TURKISH MEMBERSHIP IN THE EUROPEAN UNION: CHALLENGES AND OPPORTUNITIES FOR THE AGRICULTURAL SECTOR

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Abstract

Agriculture has important role as an employer and contributor to the GNP throughout the last two decades in Turkey. There are still some traditional problems in agriculture. After Helsinki European Council meeting in 1999 with EU, to speed up the accession, a number of working groups have already been established in order to align Turkish agricultural policy with that of the Common Agricultural Policy (CAP). The reforms in both the CAP and Turkish agricultural policies will create opportunities and challenges during the transition period. In the longer run, Turkey will probably have a comparative advantage in field crops, fruits and vegetables while facing problems in the animal sector. Due to trade liberalization through GATT negotiations and the changes in CAP, Turkey will not probably realize the same kind of trade creation and financial support benefits from the EU as other new members of the past. It is expected that agricultural negotiations will pass difficult.

INTRODUCTION

The relationship between the European Union and Turkey has a long history. The Rome Treaty was signed in 1957 to form what was then called the “European Common Market”, Turkey was one of the first countries that showed an interest in joining this Union. Turkey formally presented its application for membership to the Community in 1987. This was followed by a customs union agreement between Turkey and the European Union (EU) in 1995. The Helsinki European Council meeting in December 1999 concluded that Turkey is a candidate State destined to join the Union on the basis of the same criteria as applied to the other candidate States (Commission, 2004/a, EC 2004). The European Council declared that the European Union would open accession with Turkey on October 3, 2005. During the negotiations periods, agriculture consists of the main difficulty sector. We will examine political and economic arguments regarding eventual Turkish membership in the European Union, to determine current performance and agricultural economic situation of the Turkish agricultural sector.

SELECTED INDICATORS FROM AGRICULTURE IN TURKEY AND EU

Agriculture is a very important sector for Turkish economy. In 2003, about 33 % of the workforce was employed in agriculture and it contributed about 12 % of the GDP (Commission, 2004/b). The climatic conditions allow a wide range of different farming activities and Turkey ranks very high in the production of a large number of products including cereals, cotton, tobacco, fruits and vegetables, nuts, and sugar beets. Turkey ranks number one in the world in apricot, cherry, fig and hazelnut production (FAO, 2004). Most of these products are exported to EU countries.

Turkey has little agro-ecological potential for increasing total cultivated land area, but there isscope for extending irrigation and for increasing the productivity of existing farming system. Farm size and ownership patterns, input use, productivity and the lack of efficient marketing methods are valid in Turkish agriculture. Besides, producer prices for most commodities in Turkey are higher than in the EU. Agricultural policies followed in Turkey in the past might not have been optimal in creating export markets. Now the expected accession to the European Union adds additional constraints to the system. Could Turkish agriculture compete with the EU agriculture? What is the best way incorporating the EU Common Agricultural Policy (CAP) into the Turkish system? In which products does Turkey have a competitive advantage/disadvantage? What new agricultural policies are needed as Turkey joins the EU? An attempt will be made to answer in the following sections.
One distinctive characteristics of the Turkish agriculture is that it is based on small farms that operate at a subsistence level. Input use is rather limited and marketable surplus is small. In 2001, there were approximately 3 million holdings most of which were family farms employing family labor as compared to 6.8 million in the EU-15 in 1999/2000 (Perachino and Veidal 2003). Due to inheritance laws, there was a great deal of farm fragmentation as well. More than 80 percent of these farms were less than 10 hectares in size. The average farm size in Turkey was 5.9 hectares in Turkey compared to an average farm size of 18.5 hectares in EU 15. It should be noted that 8.6 percent of the farms in EU 15 (farms over 50 hectares in size) cultivated more than 61 percent of the cultivated area. The proportion of the irrigated land increased from 14% in 1991, to 20% in 2001. The share of irrigated land is much higher in the west than elsewhere in Turkey. A third of the farms smaller than 1 ha are irrigated (Cakmak, 2004).

These larger farms can take advantage of better production technology as well gaining better market access. In addition, they can better finance their operations. Inability to borrow sufficient funds may be a drawback for the Turkish farmers. Average income per employed household member in Turkish agriculture is less than 40 per cent of the level for non-agricultural workers (EU, 1999; SIS, 2001)

A comparison of EU 25 countries with Turkey reveals other important characteristics. The total population in agriculture in EU 25 is merely 27 million out of a population of 454 million. Turkey, on the other hand, has an agricultural population of 21 million out of a population of 70 million (Table 1).

