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THE EUROPEAN UNION ACCESSION PROCESS AFFECTING THE AGRICULTURAL POLICY IN TURKEY

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ONAY:

THE EU ACCESSION PROCESS AFFECTING THE
AGRICULTURAL POLICY OF TURKEY
& THE RECIPROCAL HARMONIZATION

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ABSTRACT

The truest of the several definitions of the Europe tells about a chemical reaction more than a physical union. These reactions have purposes to form substances that are more useful. Chemical combination, which the compound cannot easily be separated later and more special than each rough element is European Union. Nation States use some of their authority together and there would be real “us” colloquially far from national interests by time. After a long mutual misunderstandings period, Turkey is qualified as a candidate State destined to join the Union based on the same criteria parallel to other candidate states in Helsinki Summit. CEESs and other small applicant States completed the accession negotiations, which would probably begin for Turkey in 2005.

One of the hardest sections of EU – Turkey relations would probably be on the convergence of Turkish agricultural policy to Common Agricultural Policy, which involves roughly half of EU legislation during negotiations. This process should study carefully agricultural products including industrially treated parts, Turkey’s population structure, production capacity and other specialties. At this point of view, similar conditions applied to some countries whose metamorphosis are successful, with some aid, and this experience would form a good example for Turkey.

Turkey’s ups are consisted of long secular democratically politic history, young people, rapidly improving education level, accumulating capital, and down is the lack of confidence to overcoming of instability by politics.

For EU, Turkey is a profitable Customs Union and Mediterranean partner, and full membership to EU is more to her own good. On the other hand, this enlargement challenge probably would not last with Turkey.

Ertan GÜNDÜZ

Istanbul, 2003

ÖZET

Avrupa'nın tarifleri içerisinde en doğrusu artık fiziksel değil kimyasal bir birleşmeye benzediğidir. Bu birleşme sonunda oluşan bileşik elementlerine kolay kolay ayrılamaz ve artık eskisinden farklı daha kompleks ve yararlıdırlar. Bu egemenlik devri sonunda artık daha güçlü, ulusal çıkarların farklı olmasından kaynaklanan sorunları geride bırakan bir "biz" kullanılacaktır.

Karşılıklı yanlış anlamalarla dolu uzun bir sürenin sonunda 11 Aralık 1999'da Helsinki'de yapılan Konsey Zirvesinde Türkiye'nin de diğer adaylarla koşut şartlara maruz aday olduğu ana referans haline gelen bir politik doküman ile kabul edildi. Katılım müzakerelerini tamamlayan Merkez ve Doğu Avrupa Ülkeleri gibi, Türkiye de, eğer ekonomik ve politik kriterlerdeki hızlı gelişmesini öne sürerek zorlamazsa, müzakerelere 2005' te başlayacaktır.

Müzakerelerin en zor kısımlarından biri kabaca müktesebatın yarısını oluşturan ortak tarım politikalarına uyum olacaktır. Gümrük birliğinin kapsamında olan endüstriyel kısımlarıyla Türkiye'nin tarım ürünleri, nüfus yapısı ve kapasitesi gibi özel koşulları irdelenmelidir. Bu açıdan kendisinin geçeceği yolu, başarılı bir değişim süreci ve birlik mali desteği ile aşan, adaylık müzakeresi bitmiş ülkelerin deneyimi iyi bir örnek oluşturacaktır.

Türkiye'nin uzun demokratik geçmişi, dinamik genç nüfusu, gittikçe artan parasal sermaye birikimi ve çok hızlı gelişen eğitim seviyesi uyum açısından ümit verirken yönetimsel dengesizlik ile oluşan güvensizlik ortamı uyum için olumsuz faktörler oluşturmaktadır.

Avrupa Birliği'nin bakış açısından karlı bir Gümrük Birliği ve Akdeniz Ortak Ülkesi olan Türkiye'nin üyeliği daha çok kendi yararınadır. Aynı zamanda muhafazakar Avrupa Birliği Ülkelerinin büyümek için kendine meydan okuması da Türkiye ile son bulmayacaktır.

