

TURKEY

MARKET STATEMENT

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

Strong economic recovery was realized in overall 2011, but economic growth turned down in the second half of the year by the effect of adverse external economic conditions. GDP grew by 8.5 % in 2011 following another strong recovery (8,9%) witnessed in 2010. Higher recoveries realized in manufacturing industry (9,4 %) and construction sector (11,2 %).

The negative effect of global economic slowdown and sluggish demand in Eurozone became more visible and Turkish economy experienced more slowdown in the first half of 2012. In the first half of 2012; GDP, manufacturing industry and construction sector grew by 3,1%, 3,1 % and 1,5 % respectively. In spite of these growth rates are lower than budget targets (which is about 4 %), they can be considered as satisfying, considering ongoing adverse global economic conditions and constraints.

Another strong recovery was witnessed in employment in 2010, 2011 and 2012. Unemployment rate decreased to 8% in June 2012 from 13,5% in December 2009, but the recovery has slowed down in recent months.

Similar economic performance is estimated for the second half of 2012 and 3.2 % GDP growth are expected for whole 2012. Estimates and expectation of economic performance for 2013 are slightly more optimistic, but it is difficult to make accurate estimation because of many risks and uncertainties existing.

Turkish economy has some advantages and strength aspects. Strong banking system, low budget deficit, low public debt and politic stability are most important ones of them. 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. Although unannual current deficit decreased to 59 billion \$ in August 2012 from 76,9 billion \$ in December 2011, it is still too high and creates vulnerability for the economy. Political instability in MENA countries and weakened demand in EU are most important external factors negatively influencing country's export and economic performance.

EU countries are the biggest export destination for Turkey. The share of EU countries in Turkey export has sharply decreased. It fell to 34 % (July 2012) from 47% (July 2011). Despite the sharp decrease of export to EU, total export continued to increase by 18% in 2011 and 12,6 % in the first seven months of 2012 compared to the same period of previous year. Total import increased by 29,8 % in 2011, but fell by 2 % in the first seven months of 2012.

Looking into construction which is the most important sector for forest product markets and one of the main engines of economy, there seems to be some visible signs of turndown. Nevertheless there are some contradictions between different indicators. While permission number for new building construction is increasing, occupancy permits of finished construction decreasing and growth rates of the sector significantly fell (to 1,5% from 14%) in the first half of 2012 (table 4 and table 5).

The steady production increase of Furniture -another important sector for wood markets- continued in 2011, but there were some serious signs pointing a turndown and sluggish demand in recent months. Finally august monthly production index fell by 22,5% compared to the same month of previous year.

On the other hand, the sharp export rise that has been witnessed since 2003 has slowed down in recent years depending on global economic crisis. In the last decade, the growth of Furniture sector was faster than both industrial production and GDP growth, by far (nearly twice) . 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 at a fast pace. Big and middle sized enterprise numbers and their share are increasing in the sector which mainly composes too many small producer enterprises (about 45000).

2. Recent Legislations and Policy Measures

Ongoing ambitious economic stimulus policies of government strengthen the steady growth of economy and reduce the adverse effect of global economic slowdown and recession (in some country) on the Turkish economy. Medium Term Economic Stability Program, balanced budget implementation and strict fiscal policies are some of the most important measures taken in this context.

While these kinds of measures are essential, some implementations such as additional taxation may create negative effects on industry and markets. For example, the new VAT (Value Added Tax) implementation came into force in May 2012 is adversely influencing sawmill enterprises, especially for small ones by creating additional financial cost. According to new implementation, 9/10 (%90) of VAT is paid directly to tax authority and 1/10 to seller by sawnwood purchaser. Then the seller claim his refund which is the VAT he paid during sawlog purchasing after deduction of 1/10 VAT paid to him by sawnwood purchaser, if there is no any tax debt of both producer-seller and purchaser of sawnwood. This confusing and time consuming procedure with together insufficient awareness of small sawmill producer raises the adverse impact on wood raw material marketing and some wood industry branches.

