

The Importance of the Fuel Distribution Industry in Turkey's Economy

Sector Studies

Year: 2017/Third Quarter

No: 1



Introduction

The Petroleum Industry Association (PETDER), the leading fuel distribution industry NGO in Turkey, and PwC Turkey, will carry out research and review activities within the framework of PETDER's mission, which will be published every three months*.

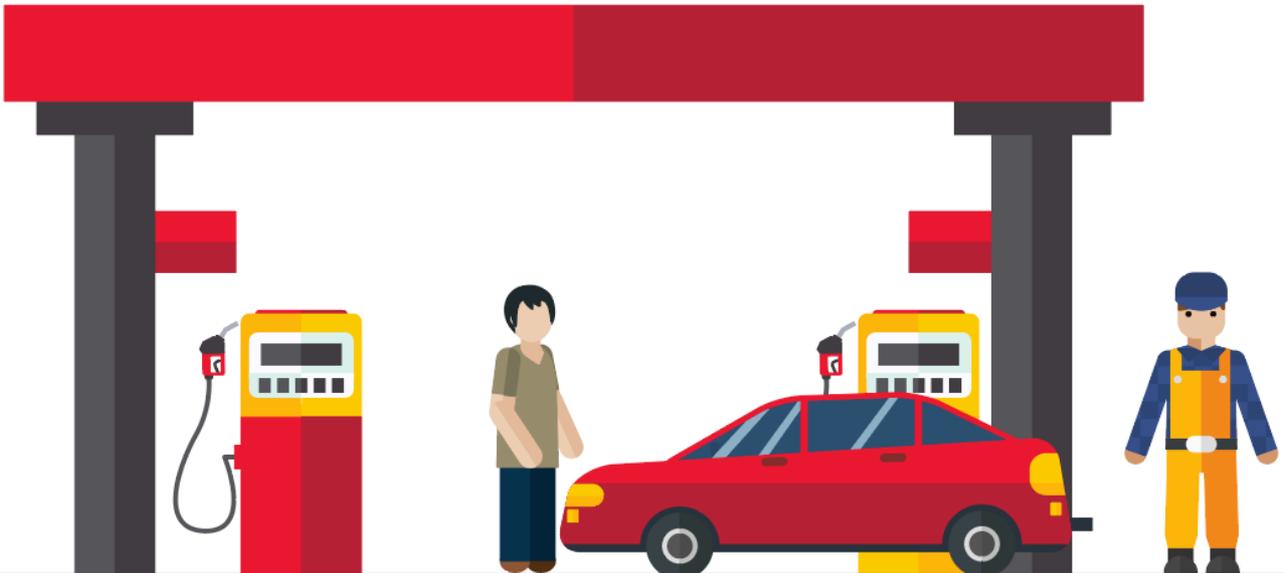
In this scope, "The Importance of the Fuel Distribution Industry in Turkey's Economy" was studied, and the relationship between this industry and other industries was analysed, as well as the value chain. The direct and indirect impact the industry has on public income and employment is also shown in this study.

Along with publicly available data sets (EPDK, TÜİK, etc), information gathered from players in the industry and other NGOs was also used for the analyses and studies. Figures obtained in numeric and quality analysis are shared, along with certain assumptions, with the aim of informing the reader.

The industry contributes greatly to the Turkish economy with its more than 100 distributors, more than 100 storage facilities and approximately 13,000 dealers that provide service 24/7 around the country. Moreover, when we consider the span of the end user's portfolio and the public income the industry provides, we can see the industry has a large population of stakeholders.

We hope that this document will be beneficial to all stakeholders, especially the industry players who invest in the necessary infrastructure and plants to meet increasing demand and the ever-changing needs of customers.

**PETDER advocates pro-actively for improvement in all aspects of the petroleum industry and carries out research and development activities to produce relevant, reliable and objective information which can be shared for formation of industry policies and strengthens its advocacy role.*



Fuel Distribution Industry in Numbers



Approximately **4** million vehicles are provided with service every day. Almost **8** million people visit fuel stations every day.



There are more than **100** distribution companies, **102** storage units/warehouses and **13,000** active dealers. In this context, the industry has the **third** largest dealer network.



With an average of **7%** growth for the last 5 years, it is one of the flagship industries in Turkey. With approximately **35** million tons of fuel sales, Turkey is **sixth** among European countries.



Industry sales (not including indirect taxes) represented **3.1%** of GDP in the last five years.



Total industry sales in 2016 (not including indirect taxes) equalled approximately **65** billion TRY. The value of the industry has reached **140** billion TRY (including indirect taxes).



Public income created through taxes (special consumption tax, VAT) increased by **9%** in the last three years to reach **75** billion TRY. Also, approximately **26%** of special consumption tax and VAT income was made up of indirect taxes from the fuel distribution industry in 2016.



