

DEVELOPMENTS IN TURKISH STEEL INDUSTRY AND OUTLOOK

Turkish Iron and Steel Producers Association



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Crude steel production of Turkey increased by 55 %, from 14.9 million tons in 2001 to 23.3 million tons in 2006, an increase by more than 10 % on average each year.

Drivers of the crude steel production increase

- growth in domestic consumption
- growth in export sales

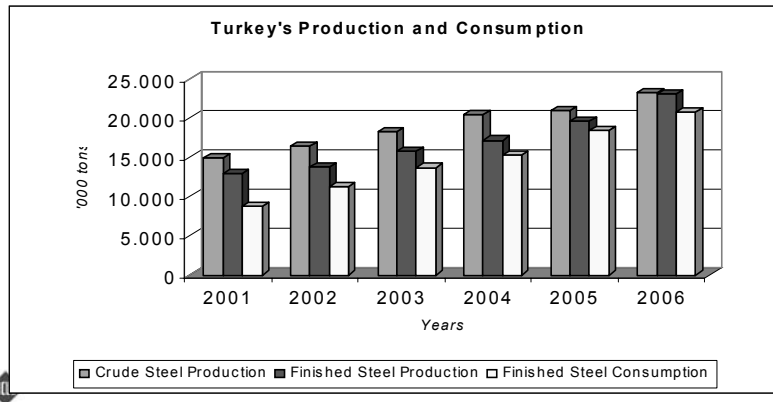
In 2006, the performance of the Turkish steel industry was around two times higher than the GDP growth of 6.1 %



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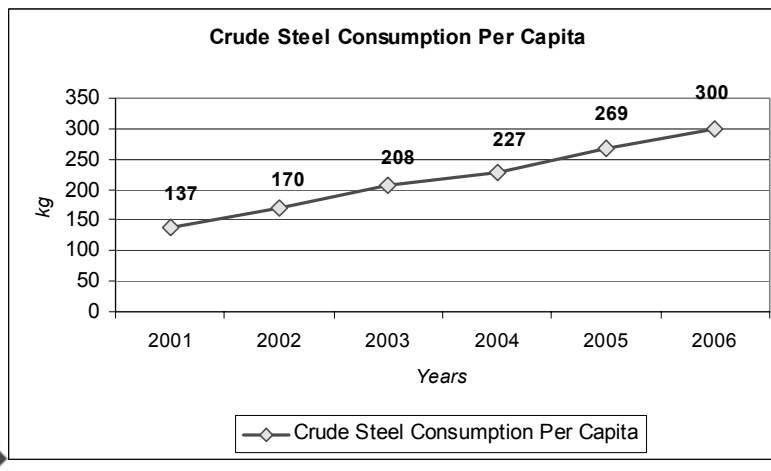
Domestic Demand & Consumption

After the sharp decline in 2001, resulting from the economic crisis, Turkey's finished steel consumption showed an upward trend during the last five years and grew by 138 % from 8.7 million tons in 2001 to around 20.8 million tons in 2006.



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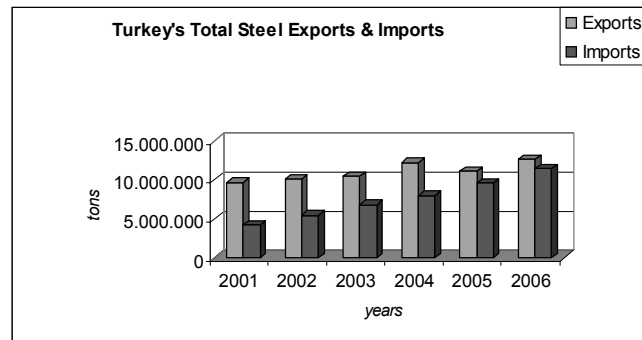
During the same period, crude steel consumption per capita rose by 119 % from 137 kg to 300 kg in 2006.