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LIST OF ABBREVIATIONS

CAP	Common Agricultural Policy
CEESs	Central and Eastern European States
CU	Customs Union
D	Demand
DEIK	Foreign Economical Relations Organization of Turkey
EC	European Communities
ECU	European Currency Unit
EDF	Economic Development Foundation of Turkey
EEA	European Economic Area
EEC	European Economic Community
EMS	European Money System
EMU	European Monetary Union
ERM	Exchange Rate Mechanism
EU	European Union
EUR	Euro
EUROSTAT	The Statistical Office of the EU
FDI	Foreign Direct Investment
FEOGA	European Fund for Agricultural Guarantee and Guidance
GAP	Southeastern Anatolian Project of Turkey
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
ISPA	The Pre-Accession Structural Instrument
MCAs	Monetary Compensation Amounts
MCAs	Monetary Compensation Amounts

MEDA	Mediterranean Development Programme
OECD	Organisation for Economic Cooperation and Development
P	Price
PPP	Purchasing Power Parity
PSE	Producer Subsidy Equivalent / Producer Support Estimate
RDPs	Rural Development Programs
S	Supply
SAPARD	Special Accession Program for Agriculture and Rural Development
SEM	Single European Market
SIS	Statistics Institute of State of Turkey
SPO	State Planning Organization of Turkey
TAP	Turkish Agricultural Policy
TRIPS	Trade Related Intellectual Property Rights
UK	United Kingdom
URAA	Uruguay Round Agreement on Agriculture
US	United States of America
WTO	World Trade Organization

INTRODUCTION

Turkey is in the process of harmonizing *acquis communautaire*[1] of European Union (EU) both mentally and physically. Turkey knows that, thE membership is beyond a physical association. This is more likely a *'chemical combination'* (first coined by BELGE, Murat Radikal, 14 June 2003), which the compound cannot easily be separated later and more special than each rough element. There would be real "us" colloquially far from national interests.

After a long mutual misunderstandings period, the wording of the Helsinki Conclusions (11 December 1999) was a masterpiece in diplomatic formulation. Turkey is qualified as a "candidate State destined to join the Union on the basis of the same criteria as applied to other candidate states". Actually, CEESs (Central and Eastern European Countries) and other small applicant States completed the accession negotiations, which would probably begin for Turkey in 2005, if she would politically not force to start earlier showing the rapid advancements in convergence of both economic and political criteria for membership in Turkey.

A hard section of EU – Turkey relations would probably be on the convergence of agricultural policies during negotiations. Common Agriculture Policy (CAP) of the EU, as a traditional policy, would probably be changed with next enlargement process. The fiscal alteration of the EU and agricultural structure of Turkey would also be of critical issue.

Many of the toughest questions posed by enlargement relate to agriculture. This is due to the continuing importance of agriculture both in the economies of the applicant countries and in the EU budget. At the same time, food and agricultural measures account for roughly half the *acquis communautaire*, so the applicant countries have the daunting task of adapting to EU policies and standards. Land and labor costs tend to be lower in the CEECs, so farmers in the EU (15) have expressed concern about the increased competitive pressures in an enlarged EU, though the impact seems likely to be less than initially feared. The preparation of their agriculture to join the EU is rendered more complex for the candidate countries by the fact that the CAP is a moving target. Moreover, CAP should move faster to meet the needs of *Euro-inflation* caused high prices, and general stagnation in the Member States level.

Substantial changes in the CAP were introduced by the MacSharry Reform of 1992 and the 1999 Berlin Agreement. The CAP was subject to a mid-term review in 2002, and the issue of reform will be back on the table when the financial perspective for the years post-2006 comes up for discussion. The question is further complicated because the issues of CAP reform, enlargement and GATT/WTO (General Agreement on Tariffs and Trade / World Trade Organization) obligations are all interlinked. Given the importance of agriculture for enlargement, the main aim here is to provide a brief survey of the issues and highlight the importance of enlargement for Turkey.