In 2016, total exports were **15.4** million tonnes and imports were **6** million tonnes. As a result, approximately **18** billion TRY worth of imports and **9** billion TRY worth of exports were carried out.



With approximately **95,000** preliminary personnel, **45,000** transportation and other station personnel, and **10,000** distribution company personnel, the industry provides direct employment to approximately **150,000** individuals.



Not counting indirect taxes, the total of SSI contributions, personnel income tax and stamp duty is estimated to be **2** million TRY.



International investors, who have been interested in the industry for a long time, carried out **50%** of the sales in the industry as of 2016.



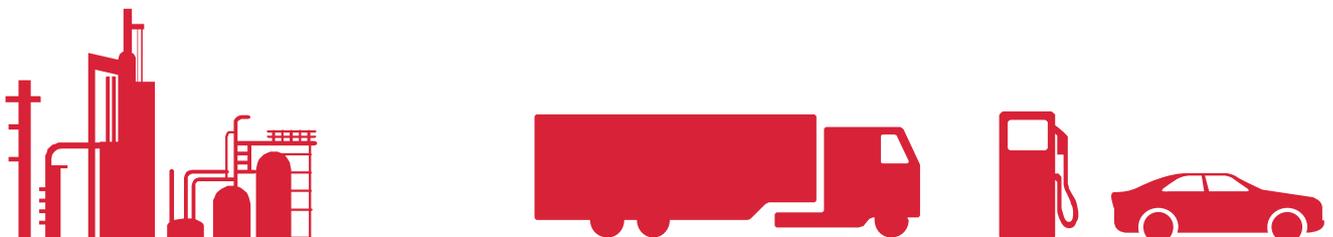
In 2016 the industry contributed to credit card utilization with **280** million transactions and approximately **47** billion TRY in transaction fees.



The fuel industry directly impacts more than **30** major industries, including construction, production, energy, engineering, real estate, transportation/logistics and agriculture.



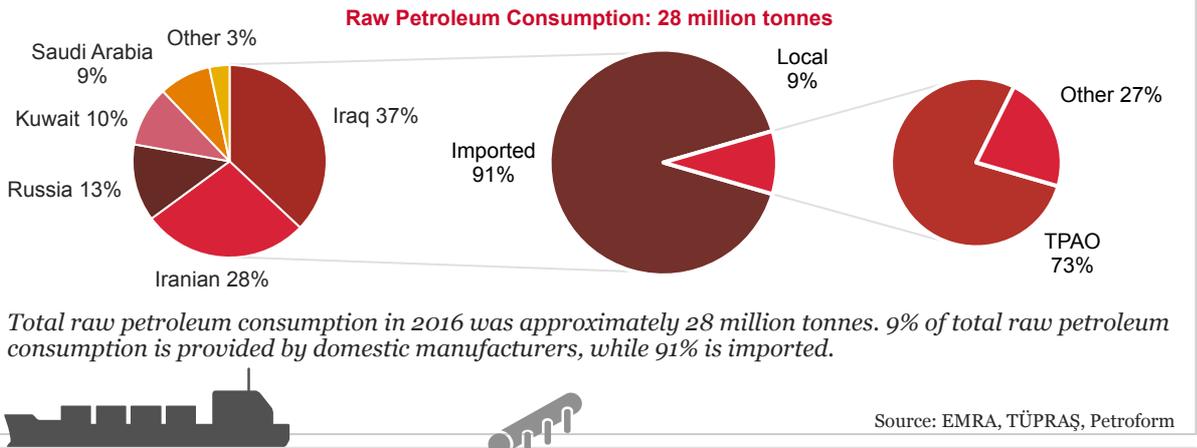
With the **20** days of maturity the fuel distribution industry provides to dealerships and real industries, it also creates extra funds for the consumer.