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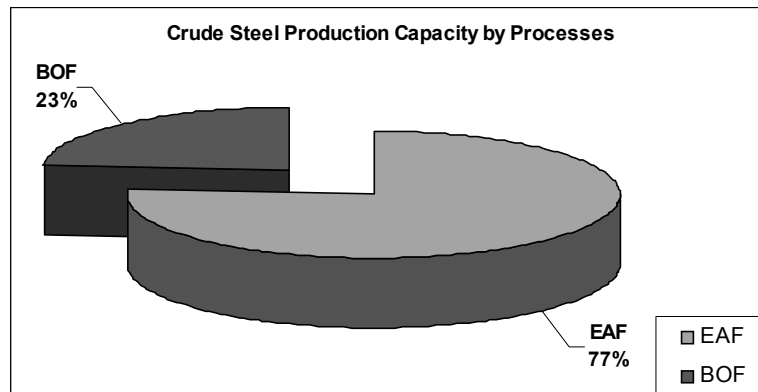
Exports

Turkey's total steel exports increased by around 31 % from 9.7 million tons in 2001 to around 12.7 million tons in 2006. Turkey's total steel imports grew by 7.2 million tons or 170 %, from 4.2 million tons to 11.4 million tons. As a result of this, Turkey's net steel exporter position has weakened from 5.4 million tons to around 1.2 million tons



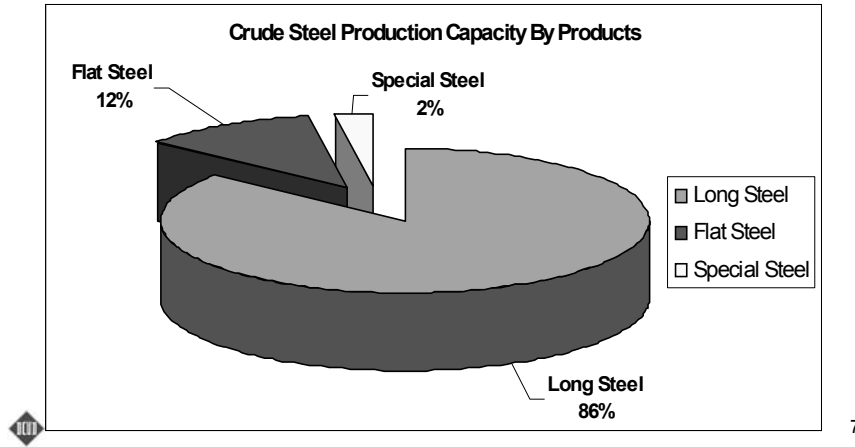
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The three integrated steelmaking facilities account for 6.5 million tons or 23.5 % of the 27.6 million tons of total crude steel capacity, while 17 electric arc furnace (EAF) mills' capacity is 21.1 million tons – around 76.5 % of the total in the year 2006.



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In the year 2006, 21.2 million tons (86 %) of the 27.6 million tons of crude steel production capacity is allocated to long products, 3.2 million tons (11.6 %) to flat products, while the remaining 682,000 tons (2.5 %) is to special steel products.



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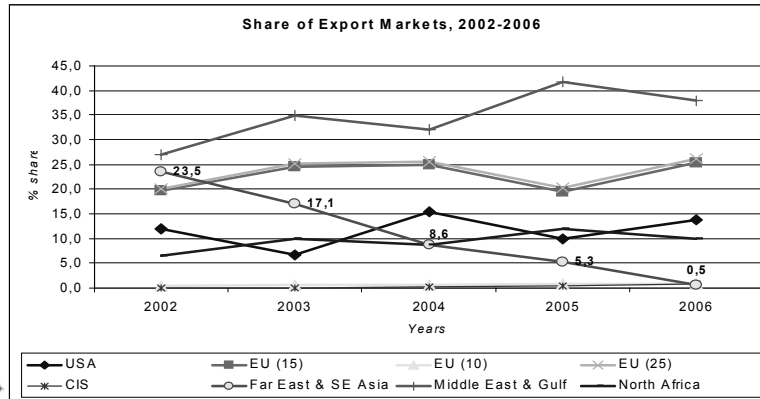
For the last two years, Turkish construction industry have been performing well and grown around 20 % in 2006, after a similar improvement in 2005. During the first half of 2006, Turkey's long steel consumption increased by more than 40 % and total steel consumption growth was round 22 %. However, due to the fluctuations in global and domestic economies during June and July, construction activity slowed down in the domestic market and the increase in long and total steel consumption declined to 15 % and % 13 respectively

Turkey's Finished Steel Consumption

	2001	2002	2003	2004	2005	2006	%change 06/05
<i>Long products</i>	3.993	4.930	6.205	6.758	8.598	9.872	14,8
<i>Flat products</i>	4.327	5.865	6.848	7.774	8.859	9.777	10,4
<i>Special steel</i>	387	491	602	772	908	1.109	22,1
TOTAL	8.707	11.286	13.655	15.304	18.365	20.758	13,0

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In 1990's Far East was the biggest export destination for Turkish steel products with a share of around 70 % in total Turkish steel exports. Because of the Chinese affect, the share of Far East in Turkey's total steel exports started to decline. The share of Far East which was still 23 % in 2002, finally dropped to 0.5 % in 2006.