The possibility to include all aspects of the accession membership about agriculture will exceed the limits of this study. Therefore, some subjects are excluded in the study. The improvements on water production, Common Fisheries Policy related legislative decisions, and fishery trade of EU has gone beyond the limits. Poultry-like production advance were dealt briefly, economic aspects of the crisis like calamity of earthquakes and Turkey's economic analysis of acquirements by GAP (Southeastern Anatolian Project) were left out of study. In addition, organization on a cooperative basis and other production aid institutions remains excluded. The historical change especially with the beginning of the known instruments about *acquis communautaire* was left out. Such socially relevant policy issues, clearly of extreme importance in devising programs, are beyond the scope of this study. Considering the direction of moving European Agricultural Policy target, this study found in three section some policy options for Turkey that may contribute on the accession partnership negotiations of EU.

Section 1 deals with the agricultural policy as the oldest common policy of member states in EU, combining the WTO and alteration of agriculture before the problem of 'successfully integrating' the new member states into. This section provides data illustrating the weight of agriculture in the CEECs economies, the CAP budget and the *acquis.* Section goes on dealing with agricultural transition in the CEECs, before discussing the prospects for agricultural production and consumption in an enlarged EU. EU-CEEC trade and FDI, how the CAP is a moving target are dealt with. The problem of extending direct payments to the CEECs is discussed before dealing with the application of quotas, set-aside and rural development policies in the CEECs. Findings indicate the budgetary implications of enlargement. The next part of the first section is about the links between enlargement, CAP reform and GATT/WTO obligations before the last part of outlook for food and agriculture in an enlarged EU.

Section 2 provides data illustrating trade of products related to agriculture after agricultural structure of Turkey. Agricultural relation between Turkey & EU is discussed along with changes of a quarter century including some other OECD (*Organisation for Economic Cooperation and Development*) members. Competitiveness-weaknesses of Turkish agriculture and world market share are assessed before discussing how to adopt Turkish legislation into EU acquis about CAP. Section discusses Turkey's short and medium term homework about Accession Partnership adopted by the Council of the EU. After overall assessment of document, some finding is presented about adaptation of statistical infrastructure into EU level.

Section 3 deals with expected bilateral changes of rural structure and agricultural policies during the harmonization in case of full membership of Turkey from population, time, environment and fiscal policy options' point of view. Section discusses welfare effects of CAP on Turkey with an equilibrium graph before dealing with product grouping harmonization. The next part deals with options of Turkish Agricultural Policy affected by the EU accession process. The next part discusses rural problems of both sides and environment problems respectively. The findings about improvements on the taxation structure of Turkey and health measures taken in EU and Turkey about agricultural actions before veterinary and plant-health measures are discussed. The last part of the section draws results about the outlook for the CAP in an enlarged EU in the conclusion.

I. COMMON AGRICULTURAL POLICY OF THE EU

The United Nations statisticians distinguish three levels of developing countries (plus the oil-exporting countries, and two levels of 'developed' countries). The economic problems of the 'developing' countries have led to the emergence, since the Second World War, of a branch of economics generally known as 'development economics'. However, in this branch of economics an initial boom has been fallowed by an agonizing re-appraisal, since the facts stubbornly refused to fit the theories. Only slowly is a new consensus beginning to emerge in which, among other things, agriculture and rural development receive a higher priority.

1.1. Current Framework of the CAP and New Challenges Faced

Due to increasing importance of the CAP for the internal development of European Union as well as external relations, knowledge of the CAP has become a prerequisite for analyzing economical and political events in expanding European Union[2]. For over 30 years, the Common Agriculture Policy has shaped the direction and structure of European agriculture. It has done so by means of an elaborate regime of financial rewards and penalties for its dwindling population of agriculture producers. In so doing, it has removed from the member states much of burden of responsibility for agricultural decision-making, but at a high price. The financial burden of the CAP on the EU budget has provoked much controversy throughout its history. Accusations waste and fraud have abounded. Above all, the EU is seen to constrain in its capacity to support policy initiatives in other policy areas, partly due to the huge commitments to CAP funding. This is one reason why the issue of reform of the CAP has figured highly on the EU agenda, most notably from the 1980s now on. The reform initiative has been driven by other factors such as international trade pressures, environmental and health concerns, and security issues arising from the collapse of the Soviet Union. A small trend in this reform process is towards the 'Renationalization' of responsibility for rural policies to member states. Were this to accelerate in years to come, it could mark the demise of CAP. Indeed the specific problems of agricultural policy and history of development economics meet at the beginning of the economics itself.