Fuel Industry Value Chain Analysis

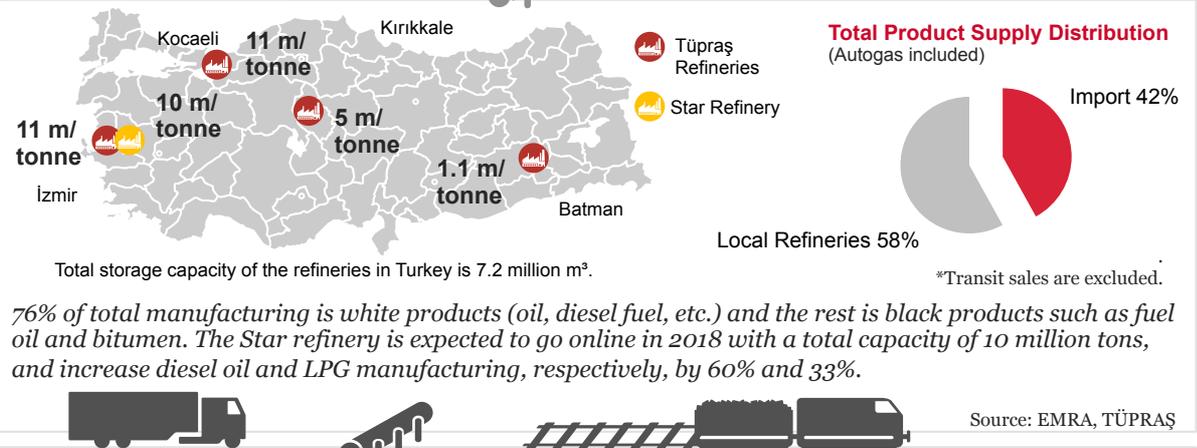
Upstream

Search, Drilling and Production

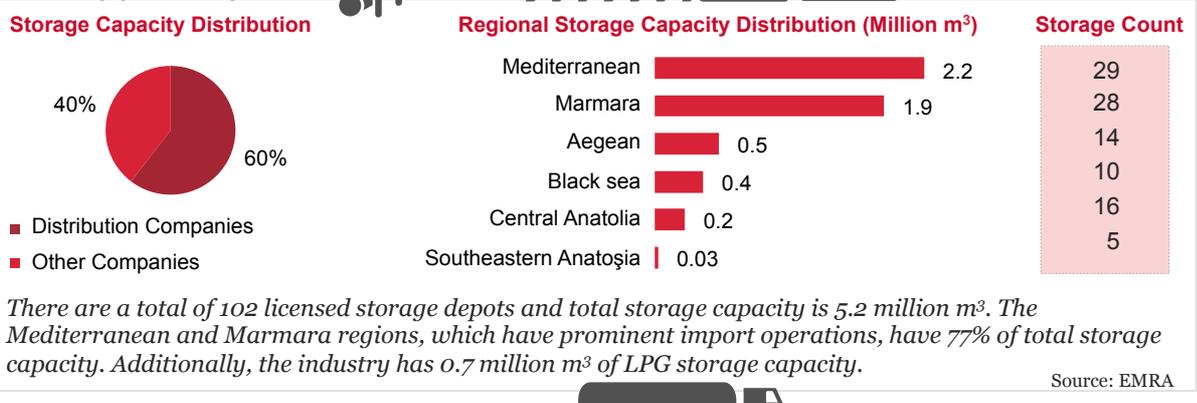
Downstream

Refining

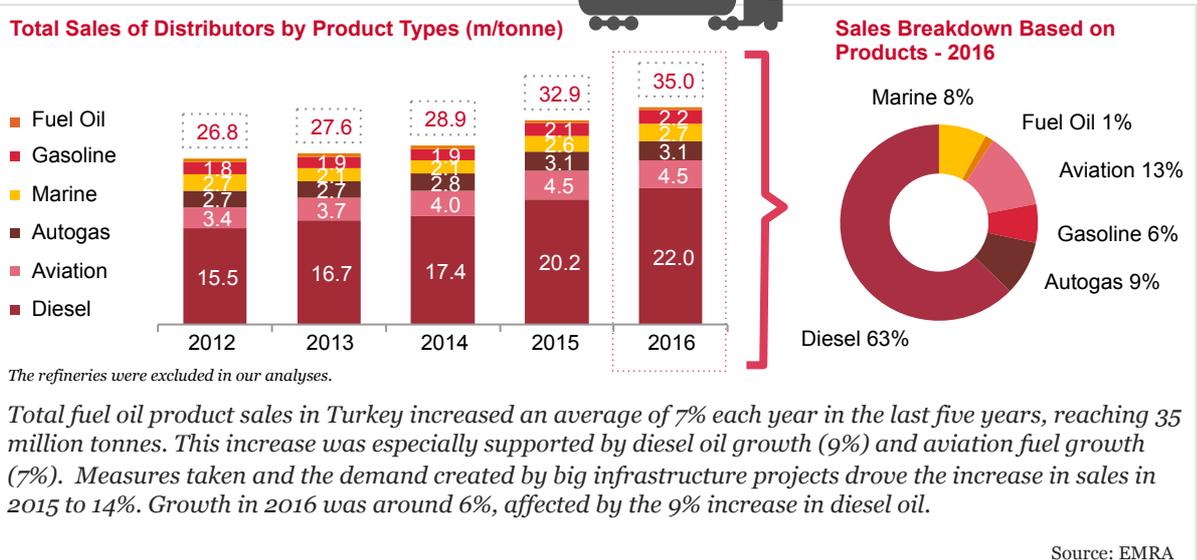
Downstream

Storage

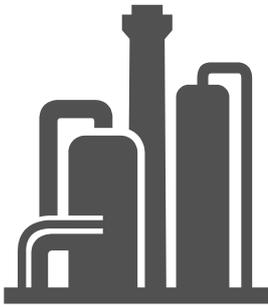
Downstream

Distribution and Marketing

Fuel Distribution Industry Flowchart

Product Supply*



*Transit sales are excluded.

