TURKEY

MARKET STATEMENT

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

Thanks to Economic stability program implemented since 2001 and appropriate global climate, Turkish economy achieved big progress in last six years. In the last period of 2002-2006, the economy grew totally about 43% which is quite above the economic program targets and expectations. In this period, GDP and GNP increased by 7.4% and 7.2% on average per year. As for industrial production, higher growth rate was realized averaged 8 % per year *(the details of economic indicators are shown in table 1)*. The economic growth achieved in first half of 2007 is also satisfactory and slightly over 2007 budget's targets. In this period; GDP, GNP and Industrial production increased by 5.3%, 5.2% and 5.2% respectively. More moderate GDP, GNP and industrial growth which is about 5% can be estimated for the whole 2007 and 2008 years.

Besides strong economic growth, big progress has been made to solve some chronic economic problem like high borrowing cost and big budget deficit. High volatility of financial market and currency fluctuations, witnessed before 2002, were eliminated in the last 5 years and consequently economic stability was provided. Budget deficit reaching up to 16% of GNP, has been reduced well under the EU limit. The success of reducing inflation and public borrowing cost are quite visible. Global competitiveness increased significantly, as a result of economic stability and lower financial cost provided in production and trade areas. Likewise, credibility of the economy and external borrowing possibilities are increased. On the other hand the economy still has some weaknesses. Domestic public dept and payment balance deficit, mainly arisen from foreign trade deficit, is still rather high.

Looking from the point of forest product markets view, we can see some more positive development in the related main sectors. The performance of construction which is one of the main engines of the economy was quite high in the last three years. The growth rates of this sector were 21.5% in 2005, 19.4 % in 2006 and 16 % the first half of 2007. Nevertheless, there is a visible slowdown in construction permits and occupancy Permits given in 2006, especially towards the end of the year. Besides, further slowdown has been witnessed in the figures of the first half of 2007. According to construction permits; construction number of new buildings and additions decreased by 5.4 % and the number of dwelling unit increased only by 4.1% and floor area increased by 9,6% in 2006. These figures were 41 %, 55% and 42% in 2005 respectively. As for occupancy Permits, the indicators are slightly better *(more detailed indicators of the construction sector are given in table2).* In spite of the visible sign of slowdown and some global adverse circumstances, it is still possible to be optimistic for near future of Turkish construction sector because of the determination of government to improve the sector as well as the big housing gap in Turkey.

The striking performance of construction combined with strong economy and increased consumer confidence and it has been reflected positively in furniture and wood product markets. Furniture production was increased sharply in the last years paralleling with the strong growth of construction and furniture export increase after a long stagnant period witnessed before 2002. Nevertheless, increasing furniture import and possibly slowdown of construction sector may be a threat for the near future of furniture. Significant investment and production development has been achieved by wood industry, especially in wood based panel industry. Consequently, wood based panel, especially MDF production increased rapidly in the last years, but the production increases has slowed downed since second half of 2006 depending on the production cut by eight plants some of which were closed. On the contrary, paper and paper board industry, especially pulp industry, had important problems, suffering big increase of import.

On the other hand Tourism, another important sector of economy, turned down in 2006 after its record level (18.2 billion $) experienced in 2005 in terms of tourism income and foreign visitor number. Nevertheless, tourism income and foreign visitor number increased by 12 % and by 19% in the first 5 months of 2007.

Turkey's foreign trade has been increasing gradually. Foreign trade value rose up to 222 Billion $ in 2006 from 86 billion $ in 2002 by 158 % increase. The increase slightly slow downed in the year 2005-2006 and fell to about 17%. Import value increased by 18.6 % and export value increasing by 24 % in the first 7 months of 2007. In spite of over valuated Turkish Lira, the high rate of increasing export is a result of the measures taken by government to increase export, besides high performance of private sector. The other important factor which supported Turkish export increase is strong EURO. As known, more than 60% of Turkish export going to EU.

2. Recent legislations and Policy Measures

In forestry and out of the forestry, there are some new legislative regulations and policy measures which can influence forest products markets directly or indirectly. While some of them are currently influencing wood production and wood markets, others haven't had any visible impact on the market yet.

Two new laws related to renewable energy came into force in 2005 and 2007. First is "Law on Utilization of Renewable Energy Resources for the Purpose of Generating Electrical Energy-No 5346". Second one is "Energy Efficiency Law-No 5627". Some articles of first law are replaced by related ones of the second law. These laws include some encouragement related with land allocation by government, fee and tax exceptions and purchasing guaranty by government. For example, 85% deduction is implemented for rent, access right and usage permission of land and also for any property given by some governmental agencies in the investment period. In addition, if the land is under forestry administration, Forestation and ORKÖY Special Allotment Revenue shall not be charged.

