

PRIVATIZATION EXPERIENCE OF TURKEY:
THE CASE OF ORÜS

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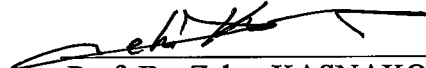
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ABSTRACT

PRIVATIZATION EXPERIENCE OF TURKEY: THE CASE OF ORÜS

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This thesis examines the privatization of a major SOE in wood industry (ORÜS) as a case study of privatization experience of Turkey in the context of liberalization and deregulation policies during 1980s in the general context of privatization in the world.

Keywords: Liberalization, Deregulation, Privatization

ÖZ

**TÜRKİYE’NİN ÖZELLEŞTİRME TECRÜBESİ:
ORÜS ÖRNEĞİ**

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Bu tez orman ürünleri sanayinde temel bir KİT olan ORÜS’ün özelleştirilmesini 1980’li yılların liberalleşme ve deregulasyon politikaları altında dünyadaki özelleştirme uygulamaları çerçevesinde incelemektedir.

Anahtar Kelimeler: Liberalleşme, Deregulasyon, Özelleştirme

To My Parents

I will keep on trying my best to be eligible for your respect and other things you have done so far.

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LIST OF ABBREVIATIONS

OECC	Organisation of European Economic Cooperation
OGM	General Directorate of Forestry
ORKÖY	General Directorate of Forestry-Village Affairs
ORÜS	Wood Products Industry
PA	Privatization Administration
RSC	Revenue Sharing Certificate
SIS	State Institute of Statistics
SOE	State Owned Enterprise
SPO	State Planning Organisation
SSAP	Stabilisation and Structural Adjustment Program
TSE	The Institute of Turkish Standards

CHAPTER 1

INTRODUCTION

State Owned Enterprises (SOEs)¹ in the Turkish context emerged in the late 1920s because of poor performance of the private sector in the industrialisation process and to reduce the harmful effects of the Great Depression on the economy. From then on, the number of SOEs increased as a part of *etatist* policies. In the beginning of 1950s, a new government declared that the number of SOEs would be reduced and the manufacturing fields of SOEs would be narrowed. Not only did the government fail to fulfil this pledge, it found it necessary to establish new SOEs. In 1960s, there were attempts directed at the reform of SOEs in the context of planned economy. Though priority fields of SOEs were determined during the 1970s, attempts to solve the problems of SOEs till 1980 were not sufficient because of inconsistent implementations of reforms in an environment of political and economical crisis.

In January 1980, the government introduced a Stabilisation and Structural Adjustment Program (SSAP) under IMF and World Bank auspices leading to deep structural changes in the Turkish economy. The objective of the program was the transformation of the Turkish economic policy from interventionist import substitution to an export-oriented free market economic model. Although privatization was an issue over brief periods until 1980, it would be fair to say that its elevation as a major issue occurred in 1980s. Since the Turkish nation was not ready for such a severe policy change towards SOEs the first major step towards privatization was taken in late 1984 in the form of Revenue-sharing certificates

¹ Here SOEs denotes the SOEs constructed after the establishment of the Turkish Republic in 1923.

(RSCs) (Leeds, 1988:162). From then on the Turkish nation became increasingly familiar with this policy, signalling the beginning of the debate on privatization in the Turkish context². In the context of the program, privatization was introduced by a systematic process from RSCs in 1984 to privatization of Teletaş in 1988. The slow privatization process in Turkey during 1980s has five components: (i) lack of support of even within the government ministers for privatization, (ii) nation point of view towards SOEs as the nations own facilities, (iii) weakness of financial markets, (iv) unwillingness of national capital owners and (v) “resistance of special-interest groups and rent seekers who prefer status quo” (Shaker, 1995: 81).

In 1990s, privatization appeared on the political agenda as a priority concept and it accelerated. Until 1998, 124 establishments were privatised. As of March 1998, there are 45 establishments in the privatization program of the Privatization Administration (PA) (PA, 1998: 3)³.

The privatization experience of Turkey is an interesting case study to observe in the context of privatization in developing countries. The purpose of this thesis is to contribute to this debate at both the macroeconomic and microeconomic levels. The privatization of a major SOE in wood products industry (ORÜS) is examined as a case study of privatization experience of Turkey in the context of liberalization and deregulation policies during 1980s in the general context of privatization in the world at large.

Privatization of ORÜS is chosen as the subject of this thesis for two main reasons. First, ORÜS reflects some of the general characteristics of SOEs in Turkey and provides a case study to observe the impacts of liberalization policies on a profitable SOE. Second, it has not been examined in detail although cancellation of privatization of three plants of ORÜS, namely those in Bafra, Vezirköprü and Ayancık, by the Constitutional Court has attracted wide attention in mass media.

² For supporter and opponent views see VakıfBank (1993) and Şenses (1995:28-36)

³ The revenues and expenditures of privatization during this period were 4.8 billion and 4.5 billion US dollars, respectively.

The Chamber of Turkish Engineers and Architects (TMMOB) published ORÜS ve Özelleştirme (ORÜS and Privatization) in 1994, which focussed on the reasons of privatization in the case of ORÜS. Here the privatization of ORÜS is examined in the wider context of Turkey's privatization experience under SSAP. In this thesis, I will test the hypothesis that the reasons of privatization were not valid in the case of ORÜS.

In this thesis, the period between 1981 and 1997 will be considered in order to examine the effects of liberalization policies beginning in 1980 on ORÜS before its privatization in 1996 and the initial impact of privatization.

The data used in the thesis come from various reports by ORÜS, High Level Coordination Committee (YDK), PA and General Directorate of Forestry (OGM), the statistics published by the Undersecretariat of Treasury, State Planning Organisation and the State Institute of Statistics. Some valuable information was obtained from interviews that the author has conducted with ex and current officials of ORÜS and OGM.

After this introductory chapter, Chapter 2 will briefly discuss the rationale behind privatization and the necessary conditions for successful privatization in the light of the privatization experience of Turkey, and particularly of ORÜS. Chapter 3 will discuss the evolution of SOEs in the Turkish economy and the impact of liberalization policies in 1980s on SOEs in general. Chapter 4 will discuss the performance of ORÜS before privatization in the context of indicators like productivity, employment and profitability. Special emphasis will be on the establishment goals and the initial impact of the privatization on different ORÜS plants. The chapter will also draw on interviews with some of the ex and current officials of ORÜS. In chapter 5, the conclusion of the thesis will be presented.

CHAPTER 2

PRIVATIZATION IN THE WORLD

Privatization, defined as “a transfer of ownership and control from the public to the private sector, with particular reference to asset sales” (Hemming and Mansoor, 1988: 31), was begun to be considered as one of the most popular remedies to SOEs problem during 1980s partly as a result of success of the United Kingdom in her privatization program. Since the reform attempts on SOEs resulted as failures, this success attracted the attention of various countries throughout the world such as Germany, Mexico, Chile and Turkey. As a result, many governments began to launch privatization programs, so rapidly that 15,000 SOEs were privatized between 1980 and 1993 (Kikeri, Nellis and Shirley, 1994: 241)¹. Privatization revenues in developing countries increased from 48 million US dollars in 1988 to 14,384 billion US dollars in 1995 (World Bank Privatization Database)

2.1 The Main Arguments for Privatization

2.1 .1 Poor and Inefficient Performance of SOEs

Research on the performance of SOEs has shown that SOEs has in general been performing poorly and inefficiently all over the world. The reasons behind this can be summarised as follows:

¹ Since more than 11,000 of them were privatized in East Germany Senses (1995: 30) claims that privatization is not so popular in the global sense.

First, unclear, multi and contradictory objectives of SOEs have led them to perform inefficiently and poorly. For instance, on the one hand, one of the aims of SOEs is to stimulate production by producing low-cost intermediate products; on the other hand, they are expected to gain net positive profits in total disregard of their objective of serving social ends (Vernon-Wortzel and Wortzel, 1989: 636). However, both of these objectives can not be achieved at the same time in most instances.

Second, political interference disturbs the management of SOEs so that professional management techniques cannot be implemented to keep-up-to date with market conditions (Kikeri, Nellis and Shirley, 1994: 246). In this sense, the price of SOEs products can not be determined under free market condition. Moreover, to gain political power SOEs may be used as a source of employment or may be constructed in inappropriate regions². These increase production costs so that SOEs can not gain positive net profits. In this context, labour productivity of SOEs in the world was 38 percent less than that of private sector in 1991. Moreover, average return of employed capital for SOEs in the world between 1985 and 1991 was 12 percent although it was 20 percent for private sector (Kikeri, Nellis and Shirley, 1994: 243). Therefore, it is assumed that by the change of ownership SOEs will perform efficiently.

2.1.2 Huge Financial Losses of SOEs

Due to inefficient performance and political interference, SOEs have often imposed heavy financial burdens on the budget. For instance, the losses of SOEs between 1989 and 1991 represented about 9 and 8 percent of GDP in Argentina and in Yugoslavia, respectively. Thus, governments have supported SOEs via subsidies and budget transfers. For example, budget transfers to SOEs exceeded 3 percent of GDP in Mexico in 1982 (Kikeri, Nellis and Shirley, 1994: 243). Thus, SOEs were criticised for inefficient allocation of scarce public resources, and privatization was considered as the solution to SOEs problems.

2.1.3 Low Growth Rate of Private Sector due to SOEs

In developing countries, there are two main obstacles in front of the private sector. First, the government does not let the private sector to get into some fields of SOEs such as energy, telecommunication and postal services. For instance, private sector was not permitted to produce electricity in Turkey until 1990's. Therefore, SOEs may gain net positive profits by artificial price increases though they do not perform efficiently. Second, SOEs loans from banks have crowding out effect on private sector credit. SOEs have often obtained huge loans from the banks with limited loan capacity, and this has caused the interest rates to rise. The private sector could not borrow due to either high interest rates or non-availability of loans. For example, SOEs in Guinea received 90 percent of total credits though their contribution to GDP was only 25 percent before privatization and reforms (Kikeri, Nellis and Shirley, 1994: 244).

2.1.4 Unsuccessful Reform Record of SOEs

There were reform attempts to enable SOEs to be free from political interference, become financially independent, and perform efficiently. Although some of them began to perform well following reform (Kikeri, Nellis and Shirley, 1994), reforms were not successful for two reasons. First, reforms related to SOEs should be implemented in harmony with other reforms in the economy. For instance, if the government cuts the subsidies and transfers to SOEs from the budget but if these enterprises continue to obtain loans from the banks then reforms could not bring successful results. Second, reforms should be pursued consistently. They will be far from being effective in generating efficiency and the profitability increases for SOEs if they are postponed or neglected, which has often been the case even in developed countries, because of economic crisis, foreign pressures and interest groups.

² Inappropriate regions for the construction of SOEs are not chosen only because of political interference but also on the grounds of national defence as in the case of the Karabuk Steel Plant.

2.2 Environment needed for Successful Privatization

Privatization is not a magic tool which solves all economic problems at once. In fact, it is a part of sequential macroeconomic policies, which should be pursued, in the correct order³ with the adequate institutional and regulatory framework at the right time. The necessary conditions for successful privatization can be summarised under the following six headings:

First, there is a linkage between a successful privatization and an environment under a stable economy to attract the private sector (Leeds, 1988: 170). For instance, price stability, low real interest rate and a realistic exchange rate are needed for such an environment. If these are absent or there are doubts about their future, it will be more difficult to yield the benefits of privatization and may result in failures such as the divestiture of SOEs at a price less than their true values.

Second, the commitment of government to privatization is essential for privatization (Sarbib, 1997). Otherwise, investors especially those from foreign countries do not take the privatization program seriously, and this lessens the demand for SOEs to be privatized. Thus, SOEs might again be privatized at a price less than their true values. In this context, the governments which decide to pursue a privatization program should pronounce it in their government programs.

Third, establishment of a strong agency is essential to privatize SOEs successfully without political interference (Sarbib,1997). This agency should be given the following two rights:

a) Adequate Resources

The government should provide sufficient funds for the agency so that it is free from financial problems. This enables the agency to accelerate privatization.

³ However, the correct order is unclear and changes from country to country.

b) Sufficient Legal Authority

The agency should be empowered with sufficient legal authority to privatize SOEs and solve the conflicts between investors and the state. Moreover, it should have the right to control SOEs, and give punishments to the owners of privatized SOEs if the requirements in the privatization contracts were not satisfied

Fourth, the state of capital markets determines both the methods for broadening ownership in privatization and the number of SOEs available for privatization (Sarbib, 1997). Therefore, strong capital markets should be established before the launch of a privatization program.

Fifth, competitive and regulatory framework is essential in the privatization of SOEs that perform as monopolies such as railways, telecommunication and energy to create a stable environment for privatization. Otherwise, new owners will enjoy determining high prices for low quality of the services and goods. The new framework should provide a competitive environment with necessary changes in the privatization contracts and tariffs. For instance, in Chile, large consumers that caused increase in the demand of electricity paid higher prices for electricity than ordinary citizens so that owners of the power stations (after privatization), competed to supply large consumers. This did not harm the consumers' interests while increasing efficiency.