Legislative regulations and policy measures taken by neighboring countries such as Russian Federation, Ukraine and Georgia have significant impact on the domestic wood markets. Export taxation of round wood by Russian Federation and similar regulation by Georgia and Ukraine are the most remarkable ones.

As a result of Russian taxation policy, Turkish sawlog import shifted sharply to Ukraine from Russian Federation. Russian Federation share in industrial wood (nearly all of them is sawlog) import of Turkey fell to 7% in 2011 from 45 % in 2007. R. Federation share in sawnwood import also fell to 23% (2011) from 47% (2006). Meanwhile share of Ukraine increased to 77% in 2010 from 39% (2007), but decreased to 75% in 2011.

Beside measures taken related to trade, sustainable management policies are also reducing wood raw material import possibilities (especially from African countries) and leading to cost increase.

The incentive came into force by a law amendment in the beginning of 2011 for electricity production from renewable energy source hasn't made any significant impact on wood market yet.

The law amendment guarantees the purchase of electricity produced from wood for 13.3 \$ sent per KWH for 10 years by government. The following table (Table 1) lists the prices guaranteed by government for energies produced from various renewable sources.

Table 1. Electricity (KWH) Prices Guaranteed to purchase by Government

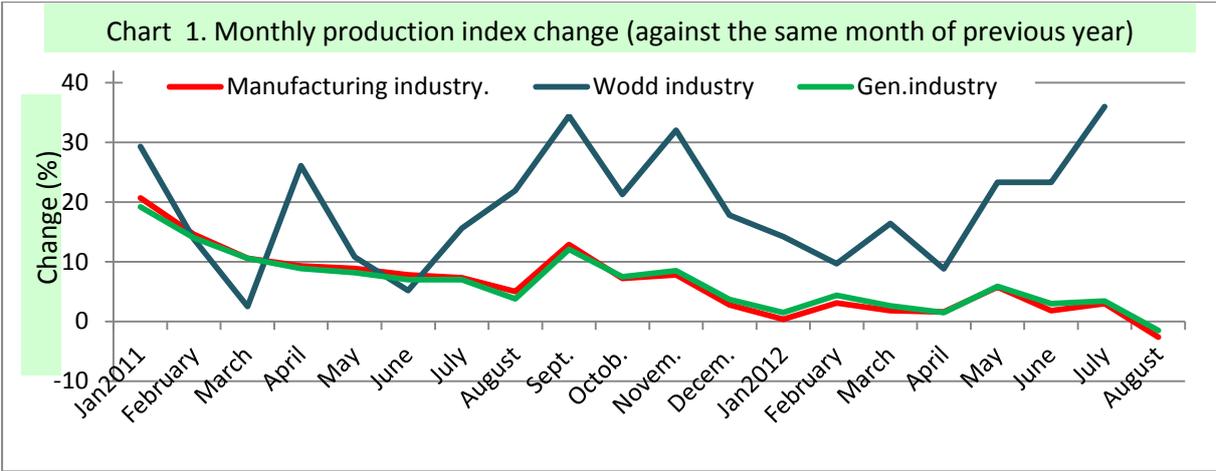
Energy Source	KWH prices determined by Renewable Energy Support Mechanism	Valid for
Hydroelectric	7,3 \$ cent	10 Years
Wind	7,3 \$ cent	10 Years
Jeotermal	10,5 \$ cent	10 Years
Biomass	13,3 \$ cent	10 Years
Solar	13,3 \$ cent	10 Years

Although a lot of domestic and international companies interested in energy production from wood at the beginning, there is no result that can be influence wood market and consumption patterns yet.

As for forestry, the policy of General Directorate of Forestry (GDF) aiming to increase domestic round wood production led gradually production increase in last ten years. Industrial wood production of GDF has increased about 70% since 2002. Round wood removal potential is too high. Currently only half of increment is harvested. So, farther removal increase is estimated for next years.