Policy measures directly related biomass energy is focused on primarily plants other than wood. Nevertheless, a significant amount of wood and wood residues is used for heating and cooking purpose, but with low technologies. Therefore efforts and measures are being working on with regard to wood energy mostly aiming to improve the efficiency and the use of more environmentally friend technologies. Harvest residues which can't be used as raw material in wood based panel industry is another wood energy source worked on.

Another fact that affects forest markets is the government program aiming to develop construction sector and close residential building gap in the country. In fact, the development of this sector was the main driver factor of all wood products, including furniture, markets in recent years.

As for forestry, there are three measures and their implementation influencing domestic production of round wood that is mainly composed by thin and low quality. These kind of woods are used in panel industry or for energy purpose. First one is converting coppice forests to high forest. For this purpose, General Directorate of Forestry (GDF) worked in quite larger area than the coppice forest area which was issue of harvest program in 2006, considering possible production decrease. Nevertheless, round wood production from coppices forest was decreased about 22%. Although, the production decrease in short term, converting process of coppice to high forest likely enable production and quality increase in long term.

On the other hand, acceleration of converting program degraded forest to productive forest and increased maintenance program in young stands are the other two measures which led to more round wood production increase. In spite of the adverse impact of first, pulpwood production by GDF increased by 10% in 2006, primarily with the effect of other two measures.

3. Developments in Forest Products Markets

Forest product markets were quite active in 2006 and the first 7months of 2007. Record level consumption, production and trade levels were witnessed. The total import value of wood and articles of woods (described in chapter 44) increased by 41% in 2005 and 17% in 2006. The foreign trade is continuing to increase moderately in 2007. Wood and articles of woods import value increased by 13% in the first seven months of 2007. On the contrary, wood products, especially value-added wood products export seems to accelerate. It increased 47% in the same period of 2007.

The current positive trend is expected to continue in 2007 and 2008 for all wood markets. Still, possible downturn of construction can be a serious threat.

Processed wood import increase, especially cheap import from Far East led to some problem for many wood processing sub-industry branch. Complaints increased particularly in flooring and an antidumping investigation on plywood import from China is being carried out.

Main market drivers which have stimulated forest and wood industry products markets in resent years are; increasing domestic demand, new investments particularly in wood based panel industry, rebound of residential building construction, increasing wooden furniture and value-added wood products export and some politic measures implemented by GDF in public forests. On the other hand, extremely weakened demand by woodpulp industry, decreasing raw material import possibility resulted from export bans and restriction applied by neighboring countries and cheap finished good import from some Far-east countries are other drivers negatively impacting wood markets.

Any visible impact of Russian export regime on Turkish wood markets has not been witnessed yet, but Russian's plan to increase periodically export tax on round wood is very likely to influence our wood markets and wood industry in the future.

3.1. Wood Raw Materials

Round wood removal, consumption and foreign trade continued to increase in 2006 and reached new record level. Industrial round wood production increased by 10% and all round wood production increased by 4 % in 2006 paralleling the demand increase witnessed. This production increase resulted from some policy measures implemented by GDF who is responsible for sustainable forest management of public forests in the country. Indeed, the policy towards wood production increases and other management policies, mentioned in Policy Measures chapter above, led significant production rise from public forests in recent years. In other words, industrial round wood production by GDF, which was stable around 7.5 million m³ before 2004, is about to reach 10 million m³ in 2007.

On the other hand, the sharp increase of Industrial round wood import, experienced 2003-2005, slowed dawn. Yet, net industrial import amount reached up to 2020 million m³ by 3.5% increase in 2006. Wood chips and particle import continued to increase sharply and reached up to 1045 thousands metric ton by 29% increase in 2006.

Seeing the result of the first 7 months of the year 2007, moderate or slight round wood production, consumption and import raises are estimated in 2007 and 2008.

Sawlog market has benefited from high expansion of construction sector and high economic growth in resent years. In addition to increasing import, GDF sales of sawlogs and veneerlogs is satisfactory. Especially coniferous log market is still active, but hard wood market is relatively weak. Some price falls were witnessed in recent years partly because of over supply. Round wood prices are generally steady but higher than other European countries.

