



UBCCE QUARTERLY BULLETIN

Autumn 2008 N°7

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UBCCE SECOND BUSINESS FORUM “DISCOVERING INVESTMENT OPPORTUNITIES OF SOUTHEAST ANATOLIA: AN EMERGING REGION IN TURKEY”

Şanlıurfa, Turkey
22 October 2008



UBCCE, the first independent and voluntary business organization of the Black Sea and Caspian Region held its Second Business Forum entitled “Discovering Investment opportunities of Southeast Anatolia: An Emerging Region in Turkey” in Şanlıurfa province of Turkey on October 22, 2008.

Hosted by the GAP Regional Development Administration and Federation of Eastern and Southeastern Industrialists’ and Business Association (DOGÜNSİFED), the Second Business Forum of UBCCE was held under the chairmanship of Turkish Industrialists’ and Businessmen’s Association (TÜSİAD) with the support of the Turkish Enterprise and Business Confederation (TÜRKONFED).

Organized with a view of sharing the opportunities of the Southeast Anatolia region (known as the GAP region) with the representatives of the foreign business organizations, the Forum was inaugurated by H.E. Nazım Ekren, Minister of State and Deputy Prime Minister of Turkey. UBCCE and TÜSİAD President Arzuhan Doğan Yalçındağ, TİSK President Tuğrul Kudatgobilik, TÜRKONFED President Celal Beysel, DOGÜNSİFED President Tarkan Kadooğlu and Governor of Şanlıurfa, Yusuf Yavaşcan also delivered welcome addresses for the participants of the Event.

Bulletin also available on www.ubcce.org

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Attended by over 200 delegates, the Forum was held in two different panels and high level officials and representatives of the business community of the Region had the opportunity to share their views on investment opportunities of the GAP Region, with its economic potential ranging from its young and dynamic population, low cost of labour and proximity to the European and Middle Eastern markets.



Following the panels, the Forum participants had the opportunity to make explanatory sight visits to existing investments in GAP Region including Atatürk Dam and Tat Canned Food Factory (Koç Holding).



Visit to Atatürk Dam



Visit to Tat Canned Food Factory



Networking Lunch at Historical Cevahir Guesthouse

“UBCCE Business Forum” is intended as a regional event that our Union holds annually in a different country of the Region, on different themes, with the principle aim of bringing together the business community and the officials of different countries of the Black Sea and Caspian in order to create a platform of dialogue for raising the voice of private business. Last year’s Forum was held in Baku, Azerbaijan under the chairmanship of Azerbaijan Turkey Businessmen Association (ATIB). Next year’s Forum is expected to be held in Greece, under the chairmanship of Hellenic Federation of Enterprises (SEV).

GAP (Turkish acronym for “Southeast Anatolia Project”) is the 4th largest regional development project in the world with a specific governmental administration, GAP Regional Development Administration, mandated to conduct regional planning on the basis of sustainability. The Turkish government has launched an action plan in May 2008 for the completion of the project covering nine provinces (Adiyaman, Batman, Diyarbakır, Gaziantep, Kilis, Mardin, Siirt, Şanlıurfa, Şırnak) by 2012.

For more information on GAP:
<http://www.gap.gov.tr/>

--- The Forum Report will be available from UBCCE Website in the coming days ---

UBCCE THIRD MANAGEMENT COMMITTEE MEETING

Istanbul, Turkey - 23 October 2008

UBCCE held its third Management Committee Meeting on October 23, a day after the Business Forum in TÜSİAD Headquarters to evaluate the activities of the Union following the General Assembly and to discuss its upcoming calendar following an Agenda prepared by the Secretariat.



Vladimir Kolmogorov - Vice President of International Congress of Industrialists and Entrepreneurs (ICIE), Elchin Seidov - Member of ICIE Transport and Transit Committee, Inga Sarkisyan – International Relations Director of Union of Manufacturers and Businessmen of Armenia (UMBA) and Mohammed Aldulaimi – Board Member of Iraqi Businessmen Union (IBMU) were guest participants of the Meeting which mainly focused on:

1. Evaluation of the Second Business Forum of UBCCE
2. Presentation of UBCCE Thematic Committee Members, Business Country Desk Representatives and Strategy Paper Editorial Committee
3. Update on the contacts and achievements of UBCCE Secretariat
4. Discussion on upcoming activities and possibilities of cooperation with other business organizations



Signature of letter of intent between UBCCE and ICIE.

UBCCE Secretary General Murat Zöngür and ICIE Vice President Vladimir Kolmogorov signed a letter of intent on behalf of their respective organizations, to develop cooperation between the two organizations in areas of mutual interest and expressed the common will of both organizations to sign a Memorandum of Understanding during the next General Assembly of UBCCE to be held in March 2009.

CONTACTS

AUGUST 2008

- 6 Meeting with Deputy Representative of the Plenipotentiary Representative Office of the Republic of Tatarstan in Turkey, Aidar Gashigullin.
- 18 Meeting with Representative of the Republic of Bashkortostan in Turkey, Kansaubiy Miziev.
- 25 Meeting with Honorary Commercial Counselor of Belarus, Erdoğan Gündüzpolat and Secretary General of Trabzon Industrialists' and Businessmen's Association (TÜSİAD) Recep Ergenç.

SEPTEMBER 2008

- 2 Meeting with Deputy Principal Officer of U.S. Consulate General in Istanbul, Sandra Oudkirk and Principal Commercial Officer of U.S. Consulate General in Istanbul, Gregory Taevs.
- 4-5 Participation to Third Eurasian Energy Forum, Astana, Kazakhstan along with TÜSİAD Energy Working Group.
- 4 Meeting with National Economic Chamber of Kazakhstan Chairman (ATAMEKEN), Azad Peruashev.
- 5 Meeting with Kazakh-Turkish Businessmen Association President, Zeki Pilge.
- 10 Meeting with Ambassador of Croatia in Turkey, H.E. Gordan Bakota and Consul General of Croatia in Istanbul, Damir Perincic.
- 17-18 Participation to the Council Meeting and Business Forum of International Congress of Industrialists and Entrepreneurs (ICIE), Yalta, Ukraine.
- 23 Meeting with EUF International Trade Fairs' Project Manager, Açelya Bayraktar.
- 25 Meeting with Deputy Director of Investment and Venture Fund of the Republic of Tatarstan, Ilgiz Gaynutdinov.

OCTOBER 2008

- 8 Participation to TURKONFED (Turkish Enterprise and Business Confederation) Symposium on "Transformation of SMEs", Istanbul, Turkey.
- 10 Meeting with Federation of Austrian Industry (IV) Karnten Delegation.
- 10 Participation to "The Future of Global Capitalism and Turkey" Conference co-organized by TÜSİAD and Koç University Economic Research Forum in Istanbul.
- 17 Participation to First Trabzon Silk Road Businessmen Summit, Trabzon, Turkey.
- 20 Meeting with International Relations Director of Union of Manufacturers and Businessmen of Armenia (UMBA), Inga Sarkisyan.
- 24 Interview with IRIB (Iranian Broadcasting).
- 31 Meeting with OECD Eurasia Competitiveness Programme Head, Fadi Farra.