Sixth, a broad consensus in favour of privatization should be reached in society (Sarbib,1997). Due to the belief that privatization represents the selling of the nation's assets, especially to foreigners, citizens may be against privatization. This causes three obstacles in front of privatization. First, in the face of public opposition, governments face the possibility of not being re-elected so governments can not continue the privatization program consistently. Second, one of the goals of privatization, namely broadening ownership among the citizens, can not be achieved. Third, the domestic demand for SOEs that will be privatised will decrease. Because of all these three reasons, government should inform

citizens about poor and inefficient performance of SOEs as well as their privatization programs.

2.3 Discussion on Privatization

Benefits and disadvantages of privatization were begun to be discussed all over the world just after the privatization programs were launched in various countries such as the UK, Germany and Turkey. The debate on privatization revolves around the question of whether ownership matters.

The supporters of privatization state that privatization is the retreat of the state from non-essential activities to focus its scarce managerial and financial sources on critical spheres such as national defence, health and education. In this context, they argue that change of ownership increases both efficiency and profitability of SOEs⁴. Furthermore, the state gets rid of losses of SOEs and gains sizeable revenues from privatization. What is more, Galal, Jones, Tandon and Vogelsang (1994: 527) point out the welfare increase in eleven of twelve cases in their empirical analysis on the welfare consequences of privatization.

Opponents of privatization, on the other hand, suggest that liberalization and regulatory reforms are more appropriate tools than privatization to increase economic efficiency. Vernon-Wortzel and Wortzel explain why privatization is not the right solution as follows:

“The key problem with SOEs was, first, that they became inefficient or wasteful in their use of labor and capital. This led to inefficient performance (overly expense or poor quality goods and services) or even failure to deliver the ends. Converting such SOEs to private sector enterprises will not automatically focus them on their ends- the goods and services they were formed to deliver.” (Vernon-Wortzel and Wortzel, 1989: 636)

⁴ Megginson, Nash and Randerborgh's study (1994) about financial and operating performance of 61 SOEs from 18 countries in 32 industrial sectors before and after privatization shows that there are considerable increases in real sales, profitability, investments and employment with improvements in operational performance after privatization.

Moreover, opponents of privatization argue that those social and economic aims of SOEs such as stimulating private sector and providing better life standards via low-cost intermediate goods can not be neglected. They point to the probable negative effects of privatization such as increased unemployment and insufficient investments on research and development (Kazgan, 1995: 269). For instance, following the privatization of Teletaş in Turkey, Levent Telephone Exchange Project, an important project aimed at producing telephone exchanges in Turkey was cancelled by Alcatel (new owner after privatization) (Güngör, 1997: 39). Opponents of privatization also criticise the privatization agencies for their considerably high employment of graduated and talented personnel and remarkably high total of their salaries. Thus, the personnel in the privatization agency may also slow down the privatization process to be in charge for a longer period, as in the case of Turkish experience⁵.

In the case of the divestiture of profitable SOEs, opponents claim that privatized SOEs will no longer subsidise loss maker SOEs and the tax levies of privatized SOEs will not be greater than before privatization (Kepenek, 1993: 170). However, in the case of loss maker SOEs, the opponents treat privatization as a trade-off between budgetary and efficiency gains because the governments try to privatise SOEs by offering investors incentives such as monopoly rights or being exempt from taxes.

In short, the answer to the question if the privatization is the correct policy to solve the problems of SOEs is neither yes nor no. Guns are out and the winner has not been determined yet.

⁵ Interview with Mehmet Yılmaz, ex-chairman of ORÜS, on the 18th of June, 1998.

CHAPTER 3

THE IMPACT OF LIBERALIZATION POLICIES IN TURKEY ON SOES AFTER 1980

3.1 The Evolution of SOEs in the Turkish Economy

3.1.1 SOEs in the Ottoman Empire

The Industrial Revolution in Western Europe affected the Ottoman Empire by filling out all markets with European products by the help of the capitulations. What is more, Anglo-Turkish Commercial Agreement of 1839 opened a new process during which handicrafts in the Ottoman Empire were destroyed (Walstedt, 1980: 59). During the Ottoman period, establishments of SOEs were not based on a plan, but rather on the accommodation of the needs of the public sector, especially the army. In this sense, Bakırköy Textile plant, Beykoz Shoe plant and Tophane Gun plant were established in the 1840s (Kepenek, 1993:18). Although there were some other attempts to achieve a high level of industrialisation, such as Laws for the Encouragement of Industrialisation of 1909 and 1913, these were not sufficient without protectionist policies. In 1888, Ziraat Bankası was established to make loans to villagers. Moreover, Adapazarı Wood and Iron Industries were established during the First World War. According to the census in 1915, there were only 269 industrial establishments of which 50 were SOEs (Walstedt, 1980:60)¹. Consequently, during the last decades of Ottoman Empire, the importance of industrialisation was realised, but the attempts were too little too late.

¹ These constituted the basis for SOEs in the early years of the Republic of Turkey.

3.1.2 SOEs Between 1923 and 1932

The period between 1923 and 1932 can be considered as “rehabilitation” of the Turkish economy relying on the private sector. To integrate the bureaucracy and the nation from all classes, announce the economic policy commitments of the government to both foreign and native businessmen, and establish stable foundations for the new economy, the First Economic Congress was held in 1923 in İzmir before the capitulations were abrogated in 1923 under the Lausanne Treaty. As a result of the First Economic Congress, the government began to promote private sector led industrialisation and trade liberation. In this sense, until 1933, the government began to construct fundamental facilities such as railroads and intervened in the economy to a certain extent but not via constructions of the SOEs, because of two reasons. First, the young Republic of Turkey did not have sufficient financial sources of revenue. For instance, the government did not take over the salt, alcohol and tobacco monopolies until 1927 which had an annual revenue of 40 million Turkish Liras (Hershlag, 1964: 171). Second, the government had to take over her responsibilities imposed by the Lausanne Treaty like fixed customs tariffs and exchange of population which brought the problems such as finance and resettlement and occupied the attention of the government. For example, the government could not change the customs tariffs as laid down on September 1, 1916 until 1929 (Hershlag, 1964: 167). Moreover, foreigners were allowed to trade within the borders of the Republic of Turkey on restrictions imposed by the government, and they would never be given special rights².

During the period, a number of decisive steps taken towards industrialisation can be summarised under the following three headings:

² It's very interesting that 43 percent of investments were carried out by foreigners with cooperation with Turks. (Okcün, 1971) as given in (Kepenek,1996). However, Hershlag claims that foreign investors did not invest so much but “sat on the fence”(Hershlag, 1964: 177).

a) Establishment of Is Bankası in 1924

The establishment goals of the Bank were to give loans to and invest in industry, mining and commerce. It soon gained the confidence of the domestic business and foreign financial circles so that it increased its capital from 1 million Turkish liras in 1924 to 44 million Turkish liras in 1929 (Walstedt, 1980: 62).

b) Establishment of the Industrial and Mining Bank, as a SOE, in 1925

The establishment goals of the Bank (transformed into Sümerbank in 1933) was to manage the four SOEs in the production of shoes, woollens, cotton goods and sugar (Walstedt, 1980: 62), and to leave them to private sector in appropriate conditions.

c) Enactment of the Law for Encouragement of Industry in 1927 which was aimed at accelerating the industrialisation process

After the enactment of this law, the number of enterprises increased from 470 with 27,000 workers in 1929 to 1,493 with 35,000 workers in 1932³ (Walstedt, 1980: 63). Moreover, between 1927 and 1929, cotton production rose from 2,500 to 3,800 tons; sugar from 5,000 to 8,000 tons and cement from 41,000 to 73,000 tons (Hershlag, 1959: 64-69).

The characteristic of the industrialisation was import substitution because national industry could not supply the basic consumption needs. For example, only 14.5 percent of the sugar supply was provided within the country. Unfortunately, the growth rate of industry from 1923 to 1929 was less than the growth rate of other sectors and was below expectations. Between 1929⁴ and 1932, in order to lessen the damages of the Great Depression, government imposed high customs tariffs.

³ This industrialisation took place in the late 1920s under the conditions of the Great Depression, droughts, continuous depreciation of the lira and an internal liquidity crisis.

3.1.3 SOEs Between 1933 and 1939

The impact of the Great Depression and influence of the Soviet system of central planning forced government to introduce new measures and reforms in 1933 aimed at protectionist import substituting industrialisation under etatism. The latter was defined by Atatürk as “State intervention in those fields where private enterprise is unable to assure the well-being and advancement of the state” (CHP, 3. Büyük Kongre Zabıtları, 10-18 Mayıs 1931 as it is given in Hershlag, 1964: 181) to lessen the harmful effects of the Great Depression on the economy which saw exports decline significantly from 155 million Turkish Liras in 1929 to 92 million Turkish Liras in 1934. Customs Law and Law on Encouragement of Industrialisation were the major tools of the etatist regime during this period. Moreover, two SOEs, Sümerbank and Etibank, were established in 1933 and 1934, respectively. Sümerbank was responsible for the construction of plants especially in underdeveloped regions (Walstedt, 1980), and Etibank was responsible for the establishment of enterprises in mining. The government began to invest 10 percent of the budget on industrialisation annually (Cillov, 1965: 135). The First Five-Year Plan (1934-1939) which was influenced by the Soviet economic model was put into action to achieve production level of 44 percent of imports. According to this plan, import substitution industries were to depend on regional agriculture and natural resources. They were constructed near raw materials and labour resources throughout the country. Neither internal nor external indebtedness was resorted⁵ to, given the bitter memory of severe external indebtedness under Ottoman rule. Instead, mainly indirect taxes on consumption goods were relied on (Kepenek, 1993: 24). Therefore, industrialisation did not cause any financial and monetary crisis till the Second World War (Hershlag, 1964: 184). The selection of plant sites for industries was based on strategic rather than economic criteria, such as the cases of Karabük Iron-Steel Mill and sugar plants (Walstedt, 1980: 74). Therefore, the SOEs, established on strategic criteria,

⁴ The year 1929 is an interesting date, which is end of the restrictions on customs tariffs, beginning of the Great Depression and the start of repayments of Ottoman debts.

⁵ Only loans of 10 million gold dollars from the Swedish-American concern of Ivar Krueger at 6.5 percent interest rate and an interest-free loan of interest 8 million gold dollars loan from the Soviet Union were received during this period (Hershlag, 1964: 184).

became inefficient economically. However, in some instances like the construction of railroads, the establishment criteria were both economic and strategic.

High-level technology was introduced in SOEs, which lowered production costs, which in turn enabled rapid capital accumulation by the state (Cillov, 1965: 135). Because of the success of the First Five-Year Plan by 1937, the government began to prepare the Second Five-Year Plan, which was concentrated on the production of intermediate products. This plan could not be implemented due to the outbreak of the Second World War.

The SOEs production was encouraged by government support and an artificial price structure. Productivity of the SOEs was not at the desired level because of “unqualified personnel, faulty organisation, bureaucracy, miscalculations of the costs of the establishment of industries and isolation from a competitive environment”⁶ (Walstedt, 1980: 76-78)

3.1.4 The War Economy, 1939-1945

The threat of war made government get into war economy in which all investments were on national defence. There were over 1 million soldiers that meant both losses of labour force and decrease in agricultural productivity. In wheat for instance this was as high as 50% (Boratav, 1989). The private sector emerged to supply the increased demands of the nation under extensive protection. Nevertheless, investments by the public sector was still greater than of the private sector (Walstedt, 1980).

3.1.5 The Aftermath of the War, 1946-53

The multi-party regime that emerged in the immediate post-war years led parliament to be more sensitive towards citizens' demands. In this sense, in order

⁶ It is interesting to note that the same problems (except the first one) are valid nowadays.

to increase the life standards, all parties began to search for new macroeconomic policies. The priority was given to the promotion of private sector, agriculture, transportation and energy.

Following the devaluation of the Turkish Lira in September 7 1946, investments on industry decreased and the foreign exchange reserves ran out. From then on, the influence of western European countries and the US on the Turkish economy was so remarkable that the economic decisions began to be made based on reports prepared by the experts of those countries. The government could not pursue consistent economic policies since there were some conflicts between European and American experts. For instance, Varner prepared Turkish Program for Economic Recovery on agriculture, foreign economic assistance and private sector for development. However, Organisation of European Economic Cooperation (OEEC) found the plan far from being sufficient to fulfill the agricultural needs of the European Recovery Program (Walstedt, 1980:81). Thus, the plan was revised under the recommendation of OEEC and eventually lost its original nature. This was one of the reasons for the low level of investments with respect to capital during this period, although a high volume of aid was received in the context of Marshall Plan. Instead of short-term investments, investments on long term services were emphasized. This policy was also pursued by the Democrat Party in the early 1950s. There was an increase in the number SOEs such as sugar, textile and cement plants for industrialisation of underdeveloped regions with a view of broadening the government's electoral support.

The industrialists who emerged during the War years wanted more rights for trade. Moreover, farmers were not satisfied with their earnings during excessive wartime shortages of basic commodities. The Democrat Party was committed to take steps for privatization. General elections in May 1950 resulted in the victory of Democrat Party.

