

TURKEY

MARKET STATEMENT

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1. General economic trends affecting the forest and forest industries sector

The economic program (Transition Program for Strengthening the Economy) which have been implementing since 2001, reached most of its aims. The recovery of general economy in last three years are impressive and quite 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 %, 5.9% and 7.8% respectively in the 2003. The economic growth is more striking in 2004. GDP, GNP and Industrial production increased 11.9%, 13.5% and 12.7% respectively in the first half of 2004. The leading sectors of fast growth of economy were automotive, durable good industries, textile and tourism in last three years. Tourism reached record level in term of tourism income and foreign visitor number in the same period in spite of Iraq war and over valuated Turkish Liras. Construction, another leading sector of Turkish economy, quite sharply increased in last twelve months after ten years decreasing trend. The permission number was given for construction of new building and additions, increased by 47 % in the first half of 2004. The increases of occupancy permit number which is 1,4 relatively lower because it follows construction permit trend for a period later. More detailed indicators of the construction are given in table:2. Furniture production is also sharply increased in the first seven months of 2004 paralleling with the strong growth of construction. Furniture production increased by 26% in the first seven months of 2004, after a long stagnant period. Besides the growth of construction, the most effective factors of furniture production increases is dramatically increases of wood furniture export witnessed last years. It increased 45% in 2002, 75% in 2003 and 55% in the first seven months of 2004. Forest products industry production increased by 11.6% in the first seven months of 2004. Paper and paper board, another sleeping sector in the last years, increased by 3.3% in 2003 and 7% in the first seven month of 2004.

High volatility of financial market and currency fluctuations witnessed before the economic program were reduced in 2003 and 2004. The success of reducing inflation rate and real interest rate are quite visible. Mean while, the credibility of the economy and external borrowing possibilities are improved. On the other hand budget deficit (about 10% of GNP) and domestic public debt is still high and payment balance are forecasted to be quite high for the end of 2004. So the economy is still vulnerable. Another drawback of the economy is over valuated Turkish Lira.

Foreign trade has been increasing gradually. In the 2001, 2002 and 2003 Turkey's export value rose by 12.3 %, 12% and 30% respectively. Import value fell by 34% in 2001, but it increased by 25% in 2002 and 33.3% in 2003. Export value increased by 32.7% and import value increased by 45 % in the first 7 months of 2004. The increasing trend of export and import accelerated in 2003 and the first months of 2004. In spite of over valuated 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 ongoing foreign trade trend seems to continue in the rest of 2004 and

2005 but over valuation of TL will be vital factor for foreign trade balance. GDP and GNP growth of whole 2004 are foreseen to be quite over the budget aims. Lower but steel strong economic growth can be expected for 2005 comparison to 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 sources complying with sustainable management principles and to provide price stability by balancing supply and demand. Besides, customs duty and tariffs were removed in late 1990's, believing in free global market conditions. There aren't much certain new legislation measures taken in last 18 months, but Turkish Forest Law has strictly forbid illegal harvesting and transport of illegally harvested wood products for long time. One legislative measure, taken in last 18 months, is about punishment of illegal logging. Some monetary punishments are increased considerable to discourage illegal logging and transport illegally logged wood products. Besides, some measures conducted to encourage forest villagers to contribute forest protection from illegal harvesting and forest fire. Another measure taken is an incentive for pulp industry in last 18 months. Some duty is removed on the pulp wood sale by GDF to support 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. Now, another project regarding to promote wood energy usage is conducting. There isn't much new policies and measure taken in last 18 months 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 three years and the demand of 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.

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 living in 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, is about two millions 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. Article 31 and 32 are also providing important advantage to forest villagers for log which are used for villagers construction needs.

3.2. Wood Raw Materials

Round wood removal and consumption increased sharply in 2002 depending on the wind throw 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 wind

throw and snow break. The wood production program was renewed and increased toward middle of 2003 considering early finish of the stocks and good market condition. However industrial wood production of GDF decreased by 9% and total country production decreased by 2% in 2003 comparison with 2002. Slightly increase is foreseen for GDF production of 2004. The industrial wood production and sales of GDF rose 17% and 11% respectively in the first nine months of 2004. Coniferous log price rose significantly (by 35 %) in 2003 mainly because of finishing windthrow stocks, but the price increase of coniferous log is very limited in the first nine months of 2004. Non-coniferous log market was quite weak in 2003 after strong demand and high price in 2002. Beech and oak log price have been felling since June 2003. Pulpwood demand of paper industry decreased significantly in 2002 and 2003. The demand is quite low in this year too. Conversely, the demand of wood based panel industry was extremely strong in 2002, 2003 but it is slightly softened in last months. The price increases of pulpwood were also stopped this year and it has decreasing since April 2004.

Fuel wood production of GDF increased slightly (by 6%) but the fuel wood sales of GDF decreased slightly by 2% in the first 9 month of 2004. Total round wood removal by GDF foreseen to rose slightly in 2004 about 3%. Any significant change isn't forecasted in market condition in the rest of 2004. The figures of round wood production and consumption are given at table: 3.

Round wood import amount increased by 30% in 2003 comparison with the 2002. Import value of all wood and wood products of chapter 44 rose by 67% in the first 7 months of 2004. Similar round wood import increase can be forecast for whole 2004. Export of round wood very limited and insignificant. Export value of all wood and wood products of chapter 44 increased by 20% in 2003 and by 34% in the first 7 months of 2004.

