

# Istanbul Business & Finance

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## Gateway for a new millennium

The city faces unpredictable and sometimes chaotic change but it is reinventing itself on a grand scale, writes *Daniel Dombey*

From banking to business, from the city centre to the Black Sea shore, from sports to seismology, Istanbul is in the throes of change.

The city has already become a corporate hub for the likes of Microsoft, Unilever, Coca-Cola, PepsiCo and GE Healthcare, spurred on by breakneck expansion by Turkish Airlines, which says it flies to more countries than any other carrier. The plan is to become an international financial centre too.

Today, the number of cranes on the

skyline rivals the city's many minarets. Among a series of controversial moves, Taksim square, the very heart of Istanbul, is set to be transformed by a pedestrianisation scheme, with the possible addition of a mosque. The northern coast will get both a \$2.5bn bridge across the Bosphorus and a vast new airport. Even the city's priceless monuments are not immune from the whirling energy of the place, with restoration projects appearing on many of its ancient streets.

"We have been a centre of activity

for 7,000 years," says Temel Kotil, chief executive of Turkish Airlines. "But we are becoming more of a leading hub." Indeed, while a generation ago there were no flights to New York, today his airline flies direct to Ho Chi Minh City every day – as well as to 200 other destinations.

The ambitions come thick and fast in a city that generates more than a quarter of Turkey's income, houses roughly a fifth of the country's 75m population and has for millennia traded off its enviable

location between Europe and Asia.

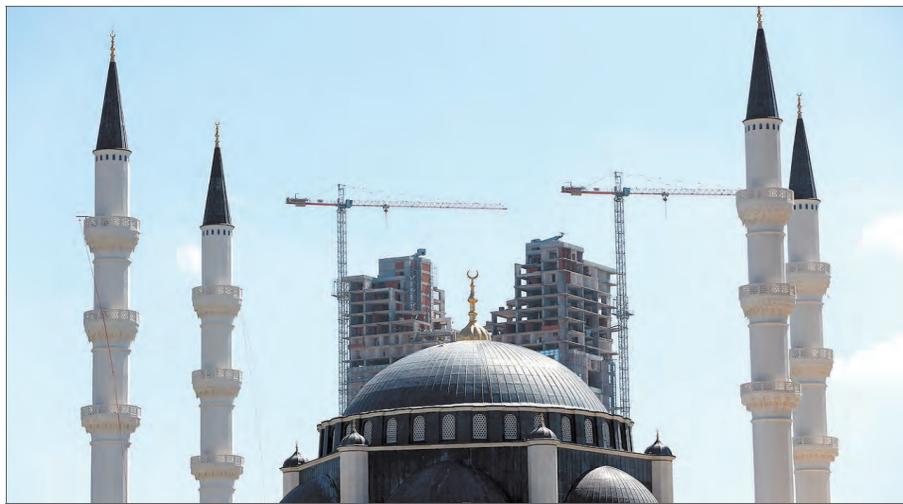
Istanbul has put in bids for both the 2020 summer Olympics and the European football championships that same year, and, though current rules prevent it from hosting two such events in a single year, it is among the favourites for both. Closer to home, it is also renewing itself on the most basic level.

With a 2 per cent risk of a major earthquake in any given year, the city is rebuilding and revamping schools and hospitals at risk from such a dis-

aster and has now turned its attention to vulnerable housing stock – half the city's 4m homes – beginning a demolition programme this month.

The sense of upheaval is hardly new for this ancient place. Its conquest at the hands of Sultan Mehmet II more than half a millennium ago made the capital of the once mighty Byzantine empire into the stronghold of its Ottoman successor.

But much is at stake in this latest transformation. Backers of the



Towering presence: a residential high-rise block being built behind the Miram Sinan mosque

Reuters

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## Ambition puts city on front foot

### Regional role

Istanbul looks to a future as a global financial centre, says *Shawn Donnan*

In 2009, when he introduced his government's ambitions to turn Istanbul into an international financial centre, Recep Tayyip Erdogan, the Turkish prime minister, laid out a vision for the city to take what he clearly thought was its rightful place in the world.

"When the period of crisis – during which international investments dip – is over, I believe Istanbul will be taken as a significant option and make rapid progress towards becoming a regional and global financial centre," Mr Erdogan, a former mayor of the city, wrote in the plan's introduction.

Three years on, with the 2008 global financial crisis still casting a shadow, it is too early to tell if the prime minister's long-term vision will come true, or to declare it hubristic. But there are signs of progress.

Construction has begun on an office and residential district on the city's Asian side to be named IFC – Istanbul. The project, which will eventually house the headquarters of three state banks and the city's tallest building, is often criticised for being a long drive from the city's existing business centres on the European side. But the development is almost beside the point.

A decade after emerging from a devastating crisis, Turkey's banks are in rude health and bastions of conservative lending at the heart of one of the world's most intriguing emerging

economies. Their assets grew sixfold to 1.28tn Turkish lira (\$706bn) over the past decade, non-performing loans are low, and the sector's capital adequacy ratio stands at a healthy 16 per cent, though it has recently fallen. The big banks – 90 per cent of Turkey's financial sector – remain conservative beasts, with the simple business of old-fashioned lending making up the overwhelming share of business. But there are signs Istanbul is attracting more dynamic parts of the financial industry.

A growing number of international private equity funds have established bases in Istanbul or alliances with locals, drawn in part by legal changes and clarity on taxation and an

"We have to co-ordinate our muscles so we are going in the right direction"

opportunity to invest in the country's corporate sector and infrastructure project.

Until a few years ago "all the players were establishing bases outside Turkey" to invest in the country, says Metin Ar, president and CEO of Garanti Securities, which in 2011 partnered with Cerberus, the US private equity group, to set up a \$400m fund to invest in Turkish businesses. "Now that everything is clear and investor-friendly we can do it in Istanbul."

