

TURKEY

MARKET STATEMENT

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1. General Economic Trends Affecting the Forest and Forest Industry Sectors

Strong economic recovery released in 2010 following deep recession witnessed in 2009. In 2010, GDP grew by 8.9 % and nearly reached to its 2008 level. Higher recovery witnessed in manufacturing and construction sectors by 13.6% and 17.1% increases.

The economic growth achieved in the first half of 2011 is also strong and over the budget's targets. In the first quarter of 2011; GDP, manufacturing industry and construction sector grew by 11%, 12.3% and 14,8% respectively. In the second quarter, strong recovery continued and 8.8%, 8% and 13,2 % growth realized in GDP, manufacturing industry and construction sector respectively. Another significant recovery realized in employment. Jobless rate decreased from 13,5% in December 2009 to 9,2% June 2011, but the recovery has slowed down in recent months.

Economic expectation and estimates are quite different for the rest of 2011 and 2012. Only moderate growths are estimated considering economic slowdown in USA and Europe beside fiscal and banking problems in Europe.

In spite of the big progress achieved in Turkish economy in 2010 and the first half of 2011, fears and concerns are increasing about future of the economy with the effect of the market fluctuations, economic slowdown and pessimistic forecasts related big economies like USA and EU beside already existing debt and borrowing problems of some European Countries.

Turkish economy looks to be strong against economic shocks that may come from outside with its strong banking, low budget deficit, low public debt and politic stability. As shown in Table 1.1; public debt, stock/GDP and budget deficit/GDP are well under the EU Maastricht criteria. The main weakness of the economy is high current (payment) deficit arisen from over valuated TL and strong domestic demand. The consumer confidence and investment decisions also significantly changed in the last two months. On the other hand, TL (Turkish Lira) has lost value by 20% against major currencies since May, and this condition helps to close the current deficit.

Looking in to construction which is the most important sector for forest product markets and one of the main engines of economy, we see some conflicts between different indicators and see some visible signs of turndown. While growth rates of the sector was quite high in the first half of 2011 as stated above, new permission number for building construction sharply decreased. According to the construction start permits; number of building, floor area and number of dwelling units decreased by 17%, 18% and 16% respectively, against the same period of 2010. On the other hand, occupancy permits continued to increase as shown in the Table 1.2. As new housing start is the best indicator of future development; in this context, a slowdown can be concluded for the rest of 2011 and 2012.

The steady production increase of Furniture, another important sector for wood markets, is continuing, but the sharp export rise that has been witnessing since 2003 has slowed down in

recent years depending on global economic crisis. The development of Furniture sector is quite faster than both industrial production and GDP growth. Furniture production value increased by 83% while industrial production increased %51 and GDP increased %41 in the period of 2002-2008. Structural changes and consolidation are also continuing with fast steps. Big and middle sized enterprise number and share are increasing in the sector which mainly composes too many small producers (about 45000).

2. Recent Legislations and Policy Measures

Legislative regulations and policy measures taken outside of the country is more effective on the domestic wood markets rather than regulation and policy measures inside of the country. Export taxation of round wood by Russian Federation and similar implementation by Ukraine are the most remarkable ones.

There is no significant legislative regulation those have important effect on forest product markets in Turkey. The only outstanding development was the approval of a law amendment on 29.12.2010 which guarantees the purchase of electricity produced from wood for 13.3 \$ sent per KWH for 10 years. The following table (Table 2.1) lists the prices guaranteed by government for energies produced from various renewable sources.

Table 2.1. Electricity (KWH) Prices Guaranteed to purchase by Government

Energy Source	KWH prices determined by Renewable Energy Support Mechanism	Valid for
Hydroelectric	7,3 \$ sent	10 Years
Wind	7,3 \$ sent	10 Years
Jeotermal	10,5 \$ sent	10 Years
Biomass	13,3 \$ sent	10 Years
Solar	13,3 \$ sent	10 Years

Although a lot of companies seem interested in energy production from wood with modern technology, there is no result that can be influence wood market and consumption patterns yet. Only an investment has been started for pellet production in Muğla province.

