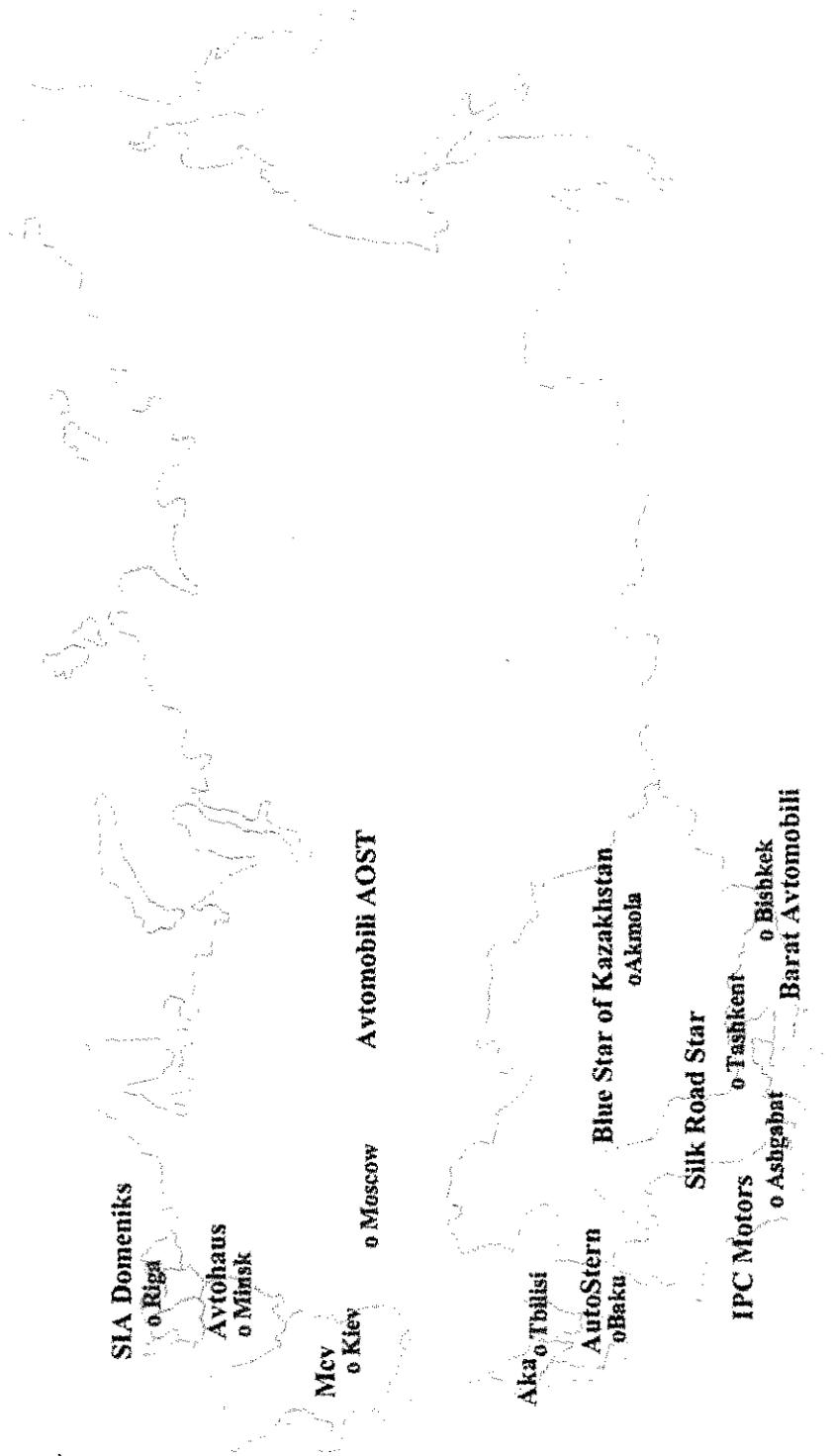
Mercedes-Benz Türk

MB Dealership organization in CIS

Eurasian



“Biggest Advantage”