1.1.1. Problems of Agricultural Policy

Development economics[3] has tended to look on agriculture merely as a source of labor for the cities, and has in consequence been led to policy recommendations that are now widely regarded as having been mistaken. In the light of lagging food supplies and urban unemployment in many developing countries, current theory indicates the need for a higher priority for agriculture and rural development. Although the same basic economic concepts can be applied both to 'developing' and 'developed' economies, some aspects of economics are of particular relevance to the developing countries, including parts of the 'classical' economics of Ricardo, Malthus, and Marx. The main needs of the developing countries are simultaneously to reduce their very high rates of population growth and to achieve a transformation of 'traditional' agriculture.

Technical progress is only one aspect of this transformation; both for economic and social reasons an appropriate pattern of farm tenure has to be encouraged by government policy. The economies of scale are more in processing and marketing than in production, so that it is possible to combine family farming with efficient ancillary services.

The agrarian problems of Asia, Africa, and Latin America differ considerably, but many countries in all three areas suffer from 'urban bias'; more emphasis on both agriculture and rural industry is needed, both to increase food production and also to reduce the rate of rural-urban migration, which raises serious problems for the rapidly expanding cities. Therefore, rural development is not concerned with increasing food production and alleviating rural poverty: it is also an essential element in solving urban problems.

1.1.2. Initial Concept of Common Agricultural Policy

The problems of world agricultural trade and of agricultural price policy have been complicated in recent years by the development of regional economic groupings, in particular the European Economic Community. The Treaty of Rome (1958), by which the six nations of France, West Germany, Italy, Belgium, Holland and Luxembourg founded the European Economic Community (EEC), laid down that the common market to be established between member states was to include agriculture and trade in agricultural products (Article 39). However, the introduction of a common agricultural policy has given rise to some of the greatest difficulties in the formation of the Community. It also became clear in the abortive negotiations over British membership in 1961-63, and the discussions leading up to British membership in1973, that problems concerning agricultural policy and trade in temperate agricultural products presented some of the greatest difficulties in British accession to the Community. Moreover, the non-European exporters of temperate foodstuffs the USA, Canada, Australia, New Zealand, Argentina as well as certain sugar-exporting countries have been concerned at the effect of the adoption of a common agricultural policy on their exports.

Why, in view of all these problems, has the EEC laid such emphasis on establishing a common agricultural policy? The reason is partly that the founders of the Community, anxious to achieve, in the words of the Preamble to the Treaty of Rome, 'an ever closer union of the European peoples' by means of economic integration, felt that the Community would be incomplete and unsatisfactory if it excluded such an important economic sector as agriculture. But there were also narrower considerations of national self-interest. France saw in the Community an opportunity to expand its agricultural exports, mainly at the expense of suppliers outside the Community, and of thus helping to lessen its agricultural problems.

The problems of introducing a common market in foodstuffs and a common agricultural policy in the EEC arise from the fact that member states over the years often for good reasons have adopted differing methods of price support or differing levels of guaranteed prices. Changes in methods of price support, or in price levels, necessitated by the introduction of a common policy can raise difficulties for both producers and consumers, especially if the changes have to be made over a sport transitional period. The common policy can also be more protectionist vis a vis non-members than the aggregate of previous national policies.

