TURKEY

MARKET STATEMENT

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

The economic program (Transition Program for Strengthening the Economy) which have been implementing since 2001, reached most of its aims and economic stability has been provided. The economic development and growth rates were impressive and quite over the program targets in last four years, after witnessed deep recession in 2001 *(table 1).* Gross national production (GNP) increases were 7.8, 5.9 and 9.9 in 2002, 2003 and 2004 respectively. Gross domestic Production (GDP) and Industrial production increased by similar rates as shown in table 1. The economic growth achieved in first quarter of 2005 is harmonious to 2005's targets which are about 5%. GDP, GNP and Industrial production increased by 4.8%, 5.3% and 5.5% respectively in this period. One of the leading sectors of economy is construction in this year. The growth rate of this sector is 16.5% in first quarter of 2005. According to construction permits; construction number of new building and additions increased by 33 %, floor area increased by 47% and number of dwelling unit increased by 60% in 2004. Similar or better development is expected for construction sector in 2005. More detailed indicators of the construction are given in *table2*.

On the other hand, tourism sector experienced new record levels in term of tourism income and foreign visitor number in last years in spite of over valuated Turkish Liras. Foreign visitor number was increased by 26% in the first seven months of 2005 and similar increase is expected for whole 2005 in term of tourism income. 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. The other important driver factor of furniture production increases was the penetration of wood furniture export *(table 3).* Significant investment and production development has been achieved especially in wood based panel industry, although sharp increase of import in last two years. On the contrary paper and paper board industry, especially pulp industry, had important problems.

High volatility of financial market and currency fluctuations, witnessed before the economic program, were reduced in last years and economic stability was provided. The success of reducing inflation and real interest rate are quite visible. Financial cost in production and trade was reduced as a result of economic stability. Mean wile, the credibility of the economy and external borrowing possibilities are improved. On the other hand budget deficit (is about 6% of GNP) and domestic public dept is steel high and payment balance deficit was quite high in 2004 and it increasing, depending on over valuated Turkish Lira. So that the economy is steel vulnerable in some case.

Foreign trade has been increasing gradually. Turkey's foreign trade value rose by 20 %, 35% and 39% in 2002, 2003 and 2004 respectively. The increase was slightly slowdowned in 2005. The increase of foreign trade is about 19% in the first seven mounts of 2005. 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 half of Turkish export going to EU. The slowdown of export seems to continue in the rest of 2005 and 2006 but over valuation of TL seems not possible to continue and this will be vital for foreign trade balance as well as domestic wood industry. GDP, GNP and industrial growth of whole 2005 are foreseen to be around 5% paralleling to aims. Similar economic growth can be expected for 2006.

2. Policy Measures

Illegal logging, forest law enforcement, governance and trade, encouragement for using sustainably produced timber products, climate change and renewable energy are raising issues, effecting forest product markets, in national and international forestry arena. Some measures, likely will be taken, associated those issues and new phytosanitary implementation about palets and other pacing material seem to create additional cost for traders and producer. Whereas World Trade Organization is working to simplify customary process and reduce trade costs, besides eliminating custom tariff.

Those issues have increasing importance in Turkey too. Some policies are being developed and Turkey attend international process such as ENA-FLEG, but the circumstances seems to be 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 a century in Turkey. Therefore Turkish forest law enforcement, governess, guarding and controlling system against forest crime have been strong and strict for long time in term of internal but some measures may need against illegally harvested timber import. Illegal logging and associated forest crimes decreased significantly in last decade.

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 quite a lot idea and complaint about being illegality in timber import. Although there is more extreme ideas, general believes the import amount of illegally harvested timber to be about 20% of total recorded amount of timber import. In spite of there aren't certain evidence, some clues and experiment of GDF, witnessed during the control of timber import, are confirming that rate. The main type and shape of illegality of timber import is miss-declaration (under declaration) of amount or value. Another way is bribe especially if transport was made by truck. Most of timber import transported by big sheep and the high amount make it more difficult to control under declaration of amount.

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. The significant differences frequently occurred and it creates unsolvable problems for official and importer. These kind of problems, faced up, indicated that strict control creates unexpected cost for legally working trader. As it is known, elimination of unexpected cost arise in customs and reducing number of certificates and simplify the bureaucracy in custom process in international trade are two latest important agenda of World Trade Organization

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 (If low quality wood should use 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.

Some international and regional processes like ENE-FLEG are likely to influence domestic market in medium and long term. On other hand some restriction and bans of round wood export implementing by some neighbor country in the region is currently influencing negatively the Turkish wood product market and industry. On the other hand the measures taken by government to develop construction sector (especially housing) are influencing positively timber market. High energy cost of alternative energy sources (oil and electricity) boost fuel wood price.