BLACK SEA & CASPIAN Events

ECBSea (Environmental Collaboration for the Black Sea) Second Meeting of the Regional Biodiversity Working Group
Odessa, Ukraine, September 4 – 5

Third Eurasian Energy Forum
Astana, Kazakhshtan, September 4 – 5

ICIE International Business Conference
Yalta, Ukraine, September 17 - 18

**TURKONFED Symposium
“Transformation of SMEs”**
Istanbul, Turkey, October 8

Black Sea Energy Conference "Energy Investments and Trade Opportunities"
Athens, Greece, October 8 – 9

The Future of Global Capitalism and Turkey
Istanbul, Turkey, October 10

First Trabzon Silk Road Businessmen Summit
Trabzon, Turkey, October 16 – 19

19th Meeting of the Council of Ministers of Foreign Affairs of the BSEC Member States
Tirana, Albania, October 23

**BUSINESSEUROPE Conference
Going Global: The Way Forward**
Brussels, Belgium, October 28

World Economic Forum on Europe and Central Asia
Istanbul, Turkey, Oct 30 – Nov 1

Tirana Trade Fair
Tirana, Albania, Oct 30 – Nov 3

9th North and South Europe Economic Forum
Izmir, Turkey, November 4

World Economic Forum on Europe and Central Asia

Istanbul, Turkey, Oct 30 – Nov 1

The World Economic Forum’s “Europe and Central Asia” meeting was held in Istanbul, Turkey between October 30 and November 1st. The meeting brought together international and regional business leaders, government representatives and media personnel, along with cultural and religious leaders from across Europe, Turkey, Russia, Central Asia and the Middle East to “explore the common challenges faced by the regions and to map the path toward a common collaborative future.” The meeting enjoyed participation from nine heads of states or governments, 21 ministers and over 40 other public figures. The heads of states or governments included Recep Tayyip Erdoğan, Prime Minister of Turkey, Sali Berisha, PM of Albania, Igor Chudinov, PM of Kyrgyzstan, Milo Djukanovic, PM of Montenegro, Syed Yousaf Raza Gillani, PM of Pakistan, Vladimer Gurgenzidze, PM of Georgia, Hamid Karzai, President of Afghanistan, Hashim Thaci, PM of Kosovo and Valdis Zatlers, President of Latvia.

Going Global: The Way Forward

Brussels, Belgium, October 28

BUSINESSEUROPE hosted on October 28, a major conference on European companies standing in international markets and the role of EU policies in supporting them. The conference, which attracted well over 500 participants, was also an opportunity for BUSINESSEUROPE to present a study on the impact of EU policies on Europe’s export competitiveness. In addition to interventions from Commission Vice-President Günter Verheugen, Commissioner for Development and Humanitarian Aid Louis Michel and Commissioner for Education, Training and Culture Jan Figel, the conference heard the first public intervention of new Trade Commissioner Catherine Ashton.

BLACK SEA & CASPIAN Events

19th Meeting of the Council of Ministers of Foreign Affairs of the BSEC Member States

Tirana, Albania, October 23

The 19th Meeting of the Council of Ministers of Foreign Affairs of BSEC was held in Tirana on 23 October 2008. BSEC members emphasized that they see the organization as an actor for promoting peace and stability while disputes impeded cooperation and needed to be settled on the basis of recognized principles and rules of international law. The organization needs to be proactive in addressing the challenges of the evolving international environment was among the conclusions drawn up at the meeting. A ceremony was also held where Albania handed over the Chairmanship-in-Office of BSEC to Armenia for the next 6-month period.

The Future of Global Capitalism and Turkey

Istanbul, Turkey, October 10

TÜSİAD together with Koç University Economic Research Forum had organized on October 10, a conference entitled “The Future of Global Capitalism and Turkey”. The keynote speech of the conference was delivered by Jeffry Frieden from Harvard University. The panel discussion session following Frieden's speech was chaired by ERF Director Kamil Yılmaz. In this session, Yapı Kredi Chief Economist Cevdet Akçay, The Conference Board Chief Economist Bart Van Ark and Koç University Faculty Professor Ziya Öniş discussed the current financial crisis and its potential implications for Turkey, as well as drawing lessons from Frieden's presentation.

“Transformation of SMEs”

Istanbul, Turkey, October 8

TURKONFED hosted on October 8, a symposium on “Transformation of SMEs”

as a major part of its project, aiming to analyze successful SMEs, finding common approaches and methods for improvement and prepare a report which will serve as a guide to SMEs of Turkey. The opening speeches were given by TURKONFED President Celal Beysel and State Minister and Deputy Prime Minister of Turkey H.E. Nazım Ekren. After a brief summary of TURKONFED's studies on SMEs, SME policies at national, European and international level were discussed.

ICIE International Business Conference

Yalta, Ukraine, September 17 - 18

International Congress of Industrialists and Entrepreneurs, ICIE's International Business Conference and Council Meeting took place on September 17 - 18 in Yalta, Ukraine with the support of the Ukrainian League of Industrialists and Entrepreneurs and the Assembly of Business Circles. Within the framework of the conference the economic potential and projects review of the Autonomous Republic of Crimea were presented, a review of investment and innovation opportunities of Ukrainian regions «ULIE as a reliable partner» was carried out. A presentation of international projects within the program «West-East: Integration and Development» was also made at the conference.

Third Eurasian Energy Forum

Astana, Kazakshtan, September 4 – 5

The third Eurasian Energy Forum of UBCCE Member, KazEnergy, entitled “Global Challenges and Energy Solutions” was held with success in Astana, Kazakhstan between 4 - 5 September 2008. The Forum was inaugurated by KazEnergy Chairman Timur Kulibayev. Karim Massimov, Prime Minister of the Republic of Kazakhstan and Mehmet Hilmi Guler, Minister of Energy and Natural Resources of Turkey made special addresses to Forum participants.

BLACK SEA & CASPIAN Reports

BUSINESSEUROPE Economic Outlook

BUSINESSEUROPE's Economic Outlook is based on a survey conducted among its national federations. It assesses economic prospects in the EU and provides policy messages for a strong and competitive EU economy.

Against the background of heightened financial market turmoil and a global economic slowdown, BUSINESSEUROPE has considerably reduced growth forecasts for 2009 and expects both EU investment and employment to contract next year. Although the risk of a severe credit crunch in Europe is not imminent at the present stage, policy-makers need to do the utmost to ensure the orderly functioning of financial markets.

The business community strongly supports the measures undertaken by governments and central banks to stabilise financial markets, and especially their growing degree of coordination.

European Neighbourhood Policy: Economic Review of EU Neighbour Countries

European Commission released in August 2008 the fourth issue of the Economic Review of EU Neighbour Countries. This year the review includes a special focus on the soaring food prices in EU neighbour countries. The price developments in the Mediterranean countries, Russia, the CIS and the GCC are analyzed along with the macroeconomic policy responses at the national level.

In addition to country-specific chapters, this review includes two overviews of the recent macroeconomic developments in the Mediterranean and the EU Eastern neighbourhood regions. These chapters are structured along the main areas of reform: macroeconomic developments, trade liberalisation and economic opening, business climate, public institutions and public finance management, and social development and poverty.

IMF World Economic Outlook

Financial Stress, Downturns & Recoveries

IMF has recently published its World Economic Outlook 2008 on "Financial Stress, Downturns and Recovers". According to the report the world economy is decelerating quickly and many advanced economies are close to or moving into recession. The World Economic Outlook presents the IMF staff's analysis and projections of economic developments at the global level, in major country groups and in many individual countries. It focuses on major economic policy issues as well as on the analysis of economic developments and prospects.

IEA Energy Policies Review on EU

International Energy Agency (IEA) has recently published its first review on EU's energy policies. For the first time, the IEA has reviewed the energy policies of the EU which shape the energy use of almost 500 million citizens in 27 EU member countries. A unique entity governed under complex and almost constantly evolving structures, the EU constitutes a challenge for energy policy makers. Its energy policy has a global impact, not only because of its 16 percent share of world energy demand, but also because of the EU leadership in addressing climate change.