3. Developments in Forest Products Industry and Markets

Recovery in the wood processing industries in 2011 and the first eight months of 2011 were above both recovery of general industry and manufacturing industry. Nevertheless, the fluctuation of the recovery (Chart 1) brings some questions (doubts) in mind about the stable growth.



In spite of high performance of whole wood industry; growth and development trends of the sub-sectors are quite different from each other. Wood based panel and wood pallet industries is growing up rapidly. Especially laminated parquet production has increased very fast by replacing traditional massive parquet in recent years. On the other hand, the sub-sectors such as massive parquet industry sawmill industry, plywood and veneer sheet industry make no headway or shrinking.

The legislations and policy implementations related with trade of wood raw material continue to be one of the important factors affecting country's wood markets. Decreasing import possibilities of round wood results with higher prices in the domestic market and boosts raw material costs for the industry.

Wood products and articles (excluding wood furniture) import reached to 1,428 million by 30 % increase and export reached 653 million \$ by 14 % increase in 2011. The foreign trade slowed down in 2012. Import value of Wood products and articles (HS44) increased only by 8 % and export increased only by 2.7% in the first 8 months of 2012 (table 2). Wood products and articles (except chip) import and export are forecasted not to increase but chips and particles import is estimated to increase significantly in 2013.

Table 2. Import and Export Values Of Some Wood Products (1000 \$)

HS code	Products	Export of first 8 Months		Change	Import of first 8 Months		Change
		2011	2012	%	2011	2012	%
4401	Fuelwood, chips and particles and wood processing residues	36	74	107	145.456	216.474	49
4403	Industrial wood	1.286	2.640	105	129.756	110.885	-15
4407	Sawnwood	10.411	8.002	-23	144.985	140.013	-3
4408	veneer sheet	16.525	19.100	16	25.126	25.538	2
4410	Particle board	44.603	46.336	4	65.194	68.803	6
4411	Fibre board	183.689	196.705	7	204.380	219.062	7
4412	ply wood	10.048	9.183	-9	183.296	200.859	10
44	Total	421.312	432.540	2,7	1.008.660	1.088.904	8

3.1. Wood Raw Materials

Round wood production continued to increase in 2011 and 2012, but the increase is losing its momentum. The consumption increase of industrial wood is slightly slower than the production increase. Harvesting policy of GDF (operates the state forests) which meets 77% of domestic consumption has an important impact on the increase of industrial wood production.

Industrial wood production of GDF increased by 8% in 2011 and increased by 7% in the first nine months of 2012. Fuel wood production of GDF decreased slightly in the same periods. There are two main reasons for not to increase in the fuelwood production and consumption. The first one is the high competitiveness of panel industry of which demand for wood raw material is soaring. Second one is the lack of demand by wood energy generation.

The industry producing energy from wood has not formed yet in the country. Fuel wood 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. In spite of the incentives for renewable energy generation, there are no significant achievement in pellet production and electricity production from wood.

Industrial wood import decreased slightly by 6% and fell to 1,108,000 m³ in 2011. It is well below pre-global crisis level which is about 1.8 million m³. On the other hand, the amount of imported chips for being used by wood based panel production has been increasing rapidly. It

increased 12% in 2011 and 49% in the first 8 months of 2012. Wood raw material export is very low and don't have any effect on the market.

Production and consumption are expected to increase slightly in 2012, but remain at the same level in 2013.

As for prices, round wood price rose sharply in 2011, but a continuous price fall started in April 2012. On the contrary, pulp wood and fuel wood prices are continuing to rise in 2012 by the effect of strong demand by panel industry.

3.2 Sawn Wood and Value-Added Wood Products

Sawn wood and further processed wood production and consumption increased significantly in 2011, but demand is relatively weak in 2012. The slowdown of economy and housing is the major driver factors of the domestic demand decrease.