There have been other votes of confidence. The International Finance Corporation, the World Bank's private sector financing

arm, now has its biggest office outside Washington in Istanbul, from where it manages business with 52 countries in eastern and southern Europe, the Middle East, and north Africa.

According to Dimitris Tsitsiragos, the IFC vice-president, who oversees its 200 staff in Istanbul, the 2010 move was driven in part by logistics – Turkish Airlines flies to a growing number of destinations, including Mogadishu, from the city's Ataturk Airport. It was also recognition of the city's importance regionally and the IFC's growing exposure to Turkey's economy.

Istanbul still has a long way to go to develop even as a regional financial centre. Many issues identified in the 2009 plan have yet to be addressed.

Turkey's domestic bond market is under-developed and its equity market shallow, with many companies listed on the bourse having meagre free floats. Despite the changes cited by the private equity industry, investors also remain concerned about the judiciary's capacity to act as an arbiter in commercial disputes and the local tax regime.

Suzan Sabanci Dincer, chairwoman of Akbank, one of the country's biggest, says the financial sector needs to diversify and create incentives to encourage the country's citizens to raise their low savings rate. Pension funds are only 1.1 per cent of GDP, she points out, while mutual funds make up only 2.4 per cent.

Still, she says, Istanbul is not playing a short-term game. "This is a long vision," Ms Sabanci Dincer says. "But we are a young country. When you are a young country you invest for the future and think about the long-term."

Ten years ago the idea that its commercial capital could regain its historical place in global commerce would have seemed preposterous even to many Turks, she says. But a decade of economic growth has seen GDP per capita pass the \$10,000 mark and many believe rating agencies will in the next 18 months upgrade its sovereign rating to investment grade.

All of which means it is time for Turkey – and Istanbul – to play it smart. "We are a muscular economy now," Ms Sabanci Dincer says. "We have to co-ordinate our muscles so we are going in the right direction."



Standing tall: Istanbul's new financial hub

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## Istanbul Business & Finance

# Rebalancing an economy in tough times

**Interview**  
**Mehmet Simsek**  
**Finance minister**

*Daniel Dombey*  
speaks to a man on an economic mission

Mehmet Simsek's journey has taken him from the Kurdish town of Batman, near where the Tigris flows, to a role in London as an economist and strategist for Merrill Lynch, to his present post as Turkey's finance minister.

And, though he works in Ankara, and is particularly passionate about regional development, much of his thinking is spent on Istanbul.

It may no longer be the all-encompassing force in the Turkish economy it was once – the rise of Anatolian cities such as Kayseri and Konya have seen to that, as has the emergence of Iraq as Turkey's second biggest export market. But Istanbul is still the

'If you've got first-rate infrastructure you are more likely to attract investment'

country's commercial and financial centre, its window to the west and most spectacular showpiece, and as such, it is central to the government's plans.

"There are a lot of infrastructure projects in Istanbul alone, and there is a rationale to that," Mr Simsek says, ticking off items such as the city's third Bosphorus bridge, road and rail tunnels under the Marmara sea and a high-speed rail link with Ankara.

"If you've got first-rate infrastructure you are more likely to attract investment and you are more competitive in terms of transportation."

He also invokes the goal of making Istanbul a financial centre. "We want to move up the financial chain, and financial services and asset management is one area where we think we can make some headway," he says.

But this activity can

come at a cost, as he acknowledges. "We do have a number of large infrastructure projects and, increasingly, we would rather get the private sector to do it... but when the private sector is unable to essentially find financing and if the project is critical then of course we step in," he says.

That is what has happened this year, as the central government has found itself bearing the load for investments such as the new extension of the Istanbul metro, and, partly as a result, fiscal policy has wobbled off target.

In trying to make the sums add up, Mr Simsek has also had to contend with a sharp slowdown in domestic demand which, because of Turkey's reliance on indirect taxation, translates into a lower tax take, as well as disappointing privatisation revenues and pay increases.

He and his colleagues have since resorted to further tax rises – notably for petrol and alcohol – to plug the gap.

But the finance minister notes that other countries would envy Turkey's modestly sized budget problems – the fiscal deficit this year is expected to be 2.3 per cent of gross domestic product versus a target of 1.5 per cent.

"Everybody would agree that 10 years ago Turkey's most pressing issue was debt sustainability," he adds. "Today nobody would argue that Turkey has a debt problem... [But] we want to maintain our credibility, it is hard won credibility and we don't want to lose it."

In particular, he says controlling the budget deficit is important in continuing to attract financing for the country's current account deficit – expected to be above 7 per cent this year and now Turkey's biggest structural economic problem.

But, he adds, the country has done well in tamping down the economy after the current account deficit ballooned last year to 10 per cent of GDP and growth reached an unsustainable 8 per cent.

Mr Simsek points out: "In the first half of this year, we rebalanced the economy, I think we deserve a little bit of credit for that – it's not easy to fine tune."

# Preparation provides the key

**Earthquakes** Governments are aiming to save lives and protect the city, writes *Shawn Donnan*

To hear Professor Mustafa Erdik, one of Turkey's leading seismologists, describe the probability game Istanbul is engaged in every year is a daunting exercise.

As the director of the city's Kandilli Observatory and Earthquake Research Institute puts it, each year Istanbul's residents put 48 white balls and two red balls in a fictional bowl and pick one. Pick white and they are safe for another year. Pick a red one and they will be confronted with a major earthquake with the potential to kill 20,000 or more people, leave hundreds of thousands homeless, and deal a devastating economic blow to the city of 15 million.

At 2 per cent, the odds he describes may appear low to the untrained eye. But, as Prof Erdik points out, it puts Istanbul on a par with cities like Los Angeles, San Francisco and Tokyo as a major metropolis living with the ever-present threat of the big one.