World Bank Doing Business Report 2009

World Bank has published its Doing Business Report 2009 on "Measuring Business Regulations". Eastern Europe and Central Asia dominated this year's list of top 10 reformers with 4 newcomers: Azerbaijan, Albania, the Kyrgyz Republic, and Belarus. Sub-Saharan Africa, which had a record year for regulatory reform, accounted for almost as many top 10 reformers: Senegal, Burkina Faso, and Botswana. Two of last year's top reformers - Colombia and Egypt - retained their top reformer status.

BLACK SEA & CASPIAN Agenda

ECONOMY & FINANCE

Black Sea EuroRegion

Territorial authorities taking part in the Black Sea Euroregion initiative met on September 26, in Varna, Bulgaria for the Launch of the Black Sea Euroregion which aims to become a platform for co-operation complementary to existing national intergovernmental co-operation initiatives, acting in the remit of regional and municipal competencies. The representatives of the cities, regions and institutions taking part in the Conference expressed their full support to the Black Sea Euroregion initiative and decided the establishment of a network of contact points in cities such as: Varna (Bulgaria), Constanta (Romania), Samsun (Turkey), Odessa (Ukraine), Batumi (Georgia), Cahul (Moldova), Ljevan (Armenia) and others upon request.

Nine Trade Centers planned in Iran's provinces

Some nine trade information centers have been set up in the provinces before Export Day (October 20). Zanjan, Isfahan, Khorasan Razavi and East Azerbaijan are among the provinces. The offices are being established following an agreement between the "Trade Promotion Organization of Iran" and "Chamber of Commerce". The agreement partly aims to promote commercial activities, while Tehran Trade Center will serve as a pilot project. The centers to be set up in the premises of the chambers of commerce will extend services to merchants and the public free of charge.

Azerbaijan led the world as the top reformer in 2007/08

Azerbaijan leads the world in regulatory reforms to make doing business easier, according to Doing Business 2009-the sixth report in an annual series published by the World Bank and IFC. Azerbaijan reformed in seven of the 10 regulatory areas studied by the report between June 2007 and June

2008. Its overall rank on the ease of doing business rose to 33 from 97-the biggest jump in one year ever recorded by Doing Business. The reforms included strengthening the public credit registry by eliminating the minimum loan reporting threshold, more than doubling coverage. Changes to the labor code made it easier for businesses to create jobs. Azerbaijan also created a second commercial court in Baku, increasing the number of specialized judges. A new law gives greater protections to minority shareholders. A new unified property registry makes it easier to register property. A new one-stop shop for company registration reduced the number of procedures and halved the time needed for business start-ups. Azerbaijan reduced the tax burden by introducing an online filing and payment system with advanced accounting software systems for calculation of taxes due. It also strengthened investor protections and credit information.

€ 250 million to be invested in Serbia for SME in 2009

At the beginning of September 2008, Serbian Ministry of Economy and Regional Development and Agency for SME announced that €250 million will be invested in development of SMEs through different kinds of programmes. This is the first time, since 2000, that the Government of Serbia decided to invest significant amount of money from the budget into SME sector. In period 2000 - 2007 these investments were in average 0,79% of the budget of Republic of Serbia.

Non-Oil Exports at \$9.6 billion

During the first half of the current Iranian year (March-September 2008), Iran's non-oil exports, CNG excluded, have been 16.8m tons in volume and \$ 9.6 billion in value, a 6.3% rise in volume and a 38.6% rise in value compared to the same period in the preceding year. Meanwhile, of the non-oil

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exports from March-September 2008, carry-on-luggage trade's share stands at \$20.1m, while boarder markets contribute \$157.4m to these exports. Furthermore, during March-September 2008, Iran's imports have stood at 20.6m tons in volume and \$29.8b in value, a 2.4% fall in volume and a 36.4% growth in value, compared to the same period in the preceding year.

Turkish bank opens branches in Former Yugoslav Republic of Macedonia

Turkey has opened two separate branches of Ziraat Bankasi Skopje in Gostivar and Tetova cities of the Former Yugoslav Republic of Macedonia. Speaking at the inauguration ceremony, State Minister Nazım Ekren said Turkey expected the bank branches to help to boost trade volume between two countries. Trade volume between Turkey and FYROM is around \$300 million.

Şekerbank seeks to expand abroad

Şekerbank, the Turkish lender that sold a 34 percent stake to Kazakhstan's Bank TuranAlem, seeks to expand into the Former Yugoslav Republic of Macedonia and Kosovo as part of its expansion plans outside Turkey.

ENERGY

Petkim owners work on Ceyhan project

The new owners of Petkim Petrokimya Holding started planning work to build a refinery at Ceyhan on the Mediterranean coast. Azerbaijan's state oil company Socar and its Turkish partner Turcas bought Petkim from the Turkish government for \$2.04 after winning an auction in 2007. Ceyhan is the Mediterranean port where crude arrives via a pipeline from Azerbaijan.

Syria-Turkey gas link in the pipeline

A Russian pipeline builder partly owned by Gazprom plans to extend a gas link from Syria to Turkey that may help supply the Nabucco project, according to the Moscow

Times. The company Stroitransgaz has signed an agreement with state-owned Syrian Gas, and the new pipeline will link Aleppo, in northern Syria, with the Turkish border. Syria, which began importing gas from Egypt this year through a pipeline that crosses Jordan, now plans to import gas from Iraq's Akkas field, near the border with Syria, by 2010. Stroitransgaz, which built the Syrian section of the pipeline from Egypt, will now construct the 62-kilometer extension in 18 months, at a cost of \$71.2 million, Alao said.

British gas heats up in Almaty

“British Gas (BG) wants to expand its presence in Kazakhstan” announced the President of BG Kazakhstan Peter Dranfield in early October. BG is assessing options for developing its oil and gas production, exploration, transportation and hydrocarbon utilization business. A project BG is already participating in, Karachaganak, has great opportunities for further development and additional opportunities for cooperation with the Kazakh authorities and KazMunaiGas. BG is currently in negotiations concerning the next stage of Karachaganak development.

Gazprom takes Germany into its confidence

Russian natural gas monopoly Gazprom has recently agreed to trade E.ON a 25 percent stake in the giant Siberian Yuzhno Russkoye natural gas field in exchange for about three percent of the Russian gas monopoly's own stock, worth about €3.9 billion. The deal is actually a win-win situation for both companies. Gazprom wants to get further integrated downstream with its European consumers, get access to distributions networks in Europe and secure financing for the field's development. E.ON, which is not paying cash for the deal, has managed to get nearly a quarter of one of the world's largest gas fields designated to become the main natural gas supply for the North Stream natural gas pipeline to Germany.

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Russia, South Korea link key pipeline agreement

Gazprom and Korean Kogas signed a \$90 billion deal on September 29, in a new attempt to push forward a long-delayed pipeline project that would supply 10 billion cubic metres of natural gas per year for 30 years to South Korea. The agreement is part of a \$102 billion bilateral gas and chemical deal. The pipeline project will allow Russia to diversify away from Europe while bringing North Korea diplomatically closer to its neighbour.

Gazprom talks in Tehran

Officials from Gazprom met counterparts from Iran and Qatar on October 21 to discuss setting up a natural gas cartel, similar to the oil-based Organization of Petroleum Exporting Countries (OPEC). The notion of a gas cartel was brought up in January 2007 by Iran's leader, Ayatollah Ali Khamenei, but it is now gaining momentum and may require just a few more meetings before an accord is finalised. Iran, Russia and Qatar account for nearly a third of the world's natural gas exporters.