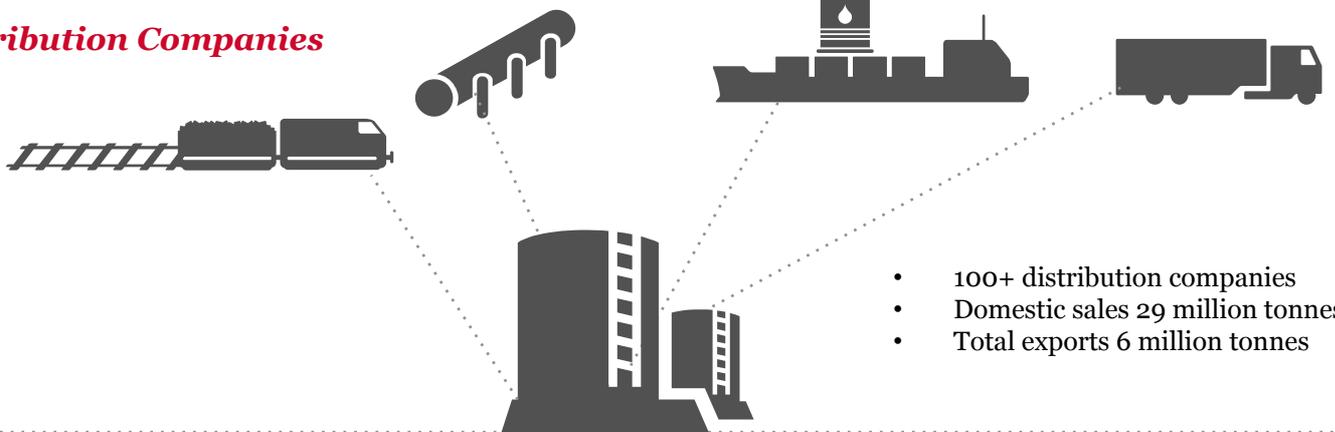


Local Refineries



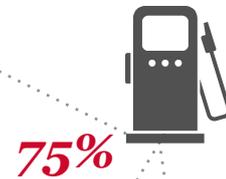
Imported

Distribution Companies



- 100+ distribution companies
- Domestic sales 29 million tonnes
- Total exports 6 million tonnes

Dealers and Consumers



- 13,000 active dealers
- 95% of dealer properties and stations managed by dealers (DODO)
- 70% of total dealers operated by dealers (DODO) with autogas sales licences.

13%

8%

4%

24%

76%

Aviation Companies

Sales

- 4.5 m/tonne
- ~6.5 (billion TRY)



Marine Companies

Sales

- 2.7 m/tonne
- ~3.5 (billion TRY)



Non-station Sales/Sales to Independent Users

Sales

- ~87% Industry
- ~13% Public
- 1.4 million tonnes to independent users
- 6.3 million tonnes non-station sales by dealers
- ~33 (billion TRY)

Station Sales

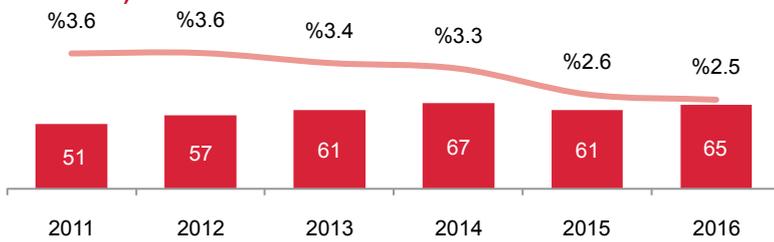
Sales

- 14.9 million tonnes diesel oil
- 3.1 million tonnes autogas
- 2.2 million tonnes gasoline
- Total Amount ~96 billion TRY



The share of the economy the industry represents

The size of the industry and its contribution to GDP (indirect taxes not included)