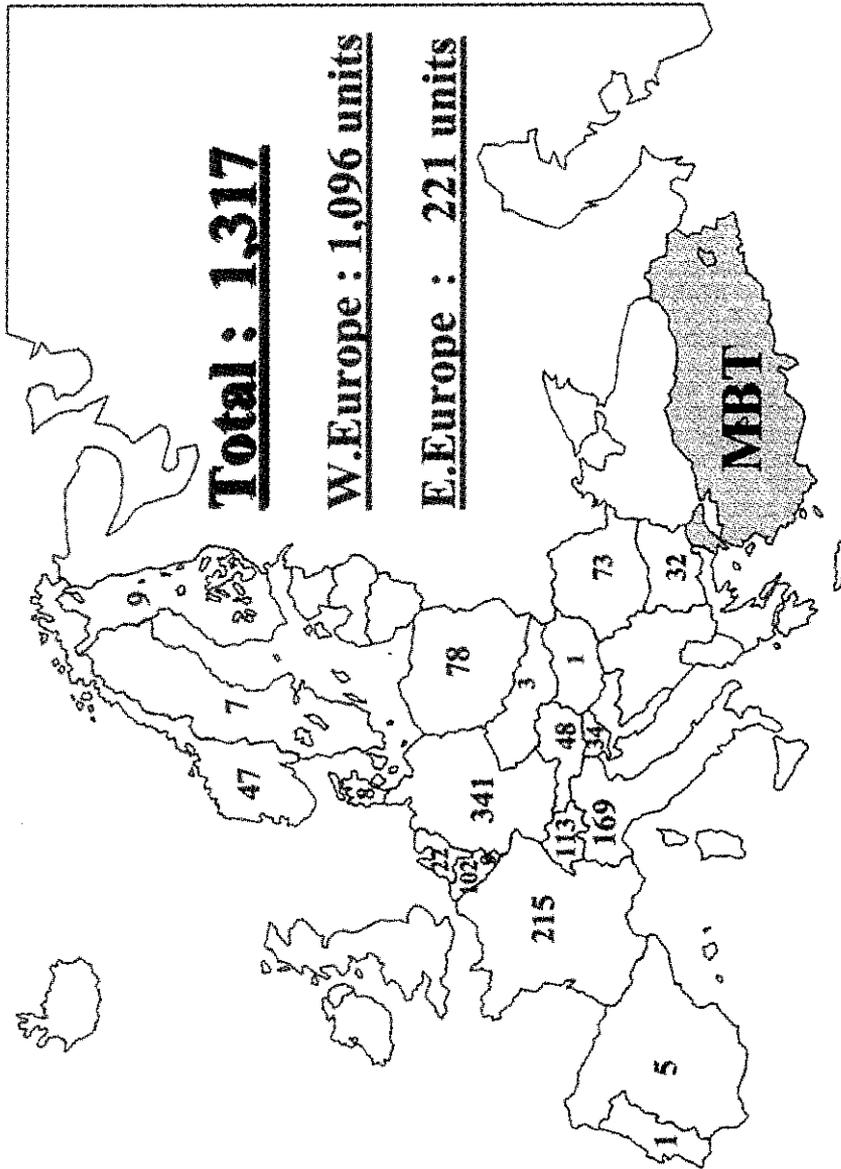
Mercedes-Benz Türk

Remarkable Export to Europe

Eurasian



1991 - 1997



MBT Export

03, November 1997



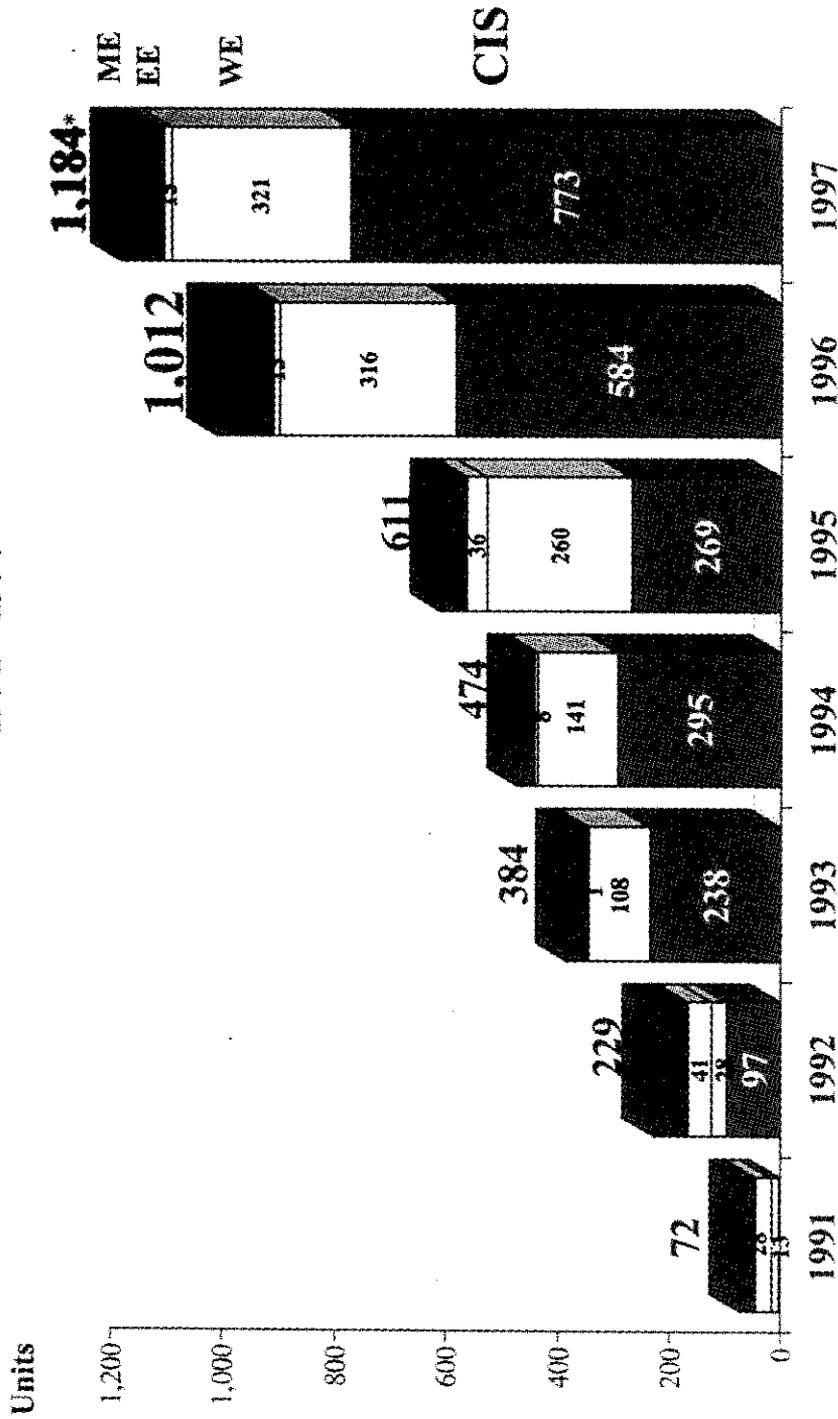
Mercedes-Benz Türk

BUS EXPORT PERFORMANCE

Eurasian



1991 - 1997



* Plan

03, November 1997

MBT Export



Mercedes-Benz Türk

TURKEY

Eurasian



BRIDGE TO CENTRAL ASIA



Delegation of Authority



Mercedes-Benz Turkey

**is the perfect example for Multinational Companies
“ Biggest Company Trading with Russia in 1996 “**

MBT Export

03. November 1997



Mercedes-Benz Türk

Country Profiles

Eurasian



Russian Federation
 Territory : 17.1 Mio. sq.km
 Population : 149.9 Million
 GNP p/c : 2.447 USD
 Foreign Debt p/c : 312 USD
 Inflation : 128 %

Ukraine
 Territory : 603.700 sq.km
 Population : 51.6 Million
 GNP p/c : 402 USD
 Foreign Debt p/c : 1.705 USD
 Inflation : 185 %

Belorussia
 Territory : 207.600 sq.km
 Population : 10.4 Million
 GNP p/c : 1.667 US
 Foreign Debt p/c : 282 USD
 Inflation : 280 %

Latvia
 Territory : 64.600 sq.km
 Population : 2.6 Million
 GNP p/c : 2.010 USD
 Foreign Debt p/c : 826 USD
 Inflation : 30 %

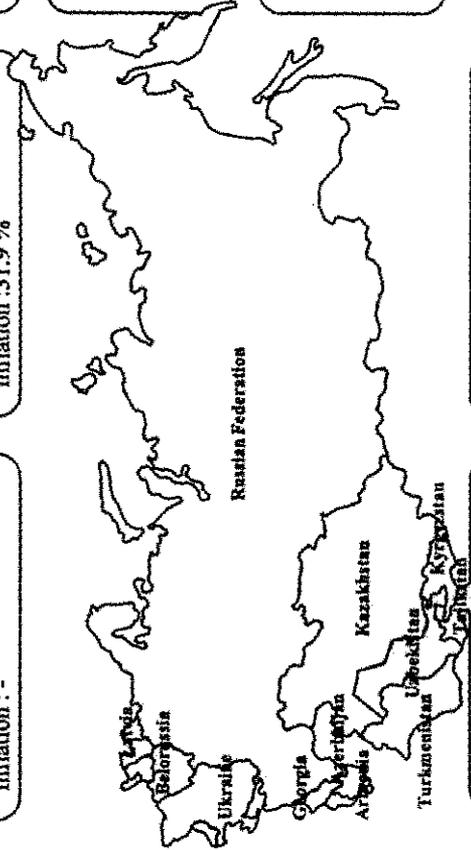
Kazakhstan
 Territory : 2.7 Mio. sq.km
 Population : 16.9 Million
 GNP p/c : 1.560 USD
 Foreign Debt p/c : 1.300 USD
 Inflation : -

Kyrgyzstan
 Territory : 199.000 sq.km
 Population : 4.4 Million
 GNP p/c : 850 USD
 Foreign Debt p/c : 438 USD
 Inflation : 31.9 %

Turkmenistan
 Territory : 488.000 sq.km
 Population : 4.5 Million
 GNP p/c : -
 Foreign Debt p/c : -
 Inflation : 1800 %

Tajikistan
 Territory : 143.000 sq.km
 Population : 5.6 Million
 GNP p/c : 500 USD
 Foreign Debt p/c : -
 Inflation : -

Georgia
 Territory : 70.000 sq.km
 Population : 5.4 Million
 GNP p/c : 580 USD
 Foreign Debt p/c : 1.554 USD
 Inflation : -



Uzbekistan
 Territory : 447.000 sq.km
 Population : 21.9 Million
 GNP p/c : 970 USD
 Foreign Debt p/c : 1.905 USD
 Inflation : 120 %

Turkmenistan
 Territory : 488.000 sq.km
 Population : 4.5 Million
 GNP p/c : -
 Foreign Debt p/c : -
 Inflation : 1800 %

Tajikistan
 Territory : 143.000 sq.km
 Population : 5.6 Million
 GNP p/c : 500 USD
 Foreign Debt p/c : -
 Inflation : -

Azerbaijan
 Territory : 86.600 sq.km
 Population : 7.5 Million
 GNP p/c : 500 USD
 Foreign Debt p/c : -
 Inflation : 85 %

Chairman (Selim Demiren)- Thank you very much Mr. Lippold. It was a very interesting presentation, especially to hear with which tools you've reached your target and especially year by year your export is increasing which gives also, for the future, good opportunity to start with industrialization project. Now Mr. Urban, Executive Vice President and Financial Director of the famous Siemens Company.

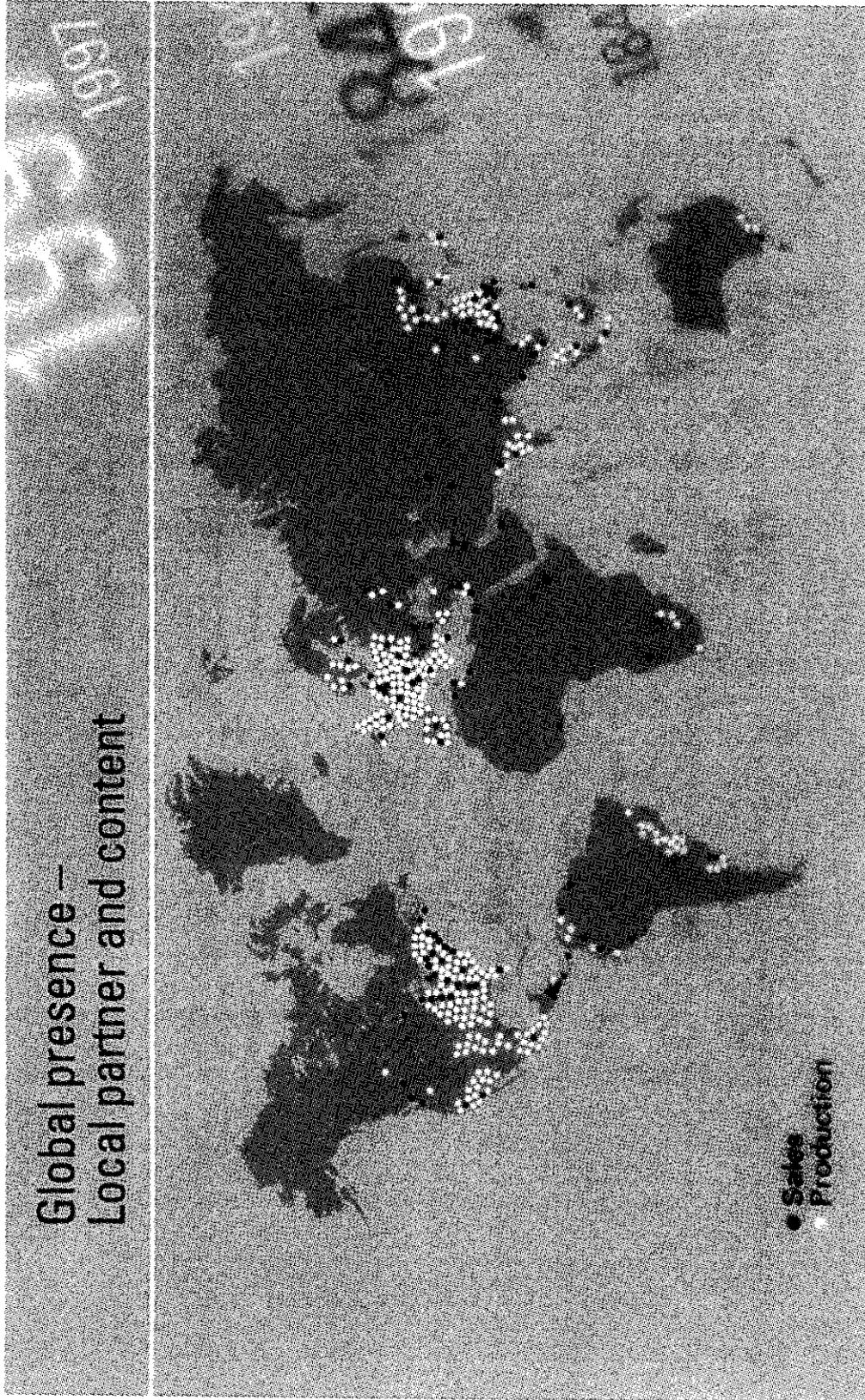
Slide 0

I don't know whether it is so famous or not Mr. Chairman, but let me talk a little bit about strategy of Siemens in that area. This is where Siemens has its main locations production wise, sales wise, we are now in around 190 countries present and if you look at this area here then you see that there are many open spots. And as you can imagine a company like Siemens tries to put its flag into respective country whenever there is a market possibility and we go by market opportunities.

