An Update On The Continuing Growth of Turkey’s Industrial Partnership Activities

Bilal AKTAŞ
Industrialization Dept. Head
WHY TURKEY? – SECTORS OF OPPORTUNITY

- Easy Access to Multiple Markets
- Incentives for Investments
- Qualified and Competitive Work Force
- Strong and Stable Economy
- Industrial Clustering Approach
INVEST IN TURKEY IN DEFENCE AREA

Market Size
• 18th in World’s top military spenders (2016)
• Military Expenditure - %1.7 of GDP (2016)

Market Growth
• Expanding and improving indigenous defence industry

Opportunities
• High level of production technology & improvement and potential in research initiatives
DEFENCE PROCUREMENT CYCLE

DEFENCE INDUSTRY EXECUTIVE COMMITTEE (SSİK)
- President
- Prime Minister
- Minister of Defence
- Minister of Interior
- Chief of General Staff
MISSIONS OF SSM

Technology Management

Export Management

Incentives

Development of The Turkish Defence Industry Base

Modernisation of Turkish Armed Forces

Industry Management

Industrial Participation/Offset

Quality Test Certification
Main Procurement Agreement

Industrial Participation and Offset Agreement

Sector Strategic Management
- Preparing sector and sub-sector strategies
- Developing subcontractors and SME’s
- Coordinating investments

DEPARTMENT HEAD
Bilal AKTAŞ

Aerospace Sector Management
Electronics and Software Sector Management
Machinery and Ship Building Sector Management
Sector Strategies and Investment Planning
Technology Transfer Office (IP Rights)
# 2011 IP&O Directive: Baseline

<table>
<thead>
<tr>
<th><strong>TOPICS</strong></th>
<th><strong>RULES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Threshold to Require Offset</td>
<td>5 Million USD</td>
</tr>
<tr>
<td>IP/O Commitment</td>
<td>70% of the Contract Price</td>
</tr>
<tr>
<td>Subcontractor / SME Portion</td>
<td>30% of the Category-A IP&amp;O</td>
</tr>
<tr>
<td>Crediting Basis</td>
<td>Domestic Net Added Value (DNAV)</td>
</tr>
<tr>
<td>Type of Agreement</td>
<td>Separate IP&amp;O Agreement with the Contractor</td>
</tr>
<tr>
<td>Bank Guarantee</td>
<td>6% of IP&amp;O Commitment</td>
</tr>
<tr>
<td>Period of Performance</td>
<td>Program Duration + 2 Years</td>
</tr>
<tr>
<td>Penalty</td>
<td>6% of Unfulfilled Commitment</td>
</tr>
<tr>
<td>Temporary Crediting</td>
<td>Allowed (Some Conditions May Apply)</td>
</tr>
<tr>
<td>Banking of Credits</td>
<td>Allowed (Valid for 5 Years)</td>
</tr>
<tr>
<td>Transfer of Excess Credits</td>
<td>Allowed (Causality)</td>
</tr>
</tbody>
</table>
INDUSTRIAL PARTICIPATION AND OFFSET-MULTIPLIERS

**Category A**
- Direct Industrial Participation

**Category B**
- Export of products / services in the areas of defence, aerospace and homeland security

**Category C**
- Gain technology / capability
- New investment in the areas of defence, aerospace and homeland security

<table>
<thead>
<tr>
<th>TRANSACTION</th>
<th>MULTIPLIER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design &amp; Engineering Works Performed by SMEs</td>
<td>2</td>
</tr>
<tr>
<td>All other IP Works</td>
<td>1</td>
</tr>
<tr>
<td>Export of Platforms</td>
<td>4 - 5</td>
</tr>
<tr>
<td>Export of Systems / Subsystems</td>
<td>3</td>
</tr>
<tr>
<td>Export of Structural Parts</td>
<td>2</td>
</tr>
<tr>
<td>SME Portion in Transaction</td>
<td>(+ 1)</td>
</tr>
<tr>
<td>Export to New Market</td>
<td>(+ 1)</td>
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<td>Transfer of Technology / Capability</td>
<td>3 - 5</td>
</tr>
<tr>
<td>Transfer of Special Technology / Capability Requested by SSM</td>
<td>6 - 8</td>
</tr>
<tr>
<td>Direct Foreign Investment</td>
<td>4</td>
</tr>
<tr>
<td>Transfer of Hardware / Software to University / Research Institute</td>
<td>3</td>
</tr>
</tbody>
</table>
INDUSTRIAL PARTICIPATION PLAN (FRAMEWORK)

