

# TUSIAD 40

## FOREIGN TRADE LOGISTICS IN TURKEY: COST AND COMPETITION ELEMENTS

MAX. GROSS	24 000	KGS
	52 910	LBS
TARE	1 240	KGS
	2 750	LBS
PAYLOAD	22 760	KGS
	50 160	LBS
CUBE	33.2	CUM.
	1175	CUY.



# Executive Summary

Companies creating value adding network in their supply chain, gain a competitive edge in the global arena. Logistics performance affects the cash flow (working capital needs) and profits of a company directly. In the global economy where markets and supply points are geographically dispersed, cost incurred and time spent for the transport of commodities from a point of origin in a country to a target point in another, are crucial for the competitiveness of companies. The logistic performance of companies and the costs incurred by them in their foreign trade operations depend to a great extent on the transportation infrastructure and on the efficiency of logistics industry of their home countries. Therefore it is appropriate to evaluate the situation in the European Union countries as they are the main trading partners and competitors of Turkish companies. According to a 2010 World Bank study about logistics performance index, Turkey ranks 39th globally. Compared to Turkey, European Union countries are estimated to perform better in terms of cost, speed and efficiency, and their ranks are correspondingly higher.

In the European Union and in Turkey, the most preferred mode of transport for foreign trade operations is firstly ship transport, followed by road transport. However, transportation studies and comparisons show the striking success of multimodal transport in Europe, especially the effective use of railroads for the transport of commodities to the shipping ports.

Data analysis and benchmarking with other countries demonstrate the dedicated efforts of the Turkish customs authorities. However, to increase the efficiency, to improve cooperation among organizations, and to lay the ground for the technological integration, amendment of the regulations and swift implementation of these amendments is still required.

To detect the problems encountered in various modes of transport and factors affecting the competitiveness of companies, preparatory works of this study includes a survey conducted among 30 companies, all member of TÜSİAD. Although the sample is not large enough to reflect the general situation in Turkey, the survey is still an important resource for diagnosing current problems. As the survey sample is not representative of Turkey across the board, it is used only to outline the current problems of foreign trade companies. The report includes comments on the 2023 Vision of Turkey, as well as findings about cost increasing and time consuming factors,

*The vision as defined by the 2023 targets and the corresponding infrastructure investment plans will contribute to the welfare of the country, and improve the competitiveness of the industries.*

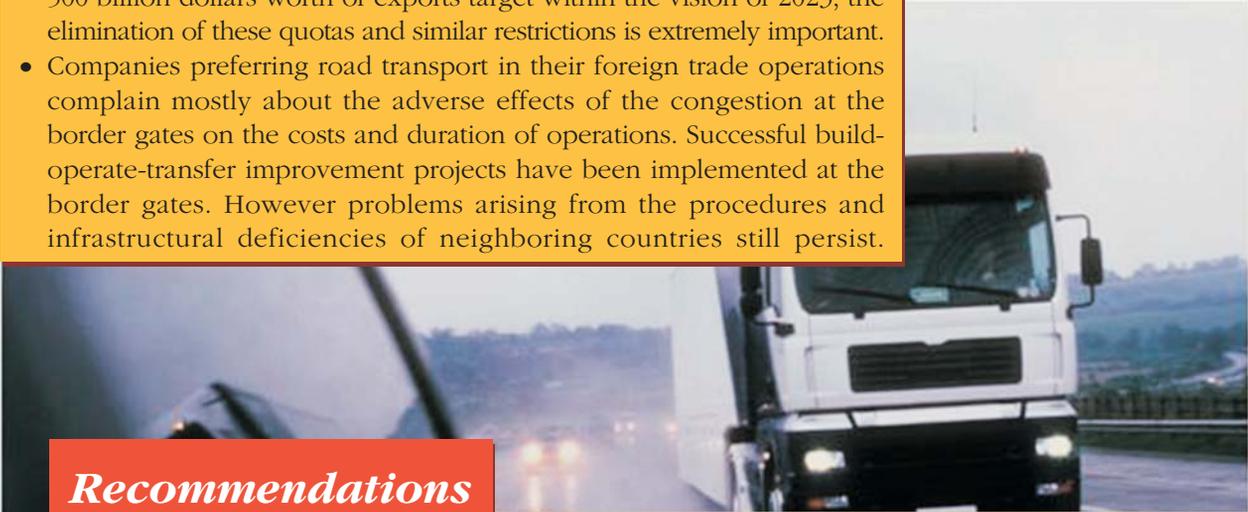
affecting the competitiveness of the foreign trade operations using road, rail, sea, air or multimodal transport. The following is a summary of the factors affecting the competitiveness of importers and exporters, in terms of various modes of transport.