SLIDE 0

SIEMENS

Global presence --
Local partner and content



The Company '97

4-97

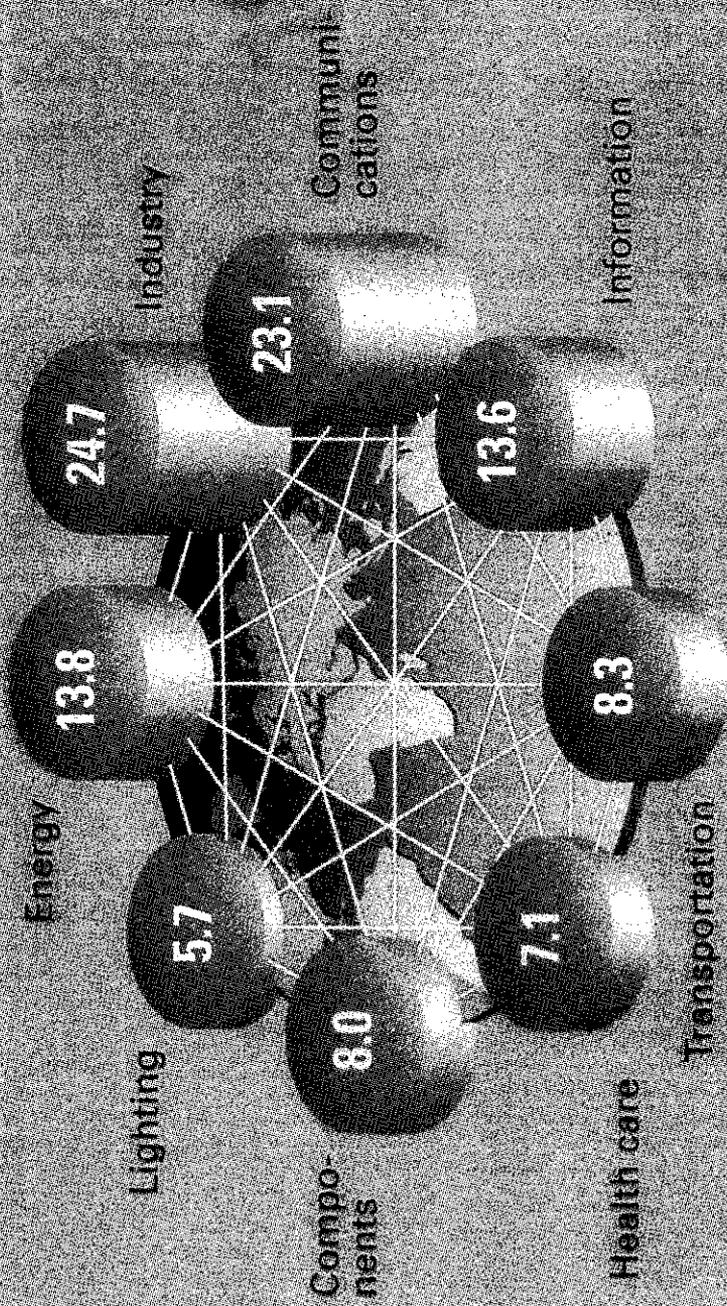
Slide 1

Our main field is in the infrastructure business. We provide everything to build up infrastructure. Being on the telecommunication side, being on the transportation side, being on the energy side and these are mainly this big industry all in all Siemens is now having 100 billion DM of turnover.

SLIDE 1

SIEMENS

A systems integrator
with eight core business segments



Sales in local (USD) including the systems business (in billion of USD)

The Company '97

10-97

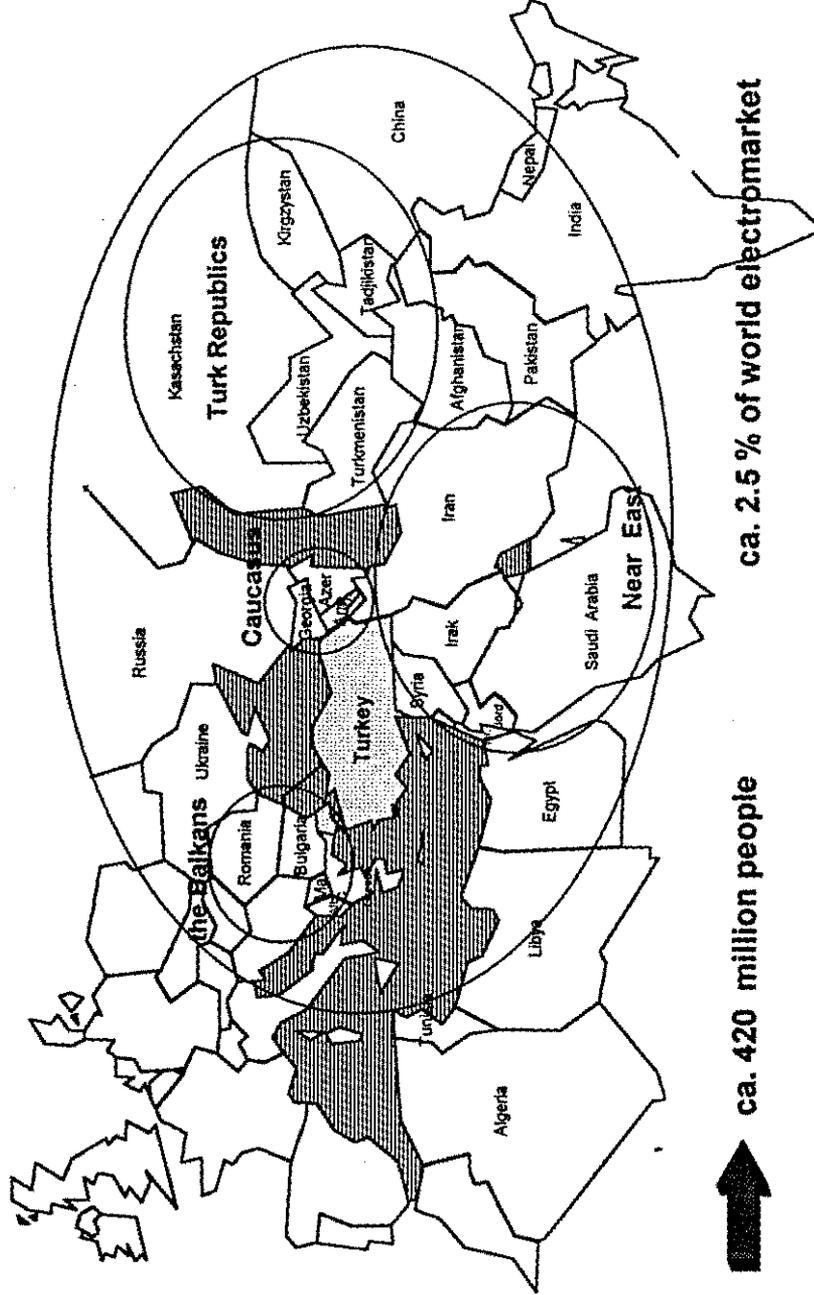
Slide 2

Now let's come to our region, Turkey is centered right in the middle and we think that Turkey has an ideal position to cover from here together with Siemens in Germany, the area around Turkey. Don't compare this please with the Ottomon Empire, we don't want to rebuild the Ottomon Empire but we think that the Balkans, Caucuses, Turkic republics and Middle East are ideally situated to use Turkey as a spring board into these regions. But, there is always a but, you should only do it from a country where you have a very good home market. That means you need strong bases out of which to operate. You can not just say, I want to do it but you have to have a very good home market, very good home bases.