On the other hand, legislative and politic measures taken outside have visible impact on round wood market. Russian taxation policy led a sharp shifting to Ukraine as sawlog import source. Russian Federation share in industrial wood (nearly all of them is sawlog) import of Turkey fell to 10% in 2010 from 45 % in 2007. Meanwhile share of Ukraine increased to 77% from 39%. Some measures taken by Ukraine (to put amount quotas, to remove the VAT return for roundwood export and price increase) beside shipment cost increase affected especially coniferous log price in Turkey. Sawlog price started to rise November 2010 and reached %45 in July 2011. Beside measures related trade, sustainable management policies are also reducing wood raw material import possibilities (especially from African countries) and led to cost increase.

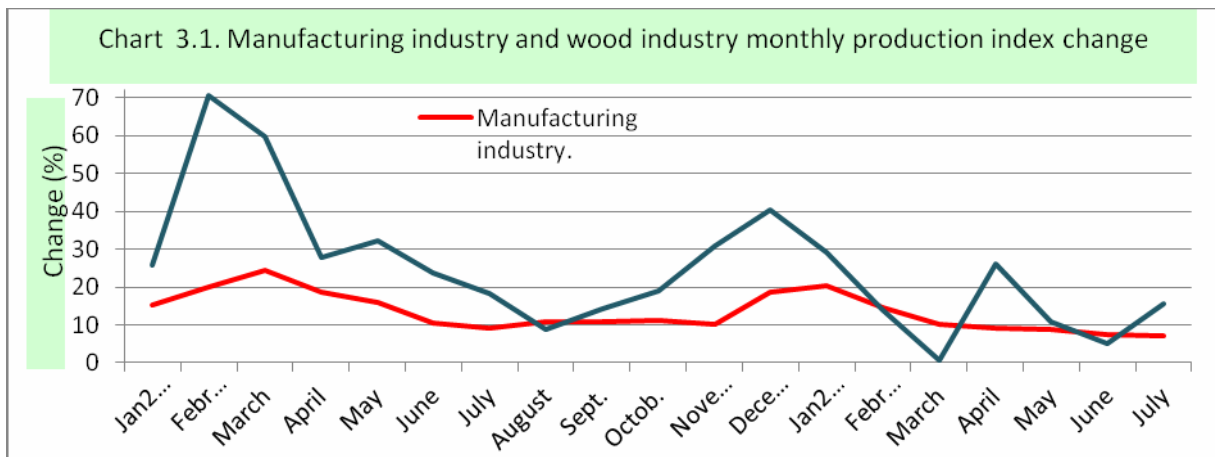
Another factor affects forest production market is the government policy aiming to develop construction sector and close residential building gap in the country.

As for forestry, the policy of General Directorate of Forestry (GDF) aiming to increase domestic round wood production leads gradually production increase. Industrial wood production of GDF has increased about 70% since 2002. It is estimated far more round wood

production increase when we compare the low harvest with twice more annual increment in production forest.

3. Developments in Forest Products Markets

Recovery in the wood processing industries in 2010 and in the first seven months of 2011 was above both recovery of general industry and manufacturing industry. Nevertheless, the fluctuation of the recovery (Chart 3.1) brings some questions in mind about the stable growth.



Although the wood industry has high performance in general, growth and development trends and potential in the sub-sectors of industry are different from each other. For example, although wood based panels industry grows up rapidly, the sub-sectors such as massive parquet industry sawmill industry, plywood and veneer sheet industry make no headway or decrease. Also the pallet and packaging industry grows up rapidly and is becoming a major consumer of wood raw material.

Also negative effects of the last global crises are different-sized according to the sub-branches. Especially small-scale sawnwood producers have suffered extensive damages. Also manufacture of massive parquet has been in a major downturn with the effect of the spread of laminated parquet in the recent years.

Import and the new legislation and policies of neighboring countries related with trade continue to be an important factor affecting our country's wood markets. Becoming increasingly difficult of the wood raw material import causes to be in rise higher of the prices in the domestic market and boosts the raw material costs of the industry.