3. Developments in Forest Products Markets

Forest product markets are very active in 2004. Record level consumption, production and trade levels were witnessed. Sharp import increase was the most striking development. The total import value of wood and articles of woods (chapter 44) increased by 67% in 2004 (figure 1). The increase of all wood products is continuing in 2005 too. Import increase of wood and articles of woods was 50% in term of value in the first seven months of 2005. Besides wood importation increase, rather high domestic productions increase was achieved and consumption of many wood products reached record level in 2004. The import increase, especially processed wood import increase led to some problem for many wood processing sub-industry branch, besides wooden furniture export slowdown in 2005.

3.1. Wood Raw Materials

Round wood removal and consumption increased sharply in 2004 depending huge demand increase. Industrial round wood (4403) net import amount is reached 1.750 million m^3 by 65% increase. Wood chips and particle import amount reached 604 thousands m^3 by 86% increase. Besides, Both industrial wood production and sales of General Directorate of Forestry (GDF is responsible for sustainable forest management of 99.9% of country forest) rose considerable. GDF Production of industrial wood increased by 12 % and sales increased by 10% in 2004 in comparison with 2003. GDF production program of 2005 was determined lower considering the import increase. Wood pulp industry was also influenced from cheap and high volume import. So the pulpwood demand of pulp industry is limited in 2005. In addition, wood based panel industry raw material demand from domestic source is weaker than last year's. Therefore domestic industrial round wood production seems to fall slightly in 2005. The industrial wood production and sales of GDF fallen about 2% in the first eight months of 2005. The Rapid increase of import is estimated to continue in whole 2005, but to decrease in 2006, considering over valuation of TL not to continue. Prices of round wood products are declining generally. Coniferous log price rose slightly in 2004, but it is falling slightly in this year. Non-coniferous log market was quite weak in 2004. Beech and oak log price have been felling since June 2003. Pulpwood demand of paper industry decreased significantly in 2004 and demand of the sector is absolutely limited in this year. The price decrease of pulpwood has been continuing since April 2004.

Fuel wood production of GDF increased slightly in 2004, but it seems to fall slightly in 2005. Fuel wood price is quite high but the weak demand for pulpwood influencing it negatively. Total round wood removal will be made by GDF foreseen to fall slightly in 2005. The strong impact of import on the market seems to continue as long as over valuation of TL are continuing. The figures of round wood production and consumption are given at table: 3.

3.2 Sawn wood and Value-added Wood Products

Sawn wood and further processed wood production and consumption increased significantly in 2004 and it is continuing to increase in 2005. Significant growth, witnessing in house construction, and Economic stability are major factors influencing positively sawnwood and further processed woods demand increase. Coniferous sawnwood production, consumption and import increase by 21%, 26% and 109% respectively in 2004. Export of coniferous sawn wood decreased by 59% as a result of over valuation of TL and domestic demand increase. Similar demand increase did not witnessed in hard sawnwood market. And production and import of hard wood stayed nearly at the same level of 2003. Further processed and value-added import and consumption were similarly high in 2004. The high rate import increase of soft sawn wood and further processed wood is continuing in 2005 too. Modest production and consumption improvements are estimated for whole 2005 comprising to 2004.

Strong furniture export penetration, which had continued for nearly a decade, slowdowned in 2005. Wooden furniture export value rose only by 13% in the first seven months of 2005. On the contrary furniture import increased sharply in the same period. The high volume increase of sawn wood and further processed wood import increase, witnessed in last two years, have been influencing negatively sawn wood manufacturer especially 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

Particle board and fiber board (especially MDF) industries are expanding and their production is increasing gradually. 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 and reached to 2,2 million m³ in the end of 2004. So that, high rate production increase are expecting for MDF in 2005 and 2006. Particle board established capacity expanded by 13% and reached to 3.139.000 m³/year in the end of 2004. 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 in 2005. The increase of production of particleboard was about 19% in 2004. Although existing marketing problems, production increases are estimated for fibre bord and particle board in 2005. Veneer sheet and plywood production, consumption and trade are increasing.