SLIDE 2



Regions which can be served by Siemens Turkey



ca. 420 million people

ca. 2.5 % of world electromarket

TUSIAD EURASIA PANEL

İstanbul, 03.11.1997

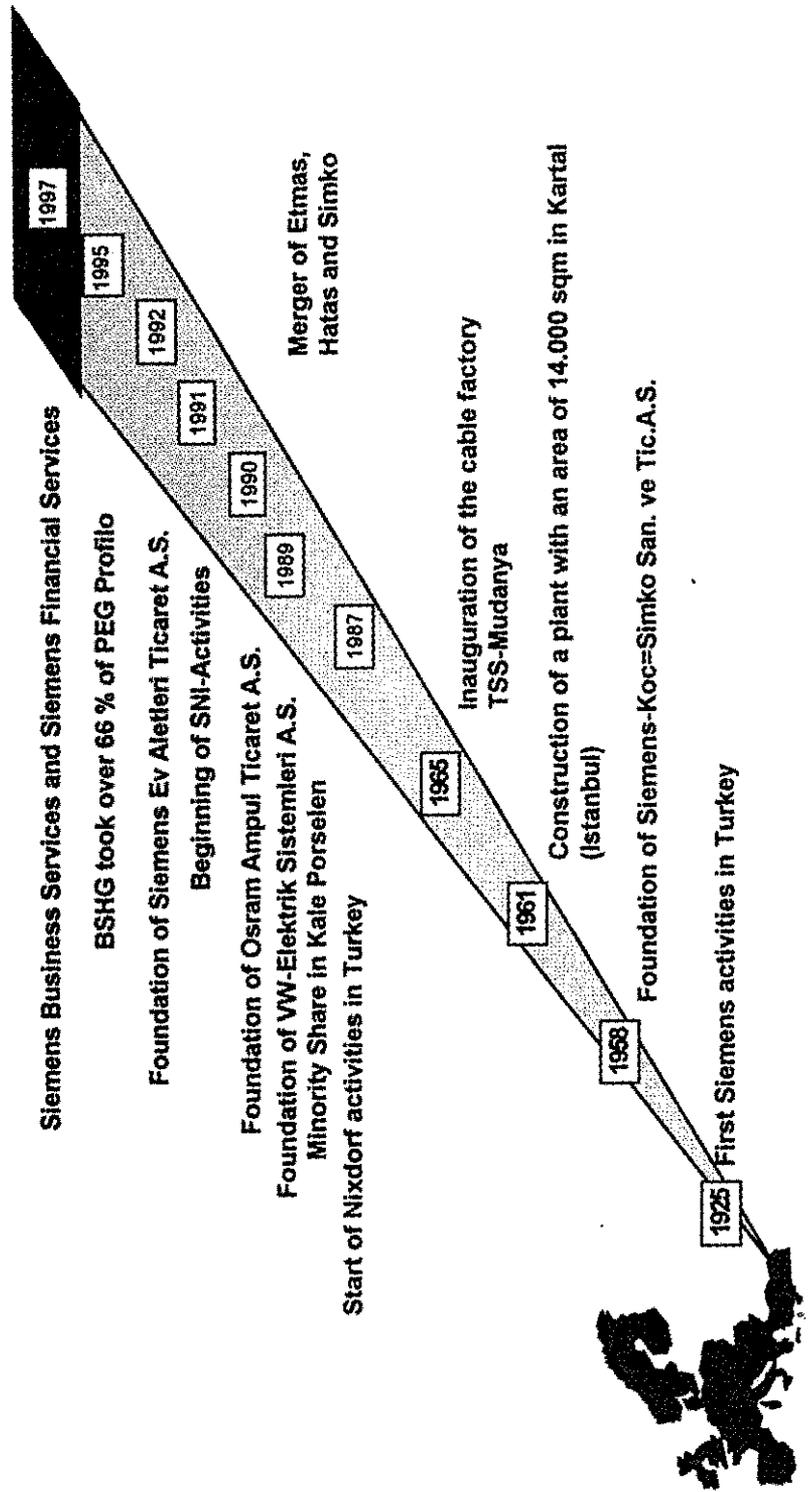
Slide 3

Now Siemens and Turkey has been doing business let's say real business since the end of 50th, 60th where we started with the joint venture with the Koc, to establish our own businesses.

When you move up the ladder you will see that year by year we went into new business opportunities and last sector we now have entered is in 1997, is the service sector. Siemens business services, that is .. business engineering and leasing opportunities and we will go further into that service sector. Why does the corporate Board in Munich think we should do it out of the country like Turkey? Because we have never lost a penny in Turkey. This is interesting and it is important to know because when you enter such countries like Romania, Kazakistan, Kirgizistan, Ozbekistan, even the Russian Federations you have to be aware of the fact that it does not go always this way. You have to know that there are many markets like Turkey, emerging markets which have to face considerable pitfalls. In Turkey we had a crisis every 10 years, moratorium 1970 Turkey could not pay, 1980, military push, 1990 Gulf crisis (Iraq was the home market of Turkey at that time!) 1994, economic crisis in Turkey itself. Now what did we do?



The History of Siemens in Turkey



Slide 4

We went on investing. Instead of retreating our service and say My God what a country this is and how difficult it is, no we kept on believing that Turkey is the right market and we kept on investing in Turkey which now means that we have a group of all in all 9500 people with the turnover of more than 2 billion DMs.

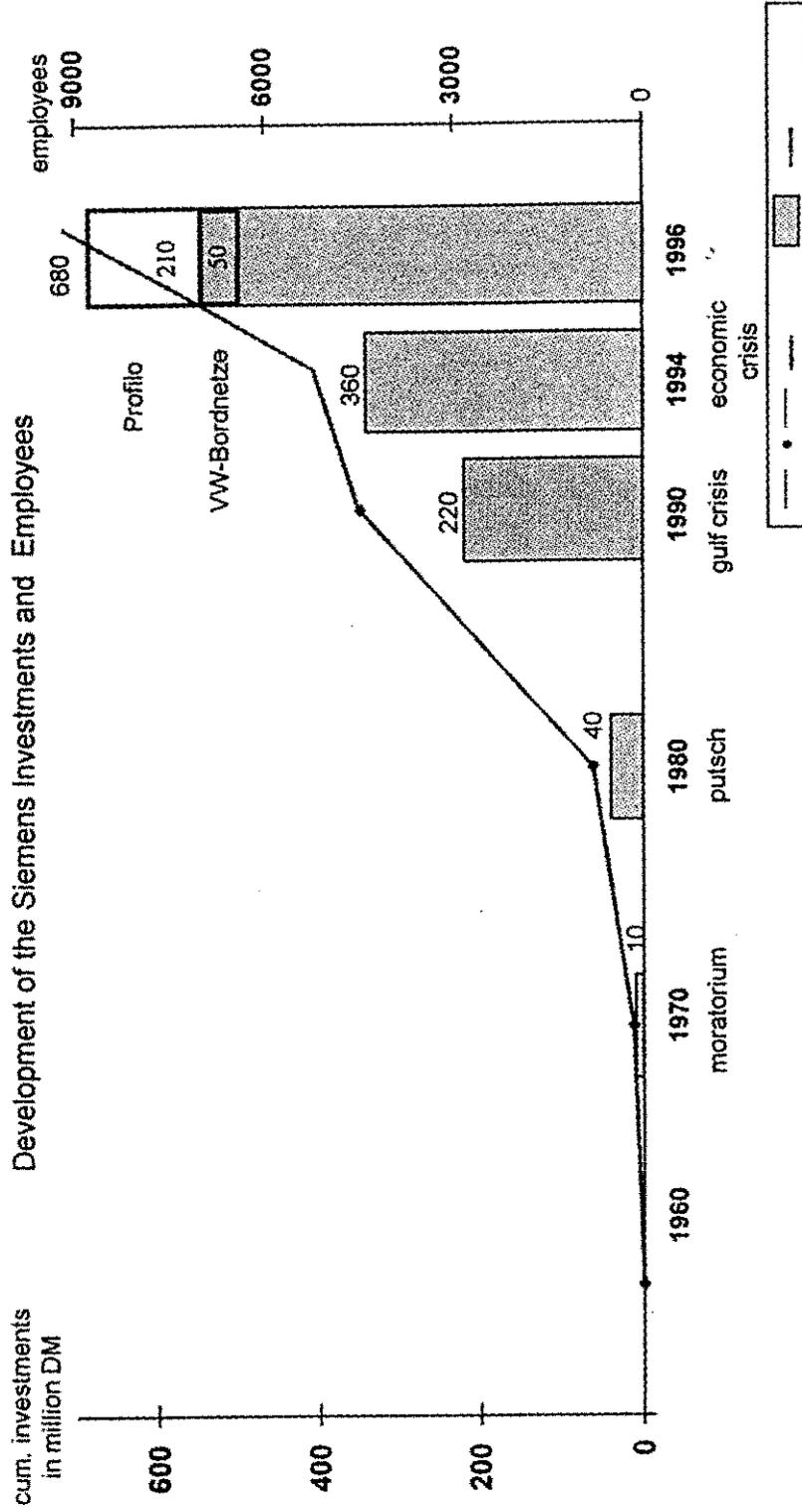
This is the basis out of which we are going to operate. Now why do we believe in these countries? Let me make a small comparison. Population and white, almost not to be seen, is the electro market, I am only talking about the electrol market. Turkey at the moment with its 63 million inhabitants has an electrol market of 17 billion DMs out of which half is almost white and brown goods. This is not astonishing because %50 of the population is under 25 years so they need the white and brown goods.

SLIDE 4

SIEMENS



Strong investment of the Siemens Group in Turkey during the last 5 years



TUSIAD EURASIA PANEL

Istanbul, 03.11.1997

Slide 5

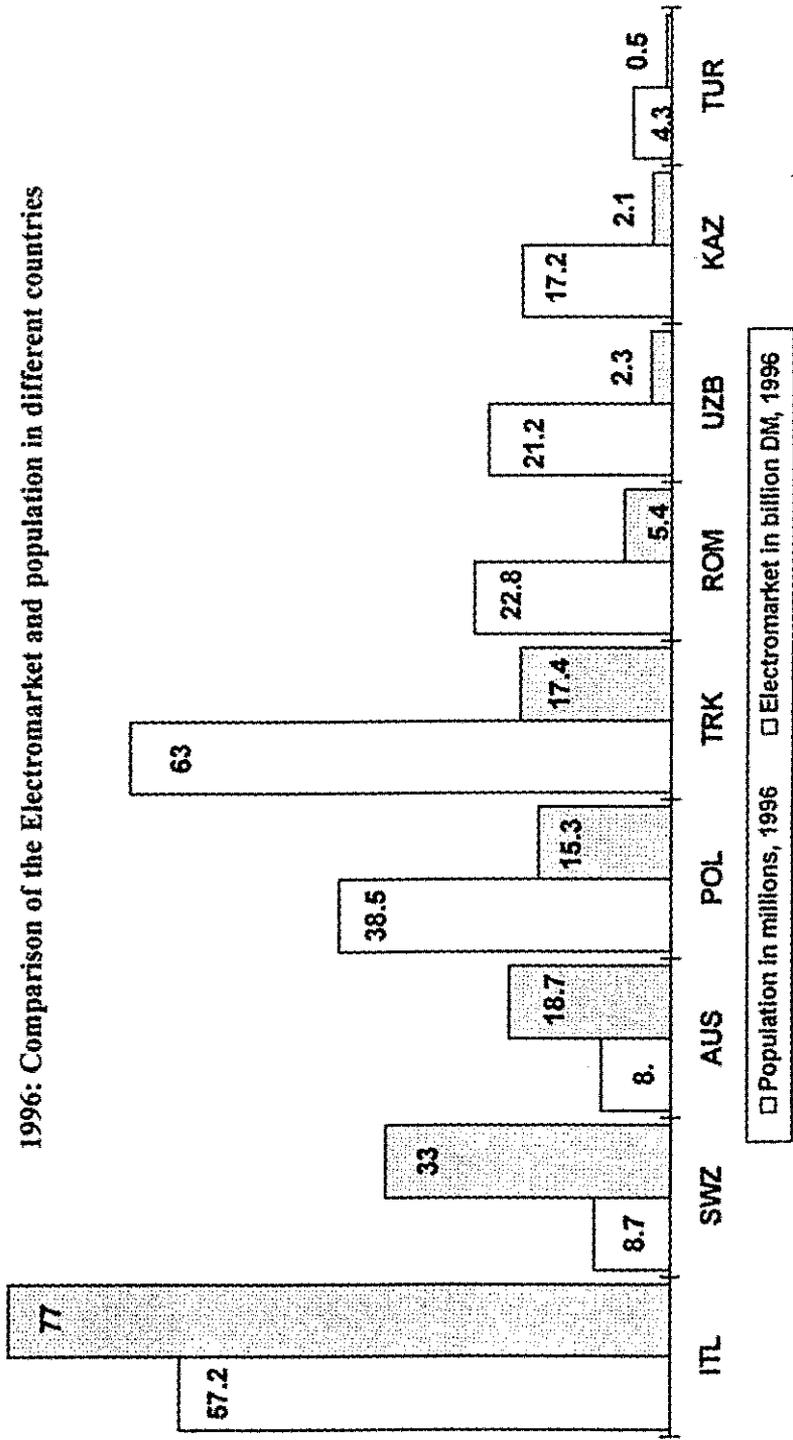
More important is what we expect from a country like Turkey being the basis to go into the other regions. Now if you look at Austria 8 million inhabitants, 18 billion of DMs of electro market more than Turkey so you see if you go to a mature market you will see that more and more you are able to do and to have business opportunities. Take Italy, 57 million inhabitants, 77 billion DMs electro market. Now this is what makes us believe in a country like Turkey.