Wood and wood products (excluding wood furniture) import was \$ 1098 million by 50 % increases, export was \$ 573 million by 13 % increase in 2010. Despite the rapid increase in import, it was under the 6 % of 2008 import. Industrial wood import occurred as 929 thousand m³ in 2009 and reached 1174 thousand m³ in 2010. Fuelwood amount, wood processing residues and chip which is imported for using as raw material in the particle and fibre board industry reached 1780 thousand tons (about 2800 thousand m³). The figure of the great import in monetary is fibre and particle board as \$ 325 million but also export of these products is equally large and is \$ 318 million. The largest import-export imbalance after the industrial and chips is in sawnwood and corresponding to 647 thousand m³ timber import are timber exported to 42 thousand m³.

It is foreseen reasonably increase of import and export of the forest and forest industry production in 2011 and decrease especially in import (except for chip) in 2012.

3.1. Wood Raw Materials

Roundwood production and consumption continued to increase in 2010 and 2011 and reached new record levels. Industrial wood production increased by 10% in 2010 and by 8% the first nine months of 2011, but fuelwood production decreased slightly. Higher increase is witnessed in industrial wood consumption by 15% with the effect of import increase in 2010 and the sale from GDF stocks. The production policy of GDF (operates the state forests) that meets 75% of domestic consumption has an important impact on the increase of the industrial wood production.

There are two main reasons for the lack of the increase in the fuelwood production and consumption. The first one is the rapidly increasing demand of wood based panel industry for wood raw material. Second one is that industry producing energy from wood has not formed yet. The firewood has been used for heating with the traditional technologies in forest villages and the other rural areas or cooking in the several bakeries or some restaurants on a limited scale. Although there are incentives for the promotion of renewable energy production, results have not had significant in the areas such as the pellet production and the obtaining electric energy from wood.

Industrial wood import increased by 27% and reached to 1174000 m³ in 2010, but it is well below pre-global crisis level. On the other hand, the amount of imported chips for being used in wood based panel production has rapidly increased.

Although the total wood and wood products (Chapter 44) import increase was around 54 %, it was not a significant change in imports of the roundwood in the first 7 months of 2011. Wood raw material exports are very little and don't have effect on the market.

As for prices, however there are big differences between assortments and tree species, the major price increase experienced in 2011. When we compare the average price increase of the first 9 months of 2011 with the same period of the previous year; the largest increase was in fir and spruce sawlog by 51% and pine sawlog followed it by 42% (Table 3.1.1).

Table 3.1.1. Round Wood Price Rises In the First 9 months of 2011 Compare to the Same Period of 2010

Product	Price Increase (According to 9 months average prices)
Sawlog (pine)	42%
Sawlog (fir and Spruce)	51%
Sawlog (Beech)	21%
Pulpwood	22%
Fuel wood	15%

The price increases were derived from the increase in import costs, increased domestic market demand and the delay of GDF roundwood production because of the heavy rains witnessed until July. The prices turned down in the last two months.

The price declines, witnessed in last two months, is expected to continue in the rest of 2011 and 2012, but not very sharp.

Production and consumption is expected to increase in 2011, but remain at the same level in 2012 in

3.2 Sawn Wood and Value-Added Wood Products

Sawn wood and further processed wood production and consumption increased significantly in 2010 and the first half of 2011. The significant growth witnessed in the house construction and strong economic growth was the major driver factors of the domestic demand increase.

Still, the weakening trend of sawmill industry has been continuing. Especially small enterprises strongly effected from the global economic crises and the recovery of sawmill industry in 2010 was weaker than the other wood processing branches. Coniferous sawnwood production and consumption increased by 6%, 8% respectively in 2010. Import amount of coniferous sawn wood increased by 58% in the same year.

Modest production and consumption increases are estimated for overall 2011, but slight decrease in 2012.

The high volume increase of the sawn wood import, has witnessed in recent years (Chart 3.2.1), is a factor negatively influencing sawn wood manufacturer especially the ones located near to import ports.



Main import sources of sawn wood are Russian Federation, Ukraine, Romania and Georgia. Main export markets are Iraq, Azerbaijan and Iran.