In percentage terms, however, only 5 percent of the EU 25 population is agricultural while the corresponding figure for Turkey is about 30 percent. There are some significant differences in terms of tractor and fertilizer use patterns as well. The total rural land in EU 25 is about 4.3 times as big as the rural land in Turkey. When one takes similar ratios for the number of tractors and fertilizer use, the figures are 9.2 and 10.0, respectively. These factors contribute to higher yields in EU 25 agriculture as compared to the Turkish agriculture. The figures indicate that Turkish fresh fruit and vegetable production is quite significant when compared to EU 25 production. Cereals account for 60 % of field crop area, with rain-fed yields at around 2-2.5 tons per hectare. Fruit production has increased by 55 % since 1980 while grazing livestock numbers have been falling for two decades, and red meat production has remained constant. Poultry numbers have increased by over 300 % in the same period. Although Turkey produces a wide variety of products, the yields are relatively low when compared to EU countries. An examination of the statistics indicate that per hectare yields are the lowest in Turkey. What should be done to make Turkish agriculture more productive? These are some of the questions that need to be answered as Turkey prepares for possible accession by 2015. One thing is clear that it will have to reform its agricultural policies, set up the necessary infrastructure and institutions, and align
its policies with those of the CAP of the European Union. To assess the differences between the two sets of policies, it will be useful review them at this time.

**TABLE 1**
A Comparison of Selected Indicators for EU 25 and Turkey

<table>
<thead>
<tr>
<th>Some Indicators</th>
<th>EU-25</th>
<th>Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Population (millions)</td>
<td>454</td>
<td>70</td>
</tr>
<tr>
<td>Agricultural Population (millions)</td>
<td>27</td>
<td>21</td>
</tr>
<tr>
<td>Total Rural Land (1000 ha)</td>
<td>179,286</td>
<td>41,690</td>
</tr>
<tr>
<td>Cereal Production Area (1000 ha)</td>
<td>17,634</td>
<td>2,585</td>
</tr>
<tr>
<td>Total Irrigated Land (1000 ha)</td>
<td>13,714</td>
<td>5,215</td>
</tr>
<tr>
<td>Fertilizer Production (1000 tons)</td>
<td>14,930</td>
<td>706</td>
</tr>
<tr>
<td>Fertilizer Used (tons)</td>
<td>17,420</td>
<td>1,743</td>
</tr>
<tr>
<td>Number of Tractors (1000)</td>
<td>8,885</td>
<td>970</td>
</tr>
<tr>
<td>Cereal Production (1000 tons)</td>
<td>251,833</td>
<td>30,798</td>
</tr>
<tr>
<td>Oil Seed Production (1000 tons)</td>
<td>9,055</td>
<td>765</td>
</tr>
<tr>
<td>Fruit Production (1000 tons)</td>
<td>61,501</td>
<td>11,200</td>
</tr>
<tr>
<td>Vegetable Production (1000 tons)</td>
<td>62,976</td>
<td>25,672</td>
</tr>
<tr>
<td>Meat Production (1000 tons)</td>
<td>42,385</td>
<td>1,348</td>
</tr>
<tr>
<td>Milk Production (1000 tons)</td>
<td>147,683</td>
<td>8,160</td>
</tr>
</tbody>
</table>


Turkish agricultural policy objectives include provision of adequate and stable incomes for farmers, reducing the vulnerability of production to adverse weather conditions, raising the level of self-sufficiency, and increasing exports. In the crops sector, government interventions have been primarily in the form of price supports and tariff protection. In the livestock sector, quantitative restrictions and tariffs have been the main mechanism used to support prices received by farmers. In addition, input subsidies and credits were provided to farmers to improve yields and income. Traditionally, support prices for most major crops (including grains, oilseeds, cotton, sugar beet, tobacco, hazelnut and tea) have been announced by a government decree each year. Such announcements, however, were not made during the planting season. Thus, support prices did not influence the supply side to a great extent. The political climate of the time also played a role in deciding what the support prices should be. Another important component of agricultural policy was subsidies for inputs such as fertilizer, irrigation, and credit. Short-term and investment credit for agriculture (mainly through state owned Agriculture Bank) has long been subsidized by the government at interest rates well below inflation and
commercial rates. Given the high rates of inflation, it was not uncommon to receive credit at negative interest rates in real terms.

