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# TRABZON

## Executive Summary Economic Sectoral Review and Cluster Selection

18 October 2011 FINAL COPY



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October, 2011  
Ankara

## SME Networking Project

This report has been produced by the Short Term Expert, Yeliz Çuvalcı within the scope of the “Technical Assistance for Empowering SMEs for Networking and Inter-regional Cooperation (SME Networking Project)”. The Project is co-financed by the European Union and the Republic of Turkey. The content of this publication is the sole responsibility of the consortium led by ECORYS NEDERLAND B.V. - and can in no way be taken to reflect the views of the European Union. The End-Recipient of the Project is the Ministry of Economy. All rights of this report belong to the Ministry of Economy.

## Executive Summary

Trabzon is located in the northeast part of Black Sea Region on 4.685 km<sup>2</sup> area of land and accounts for 0,6 % of Turkey in terms of geographical size. Its adjacent provinces are; Rize to the east, Gümüşhane and Bayburt to the south and Giresun to the west.

Trabzon Airport was opened to air traffic in 1957 and it is the only airport in the Eastern Black Sea Region.

The port of Trabzon is strategically located on the historic Silk Road as a gate to Caucasus and Central Asia and is a transit point for trades' destined to Iran, Iraq, Russia and Turkic Republic.

According to the address based population census of 2010, the population of the province of Trabzon is 765.127 people and ranked 58th in among 81 provinces in terms of population growth rate in the period of 2009-2010.

Trabzon in Numbers	
<i>Area</i>	4 685 km <sup>2</sup>
<i>Population</i>	765.127
<i>Employment</i>	15.571
<i>Development Performance</i>	38 <sup>th</sup>
<i>Value of Trabzon's Exports</i>	1.011.085.000 (USD)
<i>Registered Trademarks (1995-2010)</i>	1139
<i>Registered Patents (1995-2010)</i>	4
<i>Number of Companies</i>	8008
<i>Number of Manufacturers</i>	602

The registered workforce in Trabzon is 15.571 people in 2010 while the number of unemployed people is 13.882<sup>1</sup>.

According to the Development Performance Analysis of 2003, Trabzon ranked 38th within 81 provinces and the distribution of GDP to sectors follows as 60% services, 22% industry, 18% agriculture<sup>2</sup>.

Tea and hazelnut are the main products of Eastern Black Sea Region. In addition to them, Trabzon province cultivates tobacco, corn and other fruits and vegetables.

Trabzon is the most important centre of the fishery sector and it's also active in raising livestock. The province is an important consumer of basic food and durable industrial products receiving them from other cities of Turkey.

Due to its location and limitations of land Trabzon has always been a centre for trade and services.

<sup>1</sup> ISKUR, Provincial Employment and Vocational Education Board. Trabzon Activity Report 2010.

<sup>2</sup> SPO, 2006. Leading Industrial Sectors by Provinces.

In terms services, tourism and logistics have gained importance and the city has taken steps to develop these two areas.

The industry of Trabzon is concentrated on agricultural products. According to data of “**Trabzon Chamber of Commerce and Industry (TTSO)**”, total production units of the region are as follows: 12 nut-processing factories with 93.407 tones/year capacity and 784 employees. 8 factories which belong to the “**ÇAYKUR Company**” processing 36.410 tones of tea leaf per year. 21 private factories processing 29.244 tones of tea leaf per year. “**Trabzon Cement Industrial J.S.C.**” is the most important production industry of the region which has 410.126 tons of cement per year capacity and 113 employees.

According to the Leading Sectors by Provinces study of SPO, pioneering industrial sectors in Trabzon are determined as<sup>3</sup>: “Manufacture of Food Products and Beverages”, “Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials” and “Crop Production”.

### *Sectors at a Glance*

#### *Food Industry*

As stated earlier Trabzon has agro-food production and industry has been shaped on processing these products. Products subject to agro-industry are hazelnut, tea, corn, fish and dairy products.

Even most of the companies in Trabzon seen in food industry it is important to underline that food industry is based on hazelnut production, in addition to that there are macro scale companies –in hazelnut and tea- leading the sector Turkey wide. We do not have concentration of SMEs in hazelnut and tea areas.

Research study reveals that the food processing companies especially in hazelnut have products as supplies to wider value chains of food. There is only one company produces chocolate and uses hazelnut as an ingredient for the product.

When export data of Trabzon reviewed it seen that export of fresh fruits and vegetables has the majority of exports however related figures are proof to a trade centre more than a production one. Fresh fruits and vegetables subject to export are highly traded from south part of Turkey.

