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Turkish Defense Industry Positioned to Weather the Storm with Cross Sector Collaboration

The President of TOBB Defense Industry Council, Yılmaz KÜÇÜKSEYHAN evaluates how the COVID-19 pandemic has impacted defense industry companies from the outset of the outbreak and what precautions decision makers have implemented to help businesses come out of this crisis unscathed.

Defence Turkey: Mr. KÜÇÜKSEYHAN, thank you so much for meeting with us in this video interview as we all are working remotely these days. We see that the defense industry is also affected by this

process. You closely follow the problems that have arisen in the sector with industry stakeholders and establish the necessary coordination. How has the COVID-19 pandemic impacted our companies? What kind of cooperation has been established within the sector regarding supply processes, supports/aids and coordination?

Yılmaz KÜÇÜKSEYHAN: I regard the COVID-19 outbreak as a hot war, because when you examine the history, you cannot see a war with so many casualties in the world at the same time. For this reason, we are under harsh combat conditions. It is impracticable to claim that the defense industry, which is the critical and solid part of the economy, is not affected by this pandemic. Considering the ecosystem

as a whole, the impact on the defense industry has been relatively minor when compared to other sectors. Despite all the embargoes imposed, and the countries that opposed the Peace operations that we conducted in Syria and Iraq in 2019, I consider the 2019 figures as a very pleasing picture. This is an indicator of the sector's discipline, and the tremendous systematic efforts exerted. I would like to thank all the contributors and colleagues.

I asked small, medium and large-scale companies that I know "How has this virus affected you?", the answers I received from them in general are that "the companies with strong financial structures will continue this momentum also in 2020". Despite the damage the economy has been suffering, they

think this momentum will continue. However, in exports, some disruptions will be observed in the defense industry as countries shift a large part of their budget allocations to pandemic expenditures due to this outbreak.

While our domestic needs continue to be covered to a large extent, we also feel the joy and pride of having accomplished overseas sales amounting to more than US\$ 3 billion in 2019. Our export figure for 2019, which was calculated by the Defense and Aerospace Industry Exporters' Association as per the customs declaration forms, was US\$ 2.732 billion. When we add these figures, the activities such as maintenance, repair and modernization performed abroad, which we call foreign exchange earning

services, a total of US\$ 3.088 billion in overseas sales revenue was achieved.

The industry is confident that it will maintain its current status in 2020 with the momentum that it received in 2019. If the government continues to increase the incentives that it has made so far to companies and institutions with weak or weakened financial structures, and which are indispensable, we will certainly be able to escape unharmed from this process as an industry. All 2020 budgets were prepared and allocations were made accordingly. If such allocations are not shifted to the health sector in our country, and if the resources allocated to the Defense Industry are not directed to healthcare sector also in foreign countries, I believe our exports will increase once again. Of course, timely payments are also a very critical factor here.

Defence Turkey: Mr. KÜÇÜKSEYHAN, we observe that the civil aviation sector took a monumental hit during this process. As you mentioned, one of the most important elements here is the sustainability of companies, and the effective management of cash inflow and outflow to survive. In this process, cash outflow is restricted due to insufficient cash inflow. Small-to-medium companies need resources to sustain their cash flow to survive. Will the TOBB Defense Industry Council provide recommendations to the decision makers regarding separate loan facilities for companies or

amendments to provisions on existing loans?

Yılmaz KÜÇÜKSEYHAN: This is an issue that we have focused on for years; there are companies with weak financial structures and are entering the Defense Industry with great eagerness. While registering our members to SASAD and TOBB Defense Industry Council, we determine their financial structure and capabilities both after consulting with the relevant parties and visiting the companies. 98% of our members are financially sound companies that meet the required criteria. What will disrupt the structure of these companies are the delays in delivery. If these delays are caused by payments from the government, this may cause trouble. A budget of US\$ 1 million or a delay may not a big deal for our companies such as Aselsan, Roketsan or FNSS, but for an SME employing 5-6 staff, this is perhaps an amount to cover its 1-year personnel expenses. I have interviewed a few big companies these days and I have seen a lot of examples here. For example firm A said that up to now, they have made US\$ 400 million in payments to its subcontractors without delay. Our Defense Industrialists are not going through any difficulties in obtaining credit, including small and medium-sized companies. The point we need to pay attention to is that the force majeure clause must be included in the contracts. There may be wars, or something else may happen, I cannot think of anything greater than the pandemic, so all such conditions have to be

added to the contracts as a force majeure event.

Our request in this process is to postpone the immediate and binding delivery dates of the main contractors from this time forth if we want to proceed successfully in 2020. For example, there may be products or materials that needed to be delivered in March, but our SMEs or sub-industry companies should not be imposed penalties for not fulfilling this condition. It should be postponed for at least 6 months. It is necessary to use a clause that will explicitly cover what the force majeure might be, either within the contract or in other binding documents. As of today, this should be taken into consideration for prospective contracts, I think that our state is probably going out to international tenders and signing contracts by taking such force majeure events into consideration. We must do the same. We will postpone the deliveries and we will not impose penalties to our companies.

Defence Turkey: We see that our companies are not affected in terms of employment; on the contrary the main contractors have increased their employment numbers. What are your views and comments on increasing employment in 2020 or maintaining current employment?