Now what has happened around us Romania, 22 million inhabitants, only 5 billion of electro market. So there has to come something but don't ask me for the time period, because the essential thing is in what period of time is this market to grow. Ozbekistan. 21 million inhabitants, Kazakistan 17 million inhabitants with a very very small electro market. A very good example and I must admit and even better example than Turkey is Poland. After the break down of Soviet Union, they were able to come up with 15 billion of electro market almost like Turkey in very few years. In just five years and they did this. So I would think and I assume that the Polish people with the Polish government is even more able to go into a strong market growth.

Now we rely on locomotives. We made a market study and we looked at our customers and our prospective partners to do businesses in the regions around Turkey. And these are indeed the locomotives.



Strong market potential due to the population and growing living standards



Slide 6

Construction, textile, food and beverage, glass and ceramics and of course tourism. If these industries keep on to be the locomotives in Turkey and spread into the regions around Turkey then they will be able to bring up market opportunities in these countries as well. And if I say we go by market opportunities, of course we go by labor costs as well.

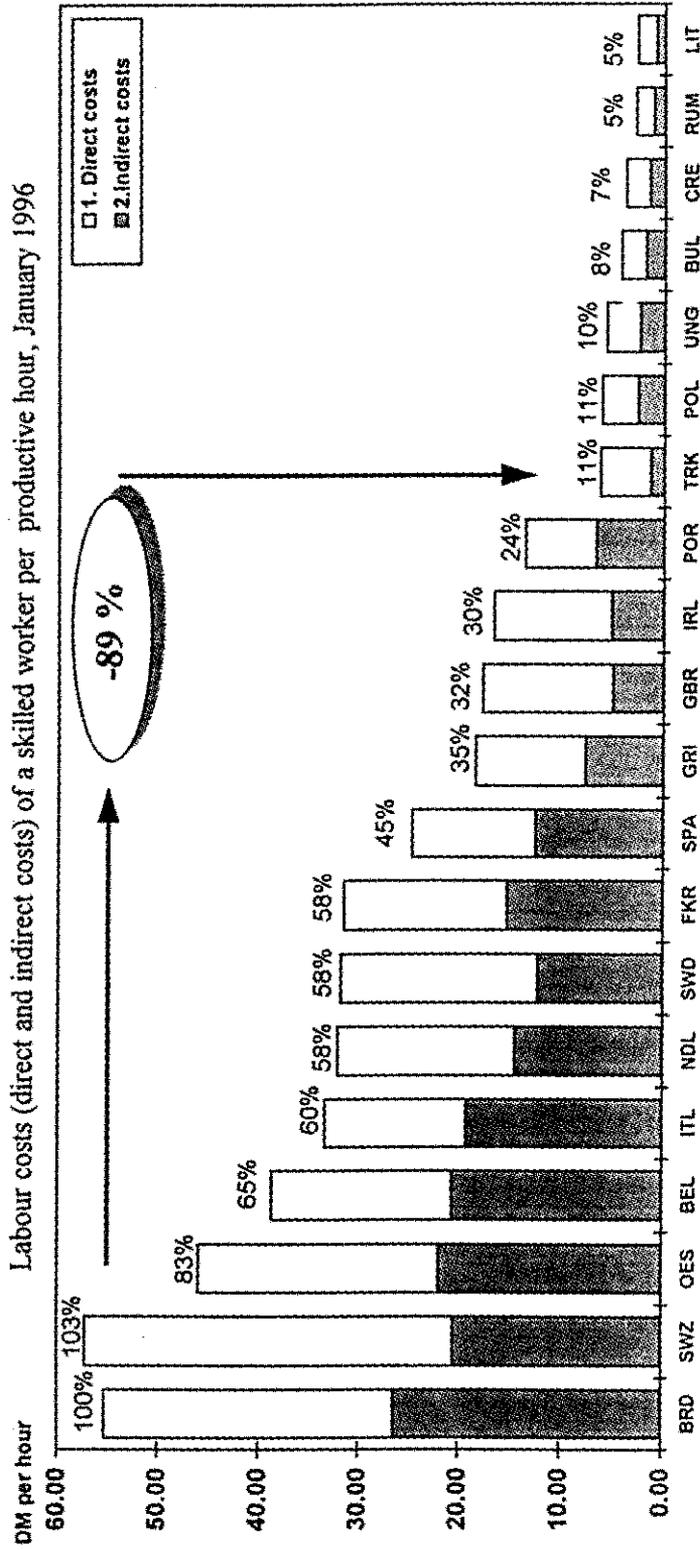
Slide 7

And if you look at this Germany is taken as 100% labor cost, where is Turkey, just about %10 of what labor costs are in Germany. And if we would go further East, I mean if we would go to China then we would have one tenth of the labor costs of Turkey. But this is not the main thing. The main thing is that Turkey has already so much industrial experience that they combine cheap labor costs with productivity. Because at the end, it is productivity which drives your profits. Not just labor. And this of course is a very good advantage to Turkey.

I clearly remember Dr. Hornfeld you are here amongst us, in 1993 both of us went to corporate executive committee in Germany and said You are going to miss opportunities, around Turkey there are really many opportunities. Why can't you let us do it from Turkey. Why just from Turkey.



Low labour costs compared to other European countries



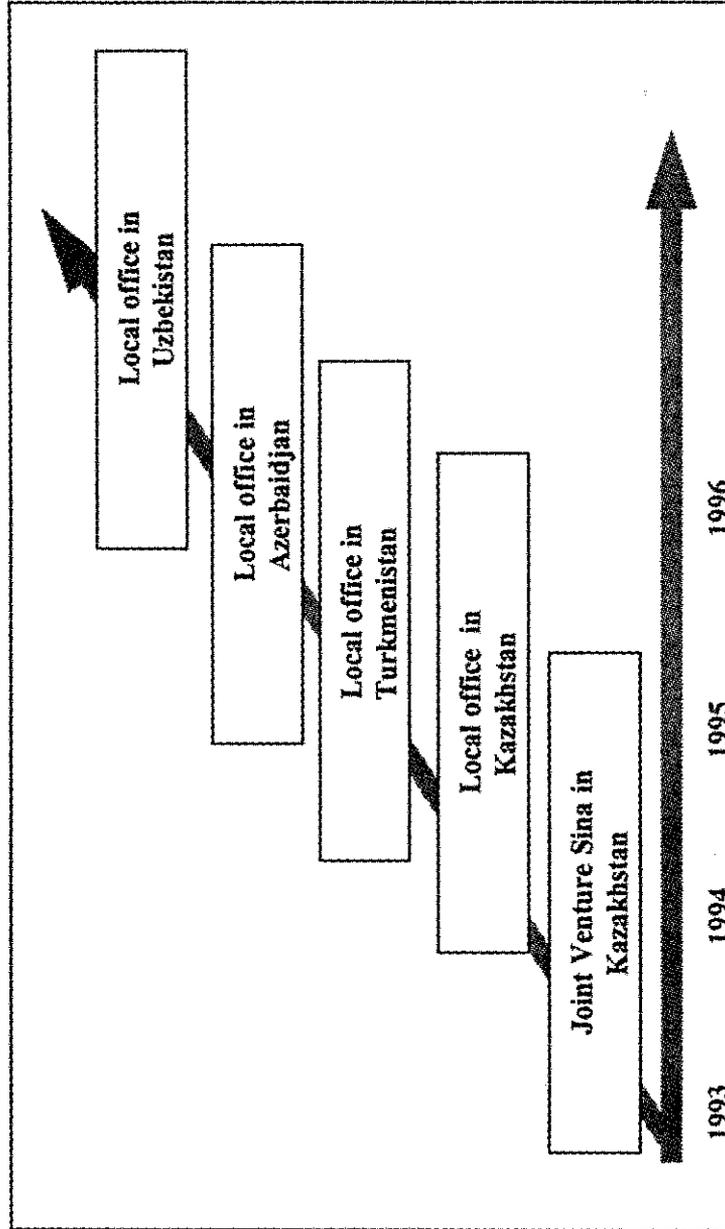
Slide 8

Of course for ethnic reasons, you know all, Turkey as a spring board to these countries but there is one other thing, here in Turkey you still know how to build markets from the scratch. If you ask somebody from Germany, France, Italy, well he has to adapt, it is not easy and if you count the cost then you will say around 500000 DM for an expatriate to go into these countries, so we built it up from Turkey and it was not a bad business in 1994-5 we started with 78 million DMs of orders in these countries, Azerbaijan, Kazakistan, Ozbekistan, this is our budget for next year, we are going for 300 million only in these countries not taken into account the power plant business which we got from Azerbaijan and Kazakistan but we can only take the order when everything has been settled, mainly financing And which are the areas where that growth takes place that is mainly in telecommunication and information and of course in energy and I think we can take very well advantage of that. Now when I say cover it from Turkey this is only partially true because we don't think that we in Turkey can built a power plant where you need 50-60 years and more of experience. So we have a network approach to these countries.