Ever since the 1999 7.6-magnitude Marmara earthquake, which left 18,000 dead and caused up to \$15bn in economic damage in and around the city of Izmit, just over 100km to the east, Istanbul has been engaging in a race against time to prepare for its own looming earthquake.

The 1999 quake on the North Anatolian fault, which runs under the Sea of Marmara just 10km south of Istanbul at its nearest point, significantly raised the possibility of another 7-7.5 magnitude quake at some point in the coming 30 years. "It is a cliché, but earthquakes talk to each other," says Prof Erdik.

The city – which had not been hit by a major quake since at least 1894, and quite possibly 1766, according to some – quickly realised it was unprepared for such a disaster. Moreover, the half century of unchecked growth that had seen its population surge from just over 1m in 1950 to more than 10m in 2000 had left it with a frightening inventory of shoddily-built homes, many of which would likely collapse in an earthquake.

Istanbul has done much to prepare since. New building codes were introduced in 1999 and laws now require residents to carry mandatory earthquake insurance. The city has also been pushing an "urban transformation" programme to demolish, or strengthen, residential buildings built before 1999.

In 2006, with help from the World Bank, the European Investment Bank and others, the city established the Istanbul Seismic Risk Mitigation Project with the goal of reducing the



'After the 1999 earthquake, the mentality changed from reactive to proactive'

number of fatalities and the potential economic damage from a major earthquake.

The €1.2bn project has focused on improving emergency management and response capacities, training volunteers and disseminating information to residents, and making sure the city's hospitals, schools, and other public buildings can withstand a quake. So far, 660 schools and almost 1,000 other public buildings have either been strengthened or rebuilt, according to Kazim Gokhan Elgin, the project's director. Work is now under way to strengthen the foundations of Istanbul's major hospitals to put them on "seismic isolators" to ensure they can survive a major disaster.

**Neighbourhood watch: thousands of houses are being renovated**

*Alarmy Images*

"The mentality changed after the 1999 earthquake from reactive to proactive," Mr Elgin says and these days Istanbul is often cited as an international model for disaster preparation.

It is outside Mr Elgin's remit, in transforming the city's housing stock, however, that Istanbul's most daunting challenge in preparing for an earthquake remains.

According to the government, half of Istanbul's 4m houses are in need of either strengthening or rebuilding to make them quake resistant. While the 40-50 per cent growth in the population since 2000 has been concentrated on its outskirts, as the city has sprawled north along the Bosphorus towards the Black Sea, most of its residential housing was built before the new building codes were introduced in 1999.

Municipal governments have been pushing a demolition and reconstruction programme to strengthen the city's vulnerable homes. In May the parliament in Ankara also passed a law clearing the way for an ambitious national urban regeneration programme aimed, in large part, at making the country more quake-proof.

Experts say it will take decades to address the problem with Istanbul's housing stock, and a stroll through the historic parts of the city makes clear what the challenges are. Near the Grand Bazaar you can find 500-year-old Ottoman buildings with thick stone walls sitting across the street from five- and six-storey apartment blocks built in the 1960s and 70s that look eerily top heavy.

Prof Erdik argues more also still needs to be done to make Istanbul's heritage sites quake-proof. He cites the example of the Ayasofya, the 1,475-year-old church turned mosque turned museum that is a must on the city's tourist trail.

In 537 AD, soon after it was dedicated by the then-emperor Justinian, much of its dome collapsed after a quake, forcing a major reconstruction. Restorations after two other partial collapses, in 989 and 1346, left their own scars. But, in the centuries since, it has been regularly strengthened by the city's rulers to ensure it could withstand another quake – something that ought to be done for other monuments, Prof Erdik argues.

He also sees a wry lesson in history for today's architects and builders. Throughout Istanbul's Byzantine and Ottoman history, he points out, "architects were not allowed to make mistakes. You made one mistake and that was it. If you built the building wrong your head was gone."

# Businessman's conversion may prove priceless

**Auto**  
**Electric vehicles may become de rigeur, says Daniel Dombey**

As a scion of one famous Istanbul business family who married into another, Osman Boyner is something of an unlikely figure to find in a garage on the Asian side of Istanbul where workers are ripping engines out of cars.

But his project, backed by his extended family, could be a highly significant one for Istanbul and is already leaving its mark on other cities.

When dusk hits the city on the Bosphorus, Istanbul's roads are full of light commercial vehicles – whether they are dolmus, the shared minibuses that

wait until they are full of passengers before starting off, or the fleets of white vans laid on by banks and companies to ferry employees home, or delivery vehicles grinding their way up the city's formidable hills.

Mr Boyner's big idea is to replace those vehicles with electric cars. He says that in Turkey more than a quarter of carbon emissions come from 2 per cent of cars. He believes such vehicles, which constantly make short trips, are easily within the range of an electric vehicle, so converting them makes economic as well as environmental sense, since lower cost per kilometre offsets the price of conversion.

That is why Mr Boyner, whose family background is in the textile and retail businesses and whose wife, Hanzade Dogan Boyner, heads Dogan Online, has

come to found BD Oto, which specialises in converting vehicles such as the Renault Kangoo and the Fiat Fiorino.

At present, the operation seems as if it could barely be smaller. Mr Boyner's small Istanbul team converts a car a day, a level it hopes to increase to three to four a day in the first quarter of next year. BD Oto has another production centre in Italy, from which it bought its technology, and plans to move to bigger Turkish premises soon.

But the group already has 400 cars on the road in Europe – in countries such as Denmark, the Netherlands, the UK and Italy – with vehicles customarily being leased to the end user. Its production target is 6,000 units a year.

In a small way, Mr Boyner, who also heads Tusiad International, the

trade promotion wing of Turkey's chief business association, is doing what he thinks Turkish business should be focusing on as a whole – selling to the EU, which shares a customs union with the country.