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<sup>3</sup> SPO, 2006. *Leading Industrial Sectors by Provinces.*

## Wood and Forestry Products

Wood and Forestry Products in Trabzon<sup>4</sup> constitute a significant importance for Trabzon in terms of its economy, environment and culture. The region is quite rich with forest and relevant resources. Forestry areas covers 30% area of the total area of the city and this ratio is above the Turkey average of 21%.

There are 390 members of Trabzon Chamber of Carpenters, Furniture Manufacturers Tradesmen and Craftsmen in 2011. The number of members in forest products and wood-working is 34<sup>5</sup>.

Products in wood and forestry can be listed as follows; i) wood products for construction, ii) parts used in inner and outside decoration, iii) wood for covering iv) wood packaging for transportation and exports

It is important to underline that most added value in above product is in wood for furniture and covering. Wood products are mainly complementing construction, nature tourism and furniture sectors.

Companies working in wood and forestry products are mainly family owned small businesses. They sell their products in domestic markets and with their distribution channels. Sector has export potential but there is need for promotion and marketing support.

## Ship Building

Boat building has kept its importance as a traditional construction in Yeniay and Çamburnu. At the beginning the wooden material obtained in the area was used; however, after the 1970s the iron plates started to be used.

The production which could be defined as outdated in today's terms is mostly carried on a system of master and apprentice. Yet the quality of masters' work is worthy of attention.



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<sup>4</sup> Trabzon Chamber of Commerce and Industry. 2008. Forestry: The Locomotive of Eastern Black Sea's Development.

<sup>5</sup> Trabzon Chamber of Carpenters, Furniture Manufacturers Tradesmen and Craftsmen. 2011.

### *Products:*

Industry in Trabzon produces:

- i) Yachts and mega yachts
- ii) Fishery vessels
- iii) Cargo vessels
- iv) Service (research) boats
- v) Service and maintenance

Besides ship building, region has important capacity and capability for maintenance services.

Ship building industry is one of the oldest industries in Trabzon with its roots to wooden ship building. There is extensive specific experience in Trabzon especially fishery vessels building which has been developed due to strong fishery background of the region.

Trabzon Sürmene shipyard has been the centre for fishery vessels for years and producing 70 % of ships from Trabzon. Only in Sürmene there are 6 ship producers and many others in other small marinas of Trabzon coast. Producers also have a cooperative and jointly working to take steps for solving their problems including restoration of Sürmene Boat and Ship Marine, access to training for staff they employ etc. Cooperative also receives substantial support from Black Sea Technical University Ship Engineering Faculty. They have applied for an EU Project for renovation of Sürmene Marine and will start by en of 2011. Total budget of the project investment will be 11.730.000 TL.

Ship building is a specific and tailor made business highly shaped through demand therefore there is high level of sophistication in domestic and international demand.

Products by nature has high added value due to specific engineering experience and knowledge and design integrated into products. It is also important to state that ship building industry developed within time and Trabzon could able to adopt production processes and business models in line with the changing trends.

### *Organised Industrial Zones*

Trabzon Arsin OIZ has been established 983.420 m<sup>2</sup> of land and has 87 industry parcels. In OIZ 77 companies started production, in 9 companies production stopped and 1 company is at project stage. In OIZ approximately 3.0000 people are employed.



### *Foreign Trade in Trabzon*

Hazelnut and Products of hazelnut constituted the most exported product in Trabzon in 2010. Fresh fruits and vegetables ranked the second with 35% share of the total exports of Trabzon; however it must be noted that a significant share of fresh fruits and vegetables that are exported from Trabzon are not actually produced in Trabzon. The exported agricultural products that are produced in Trabzon includes: hazelnut and products of hazelnut, fish and fish flour, natural flower bulb and medicinal plants, tea and dry fruits and nuts.

**Imports and Exports of Trabzon 2007 – 2010 (000 USD)**

Imports	2007	2008	2009	2010
Turkey	170 062 715	201 963 574	140 928 421	185 544 099
Trabzon	95.284	114.028	81.169	89.033
Share (%)	0,06	0,06	0,06	0,05
Exports	2007	2008	2009	2010
Turkey	107 271 750	132 027 196	102 142 613	113 883 219
Trabzon	892.721	910.995	815.832	1.011.085
Share (%)	0,83	0,69	0,80	0,89

Source: TURKSTAT

### *Technology and Innovation Development in Trabzon*

- ❖ When compared to 2002 in 2010 trademark applications increased by 326% , it has reached from 98 to 417
- ❖ Compared to 2002, in 2010 Patent applications increased by 150%, it has reached from 2 to 5.
- ❖ Compared to 2002, in 2010 Industrial Design applications increased by %4175, it has reached from 4 to 171.
- ❖ In 2002, there was no application for Utility Model.
- ❖ In 2010, the number of Utility Model application was 2.