Value-added wood products and wood packing sub-industry branches perform better development. Especially pallet and wood packing equipment production has increased in the recent years. On the contrary to sawnwood and wood raw material, import and export of high value-added wood products are balanced, even export of some goods are exceeding import.

As for wood furniture, Turkey is a net exporter country. After a long sharp penetration period, wood furniture export has relatively slowed down in recent years. Import and export values are shown in Table 3.1.

Table 3.1. Wood Furniture Export and Import Values (million \$), 2000-2010

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Export	83	93	135	215	290	342	390	520	517	517	652
Import	99	58	53	65	105	155	242	255	276	201	222

3.3 Wood Based Panels

Particle and fibre board industry continues their strong growth trend and the consolidation of the industry continues at the same speed as well. In these industries appearing in a rapid recovery in 2010 and the first half of 2011, the annual particle board production capacity reached 5 million m³, and fibre board 4 million m³ at the end of 2010. Ongoing and planned investment capacities are around 1,5 million m³ for particle board and 2,5 million m³ for fibre board in 2011 and 2012.

As a result of the accelerating consolidations in 2009 with the effect of global crisis, 6 plants were closed and lots of relatively weak factories passed into other hands.

Also the production and consumption increased in parallel with the new investments and particle board production increased by around 32% and fibre board production 12% in 2010. As for the increase in the consumption, it was around 37% for particle board and 15% for fibre board production.

High rate increase is expected in production and consumption of the particle and fibreboard in 2011 and approximately to remain at the same level in 2012.

Similar developments have also experienced in production and consumption of plywood and veneer sheet. Significant production and consumption increase is expected in 2011 and slight decrease in 2012.

3.4 Pulp and Paper

Only one factory that produces wood pulp from wood works but the others were closed. The annual production of this factory is 70-80 thousand tons and only locally effects demands for wood raw material. Also the competition power of the paper and the cardboard industry is limited and the majority of the consumption is imported.

3.5 Certification

Demand for certified wood product is still limited and only demand comes from the exporters. There is no significant compelling demand for the certification of the forest management in the country. The most important reason of absence of compelling domestic demand is that nearly all forests are under the State management. GDF is the responsible state agency for managing the forest on behalf of the States and there is no doubt that GDF sustainably manages the forests

Nevertheless, GDF has begun the certification to develop its forest management as well as take a sudden increase in demand which could come from inside and outside into consideration. The works have been initiated for FSC forest management certification on 1.2 million hectares of forest. The pre-assessment work of this area was finished. The main assessment in some section completed as a positive and was reached the stage of receiving the certificate. New forest management certification is planned in wider areas in 2012 and to have totally 3 million hectares certificated forest in the next year.

Table :4 Growth Rates and Some Economic indicators, Turkey

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2011 Est.
									First half	
GDP	5,3	9,4	8,4	6,9	4,7	0,7	-4,8	8,9	10,2	5
Manufacturing	8,4	11,9	8,2	8,4	5,6	-0,1	-7,2	13,6	10,7	6
Construction	7,8	14,1	9,3	18,5	5,7	-8,1	-16,1	17,1	13,9	5
Budget deficit % (percentage of GDP)	8,9	5,4	0,6	-0,8	1	2,2	6,7	3,6	-0,003	1
Current accounts deficit (billion \$)	7,5	14,4	22,3	32,2	38,4	42	14	48	72,5	75

Source: 1-Turkish Statistical Institute, Prime Ministry, Republic of Turkey 2-Ministry of Finans (<http://www.maliye.gov.tr>), 3- www.hazine.org.tr

Table :5 Number of Construction and occupancy Permits of New Buildings and Additions, total

YEARS	According to Construction Permits						According to occupancy Permits					
	Number of building (000) /change (%)		Floor area (mil. m ²)/change (%)		Number of dwelling unit / change (%)		Number of building (000) /change (%)		Floor area (mil. m ²)/change (%)		Number of dwelling unit (000)/change (%)	
2002	43		36		163		47		32		162	
2003	50	15	46	26	203	25	41	-13	31	-2	163	1
2004	75	51	70	53	330	63	41	-1	31	0	165	1
2005	107	42	106	53	547	65	64	57	50	62	250	52
2006	114	7	123	15	600	10	73	15	57	14	295	18
2007	107	-7	125	2	585	-3	68	-7	63	11	326	11
2008	95	-11	104	-17	504	-14	76	12	71	12	357	10
2009	92	-3	101	-3	518	3	80	5	81	14	404	13
2010	129	39	161	60	823	59	65	-18	69	-15	351	-13
2011/Q1												