Gazprom strengthens hold on Kyrgyz gas reserves

Gazprom signed a memorandum of understanding on October 9 with Kyrgyzstan which will help it buy a stake in Kyrgyz state-owned gas company Kyrgyzgaz. The memorandum was signed in Bishkek as part of Russian President Dmitry Medvedev's visit to Kyrgyzstan and paves the way for the parties to "comprehensively study the issue and draft general principles, options and main terms of Gazprom's participation in the privatisation of the Kyrgyz government's stake in Kyrgyzgaz equalling 75 percent plus one share in the company's equity."

Gazprom, Venezuela's PDVSA sign energy documents

Russia and Venezuela on September 26 signed two documents on energy cooperation following a meeting of Russian President Dmitry Medvedev with Venezuelan President Hugo Chavez. Gazprom's CEO, Alexei Miller, and Venezuela's energy and petroleum minister and Petroleos de Venezuela SA (PDVSA) company president, Rafael Ramirez, signed a memorandum of understanding on possible cooperation between the companies. Meanwhile, Russian Energy Minister Sergei Shmatko and Rafael Ramirez signed a memorandum of understanding on developing a special additional intergovernmental agreement in the energy sphere.

Gas agreement between Serbia and Russia

Serbian Assembly MPs passed on September 10, 2008 the Law on Confirming the Agreement between the Serbian government and the Russian Federation on cooperation in the area of oil and gas economy. The energy agreement with Russia envisages Gazprom building a section of the South Stream pipeline through Serbia and purchasing a 51 percent stake in the Serbian Oil Industry for €400 million. This will also provide on long term basis Serbian market with the gas, which will enhance the possibilities for further development of Serbian economy. The agreement will be in force for a period of 30 years, upon which it will be automatically extended for another five years if none of the parties want to terminate the deal nine months before its expiry.

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EU turns to Kazakhstan for Nabucco supply

The European Union has called for the 27-nation bloc to hold a high-level meeting with the Caspian Basin countries and transit states, such as Turkey and Georgia, next year to kick-start the diversification of gas supplies, weekly New Europe reported on October 20. To this effect, Estonian Foreign Minister Urmas Paet told New Europe that Kazakhstan may become a supplier for the United States and the EU-backed Nabucco gas pipeline project. Paet, who had meetings with the Kazakh President Nursultan Nazarbayev and his Kazakh counterpart, Marat Tazhin, alongside a foreign ministers' conference in Astana, said there was interest from both the European and Kazakh sides to realize a trans-Caspian connection. Meanwhile Ferran Tarradellas Espuny, spokesman for EU Energy Commissioner Andris Piebalgs, told New Europe that part of the proposal for the high-level meeting in spring 2009 is for it to take place during the upcoming Czech presidency of the EU.

Nabucco Needs Iranian Gas

Iranian gas is an unavoidable source for the Nabucco pipeline project, which will supply fuel from the Caspian Sea region to Europe, according to Iran's Oil Minister. The 3,300-Kilometer pipeline aims to bring gas from the Caspian Sea via Turkey and the Balkans to Western Europe by 2013. The 7.9 billion-Euro link is backed by the European Union in an effort to reduce energy dependence on Russia. OMV AG Austria's biggest energy company, is holding talks with Iran while "studying the possibility of shipping gas" from the country to Europe. Iran also said last month it was seeking to build a \$4 billion natural-gas pipeline to the EU that may rival Nabucco. The country was considering the two pipelines as a means for gas exports to Europe, targeting a share of the global gas market between 8 and 10 percent.

INVESTMENT

Turkey attracts \$9 billion from Gulf

Turkey has scored yet another major investment, totaling nearly \$9 billion, from a major Gulf investment fund, primarily focused on the agricultural industry, particularly the multi-billion dollar Southeastern Anatolia Project (GAP). Vision3, a strategic alliance between Ithmaar Bank B.S.C., Abu Dhabi Investment House and Gulf Finance House signed an agreement on October 31 with the Investment Support and Promotion Agency of Turkey at Dolmabahçe Palace in Istanbul. Starting with an upfront capital payment of \$1 billion, the fund will allocate \$3 billion to the Turkish agricultural sector in 2009. The total capacity of the fund, named AgriCap, is \$6 billion, and Turkey is the first country to sign a preliminary agreement with it. Turkish officials were quick to portray the investment as a vote of confidence and a sign of the success of Turkey's economy in recent years.

EBRD Board recommends Bank invest in Turkey

Turkey joins the European Bank for Reconstruction and Development (EBRD) as a country of operations and will rank as the second largest economy in the EBRD region. Turkey has been a shareholder of the EBRD since the Bank was founded in 1991 and made a request in April this year for a change in its EBRD status to become a Country of Operations. EBRD decided to allocate €150 million to be invested in Turkey in 2009 and €300 million in 2010.

TAV Airports Holding to operate airports in FYROM

TAV Airports Holding has signed a concession contract on September 25 authorizing it to operate both the Alexander the Great Airport in Skopje and the St. Paul the Apostle International Airport in Ohrid,

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along with a contract to construct the construction of the Shtip Cargo Airport. TAV Airports currently operates the domestic and international terminals at the Istanbul Ataturk Airport and Ankara Esenboga and the international terminal at Izmir Adnan Menderes in Turkey. Outside the country it operates the Tiflis and Batumi airports in Georgia and the Monastir Habib Bourguiba International Airport in Tunisia. It also holds operational rights to the Gazipasa Airport in Antalya and the Enfidha Zine Abidine Ben Ali International Airport in Tunisia.

Tekfen sells 50 percent share to Palmali-Socar

The partnership between the Azerbaijani Palmali Company and Azerbaijan's State Oil Company, or Socar, has bought 50 percent of the construction arm of Tekfen Holding A.Ş., a Turkish builder and power generator, for \$520 million.

Turkey's Dogus Insaat, Trace Holding picked to build Sofia's second metro line

Turkish construction firm Dogus Insaat ve Ticaret and the Metrotrace consortium were picked to build Sofia's second metro line. Construction work could start as early as September and would have to be completed within 45 months, which means that the second line of the Sofia metro should become operational in mid-2012.

Bulgarian Mega Group to invest in a petrol waste processing factory

The Bulgarian company Mega Group is going to invest €51 million (100 million BGN) in the construction and opening of a petrol waste-processing factory in the town of Smyadovo in the northeast part of the country. The construction of the plant will start in July 2008, and is expected to complete in 2011. It will take place in three stages - an annual production capacity of 180 000 tons will be reached in 2008, 450 000 tons in 2009, and 1 500 000 tons in

2010. The factory will be located on a plot of 786 decares, and will employ 300 people. For its investment Mega Group was awarded on July 23 a Class A Investor Certificate by the Bulgarian Minister of Economy Petar Dimitrov.

Contract Serbia – Fiat and set-up of Fiat Serbia company

On September 29, representatives of the Serbian government and Fiat signed in Belgrade an agreement on joint investment in Zastava worth approximately €950 million, which will enable opening 4,750 new jobs. The contract specifies that Fiat will be the owner of 67% of shares whereas the state will have the stake of 33%. The new joint company will also take over Zastava's assets, while Fiat's investment will be approximately €700 million. The factory will produce 200,000 cars a year before the end of 2010, with a possibility for the production to be increased to 300,000. Also, a Memorandum of Understanding was signed between the Serbian government and Fiat Group subsidiaries Iveco and Magneti Marelli on the production of buses, trucks and components for the car industry.