SLIDE 8



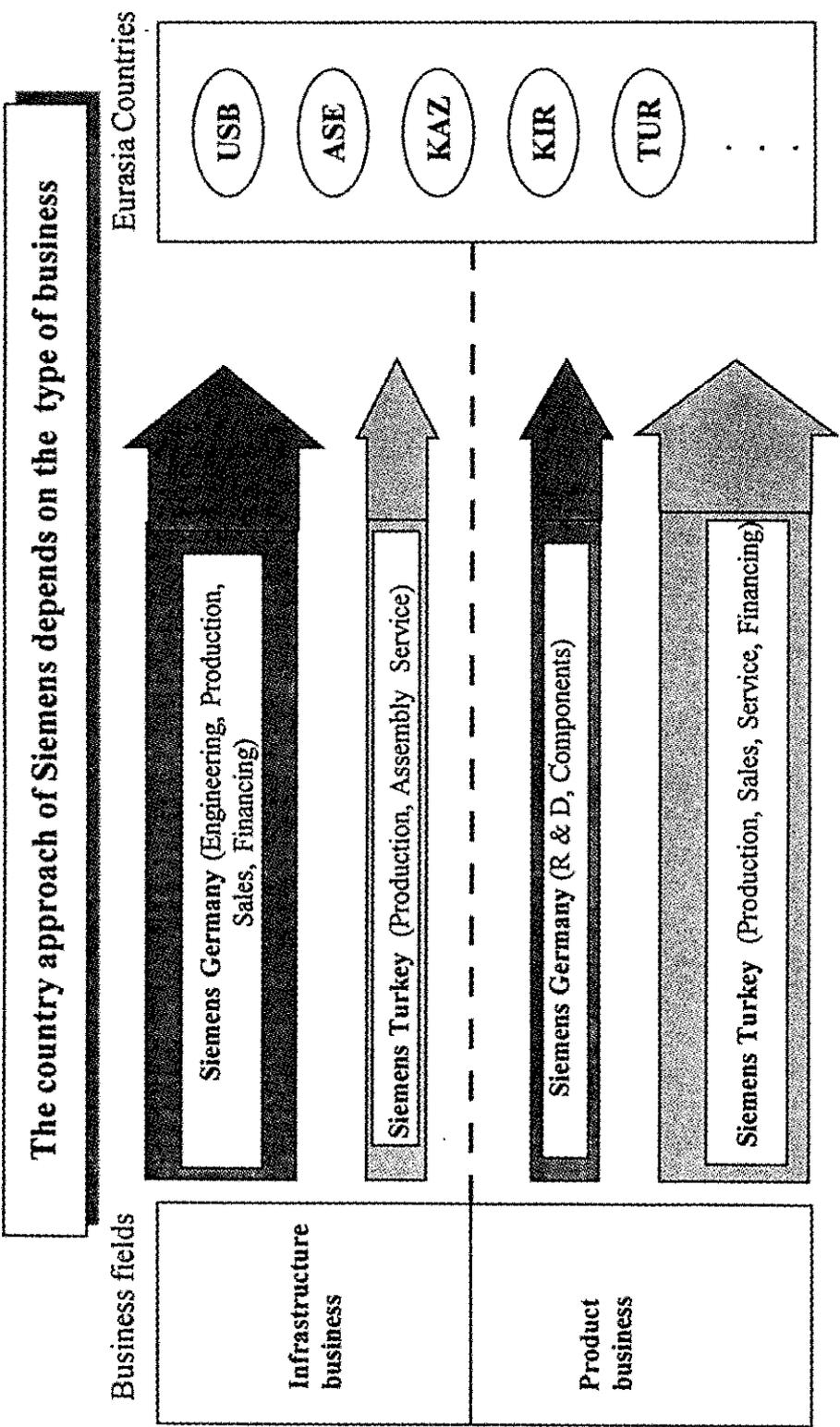
Siemens was one of the first investors in the Turk Republics



Slide 9

This is the infrastructure business if we want for instance to built a power plant, of course the specialists, the engineers, the designers etc. come from corporation from the division in Germany. But we go hand in hand because everything which we can produce in Turkey like cables for instance, doing the assembly, or going into service after a power plant has been installed, that can be done out of Turkey. Totally different where we have high value added in the product business, we have the cables here, we have small fuses, we have switches here, we have telephones here, this we run totally out of Turkey. With this strategy big infrastructure projects are guided from Germany the additional work, additional value added out of Turkey.

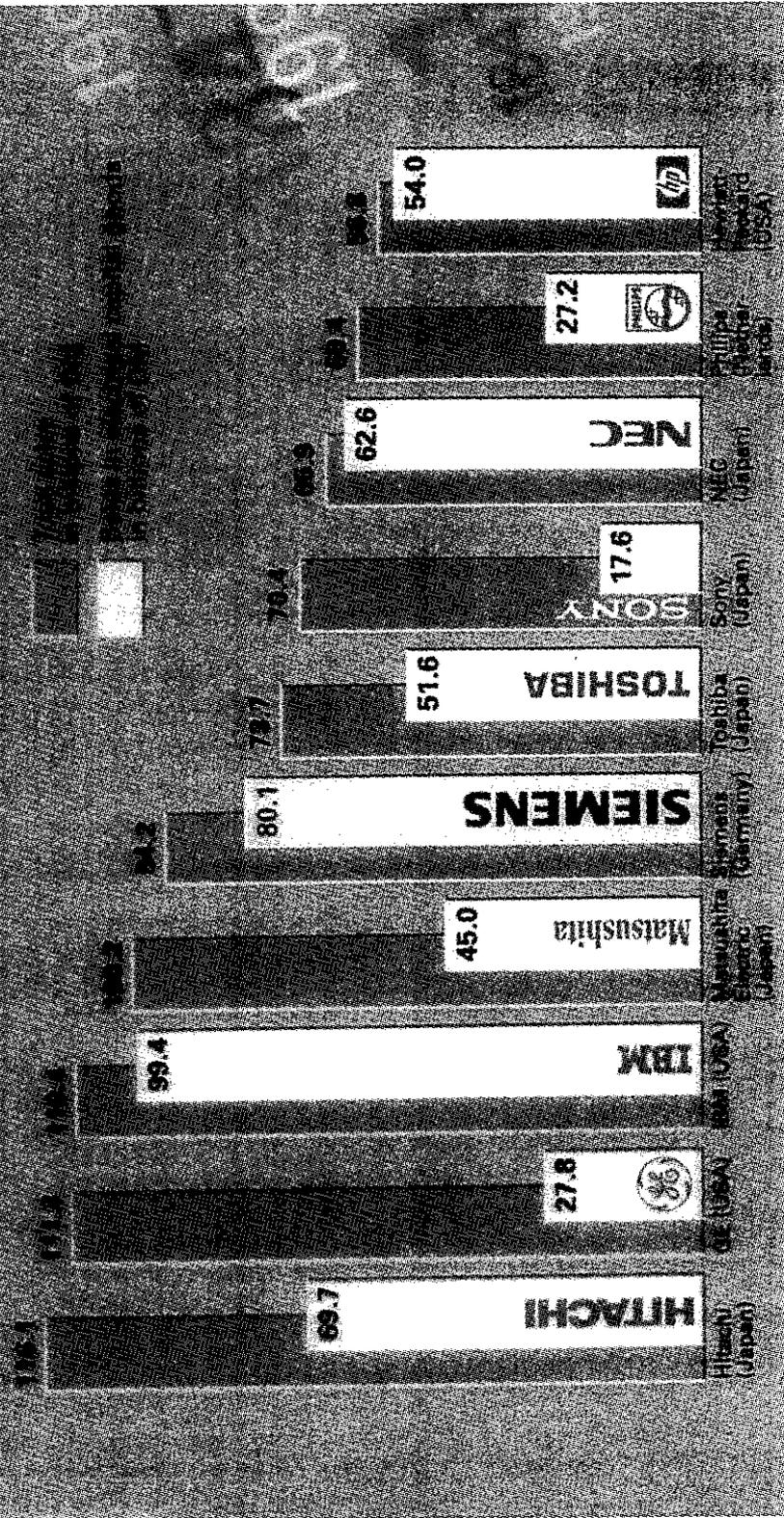
And the main reason why we think that Turkey has the focal point for Eurasia is something else. Eike Lippold mentioned it already. We think it is people, the Turkish people being very flexible sometimes too flexible. Being creative, very creative, otherwise they would not have been able to cover the crisis of 1994. And they are very entrepreneurial. Now if you combine these elements with the systematic approach the long term thinking and the strategic approach of the western productivity oriented style then you have an ideal blend and ideal opportunity to move from Turkey with these people who are then almost unbeatable to cover that area. Thank you.



SLIDE 10

SIEMENS

The top ten companies in electrical engineering and electronics in 1987



The Company '97

Chairman (Selim Demiren)- Thank you very much Mr. Urban, for your presentation which I think was very encouraging for investment in those areas and I think that there will be some questions after all panelists have spoken.

Now it is my distinct pleasure to call Dr. Alessandro to present his paper.

Dr. Alessandro GUERRERA

Representative for Turkey, ENI

Distinguished Authorities, Ladies and gentlemen,

I will deal with:

- a brief presentation of ENI,
- ENI's activities and projects in Eurasia, mainly in Russia and in the Caspian Rim,
- an outline of the projects concerning transport infrastructures for oil and gas in relation also to Turkey.

ENI S.p.A., formerly ENTE NAZIONALI IDROCARBURI, was established in 1953 as a public, statutory body to act as Italy's national oil and gas company.

In July 1992, in view of its privatization, was converted into a joint-stock company, which, through three subsequent public offerings of shares, all of them highly successful, is now 49% owned by private investors and 51% by the Italian Treasury.

ENI is a fully integrated oil and gas company engaged in all aspects of the hydrocarbons business. ENI has leading operations: in the exploration, development and production of oil and natural gas and is the seventh largest publicly traded company in terms of reserves and the ninth largest in terms of hydrocarbons production; natural gas supply, transmission and distribution; Europe's second largest natural gas company; the refining and marketing of oil and petroleum products, the production and sales of petrochemicals, oil field services contacting and engineering, engineering, design and construction of oil refineries, petrochemical - chemical and fertilizers plants, on-shore and off-shore oil and gas pipelines.