Thanks to strong demand by panel industry, small diameter round wood demand is also good. This strong demand of wood based panel industry balances the weak demand of pulp industry. Wood pulp industry has lost its competitiveness in recent years and production has fallen to very moderate level. More than 75% of domestic consumption of wood pulp is being imported.

Fuel wood production of GDF decreased slightly in 2006 and similar production level is estimated in 2007 and 2008 (*round wood and other wood products production and trade figures in 2005-2006 and estimates of next two years are given at table: 3/a-b).*

3.2 Sawn wood and Value-added Wood Products

Sawn wood and further processed wood production and consumption increased significantly in 2005-2006 and continuing to increase in 2007 but somewhat slower. The significant growth, witnessed in house construction, and strong economic growth are major driver factors of domestic demand increase. Coniferous sawnwood production, consumption and import increase by 14%, 18% and 69% respectively in 2006. Import amount of coniferous sawn wood increased by 29%. On the contrary export decreased by 65%. Lower demand increase (5%) witnessed in hard sawnwood market. Import value of other processed wood products, including further processed and value-added product, decreased by 17% while the export value increased by 20% in 2006. Therefore, slower consumption increase was witnessed in 2006. Besides, capacity usage rate of wood industries slightly fell in the first seven months of 2007 with some exceptions. Modest production and consumption raises are estimated for whole 2007 and 2008.

After a long sharp penetration period, furniture export was relatively slowed down in 2005 (18%) and 2006 (14%). Anyhow, the export looks like to accelerate again with the increase by 37% in the first 7 months of 2007. On the contrary, wooden furniture import increased sharply by 56% in 2006 and 39% in the first 7 months of 2007. The high volume increase of sawn wood import increase, witnessed in recent years, have been influencing negatively sawn wood manufacturer especially the ones located near to import ports.

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

3.3 Wood Based Panels

Big invest achieved in 2003-2005, created some over capacity. Consequently, eight plants most of which are particleboard plant partly cut production in the second half of 2006 and 2007. Like wise, monthly capacity usage rates explained by TURKSTAT (Turk Statistical Institute) is fell in the first half of 2007. Nevertheless, new investments especially in technologic renovation are continuing. Due to the production cut particle board production fall slightly in 2006 and more fall is estimated in 2007. On the contrary, fibre board production increased significantly in 2006, but less increase is estimated for 2007 and 2008.

In 2006, another falls were been witnessed in foreign trade with a few exceptions. Both veneer sheets import and export and particle board export decreased slightly. Plywood export, particle board import and fibre board import decreased significantly. On the other hand, plywood import, particularly from China, increased significantly and fibre board export doubled by the effect of big MDF export increase. As total, wood based panels import decreased about 9 % while export increased 30 %. Similar trade trend are estimated in 2007 but it is difficult to make estimation for 2008. Only a MDF export increase can be forecasted.

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

Emphasizing recent trends and developments, it can be concluded that there are some evidences of weakening demand not only for some wood based panels but also for most finished and semi-finished wood product in last months.

3.4 Pulp and paper

Paper and paperboard industries are strongly influenced negatively from import increase experienced in the recent years. More than half of total paper and paperboard consumption is sourced from import. Any significant production increase is not expected for 2007, but consumption is estimated to be continuing to increase. Especially pulp industry is not competitive in global markets. Production cost of this product in Turkey still 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 to improve the sector’s competitiveness.

3.5 Certification

In parallel with the raising environmental sensibility, consumers and civil society concern about the issues related to the production patterns and their environmental impacts, increasingly.

On the other hand, nearly all forests belong to government and consumers are trusting to GDF, responsible governmental agency for forest management, in respect of sustainable forest management and legality. In other words, there is no enough domestic market force driving foresters to forest certification and wood products producers to chain of custody certification. Besides, the impact of external markets is still quite weak as a deriving factor.

Despite the weak market demand for certified wood products and insufficient environmentalist pressure, GDF decided to start forest certification with a pilot implementation in cooperation with FSC and accredited certification bodies to improve sustainability of forest management. Meanwhile, it is also considered to develop national certification scheme under the umbrella of PEFC or to set national certification standards in cooperation with FSC.