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 and 2011 was weaker than the other wood processing branches. The new VAT implementation mentioned earlier in Chapter 2, worsened the condition of those small enterprises.

Many sawmills are being modified to produce pallet and wood packing equipment depending on increasing demand.

Sawnwood and wood pallet production and consumption increased by 3% and 7% respectively in 2011. Import amount of sawn wood increased by 37% in the same year.

Any significant production and consumption increases aren't expected for the rest of 2012 and 2013.

The high volume increase of the sawn wood import -witnessed in recent years (Chart 2)- is an another important factor negatively influencing sawn wood manufacturers especially the ones located close to import points. Weak competitiveness of those enterprises and increasing sawnwood import led to many bankrupts.



Main import sources of sawn wood are Ukraine (29%), Russian Federation (24%), Bulgaria (23%) and Romania (14%). 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 have 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.

Table 3. Wood Furniture Export and Import Values (million \$), 2000-2010

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	83	93	135	215	290	342	390	520	517	517	652	765
Import	99	58	53	65	105	155	242	255	276	201	222	287

3.3 Wood Based Panels

New investments and consolidation continue in wood based panel industry which is growing steadily. Two new MDF plant with 900,000 m³ annual production capacity and two particle board plant (of which one is OSB) with 650,000 m³ production capacity have been established. With together capacity expansions of other plants; particle board production capacity increased by 1,243,000 m³ in 2011 and reached to 5,700,000. Fibre board production increased 950,000 m³ and reached to 4,900,000 m³ in the beginning of 2012.

Production amount increased in parallel with the new investments and capacity expansions. Particle board production increased by 17 % and fibre board production 9 % in 2011. Consumption also increased, but at a slower pace.

In 2012 and 2013, new investment and capacity expansion seems to push up fibre and particle board production, but weak demand expectation looks to be the main obstacle in front of the production increase especially in 2013.

Ply wood consumption increased strongly, but domestic industry couldn't take the advantage of it enough. Ply wood and veneer sheet industry are not competitive enough. Two third of the consumption of ply wood is met by import and 40% of veneer sheet met by import.

3.4 Pulp and Paper

Only one factory left produces wood pulp from wood in recent years. The others were closed. The annual production of this factory is 70-80 thousand tons and it has only local effect on wood raw material market. Also the competitive power of the paper and the cardboard industry is limited and the majority of the consumption is being imported.

3.5 Certification

Demand for certified wood products is still limited in domestic market. Demand for certified products comes only from exporters. There is no significant compelling demand for the certification of the forest management by consumer and NGO, mainly because of the reliability of governmental management. GDF is the responsible state organization for managing the forests and there is no doubt that GDF sustainably manages the forests.

Nevertheless, GDF has initiated forest certification to improve its forest management. 1.3 Million ha. forest has been certificated by FSC certification until now. Certification process is continuing in another 0.5 million ha. The area of the certified forests is planned to be expanded up to 3 million ha till 2015.

Table 4. Growth Rates and Some Economic indicators, Turkey

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2012 Est.
						First half				
GDP	9,4	8,4	6,9	4,7	0,7	-4,8	8,9	8,5	3,1	3,2
Manufacturing	11,9	8,2	8,4	5,6	-0,1	-7,2	13,6	9,4	3,1	3,0
Construction	14,1	9,3	18,5	5,7	-8,1	-16,1	17,1	11,2	1,5	1,0
Budget deficit % (percentage of GDP)	5,4	0,6	-0,8	1	2,2	6,7	3,6	1,3	1	1,5
Current accounts deficit (billion \$)	14,4	22,3	32,2	38,4	42	14	48	76,9	63,5	62

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 (%)	
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	95	25	95	34	470	32
2010	141	53	179	78	916	76,7	82	-14	85	-11	430	-9
2011	100	-29	124	-30	646	-30	97	18	105	24	550	28
2012/Q1	47,3	8,4	72	37	349	26	40,4	-9,1	46	-5,1	240	-4,8

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