In the beginning of 1950s, Democrat Party government kept its promise for liberalization which saw imports rise sharply from 285.6 million US dollars in

1950 to 556 million US dollars in 1952 while exports increased from 263.4 million US dollars in 1950 to 363 million US dollars in 1952 (Tokgöz, 1997: 126). Therefore, net exports decreased from -22.2 million US dollars in 1950 to -193 million US dollars in 1952. Therefore, exports of Turkey increased from 738 to 1,109 million Turkish Liras.

There was inflationary political interference in the operation of the SOEs by the government. Moreover, the loans borrowed by the government were not invested effectively. Therefore, Turkey fell into a debt crisis in 1954, which led the government to retreat to etatist policies.

3.1.6 SOEs Between 1954 and 1960

Democrat Party took over by emphasising the redundancy of SOEs and continued to support this view more loudly during the first Menderes Government Programme (1950-1954) which stated:

From now on, as well as stopping the state's intervention into the non-public service businesses except previously constructed SOEs, and main industries, we will try to leave SOEs to the private sector gradually under a certain plan⁷. (Özmen, 1967)

However, after 1954, Democrat Party government changed its macroeconomic policy and increased the number of SOEs⁸ (Table 1). As can be seen from Table 1, the number of SOE more than doubled during the 1950-60 period while the number of the workers per establishments declined from 738 in 1950 to 584 in 1960. Thus, it can be concluded that the SOEs constructed during the second half of the 1950's were smaller than those previously constructed. Furthermore, SOE production as a share of GDP increased from 5.0% in 1950 to 7.4% in 1960 (see Singer, 1977:301 and Kepenek,1996:102).

⁷ My own translation from Turkish.

Table 1
Developments in the SOEs, for selected years,1950-1960(a)

	No. of Establishments	No. of Workers	No. of Workers per Establishment
1950	103	76,033	738
1952	115	82,115	714
1954	146	86,161	590
1956	169	105,520	624
1958	195	117,852	604
1960	219	127,988	584

Source: United States Agency for International Development, Economic and Social Indicators-Turkey (1965), p.22, t. VII-V

(a) For firms which employed more than ten workers

This increase in the contribution of SOEs to GDP can also be explained by the enlargement of SOEs production capacities as well as the increase in the number of SOEs. The factors which were responsible for the government's decision to increase the number of SOEs can be summarised under three main headings:

a) The Crisis in the Turkish Economy

In the early 1950's, due to the Korean War, the demand for Turkish exports, which consisted of agricultural commodities like wheat increased in world markets. This resulted in the increase in Turkish exports (Cillov,1965:138). Similarly, following the contraction of world demand at the end of the Korean War, there was a fall in Turkish exports. Therefore, the current account deficit increased from 411.4 million Turkish Liras in 1950 to 607.8 million Turkish Liras in 1954. As a result, public debt increased from 2,565 millions of TL to 3,523 millions of TL in 1955 (Hershlag, 1968: 338).

The disequilibrium in the balance of payments affected the exchange rate of Turkish currency severely. As economy's capacity to import was impaired, the private sector could not fill in the gap in imported consumption goods, leading to severe shortages in consumption goods, increasing inflation and an active black market emerged. Furthermore, development projects were postponed. It is possible that this experience resulted in the growing realisation of the importance

⁸ There was a rapid increase in the number of SOEs especially for the production of sugar, textiles, drugs, petrochemicals and cement (Kepenek, 1996:103 and Walstedt, 1980:83). These plants

of SOEs in the Turkish economy, explaining the increase in their number during this period.

b) Gaining Political Power via SOEs

Politicians' objective of broadening their electoral support via SOEs can be summarised under three main headings.

b.1) Political Appointments of Top Executives of the SOEs

Political interference through frequent appointments and dismissals of top executives prevented the professional management of the SOEs. During the 1950's, the government appointed four different directors for Sümerbank, five for the Machine and Chemical Industries Corporation, seven for the Iron and Steel Works, and eight for both railways and Etibank (Singer, 1977:311). This obviously showed the high degree of political interference in SOEs.

A Minister responsible from a certain SOE had the right to both dismiss and appoint the managing director and deputies of that SOE. Therefore, the executives' loyalty was to the minister rather than the managing director. This severely damaged the relationship between the managing directors and executives, and caused a serious fall in the productivity of executives.

b.2) Over-staffing in the SOEs

As a result of rapid migration from rural to urban areas, an increasing number of migrants began to view SOEs as a major source of employment. Politicians were also strongly inclined to use SOEs to provide employment for their supporters. In essence, this was the source of the over-staffing problem facing the SOEs.

served to accommodate imported consumption goods and accelerate industrial development.

b.3) Construction of SOEs in Underdeveloped Regions

SOEs were constructed in relatively less developed regions to gain political support even though this contradicted with the efficiency and profitability criteria. Therefore, these SOEs could get positive net profit only through artificial price increases rather than through an increase in efficiency.

c) The Encouragement of Private Sector

In 1950's, the private sector had a low capacity of production due to their small-scale operations and low levels of technology and marketing techniques. SOEs were used as a tool of encouraging the private sector. In this sense, intermediate goods produced by SOEs were offered to the private sector at artificially low prices. As a result, the private sector reduced their costs and gained high profits while the government got the support of the businessmen.

As this policy prevented SOEs from making sufficient profits for investments, the investments of SOEs were financed by subsidies by the central government and loans; contributing to high inflation.

3.1.7 SOEs during First Four Five-Year Plans (1960-1983)

At the end of 1950's, there was a deep economic crisis as manifested by severe balance of payments difficulties and high inflation. The reason for the crisis was often attributed to the lack of planning and coordination of economic policy, reducing productivity and increasing cost. For instance, insufficient provision of the necessary tools for after production processes of the SOEs such as transportation, marketing and quick access to raw materials also had great effect on the inefficiency and debts of the SOEs. As a result of these, military government that took over in May 1960 emphasised planning for social and economic development as a duty of the State (Krueger, 1974:119).

The common objectives of the first three Five-Year Plans were a target growth rate of 7 per cent per annum and priority given to industrialisation. These Five-Year Plans covered all issues of economic as well as social development. While the first three Five-Year Plans were compulsory for the public sector, they were indicative for the private sector. By the help of various incentive schemes, the private sector was directed to invest in accordance with plan targets.

3.1.7.1 The First Five Year Plan (1963-67)

The main objective of this plan was to achieve a growth rate of 7 per cent per annum. The public investments were targeted to be 32 per cent of the budget. However, the rate of achieved investments was only 23 percent of the budget because of inconsistency in the political arena, and insufficient reform attempts about SOEs and taxes (Tokgöz, 1997: 143).

New SOEs were constructed in support of the import substitution policy. For instance, İskenderun Steel Plant, Bandırma Sulphuric Acid Plant and Artvin Wood Products Plant were established with the financial aid of Soviet Union.

3.1.7.2 The Second Five Year Plan (1968-72)

Industrialisation began to be a more explicit target of the plan and high-level technology was introduced in SOEs.

Private sector developed so that it could take over responsibilities for industrialisation. In this sense, while SOEs were responsible for intermediate and capital goods, private and foreign sector produced durable consumption goods. Moreover, the government helped the private sector in the fields like project preparation.

During this period, investments concerning SOEs were completed and government made SOEs more efficient. Public sector was active in fields such as

steel production, which were very important for Turkish economy and national defence, but in which private sector showed no interest. In large projects, mixed-enterprise approach was chosen instead of relying wholly on SOEs.

3.1.7.3 The Third Five Year Plan (1973-77)

The plan aimed at heavy industrialisation through SOEs. The government wanted to shape production structure with a view of enabling Turkey to get into the European Community as a full member. Thus, there were huge investments in intermediate and capital goods industries, and new SOEs such as Turkish Motor Industry (Tümosan) and Turkey Electromechanical Industry (Temsan) were established.

Metallurgy, petrochemicals and machinery were chosen as the priority fields. According to the plan, no adjustments in the basic industrial projects were accepted.

Inconsistency in Turkish politics affected the implementation of the plan and worsened the management of the SOEs. During this period, there were seven different governments in office. This implied top executives of SPO, Central Bank, Department of Treasury and SOEs were changed on several occasions during the same period. Moreover, SOEs, which produce defence equipment, were invested on heavily though the others had to survive with limited investments (Güngör, 1997: 10). Furthermore, factors such as the oil crisis and US arms embargo after Turkish intervention in Cyprus made the implementations of the plan even more difficult.

There was heavy reliance on Central Bank credits for public sector expenditures during the period (Table 2). There were big increases in the Central Bank credits of public sector after 1970 which shows that huge amount of resources was directed towards public sector. Nevertheless, these credits were spent on the repayment of debts rather than investments (Kepenek, 1996: 144).

3.1.7.4. The Fourth Five Year Plan (1979-1983)

The plan was not implemented due to economic and social crisis in Turkey (Kepenek, 1993: 37). It treated SOEs as the main engines of industrialisation and pointed out the increasing losses of SOEs. Moreover, it recommended structural change in the management of SOEs.

Table 2
Central Bank Credits to the Public Sector, 1962-1978
(In real Prices, Million TL)

1962	630
1963	1 121
1964	1 144
1965	967
1966	1 349
1967	1 815
1968	1 825
1969	1 923
1970	1 979
1971	3 957
1972	4 486
1973	4 124
1974	8 770
1975	20 490
1976	40 122
1977	66 298
1978	85 590

Source: DIE, TİY 1968, p. 243; TİY 1974, p. 273; TİY 1977, p. 254 and MB Annual Report 1979, Ankara: 1980, s. 163; MB, Annual Report 1981, Ankara: 1982, p. 131 (As it is given in Kepenek, 1996:143)

3.1.8 SOEs in 1980's

Turkey introduced a stabilisation program in January 1980 under IMF auspices to cope with balance of payments difficulties and high inflation. Although it was initially intended as a short-term program, it soon developed into a Stabilisation

and Structural Adjustment Program (SSAP), which was financially supported by both the IMF and the World Bank. The main objective of the program was the shift of trade and industrialisation strategy from import substitution to export-oriented free market model by lessening the state intervention into markets. Therefore, the government introduced new sequential measures in the context of liberalization and deregulation to get rid of a main interventionist tool of the state, namely SOEs⁹.

Although in the first three Five Year Plans SOEs were treated as the engine of industrialisation (Kepenek, 1993), in 1980's industrialisation through private sector was aimed in the context of free market economy. In the sense of integration of SOEs into the free market economy, the government determined a two-stage plan, which can be discussed under two main headings:

a) Improving short-term structure of SOEs

The number and fields of production of SOEs were reduced. Price controls were lifted on most products of SOEs so that they determined the prices of their products depending on production costs. Moreover, to make SOEs financially self-sufficient new measures such as hiring freezes and curbs on wage increases were introduced.

b) Cutting the Placenta between SOEs and Budget

SOEs' borrowing from banks was limited. Moreover, budgetary transfers to SOEs were cut. These enabled government to decrease the SOE burden on the budget. The operating surplus of SOEs increased between 1980 and 1985.

As a result of these policies, in 1987 deficit of SOEs (1980 prices) declined from 474 to 260 billion Turkish liras (Leeds, 1988: 171), and SOEs were no longer a

⁹ One World Bank official pointed out later, "It was clear during the negotiations with the government that although they were interested in broader restructuring program, privatization was their highest priority" (Leeds, 1988: 160).

financial burden on the budget. However, this was not because of increased efficiency but of monopoly power of SOEs.

The first step towards privatization was taken in 1984 as Revenue Sharing Certificates (RSCs) of Bosphorus Bridge and Keban Dam were sold to the public. RSCs of Bosphorus Bridge were sold in less than three hours to 15,000 citizens. This encouraged the government to move towards privatization more confidently. Then Morgan Trust Bank was hired to prepare a privatization program¹⁰. In accordance with the recommendations of the plan, Public Law 3291 was enacted to prepare the legal basis for privatization. After the modifications on the report by Public Participation Fund (PPF) in 1987, the modified report ordered SOEs according to their privatization priority and scheduled the privatization program. It recommended the urgent privatization of Netaş, Teletaş and five cement plants of Çitosan relying on the criteria that these were the easiest to sell (Leeds,1988:167). However, the environment in Turkey was not conducive to a full-scale privatization program.

The delay of the implementation of the privatization program till 1988 had four components. First, stock market was not strong and deep enough for privatization¹¹. Second, Turkish nation treated SOEs as the diamonds of the society and opponents of the program could be found even among the government ministers. Third, domestic capitalists were unwilling to participate in the privatization process. Fourth, the resistance of special interest groups and rent seekers could not be overcome. Thus, the government's efforts until 1988 were confined to preparing only the general framework of privatization.

SOEs were free from deficit, and had begun to contribute to the economy positively by 1986. However, public spending increased because of 1987 elections. Real wages increased sharply in 1989. As a result of these, real interest rates, inflation and borrowing requirements of SOEs increased rapidly.

¹⁰ Morgan Master Plan was prepared in June 1986.

¹¹ Istanbul Stock Exchange (IMKB) had been established in February 1986 and was not well developed at the time.

Furthermore, financial markets were not well developed. Therefore, privatization of Teletaş resulted in failure. This bad experience slowed down the privatization process until 1990.