Table 1: Growth Rates and Some Economic indicators, Turkey

(%)

	2001	2002	2003	2004	2005	2006	2007 First half	2007 Est.	2008 Est.
GDP	-7.4	7,8	5,8	8,9	7,4	6,10	5,3	5	5
GNP	-9.4	7,8	5,9	9,9	7,6	6	5,2	5	5
Industry	-7.5	9,4	7,8	9,4	6,5	6,5	5,2	5	5
Construction	-5,9	-4.9	-9	4,6	21,5	19.4	16,1	10	6
Budget deficit % (percentage of GNP)	15,9	14,3	11,2	7,1	1,7	0.7		2,8	1
Inflation (Wholesale /producer price)	88,6	30,8	13,9	13,8	2,7	11,6	3	4	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 ANDADDITIONS, TOTAL

	CONSTRUCTION OF NEW BUILDINGS AND ADDITIONS, TOTAL (According to Construction Permit)		CONSTRUCTION OF NEW BUILDINGS AND ADDITIONS, TOTAL (According to occupancy Permit)	
YEARS	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	114	51	64	50
2006	108	-5,3	66	3
2007Est.	100	-7,5	68	3

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

Table 3/a

		Name of Official responsible for repl	Ramazan Balı				
		Official Address (in full):	OGM IŞL. PAZ: Dai.Başkanlığı (2 nolu b				
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TC1							
UNECE TIMBER COMMITTEE FORECASTS		Telephone: + 90 312 296 41 47			Fax: + 90 312 296 41 45		
Roundwood		E-mail:	blramazan@yahoo.com				
Product			Historical data		Revised	Estimate	Forecast
Code	Product	Unit	2005	2006	2006	2007	2008
1.2.1.C	SAWLOGS AND VENEER LOGS, CONIFEROUS						
	Removals	1000 m³	2.394	2.848	2.848	2.850	2.850
	Imports	1000 m³	1.689 #	2.000 #	1.780	1.850	1.900
	Exports	1000 m³	6 #	7 #	0	3	3
	Apparent consumption	1000 m³	4.077	4.841	4.628	4.697	4.747
1.2.1.NC	SAWLOGS AND VENEER LOGS, NON-CONIFEROUS						
	Removals	1000 m³	2.713	2.801	2.801	2.850	2.800
	Imports	1000 m³	279 #	300 #	242	250	250
	Exports	1000 m³	2 #	2 #	3	3	3
	Apparent consumption	1000 m³	2.990	3.099	3.040	3.097	3.047
1.2.1.NC.1	of which, tropical logs						
	Imports	1000 m³	133 #	140 #	104	120	120
	Exports	1000 m³	0 #	0 #	0	0	0
	Net Trade	1000 m³	133	140	104	120	120
1.2.2.C	PULPWOOD (ROUND AND SPLIT), CONIFEROUS						
	Removals	1000 m³	2.979	3.118	3.118	3.500	3.550
	Imports	1000 m³	0 #	0 #	0	0	0
	Exports	1000 m³	0 #	0 #	0	0	0
	Apparent consumption	1000 m³	2.979	3.118	3.118	3.500	3.550
1.2.2.NC	PULPWOOD (ROUND AND SPLIT), NON-CONIFEROUS						
	Removals	1000 m³	1.424	1.629	1.629	1.870	1.875
	Imports	1000 m³	279 #	300 #	233	230	230
	Exports	1000 m³	0 #	0 #	0	0	0
	Apparent consumption	1000 m³	1.703	1.929	1.862	2.100	2.105
3 + 4	WOOD RESIDUES, CHIPS AND PARTICLES						
	Domestic supply	1000 m³	1.700 C	1.700 C	1.700	1.770	1.770
	Imports	1000 m³	1.292 C	1.394 C	1.443	1.550	1.550
	Exports	1000 m³	0 C	0 C	0	0	0
	Apparent consumption	1000 m³	2.992	3.094	3.143	3.320	3.320
1.2.3.C	OTHER INDUSTRIAL ROUNDWOOD, CONIFEROUS						
	Removals	1000 m³	887	1.012	1.012	1.050	1.050
1.2.3.NC	OTHER INDUSTRIAL ROUNDWOOD, NON-CONIFEROUS						
	Removals	1000 m³	805	853	853	865	860
1.1.C	WOOD FUEL, CONIFEROUS						
	Removals	1000 m³	1.859	1.723	1.723	1.750	1.750
1.1.NC	WOOD FUEL, NON-CONIFEROUS						
	Removals	1000 m³	3.124	2.829	2.829	2.765	2.770

