

# TURKEY

## MARKET STATEMENT

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### 1. General economic trends affecting the forest and forest industry sectors

Economic stability provided after 2001, continued and high development was achieved in 2005. Indeed, economic development and growth rates were impressive and quite over the program targets in last five years. Gross national production (GNP) increased 7.8%, 5.9%, 9.9% and 7.6 % in 2002, 2003, 2004 and 2005 respectively. Gross domestic Production (GDP) and Industrial production increased by similar rates as shown in *table 1*. The economic growth achieved in first half of 2006 is also impressive and over the budget's targets. GDP, GNP and Industrial production increased by 7%, 7.5% and 7.7% respectively in this period. The performans of construction which is one of the engine of economy, was quite high in last two years. The growth rate of this sector is 21.5% in 2005 and 19% in the first half of 2006. According to construction permits; number of new building and additions increased by 41 %, floor area increased by 42% and number of dwelling unit increased by 55% in 2005. Similar development is expected for construction sector in 2006. More detailed indicators of the construction are given in *table2*.

The strong economic growth and increased consumer confidence have been reflected positively in furniture and wood product markets. Furniture production was increased sharply in last three years paralleling with the strong growth of construction, after a long stagnant period. Significant investment and production development has been achieved especially in wood based panel industry, although significant importations increase in last three years. On the contrary paper and paper board industry, especially pulp industry, had important problems in same period. Tourism, another important sector of economy, downturned in 2006 after new record levels reached in 2005 in term of tourism income and foreign visitor number.

High volatility of financial market and currency fluctuations, witnessed before 2002, were reduced in last 5 years and economic stability was provided. The success of reducing inflation, budget deficit and real interest rate are quite visible. Global competitiveness increased as a result of economic stability, lower financial cost in production and trade. Mean wile, the credibility of the economy and external borrowing possibilities are improved. Budget deficit was reduced under to 2% of GNP in 2005 from 16% in 2001. On the other hand the economy has some weakness still. Domestic public dept is still high and payment balance deficit was quite big and it is increasing, depending on foreingh trade deficit which a result of over valuated Turkish Lira and domestic demand increasse.

Foreign trade has been increasing gradually. Turkey's foreign trade value rose by 20 %, 35%, 39% and 18% in 2002, 2003, 2004 and 2005 respectively. The increase was slightly slowdowned in the 2005 and 2006. The increase of foreign trade is about 16% in the first seven mounts of 2006. In spite of over valuated Turkish Lira (TL), 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 60% of Turkish export going to EU. The slowdown of export seems to continue in the rest of 2006. High currency rate seems not possible to continue and it start to decrease. Lower currency rate can be expect for 2007 . This seems to be important for foreign trade balance as well as domestic wood industry. GDP, GNP and industrial growth of whole 2006 can be estimate to be over budge target which is 5%. For 2007, 5% economic growth is foreseen.

## 2. Policy Measures

Public procurement policy, encouragements for using sustainably produced timber products, climate change, Illegal logging, forest law enforcement and governance and renewable energy are, raising issues may influence forest product market, in national and international forestry. But the most important development, likely influence roundwood production amount and structure, is the policy and regulatory change made on forest management implementation in Turkey. This regulation change, came into force in the beginning of 2006, requires all coppice forest to be converted to high forest. Nearly 1/4 of national forest is coppice and the change likely to lead small diameter roundwood production decrease in short term, but big diameter and higher quality log production increase in long term.

Expanding and improving forests through rehabilitation of degraded forests (other wooded land) and converting them to productive forest is another new policy. In fact, big effort is expended to improve and expand forests in this way, considering the increasing round wood demand of wood processing industries, besides increasing demand for non wood forest product and social benefits of forests. As a result of this implementation, forest land area and volume bound to increase in the future.

One of most important agenda of international forestry, public procurement policy not has big impact on the domestic market. First of all the amount of direct timber consumption of public enterprises and organization is quite low. For instance, the share of public purchasing of round wood in total consumption is about 1.4 %. Besides, there is no direct purchase of other wood product (processed wood products) by public institutions except some paper products. On the other hand, there are significant amount of services, work and goods, require wood product utilization such as residential construction, purchased by governmental bodies. These may have indirect effect on wood products market depending on purchasing conditions.