The agricultural support policies pursued until late 1990's was fiscally expensive and unsustainable. They did not provide a cost-effective way for addressing policy objectives such as alleviation of rural poverty and regional development, and the "duty loss" system of administration burdened the Treasury with enormous debts and perhaps resulted in higher inflation. The Turkish government recently has tried to establish more quality-differentiated prices and has started to reform its agricultural policies. Beginning in late 1999, with support from the IMF and World Bank, the government developed the Agricultural Reform Implementation Project (ARIP). This project is applied during 2001-2005. ARIP is a radical change of direction for agricultural policy, and brings Turkey more in line with the EU. This project aims to phase out current production-and input-oriented support policies and to replace it by area-based income support payments. Price support has been reduced, subsidies have been removed and direct income support for farmers, in the form of a system of flat-rate payments per hectare of area (capped at 50 hectares), has been introduced (Togan, 2002; Togan, 2004). The long-run goal is to link domestic prices to world prices. These reforms are intended to increase the efficiency of the agricultural sector and help Turkey to meet the pre-conditions for accession to the EU.

The implementation of the new policy started in 2000 with a pilot program of income support payments in four selected regions. An important part of the pilot program was the preparation of a farm registry and the testing of the eligibility conditions. A payment of USD 50 per hectare of agricultural land was made to all agricultural land users up to a maximum of 20 hectares per farmer. The program was extended nation-wide in 2001-2002. The government is also using this program to enable the farmers to switch from over-produced products (such as tobacco and hazelnuts) to alternatives. As a result of the policy changes, the fertilizer subsidy has been gradually decreased and phased out in 2002. Similarly, the agriculture credit subsidies channeled through Agriculture Bank (Ziraat Bankasi) have been eliminated. These changes have made the Turkish agricultural support policy more in line with the CAP guidelines.

OPPORTUNITIES AND CHALLENGES OF TURKISH MEMBERSHIP AND SOME ASSESING IN TERMS OF EU

Turkish membership in the European has a number of dimensions. The potential political and economic impact on Turkey and the European Union, Turkey’s strategic geographical location and her secular Muslim identity are the main points raised by both the opponents and supporters of Turkey in its long-time efforts to join the European Union.
One of the important goals of the European Union is to create a harmonious Europe that promotes peace and stability. Thus, one can argue that a more stable, democratic and prosperous Turkey within the EU is to the benefit of Union as well as Turkey (Lane, 2004; Quaisser and Wood, 2004). Moreover, Turkey’s strategic location bordering Iran, Iraq, Syria, Georgia, and Armenia on the east and south-east should be considered from a number of points of views. First, Turkey could easily serve bridge between Europe and these Middle Eastern and Asian markets. Some also argue that Turkey could serve as a buffer between these currently “unstable” countries and the European Union. Given the American policies in the region, Turkey would probably strengthen the EU bargaining power when it faces the United States.

Another argument used against Turkish membership is whether it is a European country or not geographically and culturally (Welfens, 2004; Teitelbaum and Martin 2003; Rosenberger, 2004). It is true that only a small part of Turkey is located in Europe when one considers the land area. However, when one considers the population, the European population of Turkey is much larger than the populations of most of the member countries at the present time. Culturally, Turkey combines the influences of both eastern and western cultures. Her culture is not completely at odds with the “EU culture.” In fact, one can strongly argue that the Greek culture, an EU member, is probably closer to the Turkish culture than the cultures of other EU members such as France and Germany. It is true that all of the EU member countries are secular Christian countries while Turkey is a secular Muslim country (Schuble and Philips, 2004). This difference will probably contribute to the multiculturalism in Europe. The acceptance of Turkey as a member will be a strong signal to the world that the European Union is not a “Christian Club” and will be a way to fight the “Clash of the Civilizations” argument. This added diversity will be beneficial to all sides and prove to the world that seemingly different cultures can work together to create more stable and peaceful environment while at the same time providing economic benefits for all.

Turkey, with a large population, will probably have a large impact on the Council and the European Parliament in terms of voting weights. The EU institutions have already been partially changed to be able to deal with the recent enlargement to EU 25 (Neueder, 2003; Pelkman, 2003; Best, 2004). The draft constitution is being worked on at the present time. It is too early to tell what the voting weights will be when it is adopted. However, assuming that there are no major changes to the current system, Turkey will get substantial power when and if it joins EU in 2015 and this might be in the minds of some who oppose Turkish membership.

Influence and power of larger and smaller countries dominated the discussion in drafting the new constitution. The tendency was to adopt a “double majority”
voting system where the EU decisions will need a majority of both countries and populations. One proposal is that in an EU of 28 countries, no decisions will be passed without the support of at least 15 countries. However, the population size of countries will matter when it comes to blocking decisions. A threshold figure of 60% is being considered for approval of decisions. In other words, a group of countries that control 40% of the population will be able to block decisions (50% and 65% are other threshold figures considered). If the 60% rule is adopted, in 2005, for “Big Four” countries (Germany, France, Italy, and UK with voting weights of 18.1, 13.2, 12.6, and 13% respectively) with a total population of 56.9%, could effectively block decisions (Hughes, 2004; Lammers, 2004).