3.3. Implications of forest law enforcement, governance and trade (FLEGT) on markets

Nearly all forests (more than 99%) belong to public and General Directorate of Forestry (GDF) is responsible agent for sustainable forest management of this forest. Besides, GDF is authorized governmental institution supervising the management of the rest country forests.

Implications of forest law enforcement related forest crimes are very old and it backs nearly a century ago. The legislation and its enforcement regarding violation and illegal forest activity are very strict and the punishments are quite heavy, in some illegal cases, reaching 12 years imprisonment. Institutional framework against to illegal forest activity is also very strong.

Nearly all violation and illegal forest activities take place in public forests. The most common illegal activities and violations are; (1) illegal logging, (2) encroachment by arson and illegal cutting of forest wood aimed at some goal like converting forests to agricultural land or settlement, (3) illegal timber transport and (4) processing illegally harvested woods.

Amounts of illegally harvested wood based on GDF records are as follows:

Year	Illegal Logging		encroachment to forest land		Total	
	Industrial wood (m ³)	Fuel Wood (metric ton)	Industrial wood (m ³)	Fuel Wood (metric ton)	Industrial wood (m ³)	Fuel Wood (metric ton)
1993	73582	14020	6436	5121	80019	19141
1998	59390	9790	6133	4140	65523	13930
2003	45779	10601	6063	2333	51842	12934

As it can be seen in the table, illegally harvested wood amount is quite low and it is decreasing. The share of it in total round wood production is lower than 1%, but it is clear that the real illegal logging is much more than recorded amount.

Most of violations and forest crime originates from villages located in or near the public forest and it aims at meeting their needs rather than trade purpose. In other words, Illegal logging purposed trade is limited and the impact of illegal logging on forest product market is insignificant.

Poverty and ignorance are some of the most important reasons of the violations by forest villagers. Thus, some measures conducting to improve social and economic condition of forest villagers.

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 and 2003. The most significant recovery witnessed in soft wood industry by the effect of cheaper logs came from wind throw and snow break areas. The hard sawn wood market was also active in 2002 but the demand of hard wood has been decreasing since the first quarter of 2003. Sawn wood export decreased significantly in 2002 and 2003 after the big penetration (by 400%) experienced in 2001. On the contrary, value added wood production and export continued to penetrate in 2002 and 2003 and it seems to increase in 2004. A stronger furniture export penetration which started in 1999 has been continuing. Wood furniture export value rose by 44% in 2002, 75% in 2003 and 55% in the 7 mounts of 2004. On the other hand, furniture production increased sharply (by 26%) in the first 7 months of 2004 after a quite long sleepy period.

3.6. Wood Based Panels

Particle board and fiber (especially MDF) industries are expanding and their production are increasing gradually and strongly. According to particle board and fiber board producer Association record, fiberboard established production capacity most of which is MDF expanded by 80% and reached 1.296.000 m³/year in 2003. Fiberboard established production capacity continued to expand and reached 1.857.000 m³/year in first half of 2004. Besides, investment of two new plants have 245 m³/year production capacity are ongoing. Particle board established capacity reached to 2.787.000 m³/year and investments of three new plants, have 1050.000 m³/year production capacity are continuing. Particle board production is increasing dramatically paralleling with established capacity. The increase of production of particleboard was 15% and the sector steel active in 2004. Both MDF and particle board production increase are forecasted to continue in 2005.

3.7. Pulp and paper

Paper and paperboard industry recovered in 2002 and 2003 after big recession experienced in 2001. Paper and paperboard production index rose 10% in 2002, but weaker recovery witnessed in 2003. Paper and paperboard production has increased by 3.3% in 2003 and by 7 % in the first seven months of 2004. Privatization of Public side of paper industry is about to finish. Three private plants which produce wood pulp are running now. Privatization processes are continuing for other two plants. The privatization processes and weak international competitiveness adversely affected the production performance of this sub sector in the last years.

Table 1: Growth Rates and Some Economic indicators, Turkey

(%)

	1999	2000	2001	2002	2003	2004 Jan-Jun	2004 Est.	2005 Est.
GDP	-4,7	7,2	-7.4	7,8	5.8	11.9	10	5
GNP	-6,1	6,1	-9.4	7,8	5.9	13.5	11	5
Industry	-5	5,6	-7.5	9,4	7.8	12.7	11.5	5.5
Construction	-20	-18	-5.9	-4.9	-9	1.4	3	5
Budget deficit % (percentage of GNP)	11.6	10.6	15.9	14,3	11,2		10	8
Inflation (Wholesale price index)	62,9	32,7	88.6	30,8	13,9		12	8

Table 2: CONSTRUCTION AND ACCOMPANY 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 (%)
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	47	-38	65	-13
2003	52	10	55	-15
2004 Est.	60	15	58	5
2005 Est.	66	10	64	10

Table 3: Round Wood Production and Consumption

YEARS	2003	2004	2005
Industrial wood (1000 m ³)			
Production	10620	10800	10900
of which			
State	7320	7500	7600
Private	3300	3300	3300
Consumption	11780	12000	12200
of which			
State sale	7420	7500	7600
Private sale	3300	3300	3300
Net foreign trade	1060	1200	1300
FUEL WOOD (1000 str)			
Production	7816	7800	7800
Consumption	7457	7600	7600

Note:1-Foreign 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.

2-Fuel wood production and consumption include only GDF production and sales.