As a result of the globalization process and the increasing economic efficiency of Turkey, the eagerness of Turkish companies to gain a competitive power in international markets has increased. Consequently, logistics and transportation industry has grown and its importance is widely recognized. Both the Customs Union Agreement between Turkey and European Union eliminating all custom restrictions, and measures taken by Customs and Trade Ministry to boost the power of local producers in foreign markets, contributed to the improvement in competitiveness. However there are still many negative factors: problems in obtaining necessary documents required for the international transport, delays in the port services, direct costs such as storage and local transport, indirect costs incurred because of the time loss caused by the port and customs services.

In order to hit Turkey's targets of 2023, with the cooperation of all stakeholders all these negative factors should be reduced as much as possible, regulatory framework should be improved and quality services should be provided at affordable prices.

## *Road Transport*

- Compared with European Union countries, Turkey is one of the countries having the largest and youngest truck fleet.
- However problems experienced in border crossing, quotas on transit documents and permits, and visa requirements impede efficient use of this truck fleet.
- As a result of intensive efforts of state authorities, quotas on transit documents has been increased in recent years, however the increase still lags behind the foreign trade growth rate of Turkey. Considering 500 billion dollars worth of exports target within the vision of 2023, the elimination of these quotas and similar restrictions is extremely important.
- Companies preferring road transport in their foreign trade operations complain mostly about the adverse effects of the congestion at the border gates on the costs and duration of operations. Successful build-operate-transfer improvement projects have been implemented at the border gates. However problems arising from the procedures and infrastructural deficiencies of neighboring countries still persist.



## *Recommendations*

- 1- On the international relations level, efforts for the nullification or increase of quotas on transit documents should be rapidly strengthened and multiplied, in accordance with the foreign trade vision of 2023.
- 2- On the international relations level and within the framework of current partnership agreements, efforts should be intensified to arrange necessary regulations to relieve visa problems of Turkish drivers.
- 3- Using the technical possibilities of digital tachometers to design a control mechanism and holding to the principle of reciprocity with other countries, the removal or the raise of the 550 liters limit for the tax free fuel can create a strong incentive and contribute to preventing foreign exchange losses.
- 4- It will be beneficial to extend the Special Consumption Tax (ÖTV) exemption for the coasting freight and passenger ships and for the aviation fuel to the road transport as well. Furthermore, the reduction of motor vehicles tax for the trucks employed in the foreign trade will ultimately benefit exporters by reducing their transport costs.
- 5- Creating a safe environment at the border gates is as important as the development of their technical amenities and preventing time losses. Furthermore, on the international relations level, amplifying the efforts to improve the conditions at the foreign side of the border gates will be useful.
- 6- Instead of carrying export goods physically to the outgoing customs administration each time before the road transport, and then being dispatched to the border customs administration, the mechanism should be made more functional along the examples from the European Union. The implementation of simplified procedures will be beneficial.

## *Ship Transport*

- Ship transport is the most preferred mode of transport for the foreign trade. Turkish ports are in serious need of investment, in terms of capacity, infrastructure and equipment.
- Compared with the European Union, Turkish ports suffer from the insufficiency of rail and road connectivity. For instance, while Hamburg Port terminus and related lines has 300 km of railroads, the total length of railroads in 17 Turkish ports is merely 84 km.
- Turkish port services charges in terms of load or days are lower than ports in European Union countries. However prolonged import procedures cause increased storage, port services and similar costs, and prevent Turkish company from making benefit of this advantage.
- In Turkey, conventional ports equipped to serve various types of cargo has been preferred rather than ports specialized in a specific type of cargo. An overview of the world's important ports shows that they are either specialized in certain types of cargo or taking advantage of a characteristic strength.
- Importers and exporters choosing ship transport encounter quality of service problems caused by insufficiency of capacity and equipment, and suffer high costs of handling, storage and port services, resulting from long periods of delay.
- Moreover, several fees related to documentation and custom procedures (such as full inspection charges, x-ray transfer charges, etc.) further increase the costs.