"Turkey's real asset is the location," he says. "I see ourselves becoming the Mexico of Europe – the EU is our big, big customer."

But although Mr Boyner says the test and opportunity for business is to expand further out of its home market, his plans have special relevance for Istanbul.

BD Oto plans to have 65 electric charging stations installed in the city by the end of this quarter.

It is scratching the sur-

**Changing habits: converting vehicles such as the Renault Kangoo**



face for a city where taxis on their own account for some 18,000 vehicles on the streets and where a dolmus travels 300km a day. But as the fourth generation member of an old business family, Mr Boyner would acknowledge that every company has to start somewhere.

And he highlights the attractiveness of a business model similar to the mobile phone industry, with customers paying a regular fee for cars and electricity based on a certain distance travelled. "There is a lot of talk about this, but we are actually doing it," he says.



Taxing times: Mehmet Simsek, finance minister

*Bloomberg*

# Gateway for a new millennium

**Continued from Page 1**  
proposed changes say they would consolidate Istanbul's position as a regional powerhouse, while making everyday life more livable and crowning Turkey's emergence as a leading 21st-century force.

"Istanbul is very important to us," says Mehmet Simsek, Turkey's finance minister. "It is a huge city, it is the commercial capital of Turkey and it is very important that we have good infrastructure, that we address the traffic issues. That is key for productivity and for making Istanbul a regional financial centre; that is why there is a push to complete projects in Istanbul."

Eugene Willemsen, who runs PepsiCo operations in some 20 countries from his base in the city, hails

Istanbul's role as a gateway to the \$800bn Turkish economy – which, despite a recent slowdown, is still the fastest growing in Europe, at a rate of 3 per cent. He notes the daily flights to all the destinations he covers. He argues it is right to focus on big infrastructure projects to reduce traffic strain and put Istanbul on a par with other big cities.

But opponents of the government plans sense hubris and smell concrete, voicing concerns about the blitz of construction activity. They wonder how a campus for relocated state banks from Ankara will make Istanbul a centre for international fund managers, worry about the new bridge's location near tracts of forest and puzzle over the sheer scale of the proposed 100m-150m passenger third air-

port. They fear the fabric of the city will be altered out of recognition, as the green spaces that today are the lungs of Istanbul are settled with millions of newcomers.

"Taksim Square represents the Turkish republic and it is going to change, period," says Soli Ozel from the city's Kadir Has university, citing one example. "And yet it is remarkable that with all the very enthusiastic destruction this city remains beautiful."

In large part, reactions to Istanbul's grand ambitions are a litmus test of views of the presiding genius of the proposed changes – Recep Tayyip Erdogan, Turkish prime minister and one-time Istanbul mayor, who dominates not only the government, but the political landscape of the country.

The prime minister is an

Istanbulite to his core, but he comes not from the traditional centres of power, but from Kasimpasha, a hardscrabble neighbourhood near the Golden Horn where he once sold Turkish bagels on the streets.

In many ways, his Islamist-rooted politics and his alliance with the rising businessmen of Anatolia represent the biggest challenge to the old Istanbul elite since Mustafa Kemal Ataturk, modern Turkey's founder, moved the capital to Ankara 89 years ago.

The tension is sometimes personal: in September, Mr Erdogan let loose a broadside at Istanbul's media elite, whom he described in withering terms as "gentlemen who enjoy their alcoholic drinks and snacks by the Bosphorus".

The Bosphorus-side

haunts are as alluring as ever and there are now more billionaires in Istanbul, according to Forbes, than in any city save Moscow, New York, London and Hong Kong. But there is an awareness among the old elite that the place they grew up in – in which much of the city and country were marginalised – is not the new Istanbul Mr Erdogan's government is turning into reality.

Techniques for handling this fact vary. Aydin Dogan, a billionaire media magnate humbled by a record tax fine, appeared with Mr Erdogan at the opening this year of a new Trump Towers shopping mall. The move was seen as a sign that, after Mr Dogan sold several of his media outlets to pay his tax bill, he and the prime

minister had made peace.

But Umit Boyner, the outgoing head of Tusiad, the country's established business association, continues to clash with Mr Erdogan on issues ranging from education to military accidents.

Nor do the contrasts and contradictions stop there. Istanbul may be pushing to become an international financial centre, but the government has been happy to see the banking industry remain a tightly controlled, domestically oriented and largely nationally-owned sector, with limited scope for foreign groups. Ankara's sway over the bankers of Istanbul has furthered its control of the economy as a whole; this approach helped Turkey swiftly rebound from the depths of the 2008-09 crisis. But some critics say the country should

move beyond such conservatism if the banks are to provide the financing that Turkey, and Istanbul, need.

"Almost the whole game at the moment is the interest rate spread between the assets and the liabilities of the banks," says Markus Slevogt, an Istanbul-based consultant. "But Istanbul needs more than that – it needs to make it easier to get work permits, to get residence permits, to cut down on the bureaucracy that deters asset managers from coming here. The capital markets need to get broader and deeper."

Whether those developments are coming is still to be determined. Change is often unpredictable and sometimes chaotic, as this unmanageable but indispensable city seeks to renew itself on a giant scale.

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## Istanbul Business &amp; Finance

# Infrastructure funding offers speedier route to recovery

**Transport** The rapid push to connect the sprawling city has cost billions and divided public opinion, writes *Shawn Donnan*

When the team assessing the various cities bidding to host the 2020 Games presented their report to the International Olympic Committee in May, they offered a sober assessment of Istanbul's transportation challenges. "Significant transport infrastructure upgrades are planned," the authors wrote. "Should these not be completed there is a risk of extended transport times for athletes travelling from the Olympic Village to the venues located around the city."

Underlying that statement is an awkward reality for Istanbul: no matter what it has done over the years it has struggled to keep up with its own allure and the resulting growth.