Yılmaz KÜÇÜKSEYHAN: This year, our employment increased from 63 thousand to about 73 thousand, including the employees in subcontractor companies. As can be seen, our employment number is quite high. But we do not

include the number of employees in subcontractor companies; we only consider the number of permanent staff. To give an example, Turkish Aerospace (TUSAŞ) recruited 2,000 personnel for new projects last year, and our other large companies employed around 1,000 staff each, maybe a little more. SaSaD Secretary General Hüseyin BAYSAK provided you with the figures about the activities carried out by our companies in the form of remote working, shift working or uninterrupted working due to this pandemic. Some of our companies, which I like the most among these figures, have not changed their working orders. Members of the board, who are 65 years old and above, participated in management by teleconference. As an industry, I do not think there will be any layoffs next year; on the contrary we may have the chance to include the talent that is laid-off in other sectors and bring them into our sector. It could be a chemical engineer or a mechanical engineer, and we are able to add them all to our permanent staff. We managed to bring Turkey some research assistants from abroad, those doing their doctoral studies abroad, or the qualified personnel who are working in foreign countries for a certain period of time. At least 10% of those want to stay in Turkey, and it will be a great opportunity for us. We need to employ these colleagues in relevant positions as per their talents, with the support of the state. I expect an increase in employment as an industry; I do not expect any decrease.



Defence Turkey: We observe that the Turkish Defense Industry has taken protection measures for its employees. Unfortunately, it is reported that there may be mass layoffs in multinational companies around the world. In your opinion, should there be any effort exerted during this period for the utilization of the related qualified workforce here in Turkey?

Yılmaz KÜÇÜKSEYHAN: As it is known, we carry out activities for the prevention of brain drain. This is an issue that our Presidency of Defense Industries has been working on for 1-2 years. As a person who has led this team for a while, I see this period as an opportunity. While we were doing surveys before, none of them were willing to give details on where they were working, but now it is clear, where they are working is known. It may be possible to reverse the brain drain, if the talents of these colleagues are examined and followed up with face-to-face talks to share details with them about the opportunities to be provided by the state. Thus, a qualified workforce can be achieved. We should take the steps now, so that before the virus crisis ends

and before everyone goes back to normal working order, specific and immediate action should be taken so that we do not send out our talented and qualified people abroad again.

Defence Turkey: During this period, it is said that some countries will move toward restrictions in Defense Industry expenditures. However, every crisis also brings new opportunity, and it has been reported that diverse developments in the healthcare industry or technology sector will occur. In your opinion, can Turkey create a roadmap with the defense industry, with particularly high added value and a strong infrastructure, in order to turn this crisis into an opportunity?

Yılmaz KÜÇÜKSEYHAN: In 2014-2015, while I was performing as an audit arbitrator for the R&D centers of the Ministry of Industry and Technology, Aselsan had 5-6 R&D centers. If I had not know that it was Aselsan, I would have thought that it was an R&D center owned by the Ministry of Health. I knew the high costs of the sensor-based detection devices coming from abroad, and the activities they

performed in those days made me very happy and I thanked them. The Defense Industry has a creative power. Thanks to that, for example, regarding the production of respiratory devices, Aselsan's General Manager told me that their activities were continuing. These are the opportunities that lie in the crisis. The Defense Industry has a sound and very effective technological infrastructure. I think this infrastructure, within the framework of the ecosystem, has the required technology and knowhow in almost all aspects of the economy, from agriculture to production, from rail systems to meeting the needs of hospitals. I audited more than 50 R&D centers, personally interviewed nearly 1,000 researchers and closely witnessed the potential. We need to take advantage of this opportunity.

On the other hand, with the last decree, a 20% additional tax was imposed on goods imported from the U.S. For the previously awarded contracts regarding the import of products, especially regarding foreign-dependent products such as raw materials and semi-finished products, there are situations where we cannot reflect this increase in prices as an increase in customs duties. Therefore, we think that it would be appropriate to withdraw this tax increase; doing so would result in a concrete benefit to our companies, otherwise this 20% additional tax will be incurred as the company's loss.

Defence Turkey: Nowadays, when land borders and airspaces are closed, there

are difficulties in importing materials and equipment or exporting. What problems have been raised to the TOBB Defense Industry Council in this area? What have sector stakeholders shared with you about shipping exported and imported products by air, land and sea? What needs to be done to solve these problems?

Yılmaz KÜÇÜKSEYHAN: Countries producing and selling oil have suffered greatly by this crisis. We have never seen such a low price before. In air transport, the suspension, restriction of international travel or the option to conduct flights with special permits will cause cargo transportation to be at the top of the agenda as a separate issue in the future. So far, no problem has been reported to us, there were some problems such as customs issues, but these were related with land or sea transportation. I suppose that air cargo transportation will come to the fore in the future, the deepest need for this was seen during this period. In the next 5-6 months, we will see airlines continue to conduct cargo transportation rather than passenger transportation. Turkish Airlines has already started using passenger aircraft in cargo transportation.

Defence Turkey: Turkey as well as the whole world is going through a challenging crucial time and I think your precious words will guide many of us in this process. I hope our country will weather this storm and come out ahead. Thank you so much for your time ■