1. PROGRAM MODEL

2. OBLIGOR’S INDUSTRIAL POLICY

3. WORKSHARE DISTRIBUTION

4. INDUSTRIAL PARTICIPATION
   - Design & Development
   - Other Engineering Work Packages
   - Production
   - Test, Qualification, Certification
   - MRO

5. SME & NON-SME CONTRIBUTION
   - SME Workshare
   - Non-SME Workshare

6. RESEARCH & DEVELOPMENT ACTIVITIES
   - Cooperation with Universities
   - Cooperation with Research Institutes

7. TECHNOLOGY, CAPABILITIES AND INVESTMENTS
   - Existing Capabilities & Infrastructure
   - Required Technology & Capabilities
   - New Investments

8. ADDITIONAL SALES & EXPORT OPPORTUNITIES

9. OTHERS
<table>
<thead>
<tr>
<th>Foreign Contractors</th>
<th>Local Contractors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USA</strong></td>
<td></td>
</tr>
<tr>
<td>BELL HELICOPTER</td>
<td></td>
</tr>
<tr>
<td>BOEING COMPANY</td>
<td></td>
</tr>
<tr>
<td>SIKORSKY LM</td>
<td></td>
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<tr>
<td>BAE SYSTEMS</td>
<td></td>
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<tr>
<td>GERMANY</td>
<td></td>
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<tr>
<td>AIRBUS</td>
<td></td>
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<tr>
<td>TKMS</td>
<td></td>
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<tr>
<td>ITALY</td>
<td></td>
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<tr>
<td>LEONARDO</td>
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<td>KOREA</td>
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<td>KAI</td>
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<tr>
<td>SPAIN</td>
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<tr>
<td>NAVANTIA</td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td></td>
</tr>
<tr>
<td>BELL HELICOPTER</td>
<td>ASELSAN</td>
</tr>
<tr>
<td>BOEING COMPANY</td>
<td>HAVELSAN</td>
</tr>
<tr>
<td>SIKORSKY LM</td>
<td>ROKETSAN</td>
</tr>
<tr>
<td>BAE SYSTEMS</td>
<td>TAI</td>
</tr>
<tr>
<td>GERMANY</td>
<td>MKEK</td>
</tr>
<tr>
<td>AIRBUS</td>
<td>BMC</td>
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<tr>
<td>TKMS</td>
<td>NUROL MACHINE</td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Offsets (Export) – Category B</strong></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>ASELSAN</td>
</tr>
<tr>
<td>BELL HELICOPTER</td>
<td>HAVELSAN</td>
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<td>TKMS</td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Local Contractors</strong></td>
<td></td>
</tr>
<tr>
<td>ANADOLU DENIZ (ADIK)</td>
<td>YONCA ONUK</td>
</tr>
<tr>
<td>YONCA ONUK</td>
<td>ISTANBUL MARINE</td>
</tr>
<tr>
<td>SELAH SHIPYARD</td>
<td></td>
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<tr>
<td>SEDEF</td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>
F-35 PROGRAM INDUSTRIAL PARTICIPATION

- **OPTICAL & AVIONIC COMPONENTS**
  - ASELSAN

- **PANORAMIC COCKPIT DISPLAY**
  - AYESAŞ

- **MISSILE REMOTE INTERFACE UNIT**
  - AYESAŞ

- **LANDING GEAR**
  - ALP AVIATION

- **STRUCTURAL PARTS**
  - KALE AEROSPACE

- **WEAPON BAY DOORS**
  - TAI

- **AIR INLET DUCTS**
  - TAI

- **CENTRAL FUSELAGE**
  - TAI

- **AIR TO GROUND Pylon**
  - TAI

- **ENGINE PARTS**
  - KALE AEROSPACE

- **ROKETSAN**
  - TUBİTAK - SAGE
2011 IP/O GUIDELINE & FUTURE

LESSONS LEARNED

- DECREASE THE BANK GUARENTEE COST
- DECREASE THE DOCUMENTATION
- ENCOURAGE THE NEW JV’S
- IDENTIFY THE PROJECTS

• COMPULSORY IP/O PROJECTS
• COMPREHENSIVE INDUSTRIALIZATION PLANS
• POTENTIAL SUBCONTRACTORS LIST
# IP&O Directive : Revision