Take the simplified case of two countries A and B; both protect their agriculture, but A has less efficient farm structure and a higher producer price level. If a customs union is now formed between the two countries, and a common agricultural policy introduced, a common price will have to be introduced (apart from regional differences based on location to supplying and consuming areas). Taking the most likely limits, the common price can be either at the high level in between. If the price is set at the lower level, farmers in A will suffer a loss of income, unless some compensating 'non-price subsidy' is introduced. If the price is set at the higher level, production will be stimulated in B, so that the net effect is to bring about a higher level of production in A+B, and a lower level of imports, than would have prevailed in the absence of the union. Even if a price mid-way between those of A and B is adopted, the effect may still be to increase production. Because of the irreversibility of agricultural supply, the increase in production in B may well be greater than the reduction in A, especially if B has a more elastic supply curve.

An example that comes close to this theoretical case is the wheat situation in France and West Germany. On the founding of the EEC France had lower wheat prices than West Germany, together with lower yields and a significant acreage of potential wheat land. West Germany had a small acreage of wheat in upland areas which was marginally profitable, but otherwise wheat production was in areas where it would have been profitable even at lower prices. It might therefore be expected that a move to a common price lying between the French and German levels would stimulate production in

France more than it would reduce it in Germany. This is, broadly speaking, what has happened. German production has increased slightly (because of the continuing rise in yields); French production has increased considerably. There has since been a steady rise in the degree of self-sufficiency of the Community, which by 1980 had become a net exporter of several products.[4]

1.1.3. View of CAP at EU Level

Agricultural policy remains at the center of policymaking activities of the European Union, yet there is a paradoxical sense in which it is regarded as peripheral to understanding the Union's future development. Keeler observes (1996, p. 128) that 'less than 2.3 percent of the more 400 articles... *The Journal of Common Market Studies* from September 1966 through September 1992 focused on the CAP. Most of these articles and other publications on the CAP have dealt far more with its economic or technical dimensions than with its political dynamics. Some agriculturalists respond to criticism of the CAP by blaming much of its high costs on the failure of the EU to achieve progress in integration in the other sectors of economic activity, and the absence of full economic and monetary union. Thus it is suggested that the links between the production, processing and marketing of agricultural products have not been helped by failings in transport policy and the absence of a common policy on food processing and of common efforts to improve the marketing of agricultural products (Commission, 1983)[5]. Currency differences between member states in the absence of monetary union also led to the system of expensive subsidies and levies called Monetary Compensation Amounts (MCAs). The significance of the system of MCAs is examined below (by J. Gibbons 1998,p. 286) the CAP has, however, not been immune to change. In order to explore some of the dimensions of this change, three areas are given particular attention:

(a) the international pressure for change that has been notably channeled through the Uruguay Round of GATT negotiations.

(b) an internal momentum, which has come from within the EU for financial reform of the CAP, especially during the 1980s and early 1990s.

(c) the impact of issues from the wider EU agenda on the CAP, notably the effects of the Single European Market, changing consumer attitudes, the prospect of enlargement of the EU to embrace the CEECs (Central and Eastern European Countries) and concerns about the agri-environment.

Yet a Common Agricultural Policy has been one of the cornerstones of European Union since its inception as a common market; it continues to account far around half of the EU's budget; it is the policy which has the greatest impact at the level of individual economic actors; and it presents one of the most significant obstacles to eastern enlargement of the Union[6].

1.1.4. To Reform the CAP

The Uruguay Round was important for European agriculture not least because it served as a stimulus for CAP reform. The implementation by 2000 of the agreed 36 percent tariff cuts and the imposition of the 21 per cent reduction in the volume of subsidized exports have little effect on the CAP because of the many built-in safeguards won by the EU during the negotiations. However, the need for further reforms in international agricultural trade was recognized in the Uruguay Round agriculture Agreement, and 1999 was designated as the year when further negotiations would begin. Those negotiations produced further pressures for liberalization (as Grant, 1997 had foreseen)[7]. Such external pressures will inevitably have repercussions on the CAP reform process begun in 1991 with the MacSharry Plan.