### *Business Development Support*

Eastern Black Sea Development Agency (DOKA) has been established in 29.07.2009 in the TR90 region covering the provinces of Trabzon, Artvin, Giresun, Gümüşhane, Ordu and Rize.

In total, 17 projects from Trabzon were qualified in 2010. The total Agency support to Trabzon was 2.936.786 TL, constituting 21% of the total support provided to TR90 Region. With the co-finance of beneficiaries total budget of the projects to be carried out in the region is 22.504.409 TL.

KOSGEB and M.P.M are among other public institutions providing support to SMEs in business development areas.

### *Cluster Development Work*

The first cluster development work was Potential cluster analysis done by Development of Clustering Policy Turkey Project. The project analysed “Wood and Forestry Products” for Trabzon.

Following DCP Project, ABIGEM Project has initiated Dairy Cluster in Trabzon. These cluster development studies continued by efforts of Trabzon ABIGEM and following studies in furniture and fisheries continued.

### *Emerging Sectors in Trabzon*

The research study indicated 3 strong emerging sectors and their primary sub-sectors in other words business clusters in Trabzon:

- ❖ Agro-Industry / Specialty Foods
- ❖ Wood and wood products
- ❖ Ship building

### *Agro-Industry / Speciality Food Cluster*

In Trabzon industry has been shaped with strong presence of agricultural products including hazelnut, tea, fish, corn and dairy products. Besides there are already established export linkages and majority of exports have been done through sales of agro-food. It won't be

wrong that with a support of branding and marketing study right combination of special food of Trabzon can easily find its place in world markets.

It should be also considered that due to its strategic location Trabzon can enjoy bringing agro-food of surrounding regions such as Rize, Giresun, Ordu and others.

In other words agro-food in the region already sold itself but without branding and extra support for marketing work. Eastern Black Sea food special taste and characteristic to its region can be specially packed and sold as a new product in a special segmented market.

In this context the cluster has wide range of products with all members of value chain waiting for a re-definition.

#### *Areas SME Networking Project may provide Added Value to Speciality Food Cluster*

- ❖ Field study reveals that there is need for inter-regional collaboration to create sectoral competitiveness in Turkey. In speciality food cluster, producers should work in collaboration and coordination of an umbrella organisation. SME networking project can initiate such collaboration environment and/or coordination body in Trabzon and relevant provinces.
- ❖ Agricultural products even processed do not have an added value and in most of the cases price driven and not profitable for actors of the entire value chain. SME networking project can re-define the value chain, bring international expertise and see where added value can be applied in certain part of the whole process and provide technical assistance cluster members to create new segment with more profit to products
- ❖ Provide technical assistance to cluster members to achieve funds and have a sustainable structure and further improve relevant areas of capabilities,
- ❖ SME networking project can provide trainings and technical assistance on market export markets, matchmaking and creating market oriented business strategies
- ❖ Provide assistance in finding international food chains / buyers and understanding their value chains and filling gaps in related areas.

#### *Wood and Forestry Products*

Wood and forestry products have always played a vital role in Trabzon's economy. In industry wood and forestry products manufacturers have significant concentration and sector has potential for export.

As stated earlier in Trabzon Products in wood and forestry can be listed as follows; i) wood products for construction, ii) parts used in inner and outside decoration, iii) wood for covering iv) wood packaging for transportation and exports.

There is need for an integrated (joint) factory where wood can be processed, prepared and dried. This integrated factory can be built as cooperative and may also produce energy from wood waste. The research study also reveals that companies need improving marketing and language skills for export.

*Areas SME Networking Project may provide Added Value to Wood and Furniture Cluster*

- ❖ Wood product companies are small and need to improve their institutionalisation and capacity to export. SME networking cluster can provide support companies understand international markets and see where they have to complete their value chain.
- ❖ There is need to redefine the value chain and collaborate with different sectors. SME Networking Project can help wood products companies to collaborate with interrelated sectors and network in other regions and in international markets.
- ❖ There is need to understand international markets. SME Networking Project can provide companies with project preparation support to define sector needs and achieve funds to increase capabilities of understanding new markets, develop R&D skills, establish joint activities such as purchasing raw materials, establishing an fully integrated factory meeting needs of the sector
- ❖ Linkages can be established other cluster development work in Trabzon including furniture or potential work on tourism.