Public procurement of services and goods are regulated by “Public Procurement law(4734)“, enforced in to practice in 2002, and related regulations of which main principle and objectives are; **transparency, competitiveness and effective usage of public source**. According these law and related regulations, the main way of public purchasing is auction opened international competition depending on a certain magnitude of value, but there are some exceptions depending on specialty of services or goods and their amounts. Although auction way possible, public purchasing of round wood is made in frame with exceptions mostly from General Directorate of Forestry which is an governmental agency. Except standards, there is no special requirement such as certification and labeling.

On the other hand, international process such as ENA-FLEG may be important for global wood markets, but the circumstances seem some what different in Turkey. For example, illegal logging and other forest related crimes is not new problem. It has been one of the most important issues of forestry for nearly a century. Therefore Turkish forest law enforcement, governance, guarding and controlling system against forest crime have been strong and strict for long time and illegal logging and associated forest crimes decreased significantly in last decade. Yet, some measures may need against illegally harvested timber import.

In Turkey, most of forest crimes and violations come from villages, located in or near the public forest, and it aims to meet their needs rather than trade purpose. In other words, Illegal logging for commercial is quite low. Therefore the impact of illegal logging on forest product market is insignificant and it isn't issue to international trade. 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.

There isn't any significant wood or wood product export which is illegally harvested. On the contrary, there are some idea and complaint about being illegality in timber import. According to current legislation, a special certificate, was given by GDF, is necessary for transport of imported round wood in the country starting from port, besides other transport certificates such as invoice and dispatch note. This certificate based on decelerated amount in transport certificates and measurement made at port.

Another important issue came in to agenda is wood energy as a renewable energy source. The consideration of renewable energy importance is increasing and new policies and project are ongoing. From another point of view, the preference of wood usage is not clear (whether low quality wood should

use as raw material for industry or for energy). Because the wood raw material demand of wood based panel industry is too strong and increasing whereas the wood source is limited. High energy cost of alternative energy sources is another driving factor.

Another measure, from out of the sector, taken by government to develop construction sector (especially housing) are influencing positively timber markets.

### **3. Developments in Forest Products Markets**

#### **3.1. Wood Raw Materials**

Round wood consumption increase continued in 2005 although slight production decrease. Industrial round wood (4403) net import amount is reached 1.750 million m<sup>3</sup> in 2004 and 1.958 million m<sup>3</sup> in 2005 by 65% and 12% increase respectively. Wood chips and particle import increased sharply in recent years and reached 1220 thousands m<sup>3</sup> in 2005. On the other hand, domestic industrial wood production decreased by 1% but domestic sales increased 1.3%. As a result, domestic consumption increased by 2.7 in 2005. Seeing the result of the first 8 months of year, more consumption increase and some production increase are estimated for 2006. Both production and sales of General Directorate of Forestry (GDF is responsible for sustainable forest management of nearly all country forest) rose considerable. GDF Production of industrial roundwood increased by 21 % and sales increased by 19% in the first months of 2006 in comparison with the same period of 2005. According to GDF production program, 5% production increase is foreseen for whole 2006.

Sawlog market is benefiting from high expansion of construction sector and high rate economic development in this year. Besides import increase, GDF sales of sawlogs and veneerlogs amount increased by 20% in the first seven months of 2006. Especially coniferous log market is quite active, but hard wood market relatively weak. Some price falls were witnessed in the first months of the year mainly because of over supply.

Small diameter round wood demand is also satisfactory. The weak demand of pulp industry is being balanced by strong demand of wood based panel industry. Wood pulp industry lost its competitiveness in recent years and production fallen to very moderate amount. More than 75% of domestic woodpulp consumption is met by import. The increase of wood products import is estimated to continue in whole 2006, but slight decrease in 2007, considering over valuation of TL not to continue.

Fuel wood production of GDF decreased slightly in 2005, but some recovery can be expected in 2006. Fuel wood price is quite high still. Total round wood removal will be made by GDF foreseen to increase considerably in 2006. The impact of import on the market seems to continue as long as existing high currency rate The figures of round wood production and consumption are given in *table: 3*.

#### **3.2 Sawn wood and Value-added Wood Products**

Sawn wood and further processed wood production and consumption increased significantly in 2004-2005 and it is continuing to increase in 2006. Significant growth, witnessing in housing and strong economic growth are major positive factors influencing sawnwood and further processed woods demand. Coniferous sawnwood production, consumption and import increase by 5%, 5% and 39% respectively in 2005. Surprisingly, export of coniferous sawn wood increased by 200%. Lower demand increase (3%) witnessed in hard sawnwood market. Further processed and value-added import and consumption were quite high in 2005. The high rate import increase of soft sawn wood and further processed wood is continuing in 2006 too. Modest production and consumption improvements are estimated for 2007.