Source: EMRA, TSI

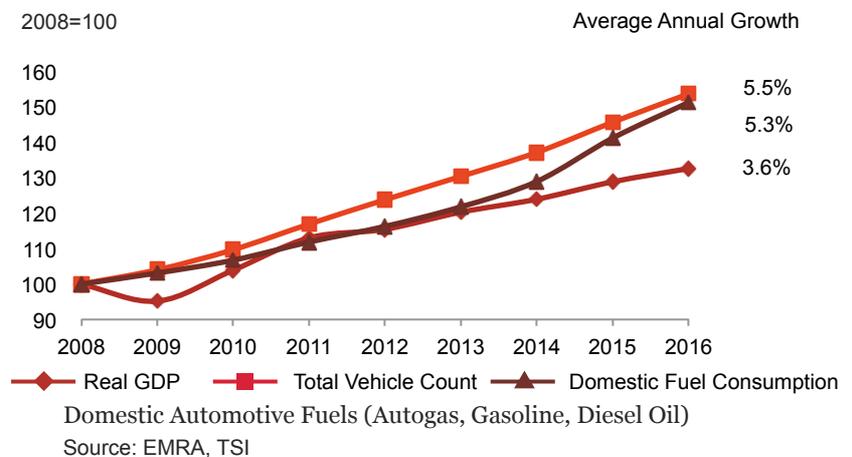
The income of the sector, not including indirect tax, is also affected by changes in petroleum prices (consumption not included). Its share of GDP has been 3.1% for the last five years.

Station Sales

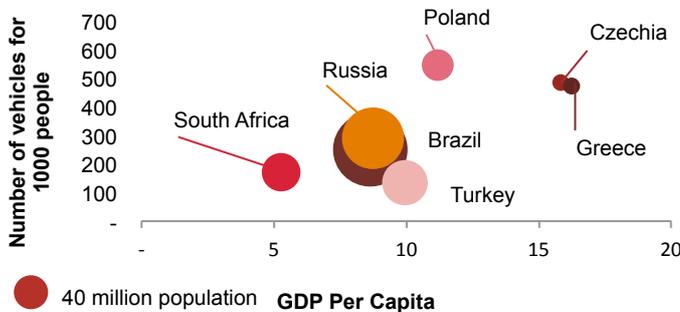
The industry also contributes to regional development in terms of logistics as well as infrastructure and employment, with a network of stations around the country and fixed village and targeted agriculture pumps.

When we studied domestic fuel consumption between 2008 and 2016, we observed that the increase in GDP was, on average, more than 1.7%. Especially since 2014, with measures against unregistered fuel sales (automation/infrastructure investments and marker application), domestic automotive fuel consumption increased 8.5% on average annually.

GDP, Number of Vehicles and Automotive Fuel Sales Developments



Vehicle Usage Prevalence



Source: Eurostat

Considering its young population and income per capita, Turkey lags behind European countries, with 150 vehicles per 1,000 people. The main reason for the low vehicle count compared to comparable countries is thought to be high vehicle prices.

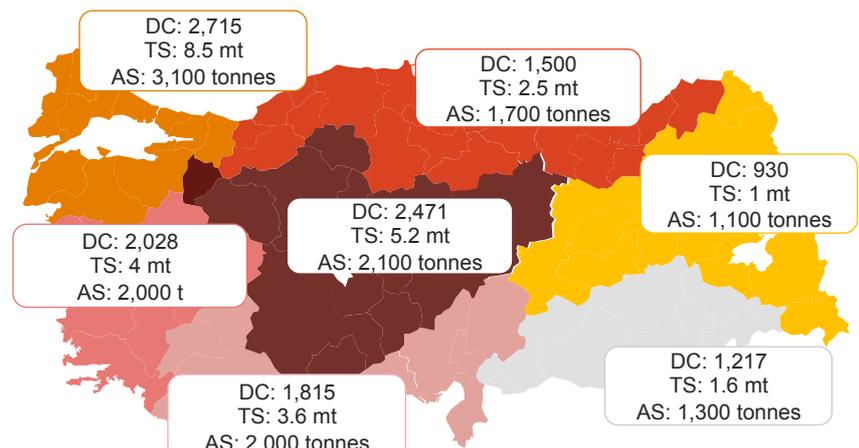
Fuel Dealers and Sales Volumes by Region

Turkey has the third largest network of dealers in Europe, with 13,000 dealers carrying out retail sales.

While the Marmara and Aegean regions are responsible for almost 50% of the GDP, they contain 65% of all dealers. Accordingly, while fuel sales productivity is comparatively low in these regions, which extend over a wide geographic area, the industry continues supplying these dealers and supporting regional development.

Fuel Dealers and Sales Volumes by Region

(Station pump sales and other sales are included.)