In 2015, assuming Turkey joins EU, it will have the same population size as Germany. They will account for about 29% of the Union population (soon after Turkey will be larger than Germany). The voting share of the “Big Four” in a world of 28 countries will decline from 56.9% in 2005 to 45.9% in 2015. With the inclusion of Turkey, the “Big Five” then would control 60.3% of the votes by population. In this kind of scenario, Turkey will become an important player and will add to the number of alliances that are possible to block a decision. It should be noted, however, that it would not significantly add to the dominance of larger EU countries in the European Council. In the European Parliament, it will control 82 seats out of 732 (11.2%, same as Germany) and will have one commissioner in the European Commission (like the other countries) and will have little impact (Hughes 2004). Of course, the finally approved EU constitution might turn out to be much different than the one assumed in the above discussion. Moreover, there might be other changes during the next ten before Turkish entry.

As was mentioned earlier, Turkey is a large country in terms of population (about 72 million in 2005) while its economy is relatively small when compared to the current EU members. By the expected accession date of 2015, its population is projected to increase to 82 million, about equal to the German population. The large population combined with a small economy, results in a per capita income (in purchasing parity terms) of about 27% of the EU average. This might be worrisome to some critics because these figures place Turkey into a category that makes it eligible for a great deal of financial assistance. These income transfers will come at the expense of some of the poorer EU 15 members as well as the A10 countries from the 2004 accession. Thus, cost of absorbing Turkey into the EU economy as a major factor to be considered.

Turkish economy has shown a great deal of instability with high inflation, high unemployment, budget deficits, and corruption during the last two decades or so. This has culminated with a major economic crisis in 2001. However, during the last three years, there has been a dramatic recovery. The inflation has been brought down to single digits (from 45% in 2002), the banking system has been reformed (perhaps there is more work to be done here), stricter budgetary policies
have been applied, and exports have increased at a steady pace. According to recent statistics in 2005, the economic growth rate has reached to almost 10%. One area that is still a concern is the inflow of foreign direct investment (FDI). Generally economists agree that investment increases the rate of economic growth. In case of insufficient capital sources, FDI is very important for obtain development and economic growth (Khawar 2005). On the average, Turkey has received $750 million FDI during the 1992-1997 periods. The annual FDI has been below the $1 billion mark since then (except $3.3 billion in 2001 and $1 billion in 2002). In 2003, the FDI inflow was only $575 million (UNCTAD, 2004). It should be noted that, for the same year, FDI inflows into Poland, Czech Republic, Hungary, and Bulgaria were $4.2, $2.6, $2.5, and $1.4 billion, respectively. The role of EU membership in attracting FDI is beyond the purpose of this paper, but requires further investigation.

About 30% of the Turkish population is below the age of 15 and 20% in the 15-24 age groups (Hughes 2004). This young population has some implications for the EU membership because of possible migration issues. To some, this raises a threat to EU 28 employment after Turkish accession. To others, this provides an opportunity. The aging EU 15 population is well documented. By 2015, there might a need for imported workforce in these countries and Turkey could provide it. How many laborers would migrate into Europe is difficult to predict now. Assuming a Turkish membership in 2015 coupled with a transition period of possibly 10 years for free movement of workers, one can not tell how the Turkish and other EU economies will be performing by then and how the migration patterns might be. Even if the Turkish economy performs very well, it will still be poorer than other EU economies and there will be a tendency to migrate. However, the number of migrants could be much less than anticipated at this time.