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Developments in steel trade (2006)

- Rising rates in exports to the Middle East & Gulf Region slowed down due to Chinese effect. Although its share declined from 42 % to 38 % compared to 2005, Turkish steel industry achieved 4 % increase in exports to that region,
- Turkey's steel exports to the USA and EU-25 markets increased by 59 % and 48 % respectively, compensating the decline in 2005.
- After Middle East and Gulf Region, EU-25 was the second export destination for Turkish steel with a share of 26 % and the USA was third with 14 %.
- It should be stressed that, in 2006 Turkey's steel exports to the CIS region increased by 194 %, although its share in Turkey's total steel exports was still very low with 0,8 %. The importance of this is that Turkey's steel exports to the CIS Region, especially to Russia started to show a sharp rising trend.

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Developments in trade with the CIS Region

The main factor in Turkey's increasing exports to the CIS region was the high growth rates in the Russian construction sector. As a result of this;

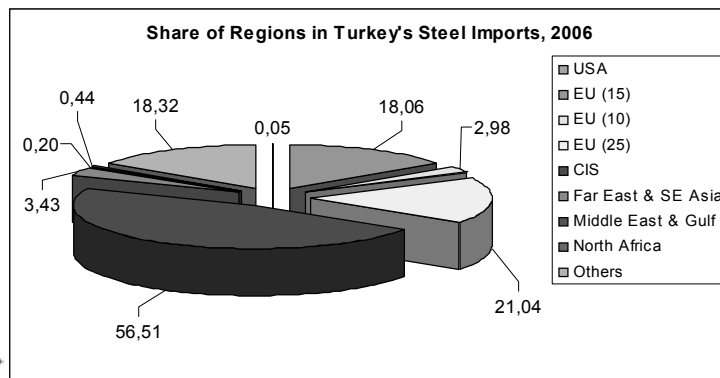
- Russia which had been known as a big steel exporter started to import steel to meet the domestic demand and Turkey started to export rebar to Russia in 2006 for the first time.
- Russian producers restricted their long product exports and directed almost all of their production to the domestic market, relieving the competition pressure on export markets.
- But Russian producers were replaced by Chinese producers as growing competitors in export markets.
- Due to the high steel demand and production, scrap allocations for the export markets started to decline in the CIS countries and the general tendency in Russia is to sell the collected scrap domestically.



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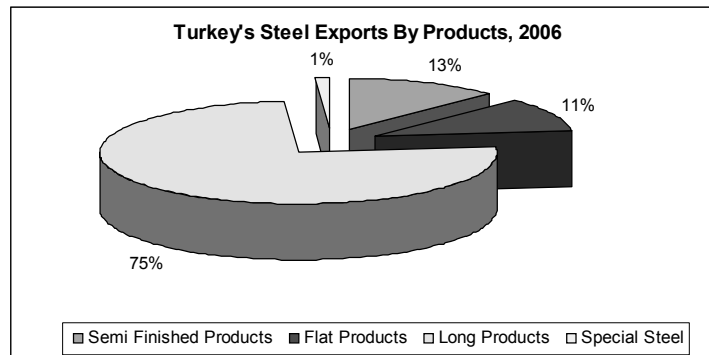
Imports

Turkey's total steel imports increased by 19.1 % to 11.4 million ton in 2006. Main regions that Turkey sourced its steel requirements were the CIS region with a share of 56 % and EU-25 region with a share of 21 % in Turkey's total steel imports.



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Turkey's exports of billet is decreasing since 2004 while imports of billet is showing an upward trend. During the last two years, Turkey's net billet exports decreased from 3.2 million tons in 2004 to 82.000 tons in 2006, which reflects the growing consumption levels in the Turkish domestic market.



This indicates that Turkey is increasing the proportion of high value added products in steel exports. The rise in the value of Turkey's steel exports being higher than the rise in terms of quantity, confirms the increasing rates in high value added product exports.