The sprawling city has spent billions upgrading its transportation network to cope with a population that, since 1950, has grown from just over a million to more than 15m today. By 2020, according to some predictions,

another two million people will call it home and there are those who expect it to grow to 25m within a decade or two.

But its congested roads and creaky transport infrastructure remain one of Istanbul's weak points. Strike out for home at rush hour and you are confronted with six-lane arteries overwhelmed with cars and buses and taxi drivers who blanch at the idea of venturing into what they view as traffic black spots. The city's metro stations heave with commuters, the unluckiest of which can face a three-hour trip home.

The city has ambitious plans to change all that. In May it awarded the \$2.5bn contract to build a third bridge across the Bosphorus near the Black Sea to a Turkish-Italian consortium that has promised to complete construction by 2015. Designed to ease congestion by drawing heavy trucks away from Istanbul, it will also link up with a third airport for the city.



**City link: the Marmaray rail tunnel is due to be completed in 2013**

Further south, where the Bosphorus spills into the Sea of Marmara, construction is under way on two new tunnels linking the European and Asian sides of the city. The first of those, the Marmaray rail tunnel, is due to be completed in 2013 and will link up with the city's two existing airports and the city centre. The second, the Eurasia Bosphorus road tunnel, is due to be completed by 2016.

Istanbul's metro system is also expanding, with the first line on the Asian side opening this year and construction under way on a new bridge across the Golden Horn, the body of water that bisects the European side.

Those ambitions all combine to make Istanbul's infrastructure investment programme one of the most aggressive in the world, experts say, and all of it is badly needed just to catch up with past population growth. Still, it is not without potential constraints or controversy.

According to Martin Spicer, manager of the International Finance Corporation's southern Europe infrastructure programme, European banks are returning slowly to the local project finance market they have traditionally dominated after the eurozone crisis put any new business on hold.

But Turkey's national ambitions – over the next three years the country is rolling out \$10bn-\$15bn in projects – also mean the market for financing "is difficult", Mr Spicer says, "and will be a constraint to meeting this aspiration of building all this infrastructure".

A number of Istanbul's infrastructure projects have also drawn controversy. Critics of plans for the third bridge fear it will accelerate Istanbul's sprawl towards the Black Sea, threaten a forest on the European side, and in the end do little to address the city's traffic problems.

Like the two that came before it, says Cemal Gokce, president of the

Istanbul branch of the Turkish Chamber of Civil Engineers, the third bridge will only serve to open up new areas to development. "It will draw more people from the rural areas and precipitate sprawl all the way to the Black Sea," he says.

Drawing heavy trucks away from the centre of the city and the existing bridge will do little as they now account for only 2-3 per cent of the traffic on the bridges. Better, he says, would be a much more aggressive investment in public transportation.

To an untrained eye, with its air conditioned carriages and clean stations, Istanbul's Metro system appears remarkably efficient. But there are just 70km of line, Mr Gokce points out, compared to the 500km in a city like London, which has less than 60 per cent the population of Istanbul.

"Ninety per cent of this city's transportation relies on roads [and] most of it is private cars. We have to give people some more choices," he says.

There are those who expect the population to grow to 25m within a decade or two

# Maritime motorway fuels environmental concerns

## Pipeline politics

Halting the flow of 100m tonnes of crude oil is a priority, says *John Roberts*

When you look out on the Bosphorus you look out on one of the world's great highways. From the voyage of the Argo and its Argonauts to the Suezmax tankers that carry crude oil from Russia and the Caspian to global markets, it has always been one of the world's most important trade routes. But this comes at a price.

Every year, ships transiting between the Mediterranean and the Black Sea make 50,000 journeys up and down the Bosphorus. In addition, every day thousands of vessels criss-cross the strait from side to side, ferrying Istanbulites and their goods between Europe and Asia.

Both the Turkish authorities and environmentalists want to halt the flow of close to 100 million tonnes a year of crude oil – equivalent to one-sixth of Europe's oil imports – through this maritime motorway in the heart of Istanbul.

Concerns are fuelled by accidents. These include the 1979 collision between the Romanian-registered *Independenta* and the Greek tanker *Evriali*, in which 43 crew died while 70,000 tonnes of oil were spilled into the Bosphorus, and the 1994 fire on board the Greek-registered *Nassia* in which 27 people were killed and 20,000 tonnes of crude were spilled.

Since then, a further 115,000 tonnes of oil (about 840,000 barrels) have been spilled into the strait.

For at least 20 years, there has been serious talk of building one or more Bosphorus bypasses, pipelines that would link the Black Sea to open-water ports in the eastern Mediterranean, the Adriatic or the Baltic.

Two years ago, Turkish prime minister Recep



Passing through: an oil tanker on the Bosphorus  
Reuters

Tayyip Erdogan even proposed the construction of a massive canal to link the Black Sea with the Sea of Marmara, thus avoiding the Bosphorus.

But, though the Turkish premier voiced his hope that the Kanal (as it is known in Turkey) might be completed in time for the 100th anniversary of the Turkish Republic in 2023, it seems unlikely such a massive project will be built soon.

Yet the Kanal concept has contributed significantly to a key element of the dilemma: it could serve to carry other hazardous goods such as chemical products and liquid petroleum gas, stuff that could not go into a "Bosphorus bypass" pipeline.

The Turkish government would particularly like to see the construction of a 550km crude oil bypass from the Black Sea port of Unye, near Samsun, to the great Turkish Mediterranean oil terminal at Ceyhan.

The problem is that the

1936 Montreux Treaty, which governs transit through the strait, gives Turkey no power either to restrict traffic in the strait or to charge vessels for its use, let alone to compel shippers to put their oil into a bypass.

The Turkish Foreign Ministry has pushed for oil companies to adopt voluntary principles under which they would split their oil shipments between a bypass pipeline and continued use of conventional tankers. This would help eliminate the "free rider" effect: continued use of the strait by some shippers, who would pay only minimal sanitation charges, while others paid commercial tariffs to use a bypass.