The large population of Turkey provides a significant market for the European market. This market will be even more desirable in the future given rapid economic growth in the country. Moreover, the EU companies can use Turkey as a production platform using inexpensive labor and other resources as well as expanding to other Near Eastern and Asian markets. Turkey, on the other hand, desires to have free access to the EU markets, as it becomes a member (Phillips, 2004). An analysis of the trading patterns between EU and Turkey indicates that there is already a substantial amount trade volume between the two. Turkish exports to the world have shown a significant growth during the recent years increasing from $7.5 billion in 1986 to more than $47 billion in 2003 as shown below (Table 2).
### TABLE 2
Turkish Trade Statistics with the World and EU 15 (Billion dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Exports World</th>
<th>Total Imports World</th>
<th>Total Exports to EU15</th>
<th>% of Exports to EU15</th>
<th>Imports from EU15</th>
<th>% of Imports from EU15</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>47 255</td>
<td>69 458</td>
<td>24 488</td>
<td>0.52</td>
<td>31 696</td>
<td>0.46</td>
</tr>
<tr>
<td>2002</td>
<td>36 206</td>
<td>51 572</td>
<td>18 460</td>
<td>0.51</td>
<td>23 321</td>
<td>0.45</td>
</tr>
<tr>
<td>2001</td>
<td>31 320</td>
<td>41 393</td>
<td>16 118</td>
<td>0.51</td>
<td>18 280</td>
<td>0.44</td>
</tr>
<tr>
<td>2000</td>
<td>27 769</td>
<td>54 502</td>
<td>14 511</td>
<td>0.52</td>
<td>26 610</td>
<td>0.49</td>
</tr>
<tr>
<td>1995</td>
<td>21 648</td>
<td>35 760</td>
<td>11 084</td>
<td>0.51</td>
<td>16 862</td>
<td>0.47</td>
</tr>
<tr>
<td>1990</td>
<td>12 959</td>
<td>22 302</td>
<td>6 906</td>
<td>0.53</td>
<td>9 354</td>
<td>0.42</td>
</tr>
<tr>
<td>1986</td>
<td>7 456</td>
<td>11 027</td>
<td>3 263</td>
<td>0.44</td>
<td>4 516</td>
<td>0.41</td>
</tr>
</tbody>
</table>


There was even a faster growth on the import side where Turkish imports from the world increased from $11 billion in 1986 to almost $70 billion in 2003. The outcome has been a growth in trade deficit from $3.5 billion to $22 billion in the 1986-2003 periods. It should be noted a significant proportion of this trade is with EU 15 countries. In 2003, 52% of the Turkish exports were made to the EU 15 countries while EU 15 accounted for about 46% of the Turkish imports. The customs union agreement that was signed in 1995 has not substantially changed these trade shares. The Uruguay round of tariff reductions have also helped in reducing trade barriers and it is expected that the above ratios will not show a downward trend between EU 15 and Turkey in the near future. Of course, Turkish trade with EU will increase because of the addition of ten new members in 2004. One should also recognize that agricultural products were not included in the customs union agreement.

It should be noted this decision has been made right after the EU has completed its latest round of enlargement. Eight members of Central and Eastern Europe, as well as Cyprus (Greek part) and Malta have joined the Union in May 2004 increasing the membership to 25 countries (EU-25). With this expansion, the 10 accession (A10) countries bring with them 74 million people to the EU-15’s 378 million, and a combined GDP at Purchasing Power Parity of euro 831 billion to the EU-15’s euro 9,166.5 billion (Baker, 2003). The 10 accession countries represent 16.4% of the EU-25 population, and 8.3% of the GDP. Meanwhile, Bulgaria and Romania are negotiating their accession by 2007. These developments should be kept in mind as one discusses the implications of the Turkish membership.
As the EU added ten new members in 2004, the total land area of the Union increased by 23, its population by 20 and its GDP increased by 4.7%. However, this resulted in a decline in GDP per capita of EU by 8.8%. EU 25’s average income went down to 91.2% of that of EU 15 (FAO, 2004). If Romania and Bulgaria joins the EU in 2007, a 4.3% decline in GDP per capita is expected. Finally, if and when Turkey joins in 2014 or 2015, the impact will be almost as much as the impact caused by the ten new members.

By 2025, with 87 million people, Turkey will be the largest EU member state and will account for 15.5% of the EU population. Turkish GDP, however, is projected to be only about 2.9% of EU25 GDP by 2015 (Hughes, 2004). Given this income discrepancy, it is expected that Turkey will be eligible for significant budget transfers from the Union. The opponents of Turkish membership in the European Union usually site the size of the country, potential migration issues, income transfers (especially from CAP funds), and cultural differences as the major reasons for rejection. In addition, there is the unspoken religion factor (Schuble and Philips, 2004). Is the European Union willing to accept a non-Christian member?