1.1.4.1. CAP Reforms in the 1980s and 1990s

In 1987, the Commission described what it saw as the positive achievements of the CAP in respect of each of the objectives, which had been spelt out in Article 39 of the Treaty of Rome. This report highlighted five major achievements of the CAP:

(a) a spectacular growth in agricultural production and efficiency;

(b) the protection of farm incomes from fluctuations in world market prices;

(c) a contribution to European external trade by encouraging exports;

(d) the security of supply of agricultural products;

(e) reasonable prices compared with food prices in other non-EC industrial countries.

Critics of the CAP focused particularly on the increasingly prohibitive budgetary cost of the policy, which rose from ECU (European Currency Unit) 4.7 billion in 1976 to an estimated ECU 32.9 billion in 1991, by which time it absorbed over 60 per cent of the Community budget. Criticism was also leveled at the way that the budgetary costs of the CAP had been shared out among member states, with the UK in 1979 claiming compensation for what it saw as inequalities in the system of financing the Community budget. Other criticisms included over-production leading to food surpluses, evidence of illegal and legal abuses of food subsidies and damage to the environment. The CAP was also criticized for benefiting large farmers much more than small farmers, through a price guarantee system which ensured that the biggest windfalls from price increases were going to the biggest producers (Hill, 1993)[8].

These criticisms led to some policy changes during the 1980s and 1990s. The dispute over Britain's budgetary contribution led to the publication of a number of reports by the Commission that eventually led to reform of the CAP in 1984. Production quotas were introduced to curb milk production in that year and did so successfully. They supplemented co-responsibility levies, which were applied to milk from 1977, and were aimed at sharing the cost of surpluses in the sector between producers and the EU (Hill, 1993). In February 1988, the council decided that the annual growth rate of FEOGA (European Fund for Agricultural Guarantee and Guidance) guarantee expenditure should not exceed 70-80 per cent of the annual growth rate of the GDP (Gross Domestic Product) of the EU. Increases in cereals and oil seed surpluses generated a system of 'agricultural stabilizers' (a policy favored by the UK government) whereby farmers were penalized by price cuts for excessive production, and the curbing of access to the intervention system of guaranteed prices. Other policies were introduced in the late 1980s and early 1990s such as diversifying farms into rural tourism or the craft industries, and the arable 'set-aside' policy whereby farmers are given direct area compensation payments to leave land fallow, and are offered large subsidies to encourage them to turn their land area to woodland (Figure 1.1). Farmers were also given a new role as stewards of the countryside (Swinbank, 1993)[9].

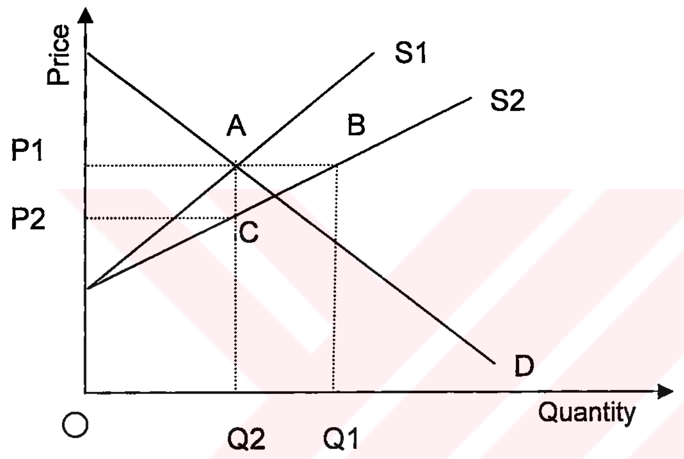


Figure 1.1 Welfare effects of set-aside

P= Price D=demand in the EU S= supply in the EU

If the CAP sets, an intervention price equal to p1 with supply given by S2 an excess supply equal to AB would arise. The cost of the intervention buying would be ABQ1Q2 (i.e. the amount of the excess supply [Q1-Q2] times the intervention price).