The full equation is not quite as simple as that since most tankers take on pilots and they do not come cheap.

And shipping costs rise when heavy traffic in winter routinely delays transits by several days. But, overall, it is still hard to make a case that a Bosphorus bypass can compete commercially with continued use of the strait.

Yet the prospect that the Bosphorus might have to carry an extra 20 mt/y (400,000 b/d) by 2025 as the Caspian Pipeline Consortium doubles the size of its pipeline carrying crude from Kazakhstan to Black Sea ports will ensure a renewed focus – both on transit through the strait and how to avoid it.

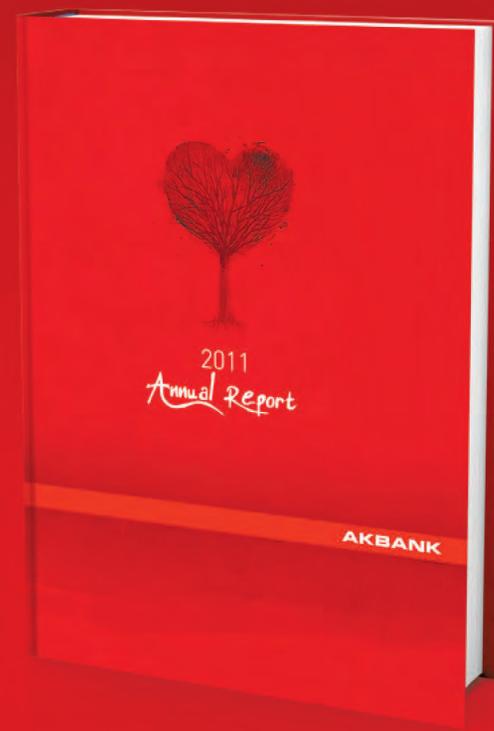
Shippers note just one pair of daily transits (one in, one out) by a Suezmax tanker would handle this extra crude, since Suezmax ships can each carry as much as 1m barrels.

Many economists might argue this means it does not make sense to construct a bypass just to remove a single pair of daily transits. However, environmentalists, the Foreign Ministry and many of Istanbul's 15m citizens argue that the issue is not whether it requires only a single ship to carry the extra crude.

A single accident could be one too many.

It is hard to make a case that a Bosphorus bypass can compete commercially

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## Istanbul Business & Finance

# The people keep on coming

**Tourism** The capital's popularity is growing so fast it may soon struggle to keep up with demand for hotels, writes *Shawn Donnan*

It is not even 9:30 on a sunny Monday morning in October, and by all rights the queues outside Istanbul's Sultan Ahmet Mosque, known the world over as the "Blue Mosque", should be non-existent.

Instead, the wait to get in is already 20 minutes and stretching rapidly. There are American backpackers, French tour groups, a gaggle of Italian middle-aged couples, Germans, Japanese, and even – slightly removed from the rest – a half-dozen camera-wielding Chinese struggling with neither a guide nor any visible signs in their language.

Istanbul is hot. Last year more than 8m people visited, and in the first eight months of this year the numbers have jumped 18 per cent on the year before. Turkey's political stability, its booming economy, and a sense that the country is reasserting its place in the world have all contributed to the favourable conditions now faced by a tourism industry that just a decade ago was emerging from economic crisis and warily eyeing a new Islamist-rooted government in far-off Ankara.

But Istanbul remains the star, and it's not hard to see what the fuss is about. The "ageing and impoverished city buried under the ashes of a ruined empire" that the writer and Nobel winner Orhan Pamuk remembers growing up in is largely gone. Instead, Istanbul now oozes cool.

Its foundation attractions remain in

all their glory. Istanbul's Byzantine and Ottoman monuments are still staggering for their individual scale, their ambition and their numbers. So too is the city's setting. The ferry ride from Europe to Asia and back across the Bosphorus remains one of the greatest in the world.

But Istanbul is also increasingly asserting itself as a modern cultural capital. The Berlin Philharmonic now visits, so too does Leonard Cohen. The city has a burgeoning place on the contemporary art and literary circuits and a number of shiny new institutions.

On a recent trip you could have heard the Scottish crime writer Ian Rankin discuss the joys of literary homicide with a Finnish colleague as part of a literary festival.

"It's quite fun to bump someone off," he confessed. You could also have caught local club Galatasaray take on Sporting Braga in a Champions League tie at its new 50,000-seat stadium, where fans last year set a Guinness World Record for the loudest crowd roar.

To Ahmet Emre Bilgili, director of the Turkish tourism ministry's Istanbul office, the current boom is just the beginning. The city's focus remains the "sophisticated" cultural traveller. But it is also working to develop new markets in China and the rest of Asia, and to lure more visitors from the Middle East. It is building new niches



**Hot spot: crowds jostle to look at the Blue Mosque**  
Dreamstime

in health and sports tourism, and is determined to attract more convention business – even though it is already ranked in the top 10 worldwide for the number of conferences that take place there.

Behind those plans is a confidence that comes from the knowledge that, as Mr Bilgili boasts, "there is no alternative to Istanbul in the region, or in the world".

It's that sort of confidence that led Istanbul to launch bids to host both the 2020 Olympic Games and the UEFA European Championships that same year. It is unlikely to host both. But, coupled with the 2023 centenary of the Turkish Republic, those events are presenting the local industry with a daunting target.

Istanbul now has 100,000 hotel beds, according to Turgut Gur, chairman of the Turkish Tourism Investors Association, and many hotels are already operating at near-full capacity.

If the double-digit growth in visitor numbers of recent years continues, as he believes it will, the city is going to need 200,000 beds within a decade.

The 5,000 beds that the city will add this year, he says, falls far short of the rate that it will need to add to meet the forecast demand. Finding new land for development remains difficult and the local bureaucracy can still be slow to clear investments.