When it returns agricultural schemes again, the basic of CAP were defined in 1958 and common prices were set in 1968 so as to create a single market for agricultural products in EU. This opened up new opportunities to farmers for their products, increased competition and encouraged specialization to allow large-scale intensive farming. The price set for each product was generally the price of the country where the product was most expensive in order to prevent farmers in any one country from taking price cuts. The internal market was protected mainly through tariffs. Thus, Community preference was guaranteed. At the same time a system of export subsidies were put in place to enable EC products to compete on world markets. One important aspect of this policy was that operating and managing the CAP were financed directly by the Community budget rather than individual member States coming up with funds to pay their farmers. This resulted in income transfers from rich industrial members to poorer agricultural countries of the Union. The CAP is disproportionately favorable to certain areas of the EU, notably France, Spain, Portugal, Greece and Italy at the expense of other countries, especially Germany and the UK. Agricultural subsidies also maintained artificially high food prices. Moreover, these agricultural subsidies were seen as being unfair by the developing countries (and sometimes by the developed countries). It is argued that, by creating an oversupply of agricultural products which are then sold in the third-world countries while simultaneously preventing these poorer countries from exporting its agricultural goods to the West, the CAP has increased third world poverty by putting third world farmers out of business. The notion that “the average cow in the European Union makes
more money in subsidies than the average African person makes working” was in
the minds of many during the 1980s.

Many economists argued that the CAP is unsustainable in an enlarged EU. With
the inclusion of ten additional countries on May 1, 2004 and possible
enlargements in the future (Romania and Bulgaria in 2007 and perhaps Turkey in
2015) the demands on the CAP will increase dramatically. In response to these
considerations and GATT negotiations, there was an immediate need for a major
CAP reform. In 1992, the MacSharry reforms, named after the European
Commissioner for Agriculture, were created to limit rising production, while at
the same time adjusting to the trend toward more free agricultural markets. The
reforms reduced levels of support by 29% for cereals and 15% for beef. They
also created 'set aside' payments to withdraw land from production (Brummer and
Koester, 2003).

Two important components of this new policy are the reduction of prices of
key products and the withdrawal of land from production. CAP policy is now
based on greater market orientation and more environmentally friendly farming
methods. Direct payments to farmers will be more selective and less intensive
farming encouraged. Other measures include forestation aid for the alternative
uses of agricultural land and an early retirement scheme for farmers. The
European Union now acknowledges the vulnerability and importance of the
environment and encourages environmentally friendly farming methods and a
move to more extensive farming.

The size of the EU budget and the cost of the new CAP is still a concern.
Like in the past, CAP receives the biggest chunk of the budget with 43 billion
EUR in 2004 and 49 billion EUR in 2005 (EUROSTAT, 2005). It should be noted
that the EU is gradually moving away from price support programs towards a
policy of direct funding that is not based on production. Specifically, rural
development, environment and quality issues are coming to the foreground. As
expected, these new policies will be imposed on new members. As a result of
these new policies, new entrants will not benefit as much as Greece and Portugal
did from price support programs. However, there will be new funding available
for rural development. In 2004 out of a total budget of about 110 billion EUR,
about 44 billion EUR has been devoted to agriculture. The pre-accession funding
available for the ten new members was set at 3.12 billion EUR while only 520
million EUR of this amount was reserved for agriculture (Gunaydin, 2004). Thus,
Turkish expectations that its agricultural sector will receive a great deal of
funding during the accession stage will be unrealistic. However, there may be
some rural development funds available.

During the 2000-2006 period, EU 15 countries were appropriated 33 billion
EUR for rural development while the new members, for the 2004-2006 period,
will receive 5.8 billion EUR for the same purpose (Table 3). One should note that
the rural areas of EU 15 countries are a lot more developed than their counterparts in the Central and Eastern European countries that have just become a member of the Union in 2004. Thus, they might not need as much funding as the much poorer new members (Belke, 2004). For example, France by itself receives about the same amount as the EU 10 countries combined. Is this the start of a two-tiered EU as some people speculate about? Has the European Union given up on its ideals that used to promote that all member counties will eventually reach to the same level of economic development and reap the benefits of integration? The coming years will probably reveal more about the changes in the European Union and what the new members can expect.