3.1.8.1 Objectives of Privatization

The major objectives of the privatization program, which was initiated in the mid-1980s, can be summarised under the following headings:

- 1) To minimise state involvement in the economy,
- 2) To accelerate further the establishment of market mechanisms within the context of liberal economic policies,
- 3) To confine the role of state in the economy to areas like health, basic education, social security, national security, large scale infrastructure investments and provide a suitable legal and structural environment for free enterprise,
- 4) To enhance competition in the economy,
- 5) To decrease the financial burden of SOEs on the national budget,
- 6) To broaden and deepen the existing capital markets by promoting wider share ownership,
- 7) To provide efficient allocation of resources.

(PA, 1997)

3.1.9 SOEs in 1990's

After 20th October 1991 elections, the coalition of True Path Party and Social Democrat Party supported privatization in their government program on the basis of increasing economic efficiencies of SOEs and encouraging competition in all markets throughout the country. Then privatization process accelerated (PA, 1997: 2) and in 1993, government declared that privatization policy would be pursued gradually. On 27 November 1994, a major law of privatization was enacted, the main objectives of which were the following:

- 1) To expand the scope of assets to be privatized
 - 2) To provide adequate framework, funds and mechanisms to speed privatization and restructuring.
 - 3) To establish a social safety net for workers who may lose their job because of privatization.
 - 4) To establish a special Privatization High Council and a Privatization Administration to speed up the privatization process.
 - 5) To regulate the petroleum law in order to facilitate the privatization of related companies.
- (PA,1998)

Finally, Prime Minister Mesut Yılmaz emphasised privatization as one of the basic goals of the government which came to office in 1997 by the following words:

“The 55th government will privatise more SOEs than privatized in the last fourteen years, till the end of 1998.” (Yeniyüzyıl, April 20, 1998)

In the 1990's, the governments began to pursue economic policies relying heavily on privatization in order to gain huge financial resources via privatization. Moreover, privatization was considered as a magic tool to correct the macroeconomic imbalances in the Turkish economy. So privatization policy was pursued at any cost.

As it can be seen from Table 3, privatization revenues increased sharply after 1989. However, the government made a terrible mistake by neglecting the public gains and the aims of SOEs establishments. Profitability became the only criteria for the efficiency of SOEs. In this sense, it can be said that the state responsibility of public service was not taken into consideration.

Table 3
Privatization Revenues 1986-1997 (million \$)

1986-8	1989	1990	1991	1992	1993	1994	1995	1996	1997
29.6	131.2	486.3	223.6	422.9	545.5	411.8	515.4	292.0	422.0

Source: Privatization Administration (PA), 'Privatization in Turkey', Press and Public Relations Department, October 21, 1997

SOEs were not permitted to borrow from either the budget or public sector banks at low rates of interest. They began to finance their payments by borrowing from the market and postpone their investments. Thus, SOEs had to pay huge debts, and 53 SOEs, which had gained net profit between 1980 and 1989, were stuck into debt in 1990s (Tokgöz, 1997:206).

Between 1986 and 1997, 124 establishments were privatised, and there was no public share in 103 of them by March 1998. The revenue and expenditure¹² of this privatization during this period were 4,824 and 4,479 million dollars, respectively (PA, 1998). However, net profit from privatization in 1996 was -70 million dollars (PA, 1997).

Unfortunately, privatization was implemented as a tool to correct macroeconomic imbalance¹³. Nevertheless, this resulted in privatization of SOEs below their true value (Öniş, 1991). Moreover, as Privatization Administration confesses, there has been no "perfect" privatization of SOEs except Milk Industries and Feed Industry since 1986 (PA: 1998, 2).

3.2 Liberalization Policies and Their Impact on SOEs

As part of liberalization policies under SSAP, price controls were lifted early in the reform process in January 1980. Moreover, subsidies were either reduced or

¹²Privatization expenditures consist of privatization sales dividend payments to concerned institutions, supervision consulting, advertising-promotion, capital participation, purchases on IMKB, transfers to the Treasury, social assistance supplements, redundancy payments, retirement bonus payments, credit to companies in pri-portfolio and loan capital payments (PA, 1998)

¹³ For instance, in 1996, increasing the privatization revenues was seen as one of the instruments to correct macroeconomic imbalances in government's economic program (Tokgoz, 1997).

eliminated. Furthermore, the abolition of state monopoly in some commodities such as tea, tobacco and air travel created a more competitive market structure. The program introduced the following four measures to make SOEs financially self-sufficient and increase their efficiency:

a) Hiring Freezes and the Curb on Wages

In the early 1980's, the military government banned activities of organised labour and many trade union leaders were imprisoned. As free collective bargaining and strikes were banned, wages were determined by the High Arbitration Council (Şenses, 1991: 219). As a result, real monthly wages decreased from 2,300 Turkish liras in 1982 to 1,600 Turkish liras in 1988¹⁴ (Şenses, 1991: 219).

The sharp wage increase in money wages at a rate of 149% in 1989 had four components. First, the end of military rule in late 1983 led to a gradual liberalization in political arena, enabling the re-emergence of organised labour and the return to collective bargaining in wage determination. Second, the defeat of party in office in local government elections in 1989 and considerable popular opposition to the stabilisation program persuaded government not to continue its tight wage policy. Third, the Prime Minister, Turgut Özal, wanted to make use of the current situation to be president (Akyol, 1997: 200). Therefore, percentage of wages and salaries with respect to revenues of SOEs increased sharply from 11.1% in 1988 to 15.7% in 1989 as Table 4 indicates. Afterwards, tight wage policy was abandoned due to political expediency, and wages steadily increased with respect to revenues until the emergence of a deep crisis in 1994. Because of stabilization measures implemented during the crisis, the percentage of wages and salaries with respect to revenues of SOEs decreased remarkably from 25.8% in 1993 to 18.1% in 1994 and 15.1% in 1995. The number of workers employed in SOEs declined steadily from 635,247 in 1985 to 496,352 in 1995 (Table 4)¹⁵.

¹⁴ Nominal wages are deflated by the urban consumer price index: 1978-79=100.

¹⁵ The decline in the total employment should be treated with two reservations. First, due to privatization, the number of employees in SOEs decreased. Second, SOEs preferred to employ seasonal workers instead of full-time workers since employing full-time workers was not allowed during the period. These seasonal workers are not included in the data.

b) Limits on SOEs borrowing

As a result of the government's imposition of restrictions on SOEs borrowing, the borrowing requirement of SOEs as a percent of GNP decreased from 4.9% in 1980 to 2.4% in 1985 (Table 4). Moreover, SOEs deficits as a percent of GNP decreased from 10.7% in 1980 to 4.5% in 1985¹⁶. Because of the elections in 1989, it increased from 2.9% in 1986 to 4.7% in 1990, as it can be seen from Table 6. Interest payments as a percentage of GNP, on the other hand, increased from 4.3% in 1986 to 5.6% in 1990. They increased sharply to 8.5% in 1991 and accelerated until the crisis in 1994. Because of tight measures in expenditures of SOEs during the stabilization period that followed the crisis, there was negative borrowing requirement of SOEs in 1995 (-3,602 billions of TL). The impact of this decline was reflected in a remarkable decrease in the percentage of interest payments with respect to GNP from 10.4% in 1994 to 6.3% in 1995 (Table 4).

c) Cuts in transfers to SOEs from the budget

In the early years of the Stabilisation and Structural Adjustment Program, transfers to SOEs from the budget were cut so that the ratio of transfers to GNP was 1.27% in 1986 (Table 4). As a result, SOEs had to postpone or cancel their investment programs. However, this ratio increased sharply from 2.2% in 1990 to 9.9% in 1991 due to elections in 1991. The significant decrease from 7.9% in 1993 to 2.86% in 1994, on the other hand, reflected the effect of the stabilisation program in 1994.

¹⁶ The figures are calculated by the author with the help of the data given in Leeds (1988: 171).

Table 4
Summary Information on Operational SOEs, 1985-96 (1)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
SALES OF GOODS & SERVICES (Billions of TL)	9,297	12,122	16,893	29,663	50,609	81,005	133,013	232,330	386,679	866,734	1,474,001	2,810,612
OPERATIONAL LOSSES (Billions of TL)	441	329	173	232	605	1,151	5,695	15,422	11,624	18,591	16,341	18,407
INTEREST PAYMENTS (Billions of TL)	289	527	1,103	2,252	2,784	4,560	11,327	22,518	40,272	89,119	93,285	115,803
FIXED INVESTMENT/GNP (%)	4.8	4.7	4.4	4.1	3.0	2.5	2.3	2.1	1.9	1.4	0.9	
BUDGET TRANSFERS (Billions of TL)	199	156	470	1,158	1,329	1,749	13,553	9,749	30,858	24,744	54,874	52,111
TOTAL EMPLOYMENT (Person)	635,247	652,958	648,176	648,782	638,179	643,058	630,613	612,208	599,244	555,111	496,352	489,669
WAGES & SALARIES / REVENUES (%)	10.5	10.8	12.0	11.1	15.7	20.0	24.9	24.7	25.8	18.1	15.1	13.0
INTEREST PAYMENTS / REVENUES (%)	3.1	4.3	6.5	7.6	5.5	5.6	8.5	9.7	10.4	10.3	6.3	4.1
BUDGET TRANSFERS/GNP (%)	2.1	1.3	2.8	3.9	2.6	2.2	9.9	4.2	7.9	2.9	3.7	1.8
BORROWING REQUIREMENT / GNP (%)	3.0	2.9	4.1	3.0	2.4	4.7	5.9	5.3	5.0	2.5	-0.1	0.4

Source: SPO Database

(1) Operational SOEs in the privatization scheme are included

d) Adjusting the prices of SOEs products depending on the realistic production costs

In the context of Stabilisation and Structural Adjustment Program, SOEs began to set the prices of their products on the basis of production costs. In this sense, the sales of goods and services of SOEs increased from 9,297 billion TL in 1985 to 81,005 billion TL in 1990 (Table 5) and SOEs gained positive net profit between 1985 and 1989 (Table 5). Moreover, the percentage of their value added with respect to GDP increased from 6.9% in 1980 to 8.5% in 1985 as can be seen from Table 5. From then on, it began to decrease from 8.0% in 1986 to 6.5% in 1993 due to high level political interference in their operation. Because of crisis in 1994, this ratio increased sharply to 7.3%. In 1995, this ratio decreased to 5.2%.

Table 5
Some Data on the Financing of Operational SOEs, 1970-1995(1)

YEARS	NET PROFIT (million TL)	VALUE ADDED/GDP (%)
1970	-959	-
1980	-22	6.9
1983	-34	7.2
1985	834	8.5
1986	795	8.0
1987	1,036	8.0
1988	1,181	7.5
1989	899	7.9
1990	-2,575	7.0
1991	-26,099	7.0
1992	-46,353	7.2
1993	-61,335	6.5
1994	-103,030	7.3
1995	847	5.2

Source: SPO Database

(1) Operational SOEs in the privatization scheme are also included

e) Directing Investments from SOEs to infrastructure

The government began to invest heavily in infrastructure such as motorways and the energy sector after the mid-1980s. Following the decline of transfers to SOEs,

investments on SOEs decreased sharply. For instance, fixed investments on SOEs as a percentage of total public fixed investments dropped from 4.8% in 1985 to 2.5% in 1990 (Table 4) while accelerated privatization caused it to decrease further to 0.94% in 1995¹⁷.

3.3 Evaluation of the Liberalization Policies

Until the late 1980s the government policies towards SOEs under SSAP led SOEs' borrowing requirement decrease rapidly, in part reflecting production cost-based prices. Therefore, SOEs began to be financially self sufficient in 1985 and were able to gain positive net profit thanks to artificial price increases and insufficient investments. However, due to increase in political interference¹⁸ into SOEs and huge increase in wages, the operational losses of SOEs increased sharply from 232 billions of TL in 1988 to 1,151 billions of TL in 1990, and SOEs incurred net losses also in the early 1990s (Table 5). They could not gain positive net profits until 1995 when measures under the 1994 stabilisation program enabled them to decrease their operational losses from 18,591 billions of TL to 16,341 billions of TL in 1995.

¹⁷ The percentages in this paragraph are calculated by the author based on the data retrieved from SPO Database.

¹⁸ Between 1980 and 1990, the number of appointments of chairmen in SOEs was seven in Etibank, five in Turkish Sugar Plants, five in Steel plants and four in Ziraat Bankasi (Senses, 1990: 229). Therefore, on average a chairman in a SOE had been in charge for two years which was too short to pursue new policies and/or tackle the problems of SOE.

CHAPTER 4

PRIVATIZATION OF ORÜS

4.1 History of ORÜS

In 1930s, the capacity of wood products establishments in Turkey were far from being sufficient to meet domestic demand. So in 1944 General Directorate of Forestry (OGM) bought two plants of wood products (Bafra Timber Plant and Bolu Timber Plant) from the private sector and began to construct new ones in forest intensive regions.

On 28 January 1970, General Directorate of Wood Products Industry (ORÜS) was established in the Ministry of Forestry with 14 timber plants and an empery plant.