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

3.4 Pulp and paper

Paper and paperboard industries are also influenced negatively from import increase. Although nearly half of total paper and paperboard consumption composed of imported products, paper and paper board production increased slightly (by 2%) in 2004. Any significant production increase is not expected for 2005 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. Privatization of Public side of paper industry is about to finish. Three private pulp plants which produce wood pulp are running but at very limited level in this year. One of two plants, belong public side, is running low capacity level. Privatization processes are continuing for these two plants. The privatization process also impact adversely the production performance of this sub sector besides weak international 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 First quarter	2005 Est.	2006 Est.
GDP	7,2	-7.4	7,8	5,8	8,9	4,8	5	5
GNP	6,1	-9.4	7,8	5,9	9,9	5,3	5,2	5
Industry	5,6	-7.5	9,4	7,8	9,4	5,5	5,3	5
Construction	-18,0	-5,9	-4.9	-9,0	4,6	16,5	20	20
Budget deficit % (percentage of GNP)	10,6	15,9	14,3	11,2	7,1		6	5
Inflation (Wholesale price index)	32,7	88,6	30,8	13,9	13,8	1,9	8	8

Source: State Institute of Statistics, Prime Ministry, Republic of Turkey

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
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	-32
2003	54	15	57	-14
2004	72	33	39	-44
2005 Est.	80	11	57	46
2006 Est.	95	19	68	19

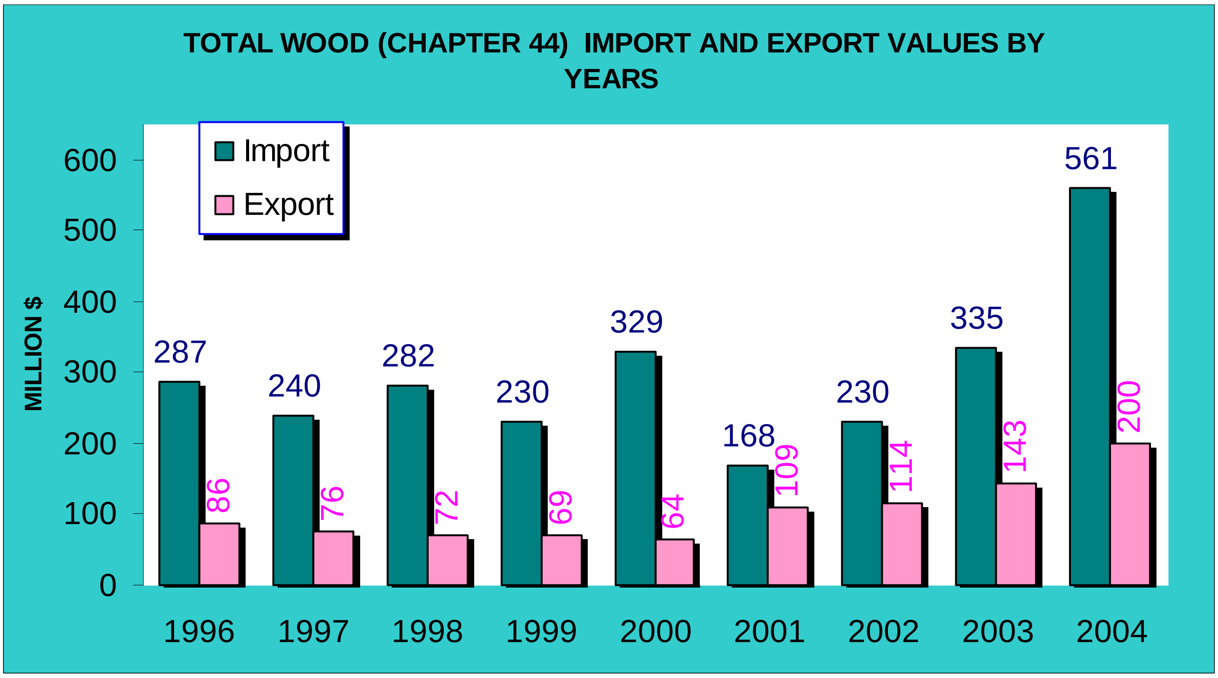
Source: Turkey's Statistical Yearbook,2005

Table 3: Round Wood Production and Consumption

YEARS	2003	2004	2005	
Industrial wood (1000 m³)				
Production	**10620**	**11496**	**10800**	**11100**
of which				
State	7320	8196	7500	7800
Private	3300	3300	3300	3300
Consumption	**11780**	**13000**	**12800**	**12800**
of which				
State sale	7420	7950	7500	8000
Private sale	3300	3300	3300	3300
Net foreign trade	1060	1750	2000	1500
FUEL WOOD (1000 str)				
Production	**7816**	**8000**	**7900**	**7900**

source: General Directarate of Forestry

Note:1-Fuel wood production include only state production.



Source: State Institute of Statistics, Prime Ministry, Republic of Turkey