5 IKEA's coming to Serbia

Swedish furniture retailer IKEA plans to invest more than €875 million in Serbia for construction of shopping malls. The new facility will create more than 9,000 jobs.

EUROPEAN UNION

Multi-annual planning of financial assistance to the Western Balkans and Turkey

The Commission has completed on September 29 the strategic planning of EU financial support for 2008 - 2010 to the candidate countries and potential candidates: Croatia, Turkey, the Former Yugoslav Republic of Macedonia, Albania, Bosnia and Herzegovina, Montenegro, Serbia, and Kosovo.

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This financial assistance aims to enhance political and economic reform and development to realise their European perspective. For 2008 - 2010, the overall indicative amount of EU financial assistance under the Instrument for Pre-Accession Assistance (IPA) is €4.471 billion.

For Croatia, the pre-accession assistance strategy concentrates on institution building, cross-border cooperation and preparation of the country for participation in the EU's cohesion and rural development policies.

EU assistance to Turkey focuses on support to the stability of institutions so as to guarantee fundamental rights and freedoms, democracy, the rule of law, human rights and the respect for and protection of minorities, and promotion of the EU-Turkey Civil Society Dialogue.

For the former Yugoslav Republic of Macedonia, EU assistance will be provided for instance for institution building, to the improvement of governance and the rule of law.

For Albania, Bosnia and Herzegovina, Montenegro, Serbia, and Kosovo assistance will focus on improving governance and the rule of law, supporting economic and social development and helping them to adopt laws in line with those of the EU and building their capacity to implement the laws on the ground.

Besides the country-specific financial assistance, a multi-beneficiary programme will support joint projects by several partners, in areas such as economic and social development, exchange of students and academic staff, supporting civil society, administrative and judicial reform, fight against organised crime and corruption and disaster risk reduction.

EU contemplates “common market” with Russia

French President and EU presidency holder Nicolas Sarkozy on October 21 unveiled a new cooperation strategy with Russia that would build stronger economic links

between Europe and its largest Eastern European neighbour. Speaking in the European Parliament in Strasbourg, Sarkozy called Russia “our neighbours” and surprised the audience by alluding to “a common economic space between Russia and the EU”.

Commissioner Piebalgs to go on Nabucco tour on November 5

EU Energy Commissioner Andris Piebalgs is going to Turkey, Georgia, Azerbaijan and Turkmenistan as part of his effort to implement the Nabucco natural gas pipeline that will carry Caspian gas to the European markets.

Georgia donations exceed expectations

The EU and other international donors yesterday pledged €3.5 billion to rebuild conflict-hit Georgia and boost its ailing economy in return for democratic reforms. At the same time, the European Commission announced that Georgia-Russia peace talks would continue in Geneva on 18 November. The total amount breaks down to \$3.7 billion in public loans and \$850 million from private donors. The EU is the largest public donor, pledging €863 million (\$1.1 billion) until 2011, followed by \$1 billion from the US and \$750 million from the International Monetary Fund (IMF). Japan pledged an amount of \$200 million. The European amount includes funding from the Commission, all 27 member states and the European Investment Bank.

Commission softens tone on Bulgaria, Romania corruption

The European Commission on July 23 released its annual reports on the justice and home affairs situation in Bulgaria and Romania, criticising the two countries for their persistent corruption problems. But the tone of the criticism, notably towards Bulgaria, was considerably softer than in a previously circulated draft version of the

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documents. Brussels also stopped short of activating a so-called safeguard clause that would have resulted in a refusal to recognise decisions by Bulgarian and Romanian courts throughout the EU.

EU – Ukraine Summit

Nicolas Sarkozy, the President of the Council of the European Union and Victor Yushchenko, the President of the Ukraine, adopted on September 9, in Paris, a joint declaration establishing the political framework for EU - Ukraine relations. This summit, held in the context of deepening EU-Ukraine relations, was the opportunity to give a decisive boost to negotiations on a new enhanced agreement that were started in 2007. The main objective of the French Presidency was to define the political framework of the new partnership between the EU and this country of major importance for European prosperity and stability.

European Union agrees to maintain trade preferences for developing countries

The European Commission has welcomed the adoption by EU Member States of a new Regulation applying the EC's Generalised System of Preferences (GSP) for the period from 1 January 2009 until the end of 2011. This decision will allow the EU to maintain preferential access to its market for 176 developing countries. The renewed preference system will be updated and improved, ensuring that GSP is targeted at those countries that need it most. GSP provides real economic value to developing countries, with €57 billion worth of trade under the scheme in 2007. As a result of recalculations to reflect the evolution of trade, preferences for specific product groups will be re-established for six beneficiary countries of GSP (Algeria, India, Indonesia, Russia, South Africa and Thailand).

New Commission report assesses European trade strengths in a changing global economy

A new report by the European Commission has assessed the competitiveness of the European Union in the global economy at the end of a decade of rapid economic change. Since the mid-1990s, there has been a major redistribution of market share between emerging and developed countries and among developed countries themselves. In this highly competitive environment, the EU has broadly maintained its world market share, while the US and Japan have lost ground. The EU remains the world's biggest exporter of manufactured goods, and dominates markets for high-quality products. The report warns, however, that the EU must focus on investment in its high-technology manufacturing and continue to improve its market share in the fast growing economies of Asia. The report reinforces the economic arguments behind the launch of the European Commission's Global Europe trade policy framework in 2006.

BUSINESSEUROPE

BUSINESSEUROPE and the European Banking Federation issue a joint statement on the financial market turmoil

The combined deceleration of global growth and the fallout of intense financial market turbulences imply a high level of uncertainty and stress on financial and economic systems. Recent bank failures in Europe have exposed the pervasiveness of the turmoil and the extent to which the present confidence crisis affects financial institutions access to funding through ordinary market channels. While a broad based credit crunch may not be evident in Europe as yet, containing the current financial turmoil and its negative impact on the broader economy is a matter of the utmost importance. BUSINESSEUROPE President, Ernest-Antoine Seillière, and the President of

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European Banking Federation, Michel Pébereau, have assessed the situation and issued joint recommendations to tackle the most immediate challenges.

Small Business Act for Europe

BUSINESSEUROPE organized on September 16, a high-level discussion round which gathered about 100 entrepreneurs, business representatives, EU and national policy-makers to discuss the expectations from the recently unveiled Small Business Act for Europe (SBA). Whether the SBA will be a real leap forward for SMEs will largely depend on the ability of EU and especially national governments to deliver and implement the proposals. Arndt Kirchhoff, Chairman of BUSINESSEUROPE's Entrepreneurship & SME Committee, insisted that the Act must be placed in the context of the strategy for Growth and Jobs and its reporting cycle. Adoption of the European Private Company statute one of the four legislative proposals included in the SBA remains a priority as it would provide SMEs with a more simplified and flexible framework which will reduce administrative and financial costs when they cross borders.

WORLD BANK

World Bank and Azerbaijan sign Education Sector Agreement

Azerbaijan and the World Bank signed a financing agreement for a \$25 million credit from the International Development Association for the Second Education Sector Development Project in Azerbaijan. This Project is the second phase of a multi-year, multi-phase program. The first phase helped to prepare for implementation of Azerbaijan's education reform by supporting the design of a new curriculum for primary and secondary education, development of textbook materials, new student assessment and evaluation methods, and teacher training programs. The second phase will assist in launching the reform by implementing the

curriculum and related programs and systems developed under the first phase, with a view to strengthening both quality and efficiency.

New Country Partnership Strategy for Croatia

The World Bank welcomed on September 30 the new Country Partnership Strategy (CPS) of the World Bank Group for Croatia. The CPS is a key document that describes the Bank's planned operations in the country – up to \$1.8 billion over the next four year period.