In 1996, and for the third consecutive year, ENI reported record earnings, with a net income of 2.90 billion USA.\$ and net sales from operations of 37.9 billion USA.\$; operating income amounted to 6.85 billion USA \$.

Average daily production was 984.000 barrels oil equivalent (boe), sales of natural gas amounted to 56.5 billion c.m., proved hydrocarbons reserves stood at 4.675 million of boe with a life index of 13 years. We are confident that these figures, which are among the best in the industry, will be further improved during 1997.

Considering ENT's role as the main supplier of natural gas to Italy, where sales to industrial consumers started in the late 1940's, ENT's relations with the former Soviet Union date back to the early '50s, and were based on natural gas supply contracts. ENI was the first or one of the first Western Concerns to cross the IRON CURTAIN and to establish with Moscow regular and steady commercial relations.

These relations developed in several other fields of mutual interest, but still today Gazprom is the second largest gas supplier to ENI, 13.5 bcm. in 1996, (Sonatrach supplied 18.5 bcm.) and will be supplying 28.5 bcm. in the year 2008. Nor ENI ever experienced any material disruption of gas supplies from Gazprom or from Sonatrach. Ent is in fact the second largest western European customer of Gazprom. A notable feature of ENI's relations with Russian entities, has been the establishment, in March 1995, between AGIP and the Russian oil major LUKOIL, of LUKAGIP INC, which is intended to promote expanded cooperation between the parents companies and implement joint exploration and production projects within and outside the former Soviet Union.

Today, pursuant an agreement with SOCAR (State OIL CO. of Azerbaijan), LUKAGIP principal activities include the exploration and development of the KARABAKH field, in the Southwest continental shelf of the Azeri Caspian.

On November 10, 1995, the Caspian International Petroleum Company (CIPCO): LUKAGIP 45% - LUKOIL 12,5% -AGIP 5% - PENNZOIL 30% and SOCAR 7,5%, was established by the companies participating in the exploration, development and production sharing over the KARABAKH structure.

Estimated probable reserves are 120 mio. tons of oil and 30 billion cubic meters of associated gas.

The projects is scheduled to reach peak production of 175.000 b/d (9.000.000 t. year approx.) by 2006 and will require capital investment of about USA\$. 1.7-2 billion USA\$.

Since the late '80s, following the agreements concluded with the former Soviet Union, AGIP and British Gas have been involved in the revamping and development of the Karacakanak field, in the Kazakhi on-shore. Pursuant the preliminary Production Principle Sharing Agreement, signed in Almaty (3/95) and the joining of new partners, AGIP (32,5%), British Gas (32,5%), LUKOIL (15%) and TEXACO 20%, (farmed in during 1997) will be deloping the production up to 4 mio t. year of condensates and 4 bemy of natural gas.

This agreement will be followed during 1998 by the PSA - Profit Sharing Agreement; based on a capital investment of some 6-7 billion USA\$.; it should be possible to reach a

plateau of production of 10-12 mio.t. year of condensates and 14-15 bcmy. of natural gas during 20 years.

The KAZCASPISEFF Consortium (KCS), was created in December - 1993, to conduct a comprehensive seismic study of the Kazakhstan Coastline in the Caspian.

Consortium members, AGIP, British Gas, British Petroleum, Mobil, Statoil, Shell, Total and KCS, as equal partners, will have the opportunity to choose two blocks each for exploration and development before international tenders are issued. The Consortium has so far spent USA \$ 350 mio. in the seismic study which was completed in 1996. Exploratory drilling is under way and expectations run high!

On the 25th. of June of this year, during the visit of H.E. Haydar Aliyev, President of Azerbaijan, to Rome and in His presence, SOCAR and ENI signed the preliminary agreement covering the exploration and development of a large block in the Azeri off-shore, ENI's participation will be 20%.

In Kazakhstan nine international oil companies, including ENI which holds a 2% interest, entered into an agreement with the governments of Russia, Kazakhstan and Oman (CPC) with respect to the construction of an oil pipeline to link Kazakhstan to Novorossiysk on the Black Sea. The pipeline is expected to be commissioned during 1999 and have an initial capacity of 28 mio. tons year of oil (of which 5.5 million tons are expected to be transported from the Karacakanak field).

The pipeline will be entirely financed by the participating oil companies and ENI's share of the financing will be 4%.

The stakes in the Caspian are enormous: there might be up to 200 billion of barrels of oil and gas in this Region and investments may add up to tens of billions of dollars; revenues will be distributed among oil companies and States and the States will indeed receive the major share as well as the fall-out, in terms of employment, industrial development, infrastructures, transfer of technologies and know-hows, of such revenues and such massive capital expenditures.

The main issue is how to channel, to transport all this wealth of oil and gas to the Western Markets or to Markets which are ready to pay, promptly and dependably, for this oil and this gas. This transport, for an equitable balance of risks and opportunities, should take place in addition and outside the oil and gas pipelines system which, developed by the former Soviet Union, is controlled by the Russian Federation.

One of the most attractive markets, for the Caspian oil and gas, considering the progression of oil and gas consumption (respectively 40-45 mio tons and 58 bcmy in 2010)

is Turkey, which is moreover a crucial transit Country for oil to the Mediterranean and gas to Europe.

ENI is looking with great interest to the main infrastructure projects under consideration: namely the Baku-Ceyhan oil pipeline and the Turkmenistan-Turkey (across the Caspian) gas line.

Our interest covers downstream activities also; power generation, refining and distribution of oil products, transportation and distribution of oil and gas to the end users.

These new projects, such as the pipeline and the gas line I just mentioned, are major factors for the development of the Turkish economy and we intend to be associated with them.

Thanks.

Chairman (Selim Demiren)- Thank you Mr. Guerrera. Until now we had two Turkish German Joint venture companies operating successfully in that area and now one from the Italian. Last but not least, Mr. Polat Serdengeçti, who is the Assistant General Manager of the RAM Company.

Assistant General Manager, RAM Foreign Trade

Technological development in telecommunications, wide use of it networks, the collapse of socialist system and dispersed COMECON countries has directly affected modality, mentality and the work style of international trading groups.

In Turkey, also changes such as; the termination of government incentives for exports, entrance to European Customs Union has brought about new thinking, new approaches for international trading.

RAM, being the export company of KOÇ Holding, since 1972, had to change its mission and strategies drastically from '92. It had to adopt to new situation.

All these changes have brought the producers, the consumers and the users of finished and semi-products and raw materials together. Brands in finished even in semi-finished products became necessary for marketing.

These changes have diminished necessity of intermediates, and pushed the producers, conglomerates directly to market their own products in the market.

RAM took the mission and strategies of KOÇ Holding in order to globalize the group.

KOÇ Group has decided to grow in following sectors;

- * Retailing (Super-Hypermarkets)
- * Wholesaling, non-durable consumers products.
- * Manufacturing, distribution of durable goods, household appliance
- * Manufacturing, distribution of automotive products.
- * Banking.

International trading business of Koç Holding has been reorganised in the beginning of '97. New mission, new strategies. Linked with Koç growth strategies outside of Turkey.

In Eurasian Countries, which most of them have no political stability; no developed legal trading system, no banking and financial institution, meant difficulty for investments and sound marketing. Nevertheless some of these adverse conditions had also existed in '60s and '70s of Turkey, therefore as living Turkish managerial people, we got used to how to survive and be flexible in these conditions.

We have started to organize ourselves in marketing and assembly our own products in Eurasian Countries since '95, parallel to KOÇ strategical growth policy.

RAM STORES, supermarkets, hypermarkets have started to open in Baku/Azerbaijan Moscow and planned to open in Almaty/Kazakhstan, Bucherest/Romania

RAM GROSES, wholesaling of consumer products, has been established in Kazakhstan, and in Azerbaijan and will grow throughout Eurasia in 98 and 99

RAM-AUTOS, distribution of passenger, commercial vehicles, and agricultural tractors, with after sale facilities, in Kazakhstan, Uzbekistan, Azerbaijan and will be established in Ukraine, Moldova, Russia, Poland.

RAMTORG, distribution of durable consumer white goods in Russia and will follow shortly in Central Asia (As already established in Europe)

BANKING, first Koçbank Branch will be opened in Azerbaijan and will follow suit, in other areas of Eurasia.

In the field of industrial production, we will start assembly and manufacturing of midibuses and light weight trucks, in Samarkand in Sept/97. Similarly we have concluded the negotiation for production of refrigerators in Samarkand, production estimated in 1999.

Chairman (Selim Demiren)- Thank you Mr. Serdengeçti. Although we don't believe, that was the forth success story of the day and now I would like to open the discussion for the floor. We have approximately 20 minutes till five o'clock. Please use the microphone and indicate to whom you are addressing the question. Thank you.

Questions and Answers:

1. I think all the four gentlemen can answer this. How are you coping with the qualified man power to manage these expansions. Especially Mr. Polat, the ones you've mentioned now. Because to open a RAM store, you need many people and also manufacturing.

Polat Serdengeçti- Well I think this is our shortcomings. Unfortunately, in Turkey we were not ready to open so quickly for globaliztion and we can not have the eligible personnel. Either we take our own experienced personnel in Turkish market which we are facing difficulties, this is a difficult point but definitely as I told before we need Turkish personnel to go there. Thank you.

Christoph Urban- May be I can add one thing. What we do is we take people well educated from the countries bring them either to Germany or to Turkey and train them here in Turkey or in Germany. For instance we went into joint venture in Romania and required a majority of a cable company and we trained here 50 people from Romania out of the factory for three months and brought them back and whenever there is the necessity, we do the training either here or in Germany.

Eike Lippold- In addition, we should know that Russia has not only have unlimited huge resources of oil and gas but, I think, one of the best education system. We should not forget that the students passing in examination at universities are at least as good as in Europe but, I would also include Turkish universities. You have excellent opportunities to head hunt good people. As Mr. Urban said you have to make company policy to train them. But the provision to get good people is one of the feature that you have in Russia compared to China.