ORÜS with its 20 plants was declared as a SOE by the Law Number 2929 on 22 October 1983. The establishment goals of ORÜS were summarised as follows:

- 1) ORÜS was responsible for providing intermediate wood products to Turkish wood industry.
- 2) ORÜS would keep up with the world's innovations related to wood industry and apply them in Turkey.
- 3) If necessary, ORÜS would construct new plants in convenient regions. Moreover, it could improve current facilities.
- 4) ORÜS would lead the standardisation of wood products.

(YDK,1996: III)

Because of the protocol between ORKÖY (General Directorate of Forestry-Village Affairs) and ORÜS, three plants (Ardanuç, Şavşat and Kalkım) of ORKÖY were given to ORÜS in 1992 and these began production in 1993. As of 1993, ORÜS had 23 plants comprising 21 timber, 10 parquet, 3 chipping plate, 3 plywood, 2 plating, 1 fibril plate, 1 chipping plate with cement, 1 wrapping case, and 1 empery production facilities (Table 6). The share of ORÜS products in total production of wood products in Turkey was about 15%. However, in 1995 ORÜS produced 60% of timber, 54% of fibril chipping and 20% of parquet and plywood in Turkey (YDK, 1996: IV).

Table 6
Plants of ORÜS by Date of Establishment and Category

	Establishment Date	Capacity when established	Capacity Before Privatization (1995)
Dursunbey Plant	1942	15,000 m ³ /year timber	50,000 m ³ /year timber
Arhavi Plant	1987	27,000 m ³ /year chipping plate with cement	27,000 m ³ /year chipping plate with cement
Bartın Plant	1970	30,000 m ³ /year timber 150,000 m ² /year parquet	30,000 m ³ /year timber 150,000 m ² /year parquet
Demirköy Plant	1971	30,000 m ³ /year timber 50,000 m ² /year parquet	30,000 m ³ /year timber 125,000 m ² /year parquet
Yenice Plant	1955	12,000 m ³ /year timber	30,000 m ³ /year timber 6,000 m ³ /year plywood 2,250,000 m ² /year plating
Antalya Plant	1970	3 million wrapping cases	3 million wrapping cases 20,000 m ³ /year timber
Artvin Plant	1968	28,600 m ³ /year fibril plate	28,600 m ³ /year fibril plate
Ardeşen Plant	1958	10,000 m ³ /year timber 30,000 m ² /year parquet	30,000 m ³ /year timber 50,000 m ² /year parquet
Pazarköy Plant	1945	3,500 m ³ /year timber	15,000 m ³ /year timber
Ayancık Plant	1929	40,000 m ³ /year timber	100,000 m ³ /year timber 125,000 m ² /year parquet 23,000 m ³ /year chipping plate

Table 6 (contd)

Ulupınar Plant	1930	12,000 m ³ /year timber	20,000 m ³ /year timber
Bolu Plant	1923	40,000 m ³ /year timber	10,000 m ³ /year timber 6,000 m ³ /year plywood 2,250,000 m ² /year plating 15,000 m ³ /year chipping plate 35,000 m ³ /year empery
Düzce Plant	1945	30,000 m ³ /year timber	30,000 m ³ /year timber 50,000 m ² /year parquet
Eskipazar Plant	1942	15,000 m ³ /year timber	15,000 m ³ /year timber
Devrek Plant	1953	12,000 m ³ /year timber	30,000 m ³ /year timber 50,000 m ² /year parquet
Vezirköprü Plant	1983	50,000 m ³ /year timber 6,000 m ³ /year plywood 40,500 m ³ /year chipping plate	50,000 m ³ /year timber 6,000 m ³ /year plywood 40,500 m ³ /year chipping plate
Bafra Plant	1929	15,000 m ³ /year timber	30,000 m ³ /year timber 50,000 m ² /year parquet
Cide Plant	1957	10,000 m ³ /year timber	30,000 m ³ /year timber 50,000 m ² /year parquet
Akkuş Plant	1957	20,000 m ³ /year timber	30,000 m ³ /year timber 50,000 m ² /year parquet

Source: ORÜS (1991), Ankara: 13-51

On May 5, 1992, ORÜS with its 23 plants was included in the privatization list of SOEs by act number 92/3088 of the Council of Ministers. However, privatization of ORÜS plants could not be started legally until 1996¹. From then on, privatization of ORÜS plants was speeded up, and 15 of the 23 plants of ORÜS were privatised by March 2, 1998. The rest was scheduled to be privatized until the end of August 1998.

¹ Privatization attempt on 30 April 1993 was not completed successfully since the offers were not considered good enough. The other attempt on the 1st of July, 1994 was stopped till privatization law was enacted on 24 November 1994 (YDK, 1996:IV).

4.2 Financial Analysis of ORÜS

Net profits of ORÜS during the 1985-95 period are shown in Table 7. Although both wages and price of log increased sharply² in 1991, these were not reflected on the prices of the products of ORÜS due to elections. This contributed to ORÜS's net profits becoming negative after 1991.

Table 7
Net Profits of ORÜS 1985-1995 (millions of TL)

1985	51
1986	66
1987	427
1988	909
1989	1,253
1990	5,238
1991	-111,431
1992	-153,963
1993	-423,775
1994	-4,045,197
1995	-5,649,925

Source: ORÜS

As it can be seen from Table 8, with the exception of the Arhavi plant, ORÜS plants were profitable in the 1980s³. By the beginning of 1990s, the number of plants with negative net profits, began to increase from 2 in 1989 to 7 in 1990 and 18 in 1991. Moreover, in 1994 all of the 23 plants of ORÜS had negative net profit with the Bolu plant achieving the highest negative net profit with 495,371 million Turkish Liras.

² For instance, nominal wages in ORÜS increased by 217% in 1991, alone (TMMOB, 1994: 14).

³ Because of high transportation cost and low-scaled primitive production technology Arhavi plant could never gain positive net profit.

Table 8
Profitability of ORÜS Plants 1984-1995 (million TL at current prices)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Ankara Wood Store		41	295	541	1127	1762	1436	1811	1243	3331	-3182	5450
Arhavi	-1	-2	-33	-421	-499	-1633	-1898	-2994	-3681	-8422	-64828	-24014
Artvin	58	-269	339	603	156	86	962	-862	-12530	-38375	-140137	-40223
Ayancık	884	591	1893	3090	3160	2884	-282	-14328	-1801	235	-346816	-251395
Bolu	1608	2010	3970	5685	3808	5499	2049	-19925	-12957	-37001	-495371	-150149
Vezirköprü	-9	84	2053	2871	4533	2877	1184	-16853	-1786	-37529	-360785	-117891
Yeniçe	322	373	1241	2049	2910	3108	3093	-3217	1528	-15486	-305757	-103126
Akkuş	261	380	887	1944	2437	4505	3242	-1378	639	-8967	-85024	-50508
Ardeşen	613	624	1118	1630	1451	1453	1748	-2014	1336	-6776	-120309	-41820
Bafra	238	149	1270	2312	1507	1134	-27	-7254	-4676	-19177	-155941	-100802
Bartın	380	441	1068	1977	2074	4120	4412	-557	4045	1368	-182070	-62821
Cide	189	616	857	1718	2928	4517	2032	-615	4192	-6137	-127303	-59066
Demirköy	129	409	598	1201	1195	1729	1737	-3135	9426	-736	-120014	-56738
Şavşat										-1215	-21657	-10554
Devrek	601	480	680	1836	1944	1920	3990	208	4763	785	-184024	-89927
Düzce	494	618	1112	2132	2051	3136	2785	-967	2182	-7536	-178933	-64140
Ardanuç										-1615	-30253	-11306
Antalya	144	-23	147	126	402	-1082	-878	-5935	-7665	-15428	-83435	-60851
Pazarköy	248	285	515	516	312	41	-138	2220	-4277	-14866	-62750	-38296
Borçka	326	502	1289	754	503	990	-307	-6304	-60003	-19869	-114705	-72103
Ulupınar	115	212	594	1328	913	1855	1297	-2505	-2246	-8148	-99091	-52306
Dursunbey	481	73	1844	2742	2513	2036	1233	-5660	-2307	-9880	-155040	-84944
Eskipazar	572	414	954	870	810	1101	-1145	-6767	-6021	-17432	-121391	-55284
Kalkım										-342	-17459	-17522

Source: ORÜS Annual Reports (1991-1995)

4.2.1 Financial Analysis of ORÜS with Indicators

4.2.1.1 Current Assets⁴ / Short Term Debts

This ratio indicates the extent to which current assets are available to pay short-term debts. Since this ratio was above 100% (Table 9) between 1983 and 1993 it can be concluded that short-term debts could be financed by current assets till 1993. However, this ratio decreased sharply to 25.7% in 1994 due to the huge increase (by 248%) in short term debts and 10% decrease in current assets. This shows that there were serious difficulties in changing stock of raw materials into products and stock of products into cash in 1994. Therefore, it can be concluded that ORÜS had difficulties in paying back its debts, and current assets were not sufficient for paying short-term debts.

4.2.1.2 Annual Profit / Paid Capital

This ratio shows the percentage of annual profit with respect to paid capital. As can be seen from Table 9, this ratio has a fluctuating trend. Nevertheless, it was above 100% until 1989 except in two consecutive years, 1984 and 1985. It decreased sharply from 77.0% in 1990 to -76.6% in 1991 because of high negative net profits that year. Thus, ORÜS was transformed from a profitable SOE into a loss-making SOE in a short period of time. This ratio decreased sharply from -135% in 1993 to -514.8% in 1994 due to huge losses and slow increase in paid capital.

⁴ Current assets consist of stocks of raw materials and products as well as vehicles.

Table 9
Economic Indicators of ORÜS, for selected years, 1982-1995 (%)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Capital / Debts	3.0	30.7	169.1	94.5	118	82.7	50.7	80.4	50.4	42.2	28.3	0.1	-68.9	-69.9
Reserves / Paid Capital	304.0	577.6	23.2	35.2	44.8	62.8	108.7	112.2	123.1	34.9	32.7	25.4	8.6	8.6
Disposable Assets / Total Assets	83.6	86.2	85.9	85.5	86.6	89.8	90.3	85.6	81.8	87.4	87.0	90.2	80.5	75.4
Current Assets / Short Term Debts	86.2	112.7	231.8	166.3	188.7	164.1	136.0	154.3	135.0	124.3	148.6	148.7	25.7	23.5
Annual Profit/ Paid Capital	1775	5259.2	68.3	60.8	150.3	176.6	182.1	159.1	77.0	-76.6	-24.2	-135.6	-514.8	-27.2

Source: ORÜS Annual Reports (1991-1995)

4.2.1.3 Capital / Debts

This ratio shows the degree of purchasing power of ORÜS. This ratio of an enterprise should be 100% to be regarded as financially self-sufficient. The more it decreases, the more difficult ORÜS is able to pay back its debts. As it can be seen in Table 9, this ratio increased in the early 1980s, reaching 169.1% in 1984. Then it fluctuated until 1989, falling to 42.2% in 1991. Finally, it fell drastically to 0.1% in 1993 before becoming negative with -68.9% and -69.9% in 1994 and 1995 respectively. The reasons behind this unfavourable turn of events can be explained by several factors.

i) Though the production cost increased, the sufficient increase in the price of products could not be achieved. Therefore, loans were not invested on the new production technology

ii) High debts payable to OGM.

iii) High Taxes.

(ORÜS, 1997: 14)

4.2.1.4 Reserves⁵ / Capital

This ratio shows the saving power of ORÜS. It fluctuated between 1982 and 1995 as it can be seen from Table 9. As ORÜS was established as a SOE in 1982, this ratio was high (304.0%) in that year rising to 577.6% in 1983 before falling sharply to 23.2% in 1984. Besides, it began to decrease consistently after 1990 (from 123.0% in 1990 to 8.6% in 1995) with heavy debts preventing the increase in reserves. Thus, it can be concluded that the financial status of ORÜS was fragile by 1994.

⁵ Reserve is the volume of money saved annually to continue the operations of the company in the case of economic crisis.

4.2.1.5 Non-disposable Assets⁶ / Total Assets

The increase in this ratio either indicates the investments on fixed assets or the decrease in stocks. The complement of this percentage is the percentage of disposable assets to total assets. These two percentages fluctuated around 13% and 87% respectively until 1993 (Table 9). This means that value of stock was always much bigger than the fixed assets.

ORÜS cannot be considered as an efficient industrial establishment if this ratio is viewed in the light of the small-scale production in 1990s. The increase in non-disposable assets with respect to total assets in 1994 and 1995 were not due to investments but to the increase in the value of non-disposable assets, the value of product and raw material stock⁷.

4.2.1.6 The Main Arguments for the Huge Losses of ORÜS

Although ORÜS gained positive net profit between 1984 and 1990, it began to get into huge debts after 1991. The reasons for the huge losses can be summarised under the following four headings:

4.2.1.6.1 Conflict between ORÜS and OGM

The OGM began to offer higher price for raw materials. So, input price of wood increased, and ORÜS began to import log. In this context, ORÜS spent 500 million dollars for imports in 1993 (TMMOB, 1994: 15). Meanwhile, OGM sold the stock of 3 million m³ log below the offered price by ORÜS in 1994 due to the conflict between ORÜS and OGM⁸. Thus, ORÜS had difficulties in payments so both the amount and quality of supplied wood decreased and raw material could

⁶ Non-Disposable assets consist of assets which can not be liquidated easily such as buildings of the plants while disposable assets consist of stocks of products and raw materials.