If a set-aside system were introduced, that led to a new supply of S1 by payment of subsidies and the intervention price was reduced to P2, the excess supply could be eliminated. The cost of set-side, if it were correctly determined, to reduce supply by the amount Q1-Q2 would be ACP2P1 (i.e. the amount that would induce farmers to reduce output such that total supply would be Q2 no excess

supply). This is lower than the cost of intervention buying, because the production costs of producing Q1-Q2 (BQ1Q2C) are no longer incurred. The production resources released by set-aside may not be employed elsewhere in the economy, thereby leading to problems of unemployment of agricultural resources. However, any system that deals successfully with the problem of over-supply in agricultural products will lead to a problem of transforming agricultural resources into other areas of work.

This analysis implicitly assumes that high-cost suppliers set aside their productive capacity. It is not clear that this will happen in the set-aside system. If low-cost suppliers set-aside, leaving high-cost suppliers in the market, than the cost savings from set-aside may not materialize.

In spite of these changes, there was still a trend of continuing CAP surpluses and large budgetary costs. In January 1991, in response to the long-term pressures for change from within the EU, and against the backdrop of the suspended GATT negotiations, the Commission approved a discussion document by its Agricultural subsidies and substantial reductions in quotas. This plan led, in July 1991, to a radical restructuring of the CAP (Commission, 1991)[10]. Significant reductions in support for cereals in particular were anticipated.

Most controversial were the proposals to create a two-tier EU farm policy that would target the CAP increasingly towards small and medium-sized farmers, a process referred to as 'modulation'. Critics of the plan argued that it placed a burden on efficient EU farmers to bale out 'inefficient small-holders' (the Independent, 1991)[11]. Moreover, the growth of third country food imports worried larger EU farmers who were also facing production cutbacks because of EU quota restrictions. Criticisms of the proposals stemmed mostly from Britain, Denmark and the Netherlands, who have larger and more efficient farm units. These divisions underlined the difficulty in forging a way ahead, but what seemed clear, as proposals to reform the CAP were debated in 1991, was a trend away from production-linked subsidies to income support paid directly to farmers.

The McSharry Plan was for the most part accepted by Council of Ministers in May 1992, although proposed discriminatory measures between large and small cereals farmers were softened in response to the objections of large farmers. The main emphasis was on cereals for which measures were phased in from 1993. These included 'area aids' introduced to compensate farmers for losses in sales revenue for the cereals they were no longer producing in 'set aside' land. Price reductions of 29 per cent for 1995-96 were also agreed, with the expectation that by 1995 export refunds might no longer be required in this sector due to possible parity between EU intervention prices, world market demands[12] and the GATT negotiators, as well as to concerns about the cost of the CAP budget.

The EU Farm price Agreement of 1991-92 reflected the onset of an era of lessening and inventory of the CAP. Every year the Commission presents a proposal for agricultural support prices and related measures for the coming year. The Council of Agriculture Ministers is supposed to make a decision before the end of March, but in 1991 agreement, was slow to emerge, requiring five sessions of talks between February and May. In order to hasten a decision the Commission invoked a clause of the 1988 Stabilizer Agreement, which states that where there is a danger of a budget overrun, the Council of Agriculture Ministers must take a decision on the Commission's proposals within two months. The bitter pill of budgetary restraint was hard for some member states to take. While agriculture ministers from ten member states, led by France, lobbied to raise the agricultural budget ceiling, the Commission, supported by agriculture ministers from the UK and the Netherlands, rejected their argument. On 24 May 1991 a budget was produced which, although not as severe as originally proposed, maintained expenditure below the overall budget guidelines and prepared the ground for the more fundamental reform of the CAP promised by the Commission in the McSharry plan.

Opinions on the impact of the McSharry reforms have been mixed. However, they did enable the EU and the US to reach agreement on some of the trickier aspects of the Uruguay Round (Grand,1997). Moreover, although the reforms did not represent a fundamental transformation of the CAP, which continued to dominate the EU budget, they did represent a first step on a path that will continue into the next century. In the short term, some of the best budgetary intentions of the McSharry reforms were undermined by the unusualness of the agrimonetary system.