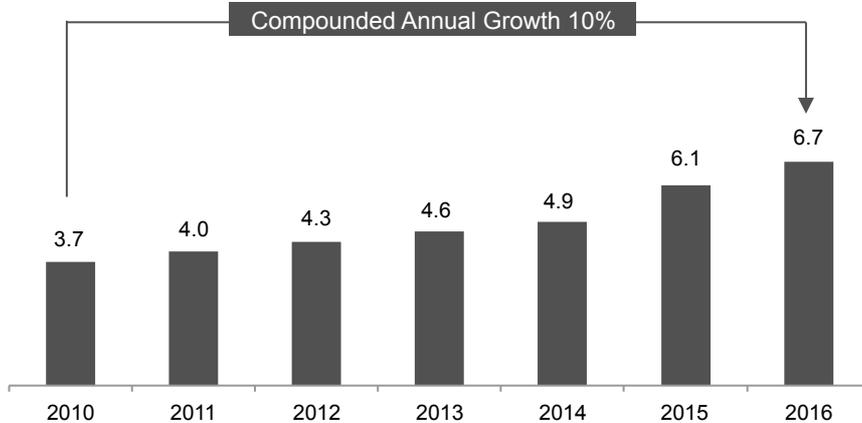


Source: EMRA, TSI

DC: Dealer Count, TS: Total Sales, AS: Average Sales Per Dealer

The share of the economy the industry represents

Diesel Sales to Independent Users and Non-station Sales (Million Tonnes)

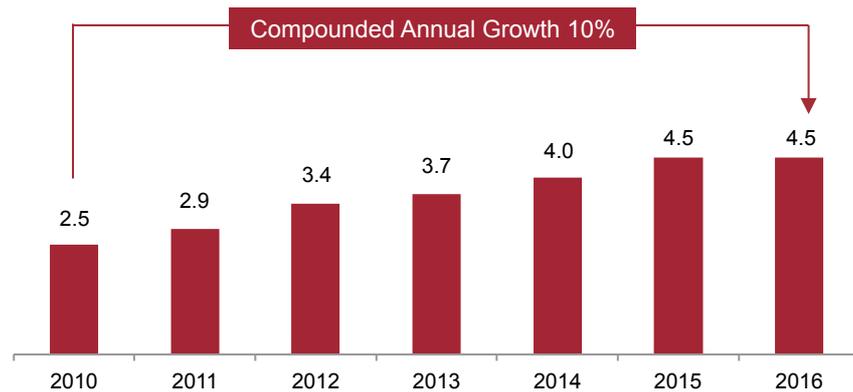


Source: EMRA

Individual User and Non-station Dealer Sales

With developments in energy, infrastructure, transportation, construction and agriculture, which have been important to the development of the country in the last five years, and measures taken against unregistered fuel, diesel oil sales grew by an average of **10%** each year. These big increases, especially in 2015, stem from the decrease in oil prices and measures taken to control unregistered fuel sales, as well as the demand for fuel consumption, the third airport, the Istanbul-Izmir highway projects and other infrastructure projects.

Aviation Fuel Sales (Million Tonnes)

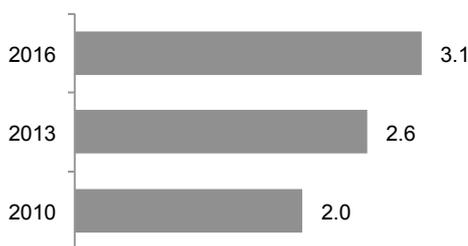


Source: EMRA

Sales to the Aviation Industry

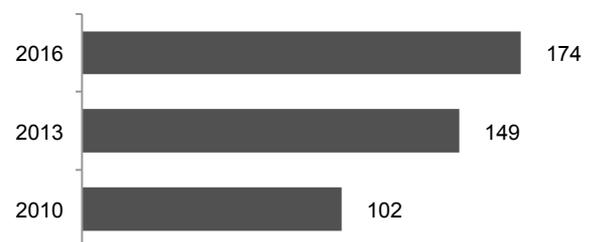
More than **30%** of the total costs of the aviation industry, which is one of the most important industries in the country, with 55 airports, plane traffic reaching 1.5 million flights, 175 million passengers and 3 million tonnes of shipments, is made up of fuel costs. In spite of the decrease in passenger traffic and shipments due to geopolitical risks, aviation fuel sales have increased by an average of **10%** for the last six years. With the opening of the third airport, demand is expected to increase, and the industry is expected to grow by an average of **6-7%** per year until 2020.

Aviation Shipment Traffic (Million Tonnes)



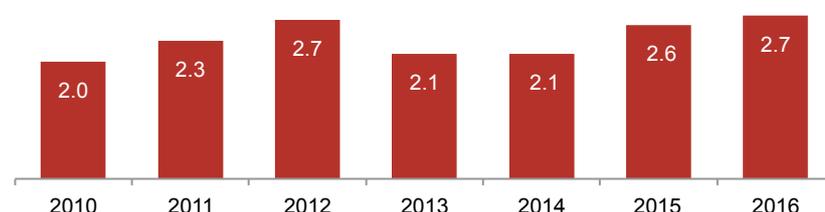
Source: Turkish Statistical Institute

Aviation Passenger Traffic (million people/year)



Source: Turkish Statistical Institute

Marine Fuel Sales (Million Tonnes)



Source: EMRA

*Transit sales are included.