## *Recommendations*

1- It is crucial to improve the service quality and costs by strengthening the infrastructure and technical facilities of the ports and by investing in complementary structures such as temporary storage areas. The most important matter however is designing incentives and allocating resources in order to develop rail and road connectivity of the ports. The railroad initiative of the government should be maintained and accelerated.

2- Establishing mechanisms to ensure transparency in imputed expenses for the incoming cargo transported by ship and removing a source of conflict between the transporters and their customers by clearing away the volatility of certain expense items such as bill of shipping or full inspection charges, will have a beneficial effect. Implementing regulations and control mechanisms to protect consumers' (importers-exporters) rights of the consumers of port services will also be useful.

3- Logistics process should be considered as a whole and hinterland utilization must be improved both for the existing ports and for the new port investments. Relocation of the ports without a geographical and physical justification should be considered.

4- Following the best cases from the developed countries, a policy of specialization (acquiring the ability to answer to particular transportation need) should be followed. The activities of specific foreign ports competing with Turkey should be considered and alternative creating investment should be made. Particularly, the specialization of the ports with low level of hinterland activity and limited capacity, in specific types transportation can contribute to a more efficient logistics management.

## *Air Transport*

- Companies using air transport in their foreign trade operations complain mainly about adverse effects of high handling and ground services charges. According to current regulations, goods transported by air can only be handled within the airports.
- This situation is related essentially to the security protocols and it is a subject of worldwide controversy. There are cases in the world where supply chain operator fulfilling certain condition can transport incoming igloo containers out of the airport and load imported goods in containers outside of the airport.
- Air transport means to be costly but fast. However the delays in obtaining the import permits (such as Turkish Standards Institution, Provincial Directorate of Agriculture, Ministry of Health permits) can prevent companies choosing air transport, from accomplishing their transport operation as fast as intended.
- An additional burden is the high costs of temporary storage incurred because of these delays. An important reason of the high level of storage charges is the high rents paid by the storage facilities operators for the limited amount of space.



## *Recommendations*

- 1- To facilitate handling services and logistics operations within the airports, and reduce the costs of handling, inquiring various cases from the world and if possible, designing a mechanism to realize certain operations outside of the airports (such as taking igloo containers out of the airport and handling there) can be useful. In this context, priority should be given to provide incentives for constructing storage areas around the airports.
- 2- Establishing mechanism to ensure transparency in imputed expenses for the incoming air cargo and working to clear away the volatility of certain expense items such as bill of shipping or full inspection charges, will have a beneficial effect.
- 3- To prevent high costs of storage, measures aiming at facilitating import permit procedures for the goods transported by air, increasing storage areas and reducing their rents, will be useful. It should be noted that the rent incurred by the private companies providing storage services is reflected directly to their customers.
- 4- Within the airport, structures lacking quality and having an adverse effect or limiting competitiveness of the local transportation industry should be inspected more thoroughly and kept under tighter control.

## ***Railroads and Multimodal Transport***

- Compared with European Union countries, Turkey is in need of a greater investment in railroad network. The modernization of the infrastructure and the fleet is also required. Even more importantly, the drafted regulations related to competitive and efficient operation of the railroad system should be enacted and implemented.
- Over the last few years, the state authorities manifested their will to develop rail transport, by working both on the regulations opening the path of development and on the new investment decisions.
- Companies using rail transport in their foreign trade operations suffer from unannounced schedule changes, frequent rescheduling and cancellation of lines, unavailability of cargo space for desired dates and routes, and similar problems. Most of the companies interviewed during the preparatory stage of this report, believe that they cannot make full use multimodal transport services in our country. A comparison of current data with the European Union countries confirms this belief. In 2010, at the Hamburg Port, approximately 2 million TEU containers have been handled by railroad. This is about the total amount of Turkey's containerized exports via ship transport in 2009. The difference in rail transport is even more striking. The amount of 40 million ton of cargo handled only in Hamburg port via its railroad connections is 15 times more than Turkey's foreign trade transport via railroad (2.6 million tons).
- Even companies in suitable location for multimodal transportation, cannot derive desired levels of transport time and cost advantages, because of Turkish railroads' deficiency of multimodal connections in terms of facilities, vehicles and logistics services.

