

# TURKEY

## MARKET STATEMENT

61. Session the ECE Timber Committee  
7-10 October 2003, GENEVA

### 1. Outlook of General Economy

The implementing economic program (Transition Program for Strengthening the Economy) reached most of its aims. The recovery of general economy in 2002 and the first half of 2003 are remarkable and over the program targets, after witnessed deep recession in 2001. Both of GNP and GDP were increased by 7.8 in 2002 and industrial production increased by 9% in the same year. The increases of GDP, GNP and industrial production are 5.8 %, 5.4% and 6% respectively in the first half of 2003 which are higher than foreseen and the program aims. The leading sectors of Turkish economy like textile and tourism were quite active in 2002, but they stayed at the nearly same level in the first seven months of 2003. Tourism reached record level in term of tourism income and foreign visitor number in 2001 and 2002, but it is adversely effected Iraq war and over valued Turkish Liras in the first half of 2003. Automotive and durable good industries are most active sectors in 2003. The decreasing trend of construction continued in 2002 and the first half of 2003. A sharp decrease is witnessed in 2002 unexpectedly (some indicator of the construction are given at table 2). Wood and wood products manufacturing industry seems quite calm in 2003 after the fast production increase by the effect of over supply coming from windthrow and snow breaks places and increasing demand of wood in 2002.

High volatility of financial market and currency fluctuations witnessed in 2001 and 2002 were reduced in 2003. The success of reducing inflation rate and real interest rate are quite visible. Mean wile, the credibility of the economy and external borrowing possibilities are improved. On the other hand budget deficit (about 14% of GNP) is quite high and domestic public dept is steel high. So the economy is steel vulnerable. Another risk of the economy is over valued Turkish Lira. Although the intervention of Turkish Central bank Turkish Lira has been valued gradually since May 2003. The valuation of the Lira reached 27 % in term of real currency index in last12 months.

Foreign trade has been increasing gradually. In the 2001 and 2002, Turkey's export value rose by 12.3 % and 12 respectively. Import value fell by 34 in 2001, but it increased by 25% in 2002. The increasing trend of export and import accelerated in 2003. Import value increased by 30% and import value increased by 33,7 % in the first 7 months of 2003. In spite of over valued TL (Turkish Lira) the high rate increase of export is a result of the measures taken by government to increase export besides high performance of private sector. The other important factor supported Turkish export increase is strong EURO. As known, more than half of Turkish export going to EU. The high export performance shown in the first 7 month of 2003 not seems to continue in the rest of 2003 and 2004. GDP and GNP growth of whole 2003 are foreseen to be slight over 5% and similar growth rates are expecting for 2004

### 2. Policy Measures

The main policy and principles related forest product market and its trade are to meet the raw wood material demand of wood industries and other wood demand of market firstly from national sours in sustainable management principles and to provide price stability by balancing supply and demand. Besides, customs duty and tariffs were removed in late1990's,

believing in free global market conditions. There aren't much certain new legislation measures taken in last 18 months. The only measure taken is an incentive for pulp industry. Some duty is removed on the pulp wood sale by GDF for private pulp industry. It provides an extra advantage equal 2% of wood raw material cost for the sector. Wood based panel and pulp industry have been benefiting from this kind of small incentive for long time.

### **3. Developments in Forest Products Market Sectors**

#### **3.1. Wood Energy Policies and Implication of Forest law Enforcement**

Big scale energy forests were established to meet heating needs and to promote wood energy in the past. Some project tried to produce electricity from wood and wood plantation, but this project didn't run. New policies and measure weren't taken in last two years to promote wood energy usage. Because wood industries especially wood based panel industry's demand of round wood have been increasing strongly. So that governments preferred to meet firstly the demand of forest product industries. On the other hand market conditions are changed in last two years and the demand of fuel wood, especially the demand of non-coniferous fuel wood, increased gradually mainly because of high prices of alternative energy source. Besides, the fuel wood demand of new sectors like manufacturing of briquette and wood charcoal has been increasing in last years. As a result of these increasing demand, non-coniferous fuel wood price rose sharply in last two year.

Article 31 and 32 of forest law are important for fuel wood consumption. Article 31 and 32 is about fuel wood utilization of forest villagers livin in forest and near the forest. According to article 31, fuel wood which come from harvesting residues and renovation of degraded forest are sold with very low price equal 0.3 \$/Str. So that villagers heating need are met and harvesting residues could be recycled. The population benefiting from this law about two million and these villagers consume more than half of country fuel wood production. According to article 32 of forest law, fuel wood are sold to villagers live near the forest by 1/3 cost of fuel wood. These two legislations are improving the fuel wood usage.

#### **3.2. Wood Raw Materials**

Round wood removal and consumption increased sharply in 2002 depending on the windthrow and snow break witnessed in 2001-2002 winter. Besides, Round wood and processed wood markets were quite active in 2002. Both industrial wood production and sales of General Directorate of Forestry (GDF) (GDF is responsible for sustainable forest management of nearly all country forest) rose considerable. GDF Production of industrial wood increased by 18 % and GDF sales of industrial wood increased 20% in 2002 in comparison with 2001. GDF production program of 2003 was quite modest considering high stock of round wood came from windthrow and snow break. This production program is renewed and increased toward middle of 2003 considering early finish of the stocks and seeing the result of Iraq war. However both production program and realization of production are well under than last year's. The demand of round wood is not strong in 2003 as much as to be last year. In spite of weaker demand, coniferous log price rose significantly (by 24%) in the 8 months of this year. Non-coniferous log market is quite weak in 2003 after strong demand and high price in 2002. Beech and oak log price fell in last months. Pulpwood demand of paper industry decreased significantly in 2002 and very limited in the first half of 2003 because of privatization processes. In contrast, the demand of wood based panel industry is extremely strong in 2002 and 2003. GDF sales of pulp wood to wood based panel industry increased by 27% in the first 8 month of 2003 comparison with the same period of 2002.