⁷ This point was emphasized by Çelik Önen, the current head of Accounting Office of ORÜS, during the author's interview with him on the 11th of June, 1998.

⁸ Interview with Mehmet Yılmaz, ex-chairman of ORÜS, on the 18th of June, 1998.

not be obtained on time. These lowered the capacity utilisation rate and efficiency and increased the unit costs (ORÜS, 1997: VII). For instance, the capacity utilisation rate decreased to 40.7% in timber production, 54.7 in chip plating 29.6% in plywood production, 45.1% in parquet production, 3.6% in plating and 58.6% in fibril plating (YDK, 1995).

4.2.1.6.2 Over-employment and High Cost of Employment in ORÜS

The number of personnel⁹ increased steadily from 4871 in 1984 to 5190 in 1988 (Table 10) with political interference being a contributory factor in this increase. Although this number declined afterwards reaching 3549 in 1995, the number of seasonal workers increased from 59 in 1984 to 944 in 1995 as the number of production workers decreased from 3981 to 1908 during the same period, because the hiring of new permanent workers was not permitted. The contracts of seasonal workers¹⁰ were cancelled and approved each year sequentially. Thus, they in effect had no difference from permanent workers. Meanwhile, the number of officials decreased from 900 in 1988 to 696 in 1995.

Table 10
Employment in ORÜS 1984-1995

	Official	Seasonal Worker	Worker	Total
1984	831	59	3981	4871
1985	766	121	3809	4696
1986	838	308	3653	4799
1987	822	683	3498	5003
1988	900	953	3337	5190
1989	895	999	3132	5026
1990	898	998	2944	4849
1991	889	988	2767	4644
1992	860	975	2518	4353
1993	831	971	2352	4154
1994	771	960	2117	3848
1995	696	944	1908	3549

Source: ORÜS Annual Reports 1993, 1994, 1995

⁹ Personnel consists of officials, permanent and seasonal workers.

¹⁰ In fact, employment of seasonal workers was permitted in plants like ORÜS if the demand for the products of the plant exceeded the supply of the plant with its current workers as Mehmet Yılmaz, ex-chairman of ORÜS, points out (interview by the author on the 18th of June, 1998).

There was a sharp increase in monthly wages of worker's from 247 thousand Turkish Liras in 1988 to 799 thousand in 1989, corresponding to a nominal increase of more than 300% in one single year. Moreover, wages in ORÜS were 5-6 times higher than the average level of wages in the wood products industry as a whole. In 1992, for example, the average wage of a worker in ORÜS was 9,000,000 Turkish Liras although it was only 2,900,000 Turkish Liras in the private sector (TMMOB, 1994: 16). Officials' average salary also increased from 300 thousand Turkish Liras in 1988 to 835 thousand Turkish Liras in 1989 and continued to increase from then on (Table 11). The average salary of an official (176 thousand Turkish liras) was greater than that of a worker (159 thousand Turkish liras) in 1987. However, the average salary of a worker was 20,842,000 TL while an official received only 15,737,000 TL in 1994. The impact of this was not only disagreements between officials and workers but may have had a serious adverse effect on the productivity of officials.

Table 11
Average Real Wages of Workers and Officials 1987-1995
(Turkish Liras in 1987 prices)

	Official	Worker
1987	176,000	159,000
1988	215,983	177,826
1989	346,086	331,165
1990	401,784	341,377
1991	527,415	633,342
1992	585,269	821,723
1993	556,989	710,296
1994	515,748	683,054

Source: ORÜS Annual Reports 1991, 1992, 1993, 1994

4.2.1.6.3 Insufficient Investments

Table 12 shows that real investments of ORÜS declined during the 1985-1990 period in line with the objectives of the SSAP. It is very interesting to note that the number of vehicles increased from 192 in 1985 to 264 in 1990, and the number of recreation buildings increased from 10 in 1980 to 26 in 1990 (ORÜS, 1991, 121), indicating that investments were mainly directed towards recreation areas. Moreover, total investments (in 1990 prices) decreased from 6,112 million

Turkish Liras in 1990 to 31 million Turkish Liras in 1995¹¹. Furthermore, in both 1994 and 1995 investment was confined only to investment in furniture and fixtures, indicating the lack of investments after 1984 for the introduction of new technology and increasing efficiency and capacity after 1984.

Table 12
Investments of ORÜS 1990-1995 (million Turkish Liras)

	Total Investments	Investments on Furniture and Fixtures
1985	2,100	na
1986	1,600	na
1987	2,570	na
1988	4,662	na
1989	6,429	na
1990	6,112	555
1991	1,157	180
1992	2,823	117
1993	1,405	150
1994	9	9
1995	35	35

Source: ORÜS Report (1980-1990) for years 1985-1990, ORÜS Annual Reports 1991-1995 for years 1991-1995.

*Nominal investments are deflated with respect to whole price index in 1990.

4.2.1.6.4 Imports of Wood with Foreign Loans

Until the first half of 1980's, OGM was a monopoly in the supply of wood. So ORÜS provided its basic raw material, namely wood, from OGM. In late 1980s, due to insufficient wood supply of OGM and disagreement between ORÜS and OGM, ORÜS imported log from Malaysia itself. However, this attempt was not successful due to lack of expert personnel in import transactions as Mehmet Sertel, current assistant of chairman of ORÜS, has pointed out (interview by the author on the 11th of June, 1998). Therefore, ORÜS began to import log via brokers from then on. As can be seen from Table 13, domestic provision of log decreased from 661,154 m³ in 1990 to 300,985 m³ in 1995. Therefore, imports of log increased from 114,967 m³ in 1991 to 246,314 m³ in 1993. Therefore, the ratio of cost of imports to total cost increased sharply from 24% in 1991 to 47% in 1993.

¹¹ Investment in 1995 is deflated with respect to whole price index in 1990.

Table 13
Provision of Raw Materials to ORÜS, 1990-1995 (in cubic meters)

		1990	1991	1992	1993	1994	1995
Domestic	Timber	661,154	568,781	445,113	274,148	230,982	300,985
	Industrial wood	283	2,251	898	1,326	1,675	12,649
	Plate wood	261	207,121	166,050	207,140	89,217	160,283
Imports	Timber	0	114,967	Na	246,314	42,756	0
	Plate wood	0	0	Na	3,795	0	0
Ratio of Cost of Imports to Total Cost (%)		0	24	0.01	47	31	0

Source: ORÜS Annual Reports (1991-1995)

Moreover, foreign loans increased from 364,067 million Turkish Liras in 1991 to 6,311,371 million Turkish Liras in 1995 (Table 14). Since ORÜS obtained foreign loans in foreign currency, the devaluation in 1994 triggered the huge increase in debts of ORÜS¹² (interview with Mehmet Yılmaz, ex-chairman of ORÜS on the 18th of June) seriously impairing ORÜS's ability to buy log from OGM.

Table 14
Foreign Loans Obtained by ORÜS, 1991-1995 (US dollars)

1991	1992	1993	1994	1995
87,327	73,500	129,810	101,300	138,080

Source: YDK 1995 ORÜS Raporu, page vi

4.3 Performance of ORÜS

4.3.1 Comparison of ORÜS with other Wood Products Establishments in Turkey

The volume of industrial wood production by ORÜS showed a consistent increase till 1990 (Table 15). Capacity utilisation rate of ORÜS was always bigger than that of the private sector until 1994 (Table 16) because capacity utilisation rate of ORÜS depended on less demand than that of the private sector, as Ufuk Mistepe,

current chairman of the Department of Planning in ORÜS, has pointed out (interview on the 11th of June, 1998). From then on, ORÜS began to continue its production relying on domestic demand. The increase in the capacity utilisation rate of ORÜS during the 1980-90 period did not, however, impede the growth of private sector. ORÜS became the engine of the wood product industry, producing ten different products (timber, parquet, chipping plate, chipping plate with cement, fibril chipping, plywood, empery, plating, door and wrapping case).

Table 15
Industrial Wood Production (Public), 1940-1996

YEARS	THOUSAND CUBIC METERS	INDEX
1940	211	100
1950	703	333
1960	1.899	900
1970	4.852	2.300
1980	6.714	3.182
1983	6.665	3.159
1984	7.597	3.600
1985	7.407	3.510
1986	7.537	3.572
1987	7.266	3.444
1988	7.306	3.463
1989	7.444	3.528
1990	6.558	3.108
1991	6.495	3.078
1992	6.471	3.067
1993	6.916	3.278
1994	6.712	3.181
1995	8.023	3.802
1996	7.529	3.568

Source: SPO Database

¹² Mr. Yılmaz claims that instead of obtaining foreign loans if the paid capital of ORÜS had been increased in 1993, ORÜS would not have been stuck into such huge debts.

Table 16
Annual Capacity Utilisation Rates in Wood Products Industry (Weighted By Production Values) 1980-1995 (%)

YEAR	PUBLIC	PRIVATE	TOTAL
1980	61,8	52,6	54,9
1981	66,9	52,8	56,8
1982	75,5	55,6	60,6
1983	74,0	54,5	59,3
1984	66,8	57,8	61,5
1985	69,7	62,5	66,2
1986	78,6	63,2	69,4
1987	84,7	75,9	80,9
1988	85,0	75,7	79,2
1989	84,8	77,2	79,9
1990	84,1	78,9	80,7
1991	93,9	69,5	77,2
1992	68,5	72,1	74,9
1993	80,6	76,2	77,4
1994	64,2	67,5	66,7
1995	60,4	74,4	71,3

Source: State Institute of Statistics (SIS) Database

4.3.1.1 Timber Industry

There were 8,860 timber plants with a production capacity of 12.9 million m³ per year in Turkey, and ORÜS had 21 timber plants with a production capacity of 733,000 m³ per year in 1994 (SPO, 1995). As it can be seen from the second row of Table 17, timber production of ORÜS decreased from 438,000 m³ in 1991 to 212,000 m³ in 1995 and 46,000 m³ in 1996. As a result, the share of ORÜS timber production in total timber production decreased from 9% in 1991 to 4% in 1995, and 0.7% in 1996. Moreover, capacity utilisation rate of ORÜS decreased sharply from 93% in 1994 to 28.9% in 1995 although it was above the average capacity utilisation rate of the industry as a whole until 1996.

Table 17
Timber Production in ORÜS and Comparison with Total Production in Turkey 1991-1996

	1991	1992	1993	1994	1995	1996
Total Production (million m ³)	5.2	n.a.	5.8	5.8	5.8	6.753
Production of ORÜS (thousand m ³)	438	na	373	214	212	46
Ratio of ORÜS production to total production (%)	9	na	7	7	4	0.7
Ratio of ORÜS production capacity to total production capacity (%)	6	na	6	6	6	3.3
Capacity Utilisation Rate in the industry (%)	50	na	45.4	45.4	45.4	52
Capacity Utilisation Rate in ORÜS (%)	93	na	93	93	28.9	15

Source: ORÜS Annual Reports 1991, 1992, 1993, 1994, 1995, 1996

4.3.1.2 Chipping Plate Industry

In Turkey, there were 29 chipping plate facilities with a production capacity of 1,565,000 m³ per year. Before privatization, ORÜS had three chipping plate plants with a production capacity of 78,500 m³ per year.

Table 18 indicates that chipping plate production in ORÜS plants decreased from 78,000 m³ in 1991 to 54,000 m³ in 1995 and 8,500 m³ in 1996. Total production of chipping plate in Turkey increased from 1,175,000 m³ in 1991 to 1,449,000 m³ in 1996. Therefore, the share of ORÜS chipping plate production in total production decreased from 7% in 1991 to 4% in 1994 and 0.6% in 1996. Moreover, there was a sharp decrease in the capacity utilisation rate of ORÜS from 100% in 1993 to 69.5% in 1994. Although the capacity utilisation rate in ORÜS was above the average capacity utilisation rate in the sector until 1994, the capacity utilisation rate of the sector increased from 74% in 1995 to 93% in 1996 while capacity utilisation rate of ORÜS decreased from 69.5% in 1995 to 57.0% during the same period.

Table 18
Chipping Plate Production in ORÜS and Comparison with Total Production in Turkey, 1991-1996

	1991	1992	1993	1994	1995	1996
Total Production (million m ³)	1.175	1.175	1.322	1.322	1.322	1.449
Production of ORÜS (thousand m ³)	78	78	76	54	54	8.5
Ratio of ORÜS production to total production (%)	7	7	7	4	4	0.6
Ratio of ORÜS production capacity to total production capacity (%)	5	5	5	5	5	1
Capacity Utilisation Rate in the sector (%)	75	75	74	74	74	93
Capacity Utilisation Rate in ORÜS (%)	100	100	100	69.5	69.5	57

Source: ORÜS Annual Reports 1991-1996

4.3.1.3 Parquet Industry

As it can be seen from Table 19, parquet production in ORÜS plants decreased from 553,000 m² in 1987 to 241,000 m² in 1993, and 136,000 m² in 1996. Total production of parquet in Turkey increased from 2,325,000 m² in 1987 to 3,971,000 m² in 1996. Therefore, the share of ORÜS in total parquet production decreased from 19% in 1987 to 3.4% in 1996. Moreover, there was a sharp decrease in the capacity utilisation rate of ORÜS from 76% in 1994 to 43.6% in 1995 and 29% in 1996. The capacity utilisation rate of the sector increased from 56% in 1995 to 72% in 1996 although that of ORÜS decreased from 43.6% in 1995 to 29% in 1996.