### TABLE 3

<table>
<thead>
<tr>
<th>Country</th>
<th>Million EUR</th>
<th>Share (%)</th>
<th>Country</th>
<th>Million EUR</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>3 207.9</td>
<td>9.7</td>
<td>Cyprus</td>
<td>74.9</td>
<td>1.3</td>
</tr>
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<td>Belgium</td>
<td>379.2</td>
<td>1.2</td>
<td>Czech Republic</td>
<td>542.9</td>
<td>9.4</td>
</tr>
<tr>
<td>Denmark</td>
<td>348.9</td>
<td>1.1</td>
<td>Estonia</td>
<td>150.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Finland</td>
<td>2 199.3</td>
<td>6.7</td>
<td>Hungary</td>
<td>602.5</td>
<td>10.5</td>
</tr>
<tr>
<td>France</td>
<td>5 763.6</td>
<td>17.5</td>
<td>Latvia</td>
<td>328.1</td>
<td>5.7</td>
</tr>
<tr>
<td>Germany</td>
<td>5 308.6</td>
<td>16.1</td>
<td>Lithuania</td>
<td>489.5</td>
<td>8.5</td>
</tr>
<tr>
<td>Greece</td>
<td>993.5</td>
<td>3.0</td>
<td>Malta</td>
<td>26.8</td>
<td>0.5</td>
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<td>Ireland</td>
<td>2 388.9</td>
<td>7.3</td>
<td>Poland</td>
<td>2 867.0</td>
<td>49.8</td>
</tr>
<tr>
<td>Italy</td>
<td>4 512.3</td>
<td>13.7</td>
<td>Slovakia</td>
<td>397.2</td>
<td>6.9</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>91.0</td>
<td>0.3</td>
<td>Slovenia</td>
<td>281.6</td>
<td>4.9</td>
</tr>
<tr>
<td>Netherlands</td>
<td>417.1</td>
<td>1.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portugal</td>
<td>1 516.7</td>
<td>4.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>3 480.9</td>
<td>10.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>1 130.0</td>
<td>3.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1 167.9</td>
<td>3.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>32 905.9</td>
<td>100.0</td>
<td>Total</td>
<td>5 761.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Adapted from Gunaydin, 2004.

Under the new Common Agricultural Policy, it is becoming apparent that the funding for Turkish agriculture will not be as high as expected. Agriculture Commissioner M. Fischer, in a letter to enlargement Commissioner, has indicated that Turkey as a large and poor country needs 8 billion EUR for direct payments,
1 billion EUR for market support policies, and 2.3 billion EUR for rural development, a total of 11.3 billion EUR (Gunaydin, 2004). However, Turkey currently receives about 1/7th of this amount. Will this increase substantially during the negotiations?

As the above discussion indicates, significant amounts of income transfers are being made or will be made to the accession countries. It is difficult to predict how much funding will be available for Turkey when it eventually joins the European Union. The financial framework of the EU is currently set until 2013 (Commission, 2004/c). The total budget is expected to increase from 121 billion EUR in 2006 (using 2004 prices) to 158 billion in 2013. The share of agriculture will gradually decline during this period (42-43 billion EUR in absolute terms).

A new category (which replaces Structural Operations) is introduced and becomes more important through time in terms of budgetary allocations. This new item, “Sustainable Growth” includes two subcategories “competitiveness for growth and employment” and “Cohesion for growth and employment.” The budget for Sustainable Growth category will increase from 47 billion EUR in 2006 to 77 billion 2013. How the EU will allocate resources from the agriculture and sustainable growth funds ten years from now is difficult to predict. One can assume that the EU will treat Turkey in a similar fashion as it has treated the 2004 entrants or how it plans to treat Romania and Bulgaria (countries that are expected to join EU in 2007). The summary results from one such forecast are replicated below (Table 4):

<table>
<thead>
<tr>
<th>Three Scenarios</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the same budget per head as Bulgaria and Romania</td>
<td>8.63</td>
<td>12.59</td>
<td>15.5</td>
<td>36.72</td>
</tr>
<tr>
<td>If the same budget per head as the 2004 entrants</td>
<td>12.37</td>
<td>15.26</td>
<td>17.50</td>
<td>45.13</td>
</tr>
<tr>
<td>Average of the above two methods</td>
<td>10.5</td>
<td>13.9</td>
<td>16.5</td>
<td>40.9</td>
</tr>
<tr>
<td>Budget by categories for the average scenario</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>3.72</td>
<td>4.93</td>
<td>5.85</td>
<td>14.5</td>
</tr>
<tr>
<td>Structural</td>
<td>5.77</td>
<td>7.64</td>
<td>9.07</td>
<td>22.48</td>
</tr>
<tr>
<td>Other</td>
<td>1.01</td>
<td>1.33</td>
<td>1.58</td>
<td>3.92</td>
</tr>
</tbody>
</table>

Source: Adapted from Hughes, 2004.