### *Ship Building*

Ship building industry is one of the oldest industries in Trabzon with its roots to wooden ship building. There is extensive specific experience in Trabzon especially fishery vessels building which has been developed due to strong fishery background of the region.

Trabzon Surmene shipyard has been the centre for fishery vessels for years and producing 70 % of ships from Trabzon.

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### *Areas SME Networking Project can provide Added Value to Ship Building Cluster*

- ❖ SME Networking project can provide technical assistance for market research and value chain analysis to find international buyers and develop related areas in Trabzon Ship Building Value Chain
- ❖ Provide technical assistance to prepare projects to access funding for undertaking need analysis, cover the areas of needs through consultancy and training activities.
- ❖ Provide cluster development tools to CIS and Chambers to improve cluster activities and bring relevant capabilities into ship building industry
- ❖ Provide inter-regional linkages and networking support to be better known and get visible in different regions of Turkey

### **Criteria to Select Priority Clusters and Rating**

It is important to keep in mind that it is not selecting the best cluster but focusing on the one which is more ready for starting cluster development work in SME Networking Project. Over the course of the research study sectors in Trabzon were examined in consideration with following criteria and three potential sub-sectors were identified for further analysis;

- ❖ Potential to create employment opportunities for skilled labour
- ❖ Harness regional innovation assets for growth
- ❖ Role in region's development
- ❖ Change perception of the region
- ❖ Interrelationships with other potential target clusters in Turkey
- ❖ Level of specialisation and networking
- ❖ Contribution to national economic strategies

## Target Cluster Decision Matrix

Potential Clusters	Agro-Food	Forestry Products	Wood and Ship Building
<b>Economic Impact</b>			
Growth of the Sector	√	√	√
Employment	√	√	√
Role in Regional Development	√		√
Ability to meet 20-25% target by mid-2013			√
Contribution to national goals and objectives			√
Level of specialisation	√		√
Critical Mass of Companies		√	
Potential to attract investment			√
<b>Demand</b>			
Export potential markets	√		√
Presence of sophisticated home demand			√
Changes and trends in markets			√
<b>Networking &amp; Collaboration</b>			
Regional Linkages	√	√	√
Inter-regional Linkages	√	√	√
Willingness to 'group'			√
Ability of local Stakeholders to support	√	√	√
Interrelated sectors		√	√
Presence of implemented projects			√
<b>Factor Conditions</b>			
Potential for Value-Chain improvements	√		√
Ability to innovate and follow market trends		√	√
Potential for Substantial Action Plan			√
Employment of skilled labour			√
Flexible production processes		√	

## Conclusion

The Analysis shows three key industries where cluster development creates value and foster manufacturers to expand trade, export and gain dynamism to integrate their business to international value chains with a new vision of doing business.

As it has been stated in previous chapter there are 3 industries where Project can focus in the given lifespan. Project can support all potential clusters however Ship Building Cluster with a broader understanding of value chain, including wider group of players and taking their place on stage project can create added value to industry therefore the products and services.

In two years Project can create the most and biggest impact on Ship Building Cluster through;

- ❖ Establishing regional and inter-regional networks with relevant sectors and regions,
- ❖ SME Networking project can work with SMEs through a value chain analysis, benchmark with international buyers and define set of products and services for the industry,
- ❖ SME Networking Project can help manufacturers to access right information on targeted markets and provide trainings to SMEs on sales and marketing.
- ❖ SME Networking Project can provide technical assistance to prepare a cluster business plan/strategy.
- ❖ SME Networking Project can provide support of preparing cluster action plan and tool kit for further steps.
- ❖ SME Networking Project can help members to prepare project proposal to receive funds and have sustainable development.
- ❖ SME Networking project can review international best practices and can integrate a pilot module in Knowledge Management System of the Project.

Research study shows that cluster development found support from public and private institutions and Project can bring its expertise of cluster development and add a building block for more competitive industry. According to research study Ship Building and Wood and Forestry Products are primary clusters for Trabzon followed by Specialty Foods.

Local Advisory Committee Meeting was held on 22 September 2011 in order to invite views on the findings of the Economic review study. Most of the participants stated that findings are reflecting the current situation in Trabzon. Majority of participants agreed on three of the clusters. To start with ship building cluster received more support among participants. It must be considered that working on Regional Speciality Food Cluster and Forestry and Wood products also found crucial for Trabzon's regional economic development.