But plenty of foreign investors are sniffing around, eager to get into the

'There is no alternative to Istanbul in the region, or in the world'

market, and Mr Gur is still confident that the industry can rise to the challenge. It has had to grow fast to meet demand before – in 2000 the city had just 30,000 hotel beds, he points out.

"We have the know-how, the experience, the capital and the labour force. All of that shows we can reach our goal," he says.

At the luxurious 170-room Four Seasons Bosphorus, which sits in a 110-year-old palace built by an Ottoman pasha on the strait's shores, this has been a banner year. Nihat Yucel, the hotel manager, says they are forecasting 78 per cent occupancy for the full year – a high rate for the luxury end of the business.

Mr Yucel still has his frustrations. The hotel has to employ its own English teacher to give in-house language training to staff even after they emerge from tourism school. His most demanding clients have only a dozen top-end restaurants to choose from in the city, he says, and too few non-Turkish options. "Why don't we have Nobu in this city?" he asks pointedly.

But change is afoot, Mr Yucel says. Other top luxury hoteliers such as the Mandarin Oriental Group and Raffles are on the way, and it is not hard to find restaurant investors who have identified the very same niche problem that Mr Yucel has. All of which speaks to the boom going around him. "Competition is always good," he says.

## Innovative cuisine in a modern age

### Food

A blend of local and migrant cultures has resulted in a rich culinary diversity, says *Gwen Robinson*

On Friday night in Istanbul, the panoramic terrace of the Sunset Grill & Bar is heaving with the glamour crowd. They are drawn by stunning views over the Bosphorus Strait, which divides what is known as "European" and "Asian" Istanbul, and by the creative menu of Turkish, Japanese and Mediterranean cuisine – as well as a wine cellar that surpasses many of France's top restaurants.

This is just one aspect of Istanbul's diverse culinary scene. Many others lie on either side of the Golden Horn, a tributary that divides the city's "old town" and "new district", and in the sleeper "Asian side" to the east.

In the teeming streets of Sultanahmet in the old town, diners sit in the open air to sample succulent, charcoal-grilled kebabs or the day's catch at any number of seafood restaurants. Many later drift into one of many atmospheric cafes for thick, sweet Turkish coffee and honey-drenched pastries.

In the new district of Beyoglu, the vibrant backstreets of Cihangir and Galata are peppered with kebab stores, pickle shops, bakeries, fish vendors and taverns plying colourful meze plates of dips and salads, and grilled fish and meats with anise-flavoured raki, the local "firewater".

Turkish cuisine is an overwhelming mix of regional flavours and styles, from simple grilled meats and hearty stews to more complex, elaborately spiced dishes and crunchy salads. Bakeries offer as many varieties of bread as patisseries do sweets. Breakfast usually consists

### Istanbul restaurant listings

**Emek Manti**  
A culinary shrine to *manti* – Turkish dumplings.  
0212 262 6981

**Hayvone**  
A modern bistro specialising in hearty Black Sea cuisine.  
0212 245 7501

**Sahin Lokantasi**  
A classic *esnaf lokantasi* – working man's diner. Fast service, no frills.  
0212 244 2543

**Tarihi Karakoy Balikcisi**  
Good fresh fish at this lunch-only restaurant in a hardware market.  
0212 251 1371

**Adem Baba**  
This family-friendly seafood restaurant is an institution.  
0212 263 2933

**Sidika**  
Order *meze* and fish dishes at this subdued, stylish restaurant.  
0212 259 7232

**Antiochia**  
Cuisine of the Hatay region comes together with good design sense.  
0212 292 1100

**Zubeyir Ocakbasi**  
Locals and visitors come for the classic kebab experience.  
0212 293 3951

**Kofteci Huseyin**  
Meatballs are a family tradition at this tiny *kofte* – minced kebab – shop.  
0212 243 7637

**Lokanta Maya**  
A contemporary take on Turkish food from chef Didem Senol.  
0212 252 6884

**Kantin**  
Chef Sema Denizsel creates simple, yet excellent, seasonal menus.  
0212 219 3114

**\* Cezayir**  
Traditional cuisine in a

gracefully restored building.  
0212 245 9980

**\* Sunset Grill & Bar**  
Top of Istanbul's top-end eateries – with food, atmosphere and prices to match.  
0212 287 0357

**\* Mikla**  
Chef Mehmet Gurs combines innovation and tradition with stunning views.  
0212 293 5656

*\* Denotes author's picks; other listings courtesy of Culinary Backstreets www.culinarybackstreets.com*

*Turkey international code +90*



of cheeses, breads, tomatoes and cucumber.

With its multi-ethnic blend of cultures: Turkish, Arab, Persian, Greek – even Uyghur – and roots in imperial Ottoman cuisine, the concept of generic Turkish

'It takes time to go beyond the surface, to discover Turkish identity'

food is difficult, says long-time Istanbul resident and author Nicole Pope.

"Foreigners tend to see the kebab as a uniform national dish, but there are numerous regional vari-

ations... There's virtually no single 'national dish' – you'll find kebabs and *meze* throughout the country, but with differences."

Istanbul is a real migrant city, and its restaurant culture reflects that diversity, says Ansel Mullins, a food critic who runs the website Culinary Backstreets. "The population here has tripled in the last 20 years, and people have brought their own cuisines."

Mr Mullins agrees with critics, such as Baris Tansever, owner of the Sunset Grill & Bar, who argue that the kebab has fallen prey to fast-food culture, and overly dominates the image of Turkish cuisine. Mr Mullins talks of a rising generation of innovative Turkish chefs. But, he says, "Turks love their traditions."

Through culinary tours of Istanbul he aims to show the quality and diversity of "genuine" Turkish food, including the "real kebab". "Definitely, the clichés need to be challenged, though like it or not, kebab in its many forms is a real part of the culinary landscape. There's plenty of room for upscale sushi restaurants as well as down-market kebab joints."