As discussed in the preceding sections, there are many opportunities and challenges for Turkey as it prepares to become an EU member in about ten years. Given the size and importance of agriculture in Turkey, and potential impact on
the CAP budget, this sector will probably be at the center of negotiations. Therefore, there is an immediate need to get organized, set priorities, and establish action plans. Alignment of agricultural policies with CAP should be completed before the accession date. The Turkish government has already established seven working groups to prepare the background for alignment in the agricultural sector. But some problems are faced during these alignments:

A number of different ministries/units are involved in the alignment process of agriculture and agricultural policies in Turkey. This causes coordination problems. It is recommended that Ministry of Agriculture and Rural Affairs should play the leading role in initiating and coordinating projects. Funding is a major issue in the alignment process. Unlike the new members, Turkey is kept out of EU financing systems such as PHARE and SAPARD. This implies that most of the cost should be covered from domestic sources. The Ministry of Agriculture and Rural Affairs needs additional financial support from national budget. As soon as the negotiations start, Turkey should have projects ready to be submitted to EUI for possible funding.

The structure of the Ministry of Agriculture and Rural Affairs is much different than its counterparts in the European Union. These differences add to the alignment problem. There may be a need for reorganization of this Ministry. The working groups outlined above conduct most of the alignment work. People involved here are members of different Ministries and cannot devote too much of their time to the working groups. There is a need for full-time people dedicated only to the alignment process.

There is an immediate need for a core group of individuals who are knowledgeable in agriculture, Turkish agricultural policies, the European Union policies and who are fluent in at least one foreign language to help in the alignment and negotiation processes (Eraktan 2002). Such people, if not available in sufficient numbers, should be trained as fast as possible. In the longer run, there will be a need for a large number of qualified people to implement EU policies (standards, health, and control) and plans to train such personnel should be started as well.

CONCLUSIONS

The agricultural sector provides livelihood to important part of the Turkish population. Family members provide most of the labor in the farms. They are mainly very small size. As investment is a limiting factor to agricultural capacity, the fact that small farms have to rely on their own finance clearly shows the role played by the public credit resources and the agricultural policies. Subsistence and semi-subsistence farming is an important characteristic of Turkish agriculture,
which is similar to the situation in regions in the EU-25 as well as in Bulgaria and Romania.

Given the population of Turkey and the importance of the agricultural sector in the economy, the EU is concerned about possible migration issues and substantial income transfers from the CAP budget. On the positive side, the large Turkish population could provide a large market for the EU producers, it could serve as a production platform with its lower resource costs, and it could serve as a bridge to Near Eastern and Central Asian markets. Given the aging population, there will be a shortage of labor in Europe in a decade or so and Turkey could fill this gap. From a Turkish point of view, the main question is whether the Turkish agriculture could compete in free market environment or not. Given the larger farm structure and the use of capital-intensive technologies, the yields are higher in many of the EU 25 countries. As the CAP and the Turkish agricultural support policies change, there will be a lot of uncertainties for the Turkish agriculture. There is a need to start programs to improve the competitiveness of the farmers and their income levels before accession.

Turkish agriculture will be facing hardships during the transition period. The price support and direct payment systems should be studied in detail to determine their shortcomings and implications. There is a need to identify agricultural products that can compete more effectively in the European markets. Some field crops, fresh fruits and vegetables (perhaps dried and/or processed fruits and vegetables) might fall into this category. Necessary steps should be taken to standardize these products, establish testing centers (for residues, hormones, etc.) and create efficient distribution and marketing strategies for them.

As Turkey makes an attempt to align its agricultural policy with the CAP of EU, it might be suffering from coordination problems, lack of funding and lack of sufficient qualified personnel. It is recommended that the Ministry of Agriculture and Rural Affairs should play the leading role in coordinating the activities and negotiations with the EU. This ministry should be given adequate budget to achieve its goals and personnel training activities.

The gains for EU membership have been quite substantial for poorer countries such as Greece, Portugal and Spain in the past. They benefited from income transfers and market access. However, with the accession of ten new members in 2004 and two more in 2007 (Romania and Bulgaria), there will be an intense competition for a piece of the pie. The older members (EU 15) will also be less reluctant to contribute to the EU budget and let these funds subsidize the new members. Thus, by the time Turkey joins, transfer payments might be scarce. Given the trade liberalization through the activities of GATT and WTO, tariffs and quotas have been substantially reduced during the last decade. This implies that EU membership may not add much to the Turkish exports. Therefore, Turkey
should look at membership with some caution. The potential economic gains might not be as large as expected in some circles.

Turkey and EU should realize that they are entering the negotiations with the goal of creating benefits for both. The EU should not treat Turkey as if it is doing a great favor to this country by admitting as a member. EU has a lot to gain as well. On the other side, Turkey should not yield to all of the requests made by the European Union. It should insist that the same standards are applied to all. Sacrificing its security to satisfy EU demands should not be acceptable. The policy makers should question why it is so beneficial for Turkey to join the European Union. They should also know that, by the time Turkey joins, the European Union may not have the same goals and same structure as it does now.

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