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

Product Code	Product	Unit	Historical data		Revised	Estimate	Forecast
			2009	2010	2010	2011	2012
1.2.1.C	SAWLOGS AND VENEER LOGS, CONIFEROUS						
	Removals	1000 m ³	4.627	4.843	4.843	5.200	5.200
	Imports	1000 m ³	794 #	1.000 #	1.034	1.000	950
	Exports	1000 m ³	1 #	2 #	6	6	6
	Apparent consumption	1000 m ³	5.420	5.841	5.871	6.194	6.144
1.2.1.NC	SAWLOGS AND VENEER LOGS, NON-CONIFEROUS						
	Removals	1000 m ³	3.178	3.478	3.478	3.600	3.550
	Imports	1000 m ³	128 #	175 #	140	135	130
	Exports	1000 m ³	12 #	10 #	2	3	3
	Apparent consumption	1000 m ³	3.294	3.643	3.616	3.732	3.677
1.2.1.NC.T	of which, tropical logs						
	Imports	1000 m ³	60 #	80 #	51	45	40
	Exports	1000 m ³	0 #	0 #	0	0	0
	Net Trade	1000 m ³	60	80	51	45	40
1.2.2.C	PULPWOOD (ROUND AND SPLIT), CONIFEROUS						
	Removals	1000 m ³	3.832	4.392	4.392	4.800	4.800
	Imports	1000 m ³	0 #	0 #	0	0	0
	Exports	1000 m ³	0 #	0 #	0	0	0
	Apparent consumption	1000 m ³	3.832	4.392	4.392	4.800	4.800
1.2.2.NC	PULPWOOD (ROUND AND SPLIT), NON-CONIFEROUS						
	Removals	1000 m ³	2.368	2.635	2.635	2.750	2.700
	Imports	1000 m ³	60 #	70 #	0	0	0
	Exports	1000 m ³	0 #	0 #	0	0	0
	Apparent consumption	1000 m ³	2.428	2.705	2.635	2.750	2.700
3 + 4	WOOD RESIDUES, CHIPS AND PARTICLES						
	Domestic supply	1000 m ³	1.700 C	1.700 C	2.000	2.200	2.150
	Imports	1000 m ³	2.469 C	2.566 C	2.566	2.900	2.900
	Exports	1000 m ³	1 C	37 C	37	0	0
	Apparent consumption	1000 m ³	4.168	4.229	4.529	5.100	5.050
1.2.3.C	OTHER INDUSTRIAL ROUNDWOOD, CONIFEROUS						
	Removals	1000 m ³	217	286	286	2.925	2.900
1.2.3.NC	OTHER INDUSTRIAL ROUNDWOOD, NON-CONIFEROUS						
	Removals	1000 m ³	30	61	61	60	55
1.1.C	WOOD FUEL, CONIFEROUS						
	Removals	1000 m ³	2.049	1.936	1.936	1.850	1.850
1.1.NC	WOOD FUEL, NON-CONIFEROUS						
	Removals	1000 m ³	2.999	2.923	2.923	2.850	2.850