Sales to the Marine Industry

Sales to the marine industry can be divided into two groups: domestic sales and transit sales. Domestic sales are usually for transportation, tourism and fishing, whereas transit sales are sales to ships passing through the straits.

80% of the sales is made up of transit sales, while 20% is made up of domestic sales. Marine sales are expected to grow **5-6%** annually until 2020.

The Industries This Industry Receives Service From

Refinery and other fuel products

- Fuel and Autogas
- Bio Fuel
- Additive Products

Shipment

- Land Transportation
- Marine Transportation
- Railroad Transportation

Financial services

- Banking
- Insurance

Retail products

- Store and Restaurant Products
- Non-fuel Products

Other services

- Law and Advisory
- Customs Consultancy
- Advertisements and Agency (620 million TRY media expense)
- Telecommunication
- Work/Work Health, Safety and Training
- Fleet Leasing

Construction and engineering services

Approximately 150 million USD is spent every year because an average of 1,000 dealers change owners annually.

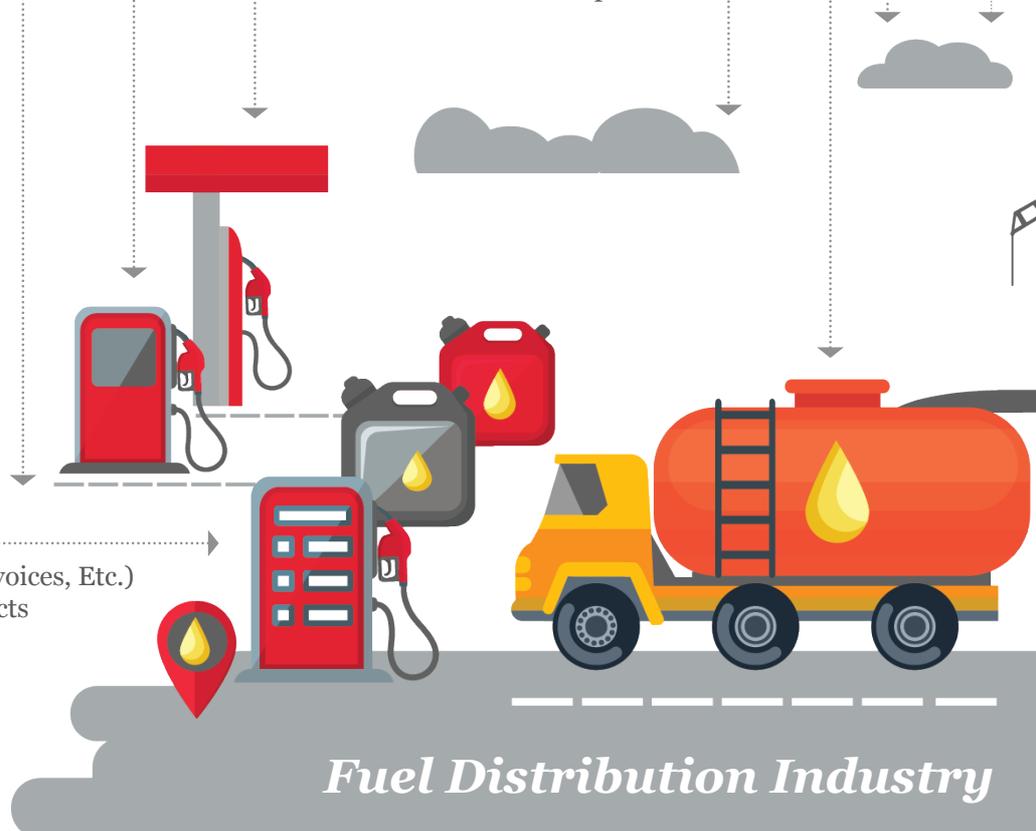
- Station/Terminal Construction
- Canopy/Totem
- Pumps, Storage/Tanks, Automation, Cash Register/POS, Counter

Other engineering services

- Vehicle Identification Systems
- Software Expenses
- R&D and Laboratory
- Maintenance and Repair

Station consumables

- Printing Expenses (Receipts, Invoices, Etc.)
- Station Personnel Textile Products



The Industries This Industry Provides Service For

Logistics and Transportation Services

- Land Transportation and Logistics Services
- Marine Transportation and Logistics Services
- Air Transportation and Logistics Services
- Railroad Transportation and Logistics Services