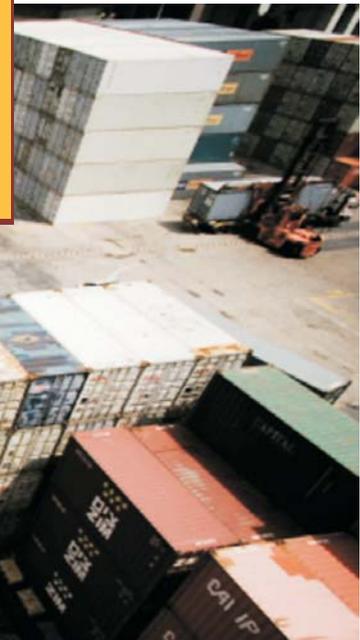


## ***Recommendations***

- 1- Investment in railroad network, vehicle fleet, port connections, and other structural need should be made and railroads should be integrated fully and efficiently with the Turkish transportation system. Strategical plans of the Ministry of Transport, Maritime Affairs and Communication, and other public authorities include many appropriate proposals. Rapid implementation of these proposals will be beneficial.
- 2- Rail transport should be restructured as a more competitive and liberalized industry, open to private sector participation and capable to provide cost efficient quality services.
- 3- Implementation of this reform requires amendment of regulations, including enacting the draft bill on the Framework Law for Rail Sector and draft bill on the TCDD (Turkish State Railways) Law.
- 4- Logistics hubs for transfer among different modes of transport should be structured according to the needs of industrial enterprises. Railroad and port investment should take into consideration multimodal operations. Logistics hubs investments have a special importance in this context.
- 5- Railroad connection should be an important consideration in the process of planning activities for the organized industrial zones and industrial zones, carried on successfully within the Ministry of Science, Industry and Technology. In case of industries which can use rail transport effectively, railroad access can be prioritized among the site selection criteria.

## *Customs*

- The staffs of customs authority exert themselves to serve devotedly and to prevent delays. However compared with foreign countries, Turkish customs authority is understaffed.
- A significant portion of the delays in customs operations are caused by inspections and permit procedures as required by the regulations.
- During the export and import operations, the cargo sent to red line for detailed physical inspection, engender high and unpredictable expenses because of full inspection charges and overtime charges (paid to the port operators).
- At the customs, the registration of custom declarations procedures are relatively fast. However in addition to the inspection and import permit procedures entailed by the foreign trade policy measures, unpredicted various factors can cause delays reaching one week, generate serious costs and create risks of falling behind the competition.