Table 3/b

TC2

UNECE TIMBER COMMITTEE FORECASTS

Forest products

Country: Turkey **Date:12 September 2007**

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Product Code	Product	Unit	Historical data 2005		Historical data 2006		Revised 2006	Estimate 2007	Forecast 2008
5.C	SAWNWOOD, CONIFEROUS								
	Production	1000 m^3	3.787		4.323		4.323	4.325	43.020
	Imports	1000 m^3	377		487		487	520	540
	Exports	1000 m^3	111		38		38	40	50
	Apparent consumption	1000 m^3	4.052		4.772		4.772	4.805	43.510
5.NC	SAWNWOOD, NON-CONIFEROUS								
	Production	1000 m^3	2.658		2.756		2.756	2.770	2.760
	Imports	1000 m^3	93		139		139	150	160
	Exports	1000 m^3	11		6		6	10	10
	Apparent consumption	1000 m^3	2.740		2.889		2.889	2.910	2.910
5.NC.T	of which, tropical sawnwood								
	Production	1000 m^3	102		77		77	80	80
	Imports	1000 m^3	15		17		17	18	18
	Exports	1000 m^3	2		1		1	1	1
	Apparent consumption	1000 m^3	115		93		93	97	97
6.1	VENEER SHEETS								
	Production	1000 m^3	75	C	84	C	84	85	85
	Imports	1000 m^3	23	C	22	C	22	24	25
	Exports	1000 m^3	20	C	20	C	20	22	24
	Apparent consumption	1000 m^3	78		86		86	87	86
6.1.NC.T	of which, tropical veneer sheets								
	Production	1000 m^3	20		18		18	19	20
	Imports	1000 m^3	2		1		1	2	2
	Exports	1000 m^3	0		3		3	4	4
	Apparent consumption	1000 m^3	22		15		16	17	18
6.2	PLYWOOD								
	Production	1000 m^3	64	C	55	C	55	55	65
	Imports	1000 m^3	109	C	146	C	146	150	130
	Exports	1000 m^3	26	C	20	C	20	25	25
	Apparent consumption	1000 m^3	148		181		181	180	170
6.2.NC.T	of which, tropical plywood								
	Production	1000 m^3	1		1		1	1	1
	Imports	1000 m^3	10		17		17	18	15
	Exports	1000 m^3	4		2		2	2	3
	Apparent consumption	1000 m^3	7		16		16	17	13
6.3	PARTICLE BOARD (including OSB)								
	Production	1000 m^3	2.890		2.750		2.750	2.650	2.650
	Imports	1000 m^3	271		179		179	150	140
	Exports	1000 m^3	284		178		178	200	200
	Apparent consumption	1000 m^3	2.877		2.751		2.751	2.600	2.590
6.3.1	of which, OSB								
	Production	1000 m^3	0		0		0	0	0
	Imports	1000 m^3	99		113		113	115	115
	Exports	1000 m^3	7		6		6	6	6
	Apparent consumption	1000 m^3	92		107		107	109	109
6.4	FIBREBOARD								
	Production	1000 m^3	1.742	C	2.100	C	2.100	2.150	2.200
	Imports	1000 m^3	727	C	549	C	549	510	500
	Exports	1000 m^3	183	C	343	C	343	400	450
	Apparent consumption	1000 m^3	2.286		2.306		2.306	2.260	2.250
6.4.1	Hardboard								
	Production	1000 m^3	210		270		270	280	290
	Imports	1000 m^3	190		213		213	210	200
	Exports	1000 m^3	23		42		42	50	55
	Apparent consumption	1000 m^3	377		441		441	440	435
6.4.2	MDF (Medium density)								
	Production	1000 m^3	1.500		1.798		1.798	1.845	1.885
	Imports	1000 m^3	436		325		325	290	285
	Exports	1000 m^3	128		271		271	340	350
	Apparent consumption	1000 m^3	1.808		1.852		1.852	1.795	1.820
6.4.3	Insulating board								
	Production	1000 m^3	32		32		32	25	25
	Imports	1000 m^3	101		11		11	10	10
	Exports	1000 m^3	32		30		29	10	10
	Apparent consumption	1000 m^3	101		13		14	25	25
7	WOOD PULP								
	Production	1000 m.t.	225	C	225	C	85	75	75
	Imports	1000 m.t.	487	C	487	C	482	500	510
	Exports	1000 m.t.	1	C	1	C	5	0	0
	Apparent consumption	1000 m.t.	711		711		562	575	585
10	PAPER & PAPERBOARD								
	Production	1000 m.t.	1.643	C	1.643	C	1.650	1.650	1.660
	Imports	1000 m.t.	2.068	C	2.068	C	2.097	2.100	2.100
	Exports	1000 m.t.	175	C	175	C	83	80	85
	Apparent consumption	1000 m.t.	3.536		3.536		3.664	3.670	3.675