ELECTIONS

Ukraine president postpones elections due to financial crisis

Ukraine's President Viktor Yushchenko said on October 20 that he is to delay legislative elections by a week to December 14, recalling parliament to enact emergency measures to fight the global financial crisis. Yushchenko had dissolved the parliament on October 8 and announced early elections set for December 7.

Presidential election in Azerbaijan

The presidential election was held in Azerbaijan on 15 October 2008. A total of seven candidates, including Ilham Aliyev competed for the post of Azerbaijani President in the election. According to Central Election Commission (CEC) of the Republic of Azerbaijan, October 15 Presidential Elections were remarkable for high activity of voters. 76.65 per cent of the total voters took part in the voting. Ilham Aliyev of the New Azerbaijan Party has won the election, with over 88.73% of the votes, extending his presidency to a second five-year term. The other six candidates grasped 0.65 percent to 2.86 percent of ballots respectively.

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Legislative elections in Austria

A legislative snap election for the National Council in Austria was held on 28 September 2008. The election was caused by the withdrawal of Austrian People's Party leader Wilhelm Molterer from the governing grand coalition on 7 July 2008. Due to dissatisfaction with the grand coalition and the two main parties, it was widely expected to be a realigning election, with gains for the opposition and up to seven parties expected to be in the National Council after the election. The losses for the government parties (both the SPÖ and the ÖVP had the worst election result in history) resulted in strong gains for the far right, while neither the Liberal Forum nor the Citizens' Forum Austria (both of which were considered to have chances of gaining seats) gained as much as 2% of the vote, defying earlier expectations. The result of the election was characterised a strong surge for the far right and as a support of anti-EU rhetoric.

Legislative elections in Romania

The Romanian government decided in the cabinet meeting of September 27 to set the date for legislative elections for November 30.

BILATERAL

Proposal of a Caucasus Stability and Cooperation Pact

Following the brief but devastating war between Russia and Georgia over the latter's breakaway province of South Ossetia in August, Turkey unveiled a Caucasus Stability and Cooperation Pact that would include the three South Caucasus countries plus two regional powers, Turkey and Russia. Turkish Prime Minister Recep Tayyip Erdoğan made public his proposal on August 13 in Moscow and on August 14, in Tbilisi. The plan was then conveyed by Erdoğan to Azeri President Ilham Aliyev in Baku on August 20 and by Turkish President Abdullah Gül to his Armenian counterpart Serge Sarkisian

during his groundbreaking visit to Yerevan on September 6 to attend the football match between the two national teams in the qualifying rounds of the World Cup. This trip was a strong and encouraging sign for relations between Armenia and Turkey.

Turkish Prime Minister in Turkmenistan

Turkish Prime Minister Recep Tayyip Erdoğan paid a two day visit to Turkmenistan upon an invitation from Turkmen President Gurbanguly Berdimuhamedow. Matters related to relations between Turkey and Turkmenistan as well as regional and international developments were discussed during bilateral talks and talks between the delegations of the two countries. A Turkish-Turkmen Business Council meeting was also held during Erdoğan's visit to Ashkhabad.

Iran, Turkey Stress Energy Cooperation

Iran and Turkey, in New York, late September stressed the importance of finalizing bilateral cooperation in energy fields particularly in gas sector. Iran's Foreign Minister held talks with his Turkish counterpart on the sidelines of the 63rd annual session of the UN General Assembly.

Ukrainian Prime Minister visited Russia

Ukrainian Prime Minister Yulia Tymoshenko paid an official visit to Russia on October 2 for talks with her Russian counterpart Vladimir Putin. Tymoshenko and Putin agreed on an intergovernmental gas memorandum that removes intermediary traders from bilateral energy cooperation, but didn't specify the document's destiny. The meeting was also attended by Naftogaz CEO Oleg Dubina and Gazprom CEO Alexei Miller.

From Members

ATIB - AZERBAIJAN

ATIB Chairman attends ARI Security Conference in Istanbul

ATIB Chairman Ahmet Erentok attended ARI Movement's 10th Annual Security Conference titled "Looking Ahead: Managing Turkey's International Relations in the Coming Decade" which took place on September 11 - 12 in Istanbul, Turkey. The conference was organized by ARI Movement in partnership with Friedrich Naumann Foundation, the German Marshall Fund of the United States and NATO Public Diplomacy Division. The conference highlighted the key issues facing Turkey's international relations with particular emphasis on the analysis of Turkey's role in international organizations, most importantly the UN Security Council and NATO; Turkey's vision for its regional role and the realignment in the geopolitical landscape; and the key energy security issues in light of the geo-economic rivalries.

ATIB Chairman speaks at USAN Conference

ATIB Chairman Ahmet Erentok attended a two-day conference organized by the U.S. Azeris Network (USAN) at the George Washington University in Washington D.C. on October 1 - 2, 2008. The conference, entitled "Energy Security and Diaspora in the Development of the U.S. - Azerbaijan Strategic Allied Relations", aimed at achieving several important goals, such as explaining the crucial position of Azerbaijan as the source and transit for Caspian Basin riches, promoting the U.S.-Azerbaijan strategic allied ties, and educate the Azerbaijani-Americans, the U.S. policy and decision makers, and the general American public about the issues and opportunities facing the Azerbaijani-Americans as well as the state of Azerbaijan, a strategic U.S. ally. Addressing the meeting, Ahmet Erentok spoke about the positive role of NGOs and grassroots organizations in becoming an

alternative platform to discuss national, regional and global problems within multilateral framework. Touched upon the existing strategic relations between the United States and Azerbaijan, he stressed the importance of strengthening economic and energy security cooperation under the USA-Turkey - GUAM - Kazakhstan format for further integration and security of the Euro-Atlantic geo-economic area.

SEV - GREECE

SEV strengthens its cooperation with the US Council on Competitiveness

SEV President Dimitris Daskalopoulos and the President of the U.S.-based Council on Competitiveness, Deborah Wince-Smith, signed a Memorandum of Understanding on September 18 at the SEV offices, in the presence of the U.S. Ambassador to Greece, Daniel Speckhard. This agreement is the product of efforts begun last year by the Greek-U.S. Business Council and SEV, aimed at promoting best practices and the adoption in Greece of actions similar to those being carried out in the U.S., with a specific programme on a national and regional level and with the monitoring of specific indicators for assessing the results of the programme.

ICEA - IRAN

An "ICEA-UN Office" Meeting is Being Arranged

The administrative arrangements are being made for a meeting between ICEA President, Mohammad Otaredian, and UN Resident Coordinator & UNDP Resident Representative in Tehran, Knut Ostby, to hold talks, among others, on "strengthening and capacity building of ICEA", and other issues of mutual interest. As planned, UBCCE activities and possible cooperation between the two bodies would be among the topics of discussion, as well.

From Members

ICEA President is to attend ILO/Governing Body Session

Under his formal communication, Director General of the International Labor Organization, Juan Somavia, has informed, while inviting, ICEA President, Mohammad Otaredian, to attend, as a member, the 303 Session of the ILO Governing Body which is scheduled to be held in Geneva, November 2008. Otaredian was nominated by the Asia region to be elected to the ILO/Governing Body employers' group during its election, for the 2008 - 2011 term of office, held in the European headquarters of the UN in Geneva-Switzerland on 5th of June 2008.