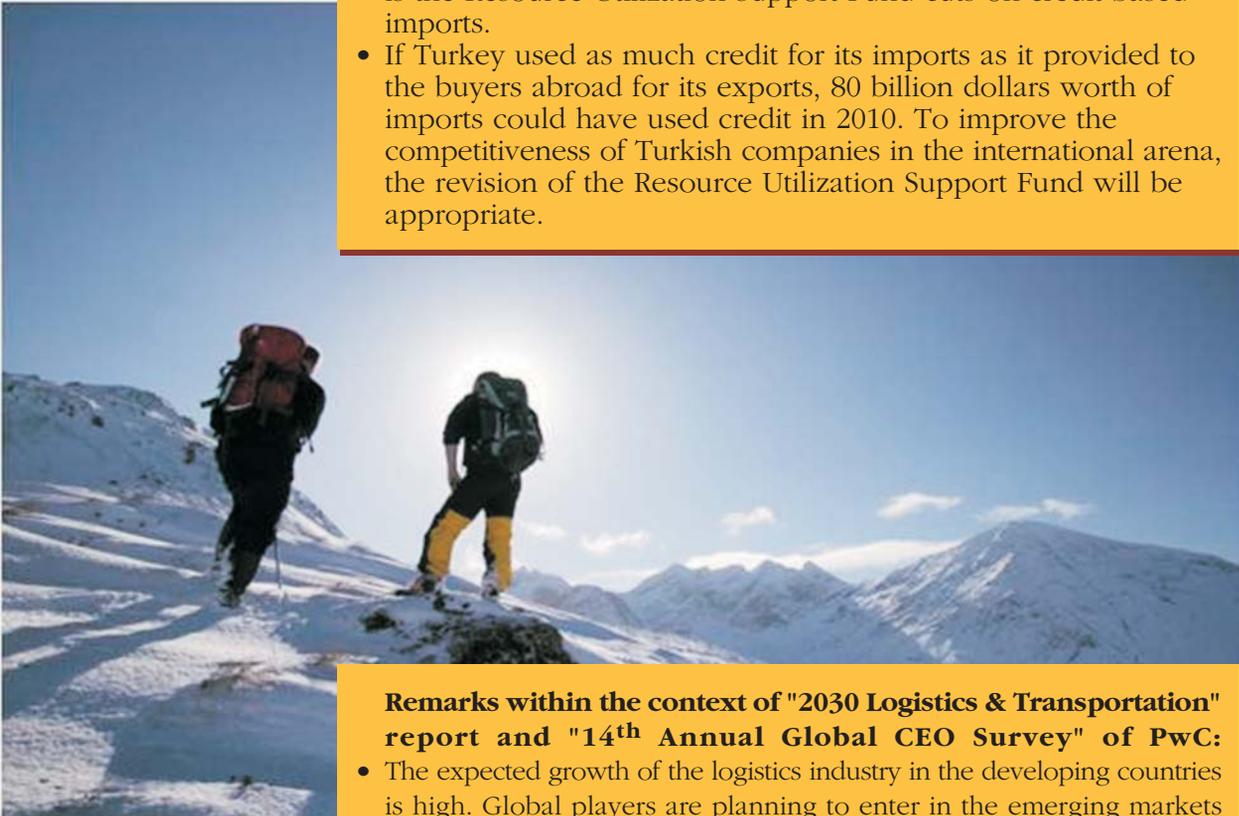


## *Recommendations*

- 1-The function of market surveillance should be administered along the lines set by European Union. Carrying out the import inspections, standardization inspections, and consumer protection measures after the import of the goods will be effective.
- 2- Simplified procedures mechanism should be developed and harmonized with the European Union practice. In this context, instruments such as authorized economic operators, declarations under the local clearance procedure, and pre-arrival declaration should be put into practice.
- 3- E-document project should be implemented at all customs stations, and in accordance with the single window concept, a mechanism enabling all the parties involved to submit the regulatory documents and realize their operation in an integrated system, should be introduced.
- 4- Improving conditions both for the custom officers and the declarants, by staffing open positions in the customs stations, increasing the number of the staff, and rearranging working hours system will have a beneficial effect.
- 5- The practice of specialized customs stations (the rule of executing import operation of certain goods only through predetermined custom stations) will be useful, especially for the intermediate goods.

## *Vision 2023*

- Turkey aims to reach an export volume of 500 billion dollars by the year 2023. To protect and improve the competitiveness of Turkish companies in this endeavor, and to hit this target, the capacity and the quality of the transportation infrastructure and the logistics services should match this level of activity. Therefore implementing a Transportation Master Plan which includes all the stakeholders will be beneficial.
- In the 2010, Turkey realized 51% of its imports without using credit. For the exports this ratio is 8%. The major reason of this is the Resource Utilization Support Fund cuts on credit based imports.
- If Turkey used as much credit for its imports as it provided to the buyers abroad for its exports, 80 billion dollars worth of imports could have used credit in 2010. To improve the competitiveness of Turkish companies in the international arena, the revision of the Resource Utilization Support Fund will be appropriate.



### **Remarks within the context of "2030 Logistics & Transportation" report and "14<sup>th</sup> Annual Global CEO Survey" of PwC:**

- The expected growth of the logistics industry in the developing countries is high. Global players are planning to enter in the emerging markets via mergers and acquisitions.
- By the year 2030 the greatest threats are estimated to be, deficiency of infrastructure, energy, environment and security.
- By the year 2030, it is expected that, as a result of technological progress, many innovations such as foldable containers, underground freight transport systems, continuous conveyor systems from port to storage areas, self healing bio-concrete, and freight transport by high speed trains will become part of the logistics operations.
- Turkey should closely trace global trends, and in order to save its competitive edge, it should particularly focus on the development about environment and security.

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