Powerplants and Other Industrial Usages

- Secondary Fuel Usage in the Energy Industry
- Other Usage in Real Industry
- Sales to Large Infrastructure Projects

Agriculture and Fishing

- Fuel Provided to Farmers and Cooperatives (Approximately 1.2 Million Tractors and Five Million Workers)
- Fuel Provided to Fishermen and Other Marine Vehicles (Approximately 15 Thousand Boats and 322 Thousand Workers)

Financial Services

- Credit Card Usage (280 Million Processes and 47 Billion TRY Worth of Spending)



Fuel Distribution Industry

The Direct Contribution of the Industry, From Distribution to Pump



100+
Distribution Companies



Distribution Company Personnel ~10,000

Meetings with distribution companies revealed that approximately 10,000 jobs have been created for work in headquarters, as field personnel and as storage/warehouse personnel.



100+ Storage Depots/Warehouses



Station Personnel ~45,000

It is estimated that two market employees and 1-2 washing/shipment and other employees are employed per dealership in Turkey.



#13,000
Fuel Station



Station Preliminary Teams ~95,000

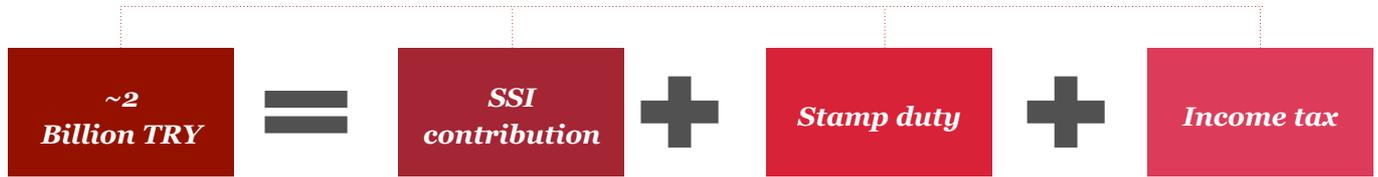
It is estimated that 7-8 preliminary employees are employed per dealership in Turkey.



#60,000
Station Pump

The contribution of the industry to public income

Annual Tax Contribution of Employment



Gross income is calculated using the taxes laid out on the right and the estimated number of employees the industry directly creates.

1.4 billion TRY

SSI employee and SSI employer contributions to the gross wage are considered when calculating.

30 million TRY

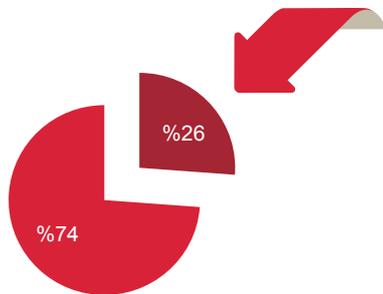
This is the monthly tax deduction from the gross wages of employees.

600 million TRY

The income tax was calculated on the tax base after the SSI contributions were deducted from the gross wages of personnel.

**SSI base wage data was used as the basis for preliminary teams, shipment personnel and station employees, whereas for personnel of the distributor company, the average wage data was used as the basis.*

The Share of Indirect Tax Obtained From Fuel in 2016 (%)



Indirect Taxes (Special Consumption Tax/VAT)

Turkey has one of the ten largest taxes on fuel of the countries in Europe, and the indirect tax obtained from this channel makes up 26% of all indirect taxes the public obtains.

- Indirect taxes from the fuel distribution industry
- Indirect taxes from other industries

Source: EMRA, Revenue Administration

Other Public Income Distribution Companies Create



The distribution industry contributes to public income and stamp duty, real estate tax and other taxes, and especially to corporate income tax, apart from indirect taxes and taxes concerning employment.

www.pwc.com.tr



PwC's aim is to build trust in society and provide solutions to important problems. We are a community consisting of more than 223,000 employees in 157 countries with a focus on providing high quality service in assurance, tax, and advisory services.

PwC has provided service to the Turkish business community since 1981, and, with our professional staff of almost 1,650 people in five offices located in Istanbul, Ankara, Bursa and Izmir, we work to create the value desired by our clients.

PETDER
PETROL SANAYİ DERNEĞİ

Turkish Oil Industry Association, PETDER, was established on September 1996 through a consortium of leading fuel distribution companies actively participating in the Turkish Oil Market with the aim of forming a non-governmental organization supporting a spectrum of business activities in the downstream oil industry.

PETDER took being a professional, strong, reliable and objective NGO as a primary target and has always worked to that end.

Present PETDER members include Alpet, Aytemiz, Belgin, BP, Gulf, ExxonMobil, Opet, Petline, Petroyağ, OMV Petrol Ofisi, Shell, Shell & Turcas, Total and Turkuaz.