Export/import ratio in the Turkish steel industry moved up from 84 % in 2005 to 87 % in 2006.



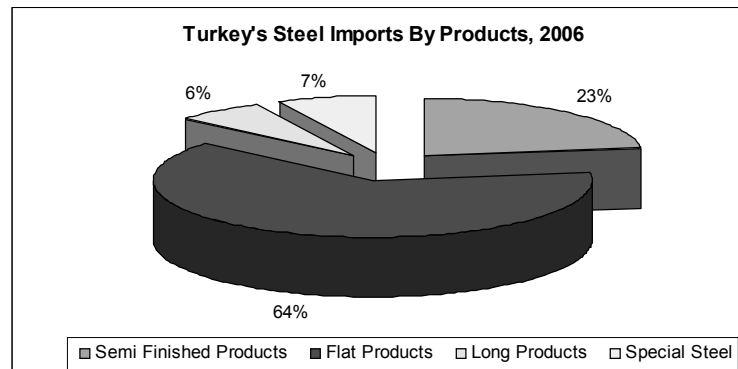
Although the share of special steel in Turkey's total steel production has been rising and Turkey is a net exporter of steel in terms of quantity, the value of imports was around USD 900 million higher than the value of exports due to the higher share of high value added products in Turkey's total steel imports.

Turkey's Total Steel Exports and Imports (2006)

	Exports		Imports	
	tons	1000\$	tons	1000\$
Semi-Finished Steel	1.582.278	635.359	2.614.743	1.110.527
Flat Steel	1.367.966	827.947	7.241.323	3.999.253
Long Steel	9.560.353	4.402.385	741.715	526.011
Special Steel	147.501	198.967	832.468	1.310.308
Total	12.658.098	6.064.658	11.430.249	6.946.099



While long products had the biggest share with 75.5 % in Turkey's total steel exports of 12.7 million tons in 2006, the share of flat products in Turkey's total steel imports was 63 %.



In order to address the flat/long steel production imbalance in Turkey and complete the restructuring in the steel industry which has already been started, “National Restructuring Plan” (NRP) was prepared as a result of the negotiations with the EU Commission.

The aim of the plan is:

- to allow Turkish steel producers using government subsidies in their investments for conversion of the production capacities from long to flat products,
- increasing production quality, developing product range to higher value added products,
- reducing production costs and
- improving viability and competitiveness of the sector under free market rules.



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The first draft of the plan submitted to the EU Commission in March 2004. Upon request of the EU Commission, the plan had been revised and the final version of the plan was re-submitted to the EU Commission in September 2006, which has still been reviewed by the EU Commission.

As part of the NRP, İsdemir started to get the results of conversion program from long to flat products and started test production at the end of 2006.



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Independent from the National Restructuring Plan, some of the Turkish EAF steel producers are also planning to invest in flat steel production at their existing facilities. One of the EAF mills, namely Çolakoğlu Metalurji, has already completed its investments and is expected to start production in the second half of 2007.

During the recent years, some re-rollers have invested in setting up their own electric arc furnace mills in order to meet their billet requirements from their own sources. This process, began with Kaptan D. Ç. and Nursan Metalurji, continued with Cer Çelik in 2006, which bought Metaş on the western part of Turkey, that has not been producing since 1998.



In addition to these, after conversion to flat product production of the Isdemir plant, there will be supply deficiency in long products in the region, which is expected to be balanced by new EAF plants to be established there. All these investments, together with the crude steel capacity expansion at Erdemir Group, It is forecasted that a fast growth in Turkey's crude steel production will be witnessed until 2010 and export/import ratio will go over 100 % again.



In 2007, it is expected that crude steel production of Turkey will increase more than 10 % to around 26 million tons. Even though political instability in Turkey stemming from the presidency and general elections may affect the performance of the construction industry negatively, it is estimated that the negative impact will not be as strong as it was last year resulted from the fluctuations in global and domestic financial markets.

Crude steel consumption per capita is forecasted to increase from 300 kg in 2006 to around 330 kg in 2007, due to the confidence that the strong performance of the consuming sectors during the last two years will continue in 2007.



In conclusion, due to rapidly growing domestic demand, Turkish iron and steel sector, with its dynamic structure, closely following and adopting the technological developments and putting their best efforts to reach the EU environmental standards without getting any subsidy will continue to develop its position in the world steel industry.