<table>
<thead>
<tr>
<th>TOPICS</th>
<th>RULES (Existing)</th>
<th>RULES (Incoming)</th>
</tr>
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<tbody>
<tr>
<td>Threshold to Require Offset</td>
<td>Domestic Contractor: No threshold</td>
<td>Domestic Contractor: 5 Million USD</td>
</tr>
<tr>
<td></td>
<td>Foreign Contractor: 5 Million USD</td>
<td>Foreign Contractor: 5 Million USD</td>
</tr>
<tr>
<td>IP/O Agreement</td>
<td>NECESSARY</td>
<td>PREFERRED</td>
</tr>
<tr>
<td>Subcontractor / SME Portion</td>
<td>30 % of the Category-A IP&amp;O&lt;br&gt;15% SME</td>
<td>30%&lt;br&gt;SUBCONTRACTOR = SME</td>
</tr>
<tr>
<td>Bank Guarantee</td>
<td>6 % of IP&amp;O Commitment</td>
<td>4 % of IP&amp;O Commitment</td>
</tr>
<tr>
<td>Penalty</td>
<td>6 % of Unfulfilled Commitment</td>
<td>4 % of Unfulfilled Commitment</td>
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<th>TRANSACTION (Incoming)</th>
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<td>Works Performed by SMEs</td>
<td>2</td>
</tr>
<tr>
<td>Design &amp; Engineering Works Performed by non-SME supplier</td>
<td>1.5</td>
</tr>
<tr>
<td>Export of Platforms</td>
<td>1-3</td>
</tr>
<tr>
<td>Export of Systems / Subsystems</td>
<td>1-3</td>
</tr>
<tr>
<td>Export of Structural Parts</td>
<td>1-2</td>
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</tr>
<tr>
<td>Qualification/Certification support to sub-industry/SMEs</td>
<td>3-5</td>
</tr>
<tr>
<td>R&amp;D Works performed by SMEs (including training activities aimed at raising qualified human resources)</td>
<td>5</td>
</tr>
</tbody>
</table>
A common platform to follow and participate SSM’s New Era of IP/O Management:

http://sanayilesme.ssm.gov.tr

Industrialization Portal
721 member companies

Number of Products
3450
THE INDUSTRIAL COMPETENCY ASSESSMENT AND SUPPORT PROGRAM (EYDEP)

**Current Structure**

- Main Contractor 1
- Main Contractor 2
- Main Contractor 3
- Main Contractor n

**Firm 1**

**Firm 2**

**Firm 3**

**Firm n**

**EYDEP**

- Main Contractor 1
- Main Contractor 2
- Main Contractor 3
- Main Contractor n

- Firm 1
- Firm 2
- Firm 3
- Firm n
Company certifications are given by SSM.

Certification Categorization:

- ES 101-A, ES 101-B, ES 101-C (for System (S) firms),
- ES 201-A, ES 201-B, ES 201-C (for Production (U) firms),
- ES 301-A, ES 301-B, ES 301-C (for Design (T) firms),
- ES 401-A, ES 401-B, ES 401-C (for Production/Design (UT) firms),
**PROCUREMENTS by SSM**

**Distribution by number**
- Local Development: 46%
- Foreign direct procurement: 6%
- Other: 2%
- R&D: 22%
- Co-development: 10%
- Service Procurement: 3%

**Distribution by value**
- Local Development: 30%
- Foreign direct procurement: 9%
- Other: 8%
- Co-development: 49%
- Service Procurement: 1%
- R&D: 1%
- Local direct procurement: 2%

**# of Ongoing Programs:** 604
**# of Signed Procurement Contracts:** 385
**Value:** 41 B USD
IP/O COMMITMENT (Billion $)

- 2013: 17.57
- 2014: 18.36
- 2015: 20.5
- 2016: 23.1
- 2017: 24.5

IP/O STATUS (2017) (Billion $)

<table>
<thead>
<tr>
<th></th>
<th>TOTAL</th>
<th>Local Contractor</th>
<th>Foreign Contractor</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL OFFSET</td>
<td>24.5</td>
<td>10</td>
<td>14.5</td>
</tr>
<tr>
<td>COMMITMENT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realized</td>
<td>13.8</td>
<td>3</td>
<td>10.8</td>
</tr>
<tr>
<td>Outstanding</td>
<td>11.33</td>
<td>7</td>
<td>4.33</td>
</tr>
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</table>
SSM’S VISION