We may say that in the field of energy, the former Soviet Union has great tradition, we have to remember that his Excellency Mirdin, is an oil engineer, the big boss of Gasprom. For instance, when I was talking about the field of Karacakarag was initially developed by the prime minister of Russian Federation when he was a chemical engineer. And the people we find in Azerbaijan and Kazakhstan, they are chemical, oil engineers, technical people which have been working with Gasprom and the several agencies of former Soviet Union. Therefore, normally they are well prepared. We train several of them in Milano, but not so much technically, according to our corporate philosophy. Better understand each other, this is what we are doing.

2. I have one question for Dr. Guerrera. The market for the oil that you intent to transport through the pipeline, which you are going to build in Novorosisk, is not the Black Sea Countries. Do I understand you correctly?

Alessandro Guerrera- There are people who say that these CPC will reach a capacity of 67-70-75 million dollars. We believe in the immediate target of 28 million dollars. We believe very much, as I was saying before, that the solution will remain with multiple pipeline route. Therefore, as a group, we believe that Bakü-Ceyhan will be a very suitable solution together with other solutions for the transportation of this quantity of oil. Well, the production plateau of 120 million tons will reach to 150 million tons per year of oil. First of all, it will be impossible to increase the transit through the Bosphorus beyond the certain limit. We are taking into account that already through the Bosphorus is passing no oil through the Suveys Canal. And the Suveys Canal is man made while the Bosphorus is God made. We believe that we have to look into multiple solutions and one of this solutions is the Baku-Ceyhan pipeline. And there may be other solutions.

You know it is a dangerous cargo. Given the fact that Italian and French governments have forbidden tanker traffic in the Strait that separates, miles and miles wide between the islands of Sardinia and Corsica. Am I correct? Forget about the Bosphorus. Look at the Aegean, one island, after five miles you see another island. Now, whatever the capacity of the straits, lets imagine that the straits are water pipeline, what shall we do about the Aegean? It is not a matter of how many tons, one tanker is enough to destroy the environment of this region. One accident will destroy tourism industry of Greece or Turkey for many years to come.

Alessandro Guerrera- I live in Istanbul since six years and I've been living in Istanbul in the 70's. Since 25 years I spent my holiday on the Turkish coast, as I said before but I think everybody is in agreement, I don't believe that there are very basic disagreement concerning the protection of the environment. There might be conflicting interests. This is my opinion, if we are going for a while, it could be possible to bring back to a business level discussion of oil pipeline, gas lines and first of all discuss it at business level, between oil companies, private or state owned oil companies not by the presidents of the republics, by minister of Foreign Affairs if you allow me Mr. Ambassador, we should a little bit downgrade the issue to a business level, and I believe that the politician, at least, may be I am naif, politician will be convinced after everybody will touch. We know exactly which are the nuclear advantages of the cooperation, and not with the confrontation. Baku-Ceyhan will be realized in due time I believe and not too far away. As a matter of fact somebody has been talking of a pipeline which should have been built in expectation of oil. Thank you very much.

3. I would like Mr. Lippold to give us more information about the financing. There was a paper there but it went very quickly. There must be financing mechanism, as far as we know there is not much available cash money there. Thank you.

Eike Lippold- I didn't spent too much time because, there wasn't so much time left. But, regarding financing I will be pleased to repeat may be a little bit. First of all, of course there is money available. Second, you need access to the sources this is what I don't tell you of course. Otherwise you go there tomorrow and you grab the money I would like to get. This is literally the case. Political engineering is one of the top priorities. Besides what everybody said, right people etc. but most important you have to, at the same time, have excellent relationship with the politicians. They have budgets. The question is how they distribute the budget. At least to get guarantees. And they opened the doors to you of course when it has priorities. Project we are talking about. In the "city bus business" as an example, Russia will have in the near future demand of about 20000 busses a year. Of course, they do not have the money. But there are a lot of institutions who are offering on certain conditions, money. So, also I told you, as an example Deutch Bank and Devle Bank has offered credit facilities which indicates there is not enough money. But there is money left. And second opportunity we have, is butter business. As long as a

country has three times a cotton harvest means of course that you have bad luck but, you have to check the contracts that you really know that they have not done exactly what I said. They are sometimes little bit tricky. But in general I can only confirm again and conclude money is available and no question about and you need access to the budget and to the people who are deciding about this budget. OK?

Chairman (Selim Demiren)- No more questions? OK. I would like to thank all four panelists for their contribution today. And the last point today is conclusions, concluding remarks by Prof. Celik Kurdoglu who is leading as the coordinator of the study group of UNICE, REX concerning this matter. Please Prof. Kurdođlu.

CONCLUSIONS

Concluding Remarks by Prof.Dr. Çelik Kurdođlu,
Co-Ordinator of the “Eurasian Area and Europe”
Study Group of UNICE REX Committee

Thank you Mr. Chairman. I think we all agree that this has been a very useful meeting. It has gone well beyond our expectations which demonstrates that TÜSİAD has brought a subject of common interest for the global business community to be discussed in a constructive manner. I would like to thank all the participants, panelists, and to all those who have taken the trouble to travel to Turkey for what they have done and we hope that they've enjoyed the visit as well as meeting. Before the concluding remarks which will not take long, let me make one single comment on what you've just said Mr. Eike Lippold? It takes political engineering, financial engineering as well as imagination. Just remember what Huseyin Erkan of Istanbul Stock Exchange has said: "very little amount of institutional investors come to invest in the region". There is so much that can be tapped.

I do not want to make company promotion here, but our company has successfully raised finances for the ventures of Efes beer, in Kazakhstan, in Russia, in Romania, the experience can be multiplied many times. What we need is good stories, projects that will pay back in a short while and there are many such projects, we listened to Siemens, we listened to Mercedes Benz, I think we can come up with many other projects. I was a bit worried until Polat Serdengecti starting calling into his five lets say illustrations, I was worried that the subject of "trading" was not touched upon, but now we have stories from Migros and I am sure these can also be multiplied.

Going back to our observations which we'll be studying at TUSIAD and put together when redrafting this text that you were provided this morning, before it is taken to UNICE, REX committee, we will be redrafting in the light of the discussions that have taken place here. It is important that we focus on "more dialogue". More dialogue between UNICE and regional outfits like the Black Sea Economic Cooperation Council or National Chamber of Commerce and or Industry. Dr. Orlando has said something extremely important, that this initiative that should be taken up with the EU at what he termed the "Eurasia Table", that is something that we should work on. If Brussels says 'no Turkey you have to wait outside' then we will take it up with our Greek friends and we'll use that channel. For business there are no obstacles. We will use whatever channel is open for us.

Legislation is of course extremely important, John McCarthy emphasized certain points but let us not forget nor be discouraged, because Azerbaijan, Kazakhstan, Uzbekistan are not like the Balkan countries. They are countries almost never had contemporary legislation. Commercial courts never existed in those countries which is not the same story for Romania, which is not the same story for the countries of Central Europe. So let

that not discourage us. Because business has been going on as we've listened to in the experiences of RAM as well as the other experiences in Kazakhstan.

Education is of course extremely important, let me give other example, it shouldn't go under company promotion but in our company, we have a subsidiary that operates in Romania, Global Valori Mobiliare where only the general manager is from Turkey. All the rest, which is about 80 people, are Romanians. These people have been doing trading, brokerage and now they've begun doing research and corporate finance work. All we have done is, to send over couple of people from our corporate finance team or research team, they've trained those people. They are doing a very fine job, so fine that we are doing maximum amount of business in Bucharest. So the local people are available, they are available in Azerbaijan, you made the point for Mr. Chernomyrdin?

The case is more valid in the case of Azerbaijan. Azerbaijan is extremely strong when it comes to oil engineering and oil business. So let that not discourage us except for the fact that they have to be retrained, they have to be sort of retooled in order to be able to service Serdengeçti's needs to be on the shop floor on retailing and by the way I see that Mr. Colaris just entered the room, I was going to make a reference to the French experience in Russia, in Moscow where they have been training the "Moscovites" or the Russians to become more western business oriented. This was organized by Paris Chamber of Commerce, I discovered it some five years ago and I am sure they are doing more business now and continuing with that kind of training.

One major issue that attracted my attention is highlighted in Dr. Orlando's remarks that the focus of our visitors has been more on East of Turkey. It is obvious that our corporate interests may differ and we need to rebalance our approach. There needs to be a focus, for example, on Bulgaria. Last week I was in Sofia attending a conference which was promoting Bulgaria where many things have changed dramatically in the past 7- 8 months. Since the last monetary crisis they've instituted the currency board in July and rate of inflation has dropped drastically. Let us remember that the population of Bulgaria is only around 10 million, the country is not rich in terms of natural resources, technologically they are relatively rich in computer engineering because that is what they were ordained to do by Moscow, there is little else. There were 2400 people who attended the conference. I asked an Armenian of Bulgarian origin what brings these two thousand people, what do they expect out of Bulgaria? 200, I can understand, 500 I can understand why 2000? He drew my attention to the pipe lines that go through Bulgaria. When you look at the map of pipe lines in Bulgaria, there is nothing but pipelines,

natural gas and all pipelines. The country is a sort of a hub, just like Turkey is, his reply was Turkey is of course a hub, but Bulgaria leads to Turkey and Bulgaria is a conduit from Turkey into Europe. The Balkans is also an important region; let us not limit the efforts of the Eurasian working group, only to the east of Turkey.

Today's meeting revealed the importance of institution building, as well as of sectors like transportation, finance and all that is needed to facilitate trade. The international business community might be enticed to go into the Eurasian countries only if the appropriate infrastructure is put in place. It is only fair to stress at this point the importance of the remarks by Dr. Jurgen Voss, where he elaborated on the significance of private sector participation.

I think we have taken all the notes ladies and gentlemen and we'll do our homework before we turn it over to the REX committee and UNICE and concluding let me thank you again for spending the full day with us. This is impressive in the number of people that we have here at five o'clock on a Monday.