Strong furniture export penetration, which had experienced for nearly a decade, slowed down in 2005 and 2006. Wooden furniture export value rose 18% in 2005 and 5% in the first seven months of 2006. On the contrary furniture import increased sharply in the same period (by 48% in 2005 and 34% in the first months of 2006). The high volume increase of sawn wood and further processed wood import increase, witnessed in last two years, have been influencing negatively some sawn wood manufacturer especially located near to import ports.

Main import sources of sawnwood are Russian Federation, Ukraine and Georgia. Main export markets are North Cyprus, Iraq, Greece, Italy, Israel and Japan

### 3.3 Wood Based Panels

Particle board and fiber board (especially MDF) industries are expanding gradually and their production is increasing. According to particle board and fiber board producer Association record, fiberboard established production capacity most of which is MDF expanded by 80% in 2003 and by 70% in 2004, 11% in 2005 and reached to 2,5 million m<sup>3</sup> by 25 May 2006. So that, high rate MDF production increase experienced in 2005 more increase is expected in 2006. Particle board established capacity expanded by 25% in last year and reached to 3.388.000 m<sup>3</sup>/year by 25 May 2006, but a few particle board plants are not working this year.

Fibre board and Particle board production is increasing dramatically paralleling with established capacity but the rapid growth of the sector and wood based panels import increase led to some marketing problem. The increase of production of particleboard was about 7% in 2005. In spite of existing marketing problems, production increases are estimated for fibre board and particle board in 2006. Veneer sheet and plywood production, consumption and trade are increasing.

Main import sources of particle and fibre board are Romania, Germany, Chin, Bulgaria, Poland and Greece. Main export markets are Iran, Iraq and Georgia.

### 3.4 Pulp and paper

Paper and paperboard industries are strongly influenced negatively from import increase. More than half of total paper and paperboard consumption composed of imported products. Any significant production increase is not expected for 2006 but consumption estimated to increase.

Especially pulp industry is not competitive in global markets. Production cost of this product in Turkey quite higher than imported pulp price. That is why production of pulp is significantly reduced by producer companies in 2005 and 2006. Privatization seems to be not enough the sector improve its competitiveness.

### 3.5 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.

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

	2000	2001	2002	2003	2004	2005	2006 (%)		
							First half	2006 Est.	2007 Est.
GDP	7,2	-7.4	7,8	5,8	8,9	7,4	7,0	6,5	5
GNP	6,1	-9.4	7,8	5,9	9,9	7,6	7,5	7	5
Industry	5,6	-7.5	9,4	7,8	9,4	6,5	7,7	7	5
Construction	-18,0	-5,9	-4.9	-9,0	4,6	21,5	19,3	20	20
Budget deficit % (percentage of GNP)	10,6	15,9	14,3	11,2	7,1	1,7		2,5	2
Inflation (Wholesale price index)	32,7	88,6	30,8	13,9	13,8	2,7	12,5	11	4

Source: 1-Turkish Statistical Institute, Prime Ministry, Republic of Turkey 2-Ministry of Finans (<http://www.maliye.gov.tr>)

**Table 2: NUMBER OF 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	Change Percentage	Number of building (1000)	Change Percentage
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	-32
2003	50	15	57	-14
2004	75,5	50	41	-44
2005	106,6	41	61	50
2006 Est.	125	17	85	39
2007 Est.	130	4	95	12

Source: Turkey's Statistical Yearbook, 2005, Turkish Statistical Institute website (<http://www.turkstat.gov.tr>)

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

YEARS	2003	2004	2005	2006
Industrial wood (1000 m <sup>3</sup> )				
<b>Production</b>	<b>10620</b>	<b>11553</b>	<b>11400</b>	<b>11700</b>
of which				
State	7320	8253	8100	8400
Private	3300	3300	3300	3300
<b>Consumption</b>	<b>11780</b>	<b>13189</b>	<b>13547</b>	<b>13990</b>
of which				
State sale	7420	8139	8287	8400
Private sale	3300	3300	3300	3300
Net foreign trade	1060	1750	1960	2290
Fuel Wood (1000 str)				
<b>Production</b>	<b>7816</b>	<b>8049</b>	<b>7746</b>	<b>7900</b>

source: General Directorate of Forestry