One tour starts in the district of Cihangir at Datli Maya, a bakery and restaurant run by the chef Dilara Erbay, who left her fusion restaurant to devote herself to traditional recipes. She has converted the shop's gas oven back to wood-fired, to bake robust stews in clay pots as well as breads and pastries.

Tempting smells waft from a batch of *simit* – sesame-coated bread rings. We feast on fresh-baked *borek* – stuffed flat pastries – filled with crumbly spiced cheese and spinach.

The next stop is Asri, a family-run pickle shop, its shelves stacked with jars of colourful pickled vegetables, many of which have come from the family's own farm. We demolish cups of piquant turnip and cabbage in a tangy juice.

A short walk brings us to Hayvone, a bright bistro specialising in Black Sea cuisine, including *hamisi* (fresh anchovies) in a rice pilaf, stuffed black cabbage and a smoky bean-and-kale soup with corn bread. "This is what you could call Turkish soul food – down-home and exceptionally tasty," notes Mr Mullins.

It is time for a caffeine break. "Turks drink tea and coffee many times a day," says Mr Mullins. We visit Mandabatmaz, a hole-in-the-wall just off trendy Istiklal Street. Here, the Turkish coffee is high-quality, thick and flavourful.

A cab ride to Sultanahmet, near the spice market, brings us to Sehzade, which Mr Mullins ranks alongside the city's top kebab restaurants. Among the most popular varieties of the ubiquitous dish are *doner* kebab – pancake-thin layers of marinated meat stacked on a vertical spit, and *cag* kebab, which is chunkier and roasted on a horizontal spit.

Vegetarians can also feast at kebab places, on dishes such as lentil soup, fresh salads and *ezme* – spicy minced tomato, onion and parsley.

"This is an explorer's city, an eater's city – you learn so much about modern Turkey through its food. But it takes time to go beyond the surface, to discover Turkish identity."

After a day touring the city's eateries, that goal seems a little bit closer.

### Viewpoint Andrew Finkel

To some, it is less a carbuncle and more a vicious scar across the historic skyline of Istanbul. To others, the bridge, now being built across the landmark Golden Horn, is the price that has to be paid by a city whose population has doubled over the past two decades to about 15m.

The crossing will form the overland link in a much-needed mass transit underground line. It illustrates an enduring conundrum. How does one pack the infrastructure of a modern metropolis into the narrow confines of a historic city?

The answer given by many of Istanbul's architects and planning professionals? Through a process of competition and public transparency. They complain of a system in which major decisions affecting Istanbul's future are taken, not just in back rooms, but for political reasons, in far away Ankara.

"I am not against a metro bridge," explains Oguz Oztuzcu, president of the Association of Istanbul Independent Architects. What he objects to is the lack of public consultation in its design – a modernistic cable suspension bridge – which he describes as an unnecessarily elaborate structure to span a distance of only 936 metres.

It was only after Unesco threatened to remove Istanbul's historical peninsula from its list of World Heritage sites, that city authorities agreed to reduce the support towers by 20 metres. "Even so, future generations will have to look at the Suleymaniye Mosque through the equivalent of an egg slicer," says Mr Oztuzcu.

Many regard it as adding

insult to injury that, after interfering with the view of the finest example of 16th century classical Ottoman architecture, the city is now intending to build an ersatz Suleymaniye on Istanbul's choicest bit of real estate – the Camlica hilltop city.

The decision to build a mosque that "could be seen from every corner of the city" was the brainchild of Recep Tayyip Erdogan, prime minister, who unveiled the project on May 29, the anniversary of the Ottomans conquest of Constantinople in 1453. Perhaps stung by criticism that it is intended as a sultanic seal on his party's decade in power, the foundation undertaking the construction organised a public competition.

How to pack the infrastructure of a modern metropolis into a historic city?

However, the Istanbul Chamber of Architects complained that the eight-week submission deadline was absurdly inadequate. There was criticism even from the conservative pro-government press at the condition that the building's design conform to an antiquated Turkish Ottoman style. The final straw, leading to a boycott of the competition, was that the winner consent to a 40 per cent reduction in the minimum-agreed architectural fee.

"The proposed Camlica mosque will create its own problems," says Murat Guvenc, head of the urban planning department of Istanbul's Sehir University.

Most mosques cater to an existing community, but this new cathedral-sized mosque will be built in parkland. For it to be of any use, there will have to be feeder roads and

parking lots constructed in a part of the city where current zoning regulations prohibit any building at all.

One example of the city trying to get it right has been the new metro station at Yenikapi, on the Marmara Sea shoreline in the south of the historical peninsula. This will be a hub for a new underwater metro line that will bring commuters from the Asian side.

Excavations began in 2004, uncovering a treasure trove in what turned out to be the old Byzantine harbour. This included 34 medieval vessels, some of which still had their cargo, as well as an 8,000-year-old Neolithic tomb. To their credit, the municipality gave the archaeologists years to finish their work.

It also organised a competition to weave an archaeological park around the metro station and gave space for a museum. But such good intentions were always in jeopardy from a scheme to build a parallel tunnel to the metro line, which would feed motor traffic into the peninsula. This second tunnel proffers multi-lane approach roads that would, in effect, cut access to parks along the water front. Environmentalists still hope the European Bank for Reconstruction and Development can be shamed into dropping its support.

If that weren't enough, the municipality announced a scheme to infill a huge area on the shore that would be used, primarily, for up to 800,000 people attending political rallies. "It came as a complete surprise. I'm not sure what we do next," says Cafer Bozkurt, one of the Turkish co-winners of the Yenikapi competition. It is a sentiment many fellow Istanbulites share.

The writer is the author of 'Turkey: What Everyone Needs to Know', published by Oxford University Press