Table 6/b. UNECE Timber Committee Forecasts (Forest products)							
Product Code	Product	Unit	Historical data		Revised	Estimate	Forecast
			2009	2010	2010	2011	2012
5.C	SAWNWOOD, CONIFEROUS						
	Production	1000 m ³	3.777	3.984	3.984	4.250	4.200
	Imports	1000 m ³	368	581	581	620	600
	Exports	1000 m ³	31	32	32	30	35
	Apparent consumption	1000 m ³	4.114	4.533	4.533	4.840	4.765
5.NC	SAWNWOOD, NON-CONIFEROUS						
	Production	1000 m ³	2.076	2.259	2.259	2.300	2.225
	Imports	1000 m ³	89	83	83	85	82
	Exports	1000 m ³	8	88	9	8	10
	Apparent consumption	1000 m ³	2.157	2.254	2.333	2.377	2.297
5.NC.T	of which, tropical sawnwood						
	Production	1000 m ³	29	21	21	18	15
	Imports	1000 m ³	27	29	29	28	25
	Exports	1000 m ³	1	1	1	0	0
	Apparent consumption	1000 m ³	55	49	49	46	40
6.1	VENEER SHEETS						
	Production	1000 m ³	82 C	96 C	96	105	105
	Imports	1000 m ³	22 C	43 C	43	45	40
	Exports	1000 m ³	18 C	22 C	22	20	25
	Apparent consumption	1000 m ³	86	117	117	130	120
6.1.NC.T	of which, tropical veneer sheets						
	Production	1000 m ³	20	14	14	12	11
	Imports	1000 m ³	16	3	3	5	4
	Exports	1000 m ³	13	5	5	4	5
	Apparent consumption	1000 m ³	23	12	12	13	10
6.2	PLYWOOD						
	Production	1000 m ³	100 C	110 C	110	125	125
	Imports	1000 m ³	128 C	190 C	190	185	175
	Exports	1000 m ³	21 C	45 C	45	40	42
	Apparent consumption	1000 m ³	207	255	255	270	258
6.2.NC.T	of which, tropical plywood						
	Production	1000 m ³	30	16	16	14	13
	Imports	1000 m ³	76	10	10	15	12
	Exports	1000 m ³	12	1	1	1	1
	Apparent consumption	1000 m ³	94	25	25	28	24
6.3	PARTICLE BOARD (including OSB)						
	Production	1000 m ³	2.350	3.100	3.100	3.700	3.650
	Imports	1000 m ³	244	367	367	360	350
	Exports	1000 m ³	254	264	264	360	400
	Apparent consumption	1000 m ³	2.340	3.203	3.203	3.700	3.600
6.3.1	of which, OSB						
	Production	1000 m ³	30	40	40	40	80
	Imports	1000 m ³	154	161	161	175	165
	Exports	1000 m ³	5	4	4	5	10
	Apparent consumption	1000 m ³	179	197	197	210	235
6.4	FIBREBOARD						
	Production	1000 m ³	2.950 C	3.300 C	3.300	3.600	3.750
	Imports	1000 m ³	297 C	459 C	459	400	350
	Exports	1000 m ³	491 C	605 C	605	750	850
	Apparent consumption	1000 m ³	2.756	3.154	3.154	3.250	3.250
6.4.1	Hardboard						
	Production	1000 m ³	34	20	20	0	0
	Imports	1000 m ³	125	227	227	250	230
	Exports	1000 m ³	23	52	52	50	45
	Apparent consumption	1000 m ³	136	195	195	200	185
6.4.2	MDF (Medium density)						
	Production	1000 m ³	2.916	3.280	3.265	3.585	3.735
	Imports	1000 m ³	172	232	232	240	230
	Exports	1000 m ³	456	538	538	745	840
	Apparent consumption	1000 m ³	2.632	2.974	2.959	3.080	3.125
6.4.3	Other fibreboard						
	Production	1000 m ³	0	0	15	15	15
	Imports	1000 m ³	0	0	0	0	0
	Exports	1000 m ³	12	15	15	5	10
	Apparent consumption	1000 m ³	-12	-15	0	10	5
7	WOOD PULP						
	Production	1000 m.t.	56 C	65 C	65	75	70
	Imports	1000 m.t.	618 C	627 C	627	650	650
	Exports	1000 m.t.	1 C	1 C	1	1	1
	Apparent consumption	1000 m.t.	673	691	691	724	719
10	PAPER & PAPERBOARD						
	Production	1000 m.t.	4.442 C	5.334 C			
	Imports	1000 m.t.	2.170 C	2.170 C			
	Exports	1000 m.t.	230 C	230 C			
	Apparent consumption	1000 m.t.	6.382	7.274			