Memorandum of Agreement signed between ILO and ICEA

As it has been a large part of the private sector networks at the national level, ICEA has been representing and supporting SMEs in the country, and is also willing to give it even a higher priority. In this line, as one of the initiatives, among others, ICEA signed a Memorandum of Agreement with ILO in order to publish in persian the “paper” & “electronic” tool-kits on “SMEs for Employers organizations”, developed jointly by ILO and IOE.

SAE - SERBIA

Formed expert team of employers for reform of Serbian health care system

Serbian Association of Employers – Sector for Medicine and Health gathered the owners of the private clinics and pharmacies from all over Serbia in order to form Expert team of private employers in medicine sector. Through its activities in public media this team initiated the campaign for reform of health care system and its adjustment to EU standards. This reform implies unification of private and state health care sectors into single health care system, introduction of national health accounts, controll over the Money held by the Fund

for Obligatory Health Insurance and introduction of electronic health history system. All these would make spending health insurance money more transparent and possibly bring foreign investors in health sector, but above all it would bring private employers from this sector into better position on the open market.

Less administration, more investors

In period July-October 2008 Serbian Association of Employers was putting pressure through and by more than 120 newspaper articles, news in informative medias, apperances in TV and addressing all relevant institutions, towards elimination of obsolete and inadequate regulations, which slow down and aggravate business doing and development of Serbian economy. In reply to this pressure Minister of Economy and Regional Development announced “regulatory guillotine” and promised that within 15 months more than one third of regulations from the sector of economy will be abolished. This should improve business environment and enhance attraction of foreign investment.

Abolishment of visas for Russia, Ukraine and Belarus

Serbian Association of Employers initiated the public action for abolishment of visas for the citizens of these states and enabling them to come to Serbia without administrative and bureaucratic difficulties. The aim is to help businessmen from these countries who sometimes have to travel long distances in order to obtain Serbian visa. This SAE action should further strengthen economic cooperation between businessmen and simplify the appliance of Trade Agreement with Russia. The initiative was well accepted by MPs and SAE expects it to be soon adopted.

From Members

TÜSİAD – TURKEY

TÜSİAD Energy Working Group attended the Third Eurasian Energy Forum

TÜSİAD Energy Working Group headed by Ahmet Cemal Dördüncü, Sabancı Holding CEO, has visited Astana, Kazakhstan within the framework of 3rd Eurasian Energy Forum organized by KazEnergy on September 4 - 5. Ahmet Cemal Dördüncü who is at the same time the Chairman of TÜSİAD Energy Working Group had the opportunity to deliver a speech on Turkish perspectives of Energy Cooperation in the Region. Within the framework of the forum, the delegation had the opportunity to meet with Sauat Mynbayev, Minister of Energy and Mineral Resources of Kazakhstan, Timur Kulibayev, President of Kazenergy and Azad Peruashev, President of Atameken Union.

New Release: “Higher Education in Turkey: Trends, Problems and Opportunities”

TÜSİAD released on October 27, a report on higher education entitled “Higher Education in Turkey: Trends, Problems and Opportunities.” According to the report prepared in collaboration with the European University Association institutions of higher learning in Turkey need reforms to ensure more autonomy.

“Regional Differences and Policies in Turkey”

TÜSİAD has released on September 3, a report in cooperation with TURKONFED entitled “Regional Differences and Policies in Turkey” stating that regional economic development disparities are still a significant problem in Turkey. According to the report, there are large gaps between Turkey’s different regions in terms of wealth. The report says that the government’s projects to address these disparities are inefficient and that the government should focus on using

European Union funds more effectively. The report also recommends the development of creative projects to draw the attention of foreign investors to Turkey’s impoverished regions.

TÜSİAD Reports on Turkey's water problem

TÜSİAD has released on September 9, two reports on Turkey's water problem entitled “Sustainable Water Management: Challenges and Suggestions” and “The Role of Private Sector in Water Distribution Services: Discussion of a Model for Turkey in the Light of Global Practices” within the framework of a conference on “Sustainable Water Management”. The reports argue that Turkey is suffering from water scarcity and Turkey falls in the category of countries with a water shortage. TÜSİAD aims to create a platform to discuss these topics and provide an outstanding input to the 5th World Water Forum which will be held in Istanbul in March 2009.

TÜSİAD International: Seminar on the investment opportunities in Russia

TÜSİAD International has organized on October 21 a seminar on “Investment opportunities in Russia: Examples of Republic of Tatarstan and Bashkordostan” where investment opportunities in these two republics were discussed.

SUBPRIME MORTGAGE CREDIT CRISIS, HOW IT EVOLVED?

By Evrim Taşkın & Utku Üstünkaya,
Experts, TÜSİAD Economic Research
Department

The ongoing financial crisis began in late 2006 in consequence of the declining prices seen at US real estate market and increasing default rates on subprime mortgage credits. According to the hitherto published reports of the banks, total writedowns and credit losses bring the global total, up to \$439 billion, and with many other banks still due to report third-quarter results. Today, many scholars and financial pundits compare the current financial meltdown with the Great Depression of the 1930s. In order to better grasp the nature of the mortgage crisis and its contagious effects experienced on other parts of the world, it is of great use to mention briefly about the subprime credit and its role on the current global financial meltdown.

Basically, subprime lending is made to people with higher credit risk profile, low income level, or short-term credit history. In the US, all citizens have their credit scores called “FICO Score” and if a person’s score is under 680; then, that person is entitled under subprime category implying that you carry higher risk defaulting on your loan. The important question to be asked here is: How could problems with subprime mortgages trigger such disturbance in world financial markets?

In order to better understand the reasons behind the credit crisis, it is better to examine the economic developments in the USA. Especially, right after 2002, collective

faith to the persistence of the “low inflation-high economic growth wave” along with low levels of real interest rates in the world economy increased the appetite for riskier investments. In addition, lack of coordination among the regulatory and supervisory authorities prepared the suitable ground for the biggest failure of the world financial markets. During this period, increased liquidity and real estate boom, overvalued asset prices, and expanding US domestic credit markets along with rising housing prices were the main ingredients of the meltdown in the global financial markets.

THE TIMELINE OF EVENTS

1. Sub-prime Mortgage Crisis (Background).
2. Liquidity Crisis surfaces (9 August 2007).
3. Northern Rock, a major British Bank, requested and acquired a liquidity support from the Bank of England (14 September 2007).
4. Nationalization of Northern Rock (22 February 2008).
5. Takeover of Bear Stearns (16 March 2008).
6. US Federal take over of Fannie Mae and Freddie Mac (7 September 2008).
7. Global financial crisis of 2008 beginning with the Bankruptcy of Lehman Brothers (14 September 2008).
8. Passage of the Emergency Economic Stabilization Act (3 October 2008).

In the US, low levels of interest rates during the last decade was the leading factor behind both increase in housing prices and volume of the real-estate financing instruments. This eventually boosted the pursuit of higher yielding instruments. Within the confines of

this financial landscape, subprime mortgage became more prevalent due to higher returns. This desire to earn higher yields among investors together with extraordinary burst of innovation experienced by western banking made it possible for financiers to slice and dice subprime mortgage loans and turn these into securities that can be sold to investors all around the world. It was advocated by many people that with the help of this process, credit risk was transferred to new investors which are namely pension funds, insurance companies, mutual funds, hedge funds, and individual investors. Here the main actors behind the crisis were: People taking subprime mortgage loans, financial institutions that have no proper risk management tools and loose lending regulations, rating agencies which were funded by certain financial institutions, and finally regulatory agencies such as FED, SEC, the US Treasury and their failure of gripping the fast changing financial atmosphere. Especially the following sentence that belongs to Ben Bernanke below depicts posture of the FED as of May 2007:

"We do not expect significant spillovers from the subprime market to the rest of the economy or the financial system."