Table 19
Parquet Production in ORÜS and Comparison with Total Production in Turkey 1987-1996

	1987	1992	1993	1994	1995	1996 (*)
Total Production (million m ²)	2.325	Na	Na	na	na	3.971
Production of ORÜS (thousand m ²)	553	Na	241	280	327	136
Ratio of ORÜS production to total production (%)	19	19	14.5	14.5	14.1	3.4
Ratio of ORÜS production capacity to total production capacity (%)	14	14	14	14	14	8.6
Capacity Utilisation Rate in the sector (%)	56	56	56	56	56	72
Capacity Utilisation Rate in ORÜS (%)	76	76	76	76	43.6	29

*The number parquet plants decreased from 11 to 7 because of privatization in 1996.

Source: ORÜS Annual Reports 1991, 1992, 1993, 1994, 1995, 1996

4.3.1.4 Plywood Industry

Plywood industry in Turkey began to develop after 1930. In 1995, there were 22 plywood plants with a production capacity of 107,000 m³ per year and three of these, with a production capacity of 18,000 m³ per year, belonged to ORÜS before privatization.

Table 20 indicates that, plywood production in ORÜS plants decreased from 14,000 m³ in 1991 to 5,300 m³ in 1995 and 1,500 m³ in 1996. Total production of plywood in Turkey increased from 72,000 m³ in 1991 to 81,000 m³ in 1996. As a result, the share of ORÜS in total plywood production decreased from 20% in 1991 to 7% in 1995 and 2% in 1996. Surprisingly, although total plywood production of Turkey decreased from 74,000 m³ in 1993 to 65,000 m³ in 1994, plywood production of ORÜS increased from 12,900 m³ in 1993 to 16,700 m³ in 1994. There was a sharp decrease in the capacity utilisation rate of ORÜS from 84% in 1994 to 29.5% in 1995 and to 13% in 1996. In fact, the capacity utilisation rate of ORÜS was always higher than of the private sector till 1995. Besides, the

Plywood Production in ORÜS and Comparison with Total Production in Turkey, 1991-1996

	1991	1992	1993	1994	1995	1996
Total Production (thousand m ³)	72	72	74	65	74	81
Production of ORÜS (thousand m ³)	14	14	12.9	16.7	5.3	1.5
Ratio of ORÜS production to total production (%)	20	20	18	32	7	2
Ratio of ORÜS production capacity to total production capacity (%)	15	15	15	54	15	11
Capacity Utilisation Rate in the sector (%)	60	60	69	80.7	69	76
Capacity Utilisation Rate in ORÜS (%)	78	78	78	84	29.5	13

Source: ORÜS Annual Reports 1991, 1992, 1993, 1994, 1995, 1996

4.3.1.5 Fibril Chipping Industry

Although there were four fibril chipping plants in Turkey in 1995, one of them was inactive. The total production capacity of active plants was 56,300 m³ per year and one of them with a production capacity of 28,600 m³ per year belonged to ORÜS.

As it can be seen from Table 21, fibril chipping production in ORÜS plants decreased from 24,000 m³ in 1990 to 16,100 m³ in 1995 and 9,800 m³ in 1996. Total production of fibril chipping in Turkey increased from 45,000 m³ in 1990 to 67,000 m³ in 1996. Therefore, the share of ORÜS fibril chipping production decreased from 53% in 1990 to 32% in 1993 and 15% in 1996. There was a sharp decrease in the capacity utilisation rate of ORÜS from 84% in 1994 to 56.3% in 1995, and 35% in 1996.

Table 21
Fibril Chipping Production in ORÜS and Comparison with Total Production in Turkey 1990-1996

	1990	1993	1994	1995	1996
Total Production (thousand m ³)	45	65	65	65	67
Production of ORÜS (thousand m ³)	24	16.7	16.6	16.1	9.8
Ratio of ORÜS production to total production (%)	53	32	32	32	15
Ratio of ORÜS production capacity to total production capacity (%)	54	54	54	54	54
Capacity Utilisation Rate in the sector (%)	86	80.7	80.7	80.7	80
Capacity Utilisation Rate in ORÜS (%)	84	84	84	56.3	35

Source: ORÜS Annual Reports 1991, 1992, 1993, 1994, 1995, 1996

4.3.1.6 Plating Industry

In 1995, there were 32 plating plants with a production capacity of 103 million m³ per year in Turkey. As it can be seen from the first row of Table 22, total production of plating in Turkey decreased sharply from 38 million m³ in 1990 to 4.9 million m³ in 1993. Meanwhile, plating production in ORÜS plants also decreased from 3.9 million m³ in 1990 to 479,100 m³ in 1993 and to 154,900 m³ in 1995. Moreover, the share of plating production of ORÜS to total production decreased from 10% in 1990 to 1.6% in 1993. The capacity utilisation rate of ORÜS was higher than that of the sector until 1995. In 1995, the capacity utilisation rate of the sector was 60% as against 34% for ORÜS. Moreover, plating production of ORÜS was very low (5,000 m³) in 1995.

4.3.1.7 Door Production

Bolu plant of ORÜS was responsible for door production. The quantity of door production decreased consistently from 59,977 m² in 1990 to 1,159 m² in 1995 as it can be seen from Table 23.

Table 22
Plating Production in ORÜS and Comparison with Total Production in Turkey 1990-1996

	1990	1993	1994	1995	1996
Total Production (million m ³)	38	4.9	4.9	4.9	6.9
Production of ORÜS (thousand m ³)	3,900	479.1	479.1	154.9	5
Ratio of ORÜS production to total production (%)	10	1.6	1.6	3.1	Na
Ratio of ORÜS production capacity to total production capacity (%)	10	10	10	10	4.7
Capacity Utilisation Rate in the sector (%)	83	60	60	60	Na
Capacity Utilisation Rate in ORÜS (%)	87	87	87	34	na

Source: ORÜS Annual Reports 1991, 1992, 1993, 1994, 1995, 1996

4.3.1.8 Empery Production

There were 25 empery plants with a production capacity of 589,700 m³ per year. One of them belonged to ORÜS and had a production capacity of 35,000 m³ per year. Its production decreased from 9,151 m³ in 1994 to 7,818 m³ in 1995. Its share in the industry was 8% throughout the 1991-1995 period (ORÜS Annual Reports 1990-1995). Moreover, capacity utilization rate of ORÜS was 37% in 1993 as against 30% for the sector, as a whole.

4.3.1.9 Wrapping Case Production

The production facilities of wrapping case in Turkey have had low scales and are family-owned. There were 2,722 facilities with production capacity of 1,900 million m³ per year in Turkey in 1994. The Antalya plant of ORÜS, which was responsible for wrapping case production, had a production capacity of 15,000 m³ per year. As can be seen from Table 24, the quantity of wrapping case produced in the Antalya plant fluctuated during the period. It increased from 234 m³ in 1992 to 298,670 m³ in 1993 and decreased to 92 m³ in 1994. In 1995, because of the

high demand for palette, production shifted towards palette. 5,440 m³ of palette was produced in 1995 as against only 54 m³ of wrapping case.

4.3.1.10 Chipping Plate with cement Production

There were two chipping plate plants with a production capacity of 49,000 m³ per year in Turkey. One of them (Arhavi Chipping plate plant) belonged to ORÜS. Its production capacity was 27,000 m³ per year in three shifts. As can be seen from Table 23, the quantity of production of “chipping plate with cement” of ORÜS fluctuated between 1990 and 1995. It increased sharply from 3,921 m³ in 1990 to 5,967 m³ in 1991 and decreased to 2,870 m³ in 1995. Moreover, its capacity utilization ratio was only 31.8% in 1995 (ORÜS Annual Report, 1995).

Table 23
Chipping Plate with cement, Wrapping Case and Door Production of ORÜS 1990-1995

	1990	1991	1992	1993	1994	1995
Chipping Plate with cement (m ³)	3,921	5,967	5,309	4,559	5,271	2,870
Wrapping Case (m ³)	610	1,133	234	298,670	92	54
Door (m ²)	59,977	35,262	8,968	9,864	3,432	1,159

Source: ORÜS Annual Reports 1991-1995

4.3.2 Exports of ORÜS

The production of ORÜS was geared at meeting domestic demand rather than export markets. However, export revenues of ORÜS reached a considerably high level in the early 1980s (5,410 thousand US dollars in 1983) reflecting its competitive advantage in the international market based on low cost products (Table 24). Export revenues although fluctuating increased sharply after 1991 reaching 2,081 thousand US dollars in 1995. As Ufuk Mistepe, current chairman of the Department of Planning in ORÜS, has pointed out, this export success was based on the demand of foreign consumers rather than an active export drive by ORÜS since ORÜS lacked qualified personnel to find new consumers in the international market (interview by the author on the 11th of June, 1998).

Table 24
Export Revenues 1990-1995 (thousand US Dollars)

	1983	1984	1987	1991	1992	1993	1994	1995
Export Revenues	5,410	2,971	39	60	2,082	216.75	1,269.8	2,081.79

Source: For years 1983-1991 SPO Database, for years after 1991 ORÜS Annual Reports 1992, 1993, 1994, 1995

- The revenues between 1992 and 1995 are converted into dollars by the average exchange rate of related year as it is given in DPT Annual Reports 1992-1995.
- During the years 1985, 1986, 1988 1989 and 1990 the export revenues were zero.

4.3.3 Market Performance of ORÜS Products

As it can be seen from Table 25, the quantity of all products sold, except doors, decreased during 1990-95. This was due to lack of raw materials, as it was mentioned earlier.

Table 25
Sales by Type of Products 1990-1995

	1990	1991	1992	1993	1994	1995
Timber (m ³)	464,684	415,942	410,797	327,623	253,204	232,043
Parquet(m ³)	546,700	669,673	344,095	381,243	166,477	446,220
Ply-wood (m ³)	15,785	13,377	7,994	18,393	8,739	4,485
Plating (1000 m ²)	2,472	1,553	1,724	410	142	131
Chipping Plate (m ³)	70,615	90,600	82,790	66,434	45,901	58,661
Fibril Chipping (m ³)	20,607	24,071	21,007	9,304	16,771	17,665
Chipping Plate with cement (m ³)	4,855	5,009	5,590	5,965	3,851	2,341
Wrapping Case	1,123	1,473	25	269	372	
Door (m ²)	1,305	39,922	8,268	7,784	3,955	2,070

Source: ORÜS Annual Reports 1991-1995

4.3.4 Goodness of Fit of Establishment Goals

ORÜS has participated in various international fairs about wood products equipment every year. Although ORÜS bought necessary equipment until 1980 to

introduce new technologies in Turkey, it had to confine its efforts in this sphere to recommending them to the private sector thereafter as it had insufficient financial resources for introducing new technologies itself¹³.

ORÜS constructed plants in forest-intensive regions although the private sector plants were on the whole located in or near consumer-intensive regions (SPO, 1995). Therefore, ORÜS has played a major role in the development of underdeveloped regions such as Demirköy¹⁴ and Arhavi.

Products of ORÜS were produced in accordance with the standards of the Institute of Turkish Standards (TSE). This has had two effects. First, all ORÜS products were recognized as high quality products by domestic and foreign consumers alike. Second, the prices of ORÜS products were about 15% more expensive than of the private sector. As Ufuk Mistepe, current chairman of the Department of Planning in ORÜS, has pointed out, the Planning Department of ORÜS has had various joint studies with TSE and has kept up with the updated standards of TSE.

In sum, major indicators of the performance of ORÜS show that ORÜS has performed well and became the engine of the wood products industry until 1992. For instance, industrial wood production by ORÜS increased steadily from 211 m³ in 1940 to 7,444 m³ in 1989. Moreover, annual capacity utilisation rate of ORÜS in all products was bigger than that of the private sector until 1992 since production of ORÜS was stock-based while production of the private sector was demand based. Because of the financial weakness of ORÜS after 1992, the share of ORÜS production to total production as well as capacity utilisation rate of ORÜS in all products decreased considerably thereafter. As Mehmet Sertel has pointed out, this led ORÜS adopting demand-based production as the private sector¹⁵.

¹³ Interview with Mehmet Yılmaz, ex-chairman of ORÜS, on the 18th of June, 1998.

¹⁴ ORÜS plant is the only plant in the region and the people there earned their livings by forestry and forest products as Mehmet Uysal, ex-director of Forest Facility in Demirköy has pointed out (interview on the 15th of June, 1998).

¹⁵ Interview by the author on the 11th of June, 1998.