Total industrial wood production of GDF is decreased by 13%, but fuel wood production of GDF is increased by 12% in the first 8 month of 2003. Total round wood removal

by GDF foreseen to fall in 2003 about 8% and same level of 2003 are foreseen for 2004. Any significant change isn't forecasted in market condition in the rest of 2003 and 2004. The figures of round wood production and consumption are given at table:3.

In 2002, round wood import stayed at the same level of 2001. Import value of all wood and wood products of chapter 44 rose by 35% in the first 7 months of 2003. Similar round wood import increase can be forecast for whole 2003. Export of round wood very limited and insignificant.

### **3.4. Certification**

In parallel with the increased environmental sensibility in the Country, consumers concern about the issues related to the production patterns and their environmental impact.

This leads to do some preparations in the production sector, as well as in the forest management department. Although most of consumers prefer certificated goods, their effect is not enough yet to force producer labeling. Information about the issue and recognition of its importance are extending.

### **3.5. Sawn wood and Value-added Wood Products**

Sawn wood manufacture and value-added wood products industries and their markets were deeply effected from the economic crisis in 2001. These sectors are recovered significantly in 2002. The production index of wood products rose by 26.4% in 2002, but the index was slightly decreased in first half of 2003. The most significant recovery witnessed in soft wood industry by the effect of cheaper logs came from windthrow and snow break areas. The hard sawn wood market was also active in 2002 but this active demand wasn't continued in 2003 and it not seems to continue in the rest of year and 2004. Foreign trade is quite active and big penetration is experienced in export of sawn wood and value-added wood products. Sawn wood export amount rose more than 400% in 2001 and it slightly declined in 2002. The similar penetration is witnessed in wood furniture. Wood furniture export value rose by 44% in 2002 and rose 61% in the 7 mounts of 2003. In contrast with penetration of export, furniture production index declined by 4.3 in 2002 and any recovery wasn't witnessed in first half of 2003. It must be adversely affected from the sharp decline of construction sector. The export increase of the whole chapter 44 is modest. It rose only 4.8% in 2002 and 13.5 in the first mounts of 2003.

### **3.6. Wood Based Panels**

Particle board and MDF industries are expanding and their production are increasing gradually and strongly. According to particle board and fibre board producer Association record, MDF established production capacity expanded by 80% and reached 1.296.000 m<sup>3</sup>/year in last one and half year and plant number rose 10. Particle board established capacity is 2.433.000 m<sup>3</sup>/year and three new plant, have 300.000 m<sup>3</sup>/year production capacity are expected to started production in 2003. Particle board production is increasing dramatically. The increase of production rate was over 20% and the sector more active in 2003. Both MDF and particle board production increase are forecasted to continue in 2004.

### **3.7. Pulp and paper**

Paper and paperboard industry recovered significantly in 2002 after big recession experienced in 2001. Paper and paperboard production index rose 10% in 2002, but similar recovery not witnessed in the first half of 2003. Public side of the sector privatized in the first half of 2003 and some plants are started to be run by private sector. Privatization processes are continuing for some plant. The privatization processes adversely effects the production performance of the sector in2003.

**Table 1: Growth Rates and Some Economic indicators, Turkey**

(%)

	1998	1999	2000	2001	2002	2003 jan-jun	2003 Est.	2004 Est.
GDP	2,4	-4,7	7,2	-7.4	7,8	5,8	6	5
GNP	3,9	-6,1	6,1	-9.4	7,8	5,4	5.5	5
Industry	2	-5	5,6	-7.5	9,4	6	6	5,5
Construction	-11	-20	-18	-5.9	-4.9	-15,6	2	6
Budget deficit ( percentage of GNP)%	7,1	11.6	10.6	15.9	14,3		14	13
Inflation (Wholesale price index)	54,3	62,9	32,7	88.6	30,8	11,5	18	12

**Table 2: CONSTRUCTION AND ACCOMPANCY PERMITS OF NEW BUILDINGS AND ADDITIONS, TOTAL**

YEARS	CONSTRUCTION OF NEW BUILDINGS AND ADDITIONS, TOTAL (According to Construction Permit)		CONSTRUCTION OF NEW BUILDINGS AND ADDITIONS, TOTAL (According to occupancy Permit)	
	Number of building (1000)	Change Percentage (%)	Number of building (1000)	Change Percentage (%)
1996	126,7	-5,7	105	10,5
1997	124,9	-1,4	106	1
1998	116	-11	92	-13
1999	92,5	-20	87	-5,4
2000	79,14	-14,4	91	4,5
2001	77,43	-2,2	86	-5,4
2002	45,09	-42	63	-26,7
2003Est.	50	11	57	-9
2004Est.	60	20	58	1,7

**Table 3: Round Wood Production an Consumption**

YEARS	2002	2003	2004
Industrial wood (1000 m <sup>3</sup> )			
<b>Production</b>	<b>11305</b>	<b>10600</b>	<b>10700</b>
of which			
State	8005	7300	7400
Private	3300	3300	3300
<b>Consumption</b>	<b>12453</b>	<b>11950</b>	<b>12200</b>
of which			
State sale	8109	7250	7400
Private sale	3300	3300	3300
Net foreing trade	1044	1400	1500
FUEL WOOD (1000 str)			
<b>Production</b>	<b>7587</b>	<b>8000</b>	<b>7800</b>
<b>Consumption</b>	<b>7500</b>	<b>7800</b>	<b>7800</b>

*Note:Foreing trade made from chapter 4401 is included in industrial wood consumption. Because all of them are used by panel and paper industry as raw material.*

---