Unfortunately, things have changed with unprecedented increase in interest rates along with high default rates on Adjustable Rate Mortgage (ARM) as of summer 2007. In June 2007, increased perceived risk of default on subprime mortgage credits and downgrading of billions of dollars of reputed to be "ultra-safe" debt instruments, asset prices started to fall. The effects of this financial disturbance felt severely by banks and they have started stockpiling cash and stopped lending to each other since financiers lost faith in their ability to judge the health of other institutions, or even their own. Today, world financial markets as a whole face with the systemic liquidity

squeeze thanks to the unprecedented events arising from subprime credit market.

International Rescue Packages

The financial panorama is going through a period of tumultuous times with some major firms collapsing, some others merging and a few number of companies across the world, being rescued by national governments and supranational organizations. What made this crisis so shockingly different from the rest of the crises in the history of economics and finance is that, almost each and every banker and financial player within system have been caught unawares. In its most recent annual report, the Bank for International Settlements (BIS) succinctly points out the bitter fact that "the duration of the turmoil, its scope and the growing evidence of effects on the real economy have come as a great surprise to most commentators, private as well as public." Countries within the European Union and also outside of the EU are resolute to keep the financial crisis at bay and to inject trust and confidence right back into the global financial system. To that end, governments, led by the US, have come up with rescue packages in an attempt to bail out the financial system. Under the Emergency Economic Stabilization Act, the US Treasury will provide a total sum of \$700 billion as a rescue package. In a subsequent move, Euro-zone leaders have decided to provide \$1,370 billion worth of rescue package, while UK has opted to provide \$680 billion as a rescue package. Furthermore, EU Member States have agreed to guarantee savings deposits up to any amount € 50, 000.

In addition, central banks from all around the world are aiming to provide liquidity into the system in an effort to bring markets back to normal. In a seemingly almost concerted effort, central banks such, for example, as the Federal Reserve Bank, European Central Bank, Bank of England, Bank of Japan,

Bank of China, Bank of Sweden, Bank of Canada, Swiss National Bank, cut their interest rates by 50 base points.

Impact of the Global Financial Crisis upon Some Major Banks

<u>Bank</u>	<u>Status</u>	<u>Date</u>
<i>Fannie Mae</i>	<i>Nationalized</i>	<i>7 Sept</i>
<i>Freddie Mac</i>	<i>Nationalized</i>	<i>7 Sept</i>
<i>Lehman Brothers</i>	<i>Collapsed</i>	<i>15 Sept</i>
<i>Merrill Lynch</i>	<i>Taken over</i>	<i>15 Sept</i>
<i>AIG</i>	<i>Part-nationalized</i>	<i>16 Sept</i>
<i>HBOS</i>	<i>Taken over</i>	<i>17 Sept</i>
<i>Washington Mutual</i>	<i>Collapsed and sold</i>	<i>25 Sept</i>
<i>Fortis</i>	<i>Nationalized</i>	<i>28 Sept</i>
<i>Bradford & Bingley</i>	<i>Nationalized</i>	<i>28 Sept</i>
<i>Wachovia</i>	<i>Taken over</i>	<i>29 Sept</i>
<i>Glitnir</i>	<i>Nationalized</i>	<i>29 Sept</i>
<i>Hypo Real Estate</i>	<i>Rescue Package</i>	<i>06 Oct</i>
<i>RBS</i>	<i>Part-nationalized</i>	<i>13 Oct</i>
<i>Lloyds TSB</i>	<i>Part-nationalized</i>	<i>13 Oct</i>

While giants of the financial business world crumbling or being bought out, panic in world markets has led to sharp falls in share prices and stock markets across the world have plunged while meanwhile recording substantial levels of losses. This gloomy sentiment prevailing in world financial markets affected certain commodity prices such as the price of precious metals and oil. However, after reaching an unprecedented peak in July of \$147 per barrel, the price of oil has fallen and right now is well below \$100 mark.

Projections

It is yet too early to know the full extent of the damage emanating from the credit crunch. Banks have already written off almost \$439 billion worth of assets. Some commentators have pointed out a possibility of a grave recession if this liquidity crisis persists. The continuing of the liquidity crisis

has stirred the fears of a global economic collapse.

As of October 2008, estimates of the world economic growth made by the IMF is 3,91 percent. On October 16, 2008 United Bank of Switzerland (UBS) declared that there was “no silver lining on the horizon” and “still worse is yet to come.” Their expected recession duration is as the following: two quarters for the Euro-zone, three quarters for the United States, and four quarters for the United Kingdom. Given the gruesome state of affairs in the world of finance and business, the real challenge ahead is to build a new sense of trust and confidence in finance across the world markets. As manifested from the former experiences of financial crises, it is hard to predict when this global financial crisis will end, and how great will be the total sum of losses. What is for real is the fact that the fundamentals of the 21st century’s finance have changed irrevocably and is in due process of evolving. Thus, it is time to write down a new number of operating rules in the world of financiers and investors.

This article express the views of its authors and not necessarily those of TÜSIAD.

Upcoming Events

UPCOMING EVENTS

10th Southeast Europe Economic Forum

Sofia, Bulgaria, November 5 – 6

Second Kiev Security Forum Black - Caspian Sea Region and European Energy Security

Kiev, Ukraine, November 6-7

Fifth Vienna Economic Forum Investment Possibilities in the Countries from the Adriatic to the Black Sea and the Caspian Region – Take the Real Chance

Vienna, Austria, November 10 – 11

First Black Sea Partnership Forum for Cereals and Cereal – based products

Kiev, Ukraine, November 12-13

➤➤➤➤ [Read for more](#)

EU Business in Russia: Trends and Challenges 2008/2009

Brussels, Belgium, November 25

➤➤➤➤ [Read for more](#)

Balkan Economy Summit

Istanbul, Turkey, November 26 – 27

Mediterranean Business Forum

Beirut, Lebanon, February 20 – 21, 2009

UBCCE General Assembly

Istanbul, Turkey, March 2009

UBCCE High Level Contact Visit to Brussels

Brussels, Belgium, 2009/Q1

First European SME Week

Brussels, Belgium, May 6 – 14, 2009

➤➤➤➤ [Read for more](#)

First Black Sea Partnership Forum for Cereals and Cereal – based products

The First Black Sea Partnership Forum for Cereals and Cereal - based products will take place on November 12-13 in Kiev, Ukraine. The Black Sea Trade and Investment Promotion Programme (BSTIP) is a joint initiative of the Government of the Hellenic Republic, of the Government of the Republic of Turkey, the Organisation of the Black Sea Economic Cooperation (BSEC) and the United Nations Development Programme (UNDP) aiming at supporting the regional economic integration process in the Black Sea region through private sector driven initiatives.

EU Business in Russia: Trends and Challenges 2008/2009

BUSINESSEUROPE and the Association of European Businesses in the Russian Federation (AEB) are organizing a seminar entitled “EU Business in Russia: Trends and Challenges 2008/2009” on November 25 in Brussels. At the seminar, the AEB will give a presentation on the state of the Russian economy and the role the AEB. AEB representatives will also elaborate on more specific policies and issues affecting European businesses in Russia. These include investment, energy and customs, but also visa and migration, SPS measures and the automotive sector.

First European SME Week

The European Commission is organising the first European SME week in May 2009 to inform SMEs about available support at EU and national level and to encourage more people to become entrepreneurs. The SME week will be a European umbrella campaign for activities that take place throughout Europe. The closing event will also include the European Enterprise Awards ceremony.