Apart from becoming the engine of the sector until 1992, ORÜS also had considerable success in achieving its establishment goals. Lots of qualified personnel had developed their skills in ORÜS and then transferred to the private sector. This enabled the transmission of technologies and methods of ORÜS into the private sector. Moreover, the high volume of its export revenue indicates that the quality of the wood products of ORÜS was recognized also by consumers in international markets. Furthermore, the high share of ORÜS products in the domestic market (15% even in 1995) emphasises the fact that even in its bad times ORÜS continued to serve as the engine room of the market. Thus, it can be concluded that ORÜS performed better than the private sector until 1992 when its sheer existence was threatened by excessive debts. Until 1992 ORÜS's performance cannot be regarded as poor or inefficient.

4.4 ORÜS after Privatization

4.4.1 History of the Privatization of ORÜS

ORÜS was a profitable SOE in the 1980s. Partly as a result of wood imports especially via foreign loans and political interference, ORÜS was stuck into heavy debts although it was widely seen in the group of SOEs with satisfactory progress and insufficient investment (Boratav and Türkcan, 1993: 241).

After ORÜS was included in the privatization scheme in 1992, ORÜS waited for privatization until 1996. During this period, investment was confined largely on furniture and fixtures leading to a decrease in capacity utilisation rate and production and sales of all types of products. Since the management did not take the necessary measures to decrease the fixed costs of idle plants, financial status of ORÜS became so weak that it could not survive without loans.

Moreover, ORÜS, on the way towards privatization, was under the control of the Privatization Administration (PA). As the amount provided by the PA (1,000 billion Turkish Liras) fell drastically short of the expected amount (589 billion

Turkish Liras) (YDK, 1995), ORÜS was forced to borrow the rest from PA with interest¹⁶. As a result, ORÜS tried to survive via obtaining loans and delaying tax levies and payments while PA gained net positive profits (YDK, 1995: X).

The workers in ORÜS began a so-slow in ORÜS plants following the privatization decision. Moreover, workers were encouraged to resist privatization by the labour union (Ağaç-İş Gözlem, March 1996) to such an extent that they did not let officials of PA to count the machines in the plants (interview with Ufuk Mistepe on the 11th of June, 1998).

As of March 3, 1998 seventeen of the twenty-three ORÜS plants were privatized. ORÜS plants during 1996-98 amounted to 27,286,563 dollars (Table 26). Although eight of the plants were privatized in 1996, six were privatized in 1997, and the rest were to be privatized until August 1998. Three of these plants were privatized by the management/employee ownership method. However, these plants could not be managed well so that they will be sold to the public (interview with Mr Mistepe on the 11th of June, 1998).

4.4.2 Production in Privatized Plants after Privatization

In this section, six of the ORÜS plants namely those in Ayancık, Vezirköprü, Düzce, Bafra, Antalya and Devrek will be discussed. Lack of data about the other privatized plants in and after 1996 prevents us to conduct a similar exercise for them.

¹⁶ Mr Yılmaz, ex-chairman of ORÜS, claims that same sort of conflicts between ORÜS and PA were experienced after 1992. For instance, there were a number of attempts to increase the volume of the paid capital of ORÜS but proposals to this effect were all rejected by PA in 1993.

Table 26
Privatization Revenues of Plants of ORÜS

	Date of Privatization	Price (US dollars)
ORÜS Ayancık Plant	2.5.1996	3,180,560
ORÜS Devrek Plant	2.5.1996	1,367,641
ORÜS Düzce Plant	2.5.1996	2,401,323
ORÜS Vezirköprü Plant	2.5.1996	5,788,620
ORÜS Pazarköy Plant	2.5.1996	174,931
ORÜS Ulupınar Plant	2.5.1996	367,514
ORÜS Bafra Plant	2.12.1996	3,168,248
ORÜS Antalya Plant	2.13.1996	3,311,726
ORÜS Eskipazar Plant	9.25.1997	300,000
ORÜS Kalkın Plant	10.1.1997	500,000
ORÜS Yenice Plant	10.20.1997	600,000
ORÜS Demirköy Plant	10.31.1997	750,000
ORÜS Bartın Plant	10.31.1997	1,640,000
ORÜS Dursunbey Plant	12.15.1997	470,000
ORÜS Şavşat Plant	2.27.1998	155,000
ORÜS Bolu empery Plant	3.19.1998	211,000
ORÜS Arhavi Plant	3.25.1998	2,900,000
Total Revenue		27,286,563

Source: PA. 'Privatization in Turkey' Bulletin, March 30, 1998

Because of the decrease in the number of employees from 1139 in 1995 to 424 in 1996 and 408 in 1997¹⁷, the volume of the production decreased after privatization. However, the volume of all types of products of 1997 was more than that of 1996 (Table 27). The most remarkable increases occurred in wrapping case and parquet production, which increased from 20,000 and 10,276 m³ in 1996 to 75,000 and 93672 m³ in 1997, respectively. However, these are below the average production level of these plants between 1990 and 1995 (before privatization). The capacity utilization rates of timber, parquet, plywood and chipping plate increased as it can be seen in Table 28. The most remarkable increase was detected in the capacity utilisation rate of parquet production, which

¹⁷ The decrease in the number of employed workers indicates unemployed 721 ORÜS workers.

increased from 8.7% in 1996 to 79.4% in 1997. Nevertheless, these are below the average capacity utilisation rates between 1990 and 1995. Thus, it can be concluded that change of ownership has not led to an increase in the capacity utilisation rates and production levels of ORÜS plants in the admittedly start period that has elapsed since privatization.

Table 27
Production in Privatized Plants, 1996-1997

	1996	1997
Timber (m ³)	29052	30173
Parquet (m ²)	10276	93672
Ply-wood (m ²)	2298	4112
Chipping Plate	31462	33200
Wrapping Case (m ³)	20000	75000

Source: PA

Table 28
Capacity Utilisation Rate of ORÜS in Privatized Plants 1996-1997 (%)

	1996	1997
Timber	17.2	17.8
Parquet	8.7	79.4
Ply-wood	38.3	68.5
Chipping Plate	43.5	45.9

Source: PA

4.4.3 Discussion on Privatization of ORÜS

If the environment during the privatization of ORÜS is compared with the necessary conditions for successful privatization discussed in general terms in Chapter 2, the following picture can be observed. First, Turkey had a strong commitment to privatization, which was proved by the enactment of a comprehensive privatization law. Second, during the 1990s mass media contributed significantly to the emergence of a broad consensus on privatization. Third, PA was established with adequate legal authority for privatization. Fourth, the capital markets were well developed. Fifth, ORÜS was privatized under the setting of an unstable economy with high inflation.

Although current ORÜS officials (Mr. Sertel and Mr. Mistepe) claim that privatization of ORÜS plants has taken place through open market operations, and were free from political interference by its nature, it can be argued that the plants of ORÜS were privatized at less than their true values because of two factors. First, the aim of the privatization in Turkey¹⁸ was to correct macroeconomic imbalances not to stimulate infrastructural investments. In this case, it is inevitable that SOEs were privatized less than their true values. Second, the values announced in mass media were higher than the privatization values. For instance, the real estate value alone of Antalya plant, located by the sea and surrounded by forests was estimated at 1,000 billion Turkish Liras in 1993 although it was sold for 211 billion in 1996. Moreover, the insurance value of the Vezirköprü plant was more than its privatization value (Soysal, 1998). That is why the privatization of ORÜS plants is now in the Constitutional Court which ruled three of these to be illegal. However, PA does not take any steps to cancel privatization since the Constitutional Court reached its decision in three years. As a result, the Supreme Privatization Council now permits PA's current policies.

In short, the most important necessary condition for successful privatization, namely a stable economy, was neglected in the privatization of ORÜS, and privatization has been used instead as a tool to correct macroeconomic imbalances, leading to both unsuccessful privatization and legal conflicts in Turkey.

¹⁸ This may not be only valid for ORÜS but for all other privatizations. As the Minister of Economy, Gunes Taner has pronounced "Unfortunately, the revenues of the privatization of the licenses of the cellular phones will be spent for the payments of social benefits." (Milliyet, May 11, 1998).

CHAPTER 5

CONCLUSION

Privatization is a hot debate in Turkey where the governments after 1990 have treated it as the solution to economic problems such as huge budget deficits and rapid inflation. In such an environment, ORÜS provides an interesting case study to observe how a profitable SOE could turn into a loss maker and how privatization of a SOE leads to legal conflict.

This study approaches the privatization of ORÜS in two different perspectives: privatization in the world in general terms and the impact of liberalization policies in Turkey on SOEs after 1980.

According to the first perspective, Turkey has the following picture. The governments in Turkey fulfilled four necessary conditions for successful privatization: commitment to privatization, consensus in favour of privatization in society, a strong privatization agency and a deep capital market. However, they neglected the condition widely accepted by both the proponents and opponents, namely the existence of a stable economy. In addition, they made the big mistake of implementing the privatization program to correct macroeconomic imbalances. This resulted in privatization of SOEs at less than their true value as in the case of ORÜS.

In the second perspective, Turkey experienced a major structural transformation of main economic policies since the early 1980s under a structural adjustment program implemented under the auspices of the IMF and the World Bank. This perspective has two components. First, the problems of SOEs could be solved by

neither privatization pledges as in the 1950s nor reform attempts during the planned economy period until 1980s. Second, SOEs began to be a bigger financial burden on the budget like a rolling snowball as time passed.

Although privatization was on the economic agenda of Turkey in the first half of 1980s, the privatization program failed to gather any momentum until the privatization Teletaş in 1989. Four main explanations can be put forward for this: (i) weak financial markets initially, (ii) etatist tradition of society, (iii) unwillingness of the private sector for privatization, and (iv) pressures of interest groups and rent-seekers.

Faced with these constraints, the government took steps for establishing an appropriate regulatory framework and preparation of the privatization plan. During the 1980s, budget transfers towards SOEs were cut and restrictions on the borrowing requirements of SOEs were imposed. Moreover, by making use of the fixed wage regime until the late 1980s, the ratio of wages to revenues of SOES was kept low at about 10% until 1989. Furthermore, government introduced artificial price increases in the products of SOEs. By the help of the above measures, SOEs became financially self-sufficient and obtained net positive profits until 1989.

The other side of the win was that profitable SOEs such as ORÜS in the 1980s became loss makers in 1990s for the following reasons. First, liberalization measures led to a sharp decrease in the investments of SOEs, which resulted in the decline of the level of market competitiveness of SOEs in the 1990s. Second, due to sharp wage increases after 1989, the ratio of wages to revenues increased sharply from 11.1% in 1988 to 25.8% in 1993. Third, SOEs were not permitted to obtain loans from public banks at low interest rates so that the percentage of interest payments to revenues increased sharply from 5.5% in 1989 to 10.4% in 1993. Finally, as ORÜS became financially weak, it could only survive by postponing its tax levies and social security payments after 1992. For instance, the percentage of annual profit of ORÜS to paid capital decreased sharply from

159.07% in 1989 to -135.6% in 1993. ORÜS was not a financial burden on the budget until 1992.

ORÜS was the major producer of wood products, and the capacity utilisation rates of ORÜS in all products were higher than that of the private sector until 1992. In addition to financial weakness, conflict with OGM in the 1990s jeopardized the provision of high quality raw materials. Thus, capacity utilisation rates of ORÜS in all products as well as the percentage of production of ORÜS to total production in Turkey declined during this period. On the basis of this discussion, it can be concluded that ORÜS did not perform poorly until 1992.

ORÜS reached most of its establishment goals such as introducing new technologies in wood production, constructed plants in different regions of the country, and contributed to product standardisation in the industry until 1992. Moreover, it was regarded as the main school for educating and training workers in the sector during this period. Far from impeding the growth of the private sector, ORÜS contributed to technological improvements in the wood products industry.

Although ORÜS was included in the privatization scheme in 1992, the first privatization of ORÜS plants, namely Ayancık, Devrek, Düzce, Vezirköprü, Pazarköy and Ulupınar plants, took place in 1996. By March 1998, seventeen of twenty-three ORÜS plants were privatized and the rest were scheduled to be privatized until August 1998. ORÜS plants were privatized at less than their true values because of privatization under the settings of an unstable economy. In this sense, the privatization of three ORÜS plants was cancelled by the Constitutional Court. Nevertheless, there were no attempts to put this ruling into practice following the acceptance of the divestiture of these plants by the Supreme Privatization Council. As a result, the different stance of two different institutions of the same state led to a legal conflict.

Although it is too early to decide to what extent the privatization goals of ORÜS plants were achieved, no significant increase in the volume of products and capacity utilisation rates of privatized ORÜS plants was observed until June 1998. One undesirable effect of privatization of ORÜS plants was the unemployed 731 workers, who lost their jobs after privatization.

In short, the arguments of privatization were not valid for ORÜS. The lessons drawn from the privatization of ORÜS can be summarized under two headings. First, all SOEs should not have been treated as the source of budget deficits in the 1980s. Therefore, subjecting all SOEs to a uniform set of economic policies turned profitable and efficient ones like ORÜS into loss makers in 1990s. Second, the government made a terrible mistake by neglecting the requirement of a stable economy for successful privatization, and used privatization as a means of financing budget expenditures. Therefore, privatization of SOEs like ORÜS resulted in their sale at less than their true values and in legal conflicts, signalling the lack of success of this process.

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