Integration to the global industry

Indigenous solutions for domestic military requirements in strategic areas

Capable, competitive and sustainable industry

Effective supply chain with technology intense SME’s
COOPERATION AREAS

- Rockets
- Land Vehicles
- Naval Platforms
- Command Control Systems
- Fire Control Systems
- Jammers
- Mine Detection Systems
COOPERATION AREAS

- Electronic Warfare
- Trainer Aircraft
- Missile
- Weapon
- Helicopter
- Unmanned Systems

- Rockets
- Land Vehicles
- Naval Platforms
- Command Control Systems
- Fire Control Systems
- Jammers
- Mine Detection Systems
COOPERATION AREAS

- Rockets
- Land Vehicles
- Naval Platforms
- Command Control Systems
- Fire Control Systems
- Jammers
- Mine Detection Systems

Advanced Jet Trainer
Satellite Systems
F-X New Generation Fighter
Medium Class Utility Helicopter
UAV Programs (Strategic Combat Rotary-Wing)
Cyber Security
Electronic Warfare
Helicopter
Trainer Aircraft
Missile
Weapon
Unmanned Systems
R&D
- Material, sensor, propulsion/engine tech. (fundamental sciences)
- Indigenous Mission Computer for Fighters
Civilian Industrial Cooperation Programme

➢ The public procurement of goods, services and construction activities which includes “technology transfer, localization and innovation” is exempted from the Public Procurement Law No: 4734.

➢ This kind of procurement is subject to the rules and regulations for the Industrial Cooperation Programs (ICP), which came into force in February 17, 2018.

➢ The industrial and technological participation activities within the scope of ICP is executed by Ministry of Science, Industry and Technology (MoSIT).
Industrial Cooperation Programme

Ministries, Municipalities etc.

Procurement Group

Technical Section

Administrative Section

Ministry of Science, Ind. and Tech.

Industrial and Technological Participation (ITP) Group

coordination

ITP Section

Evaluation of tender proposals

Selection of the contractor

coordination

Procurement Contract

ITP Contract
**INDUSTRIAL COOPERATION PROGRAMME**

**LOCAL CONTENT**  
(Category-A)  
Activities to be conducted within Turkey, by the companies/institution in Turkey, within the scope of Procurement Contract

**TECHNOLOGICAL COOPERATION**  
(Category-B)  
Except the ones within Category-A;  
- the contributions including equipment, hardware, software, service, information, documentation, training, IP rights etc.  
- provided to R&D, design, development, production, test, etc. studies/activities conducted by the companies and institutions in Turkey  
- with the purpose of industrialization, localization and commercialization in the fields specified by MoSIT

**EXPORT**  
(Category-C)  
Product/service or construction activities export within the scope of Procurement Contract or within the fields specified by MoSIT
## Industrial Cooperation Programme

<table>
<thead>
<tr>
<th>Items</th>
<th>Terms and Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITP Contract</td>
<td>• Signed with Ministry of Science, Industry and Technology.</td>
</tr>
<tr>
<td></td>
<td>• Annexed to the Main Procurement Contract</td>
</tr>
<tr>
<td>ITP Commitment</td>
<td>• Minimum 50% of the Procurement Contract value</td>
</tr>
<tr>
<td>Categories</td>
<td>• Category-A (including supplier and SME workshare)</td>
</tr>
<tr>
<td></td>
<td>• Category-B and Category-C</td>
</tr>
<tr>
<td>ITP Plan</td>
<td>• The details of Category-A activities</td>
</tr>
<tr>
<td>Multipliers</td>
<td>• 1-4 for the fields specified by MoSIT</td>
</tr>
<tr>
<td>Letter of Guarantee</td>
<td>• % 6 of total ITP liability</td>
</tr>
<tr>
<td>Penalty</td>
<td>• % 6 of the unfulfilled ITP liability</td>
</tr>
<tr>
<td></td>
<td>• The application of penalty, shall not terminate the responsibility of contractor to fulfill the ITP liability</td>
</tr>
</tbody>
</table>
THANK YOU

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Fax: +90 (312) 411 93 86
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