1.1.4.2. The Agrimonetary System

A system of border levies and subsidies known as monetary compensation amounts has in effect divided the EU into 12 national markets. It was introduced in 1969 when the French franc and the German mark were devalued and revalued respectively. The MCAs were created to ensure that French consumers and German producers were not penalised by the effects of the exchange rate changes on agricultural prices, and by speculators moving produce from one member state to another to gain advantage from exchange rate windfalls. Farm prices, levy and subsidy rates have been fixed in Brussels in ECUs but have been converted into national currencies by the Commission at fixed exchange rates called 'green rates' (Agra Europe, 1991)[13]. Where the 'green rates' have been lower than the market exchange rates MCAs have been charged as a subsidy on imports and a levy on exports. The system has applied to trade in most agricultural products. In recent years there has been a gradual trend towards the dismantling of MCA system, not least because of the incentive it gave to smuggling and fraudulent activities. This was propelled by the establishment of the EMS (European Money System) in 1979 and the moves towards monetary union which tended to stabilize exchange rate fluctuations. In 1984, the process of eliminating the system was complicated by a new method of calculating MCAs. This included the creation of a device called 'switchover', mainly directed at helping German farmers whose price advantage was being threatened by a deutschmark rise in the Exchange Rate Mechanism (ERM). 'Switchover' ensured that, if a strong currency (usually the deutschmark) climbed within the ERM against the ECU, the effect was not a revaluation of Germany's green rate but a devaluation of everyone else's. The result was 'that German prices expressed in deutschmarks would remain constant instead of falling, and prices expressed in all other national currencies would rise (The Economist, 1993)[14]. In July 1988, the Council of Agriculture Ministers and the European Commission declared that they intended to dismantle the remaining vestiges of the system by the end of 1992 and return CAP pricing to a 'real ECU' basis. In July 1990 it was reported that practically all British MCAs had been eliminated by the strength of sterling (Irish Farmers Journal, 1990)[15]. The Farm Price Agreement of May 1991 formalized this when it was decided to dismantle UK monetary gaps entirely. Only Greece, Portugal and Spain in July 1991 still had green rates, which were not perfectly aligned with market rates. In the eyes of critics, what remained of MCAs was an important obstacle to the idea of a single market in agricultural products. However, it was expected that the success of the EMS and progress towards EMU (European Monetary Union) would eventually eliminate this obstacle to a SEM (Single European Market) throughout the EU.

The crisis that befell the ERM in the autumn of 1992 showed how premature such expectations were. Nonetheless, the EU maintained its commitment to the goal of abolishing MCAs on 1 January 1993. It duly did so, but declared that it would retain the 'switchover' mechanism 'for at least a further two years' (Agra Europe, 1993)[16]. This was a costly decision taken by farm ministers for political reasons (with the main benefits going to German farmers) contrary to the recommendations of the Commission. The mechanism had led to price rises for most farmers of over 20 per cent since its inception in 1984, and with the currency turbulence, it was estimated that the cost to the agricultural budget of this single item would be ECU 1.5 billion (Financial Times, 1993)[17].

The near-collapse of the ERM in August 1993 led to further crisis and the consideration of further options to save the CAP pricing structure, but possibilities for action were limited. The availability of options was reduced on the one hand by commitments being entered into in the Uruguay Round of GATT negotiations as well as the McSharry plan to cut subsidies to farmers in the EU, and on the other hand by the EU's own guideline on farm spending as a proportion of total EU budget.

The solution arrived at in mid-1995 was to allow a partial introduction of national compensatory aid for farmers in those member states affected by the currency fluctuations of others (Agra Europe, 1995)[18]. Meanwhile, hard currency countries, notably Germany, were still going to be able to protect their farmers' product prices by a variant of the switchover mechanism, a formula with a high price tag attached. It was clear that, unless European monetary union came about soon, thus eliminated the need for such an expensive and complex agrimonetary system, the CAP might well disintegrate, and some of its parts might be renationalized by the member states.

1.1.5. Current Objective of CAP

Further significant reform of CAP is in the interests of the EU as a political entity. It is not a good use of resources to spent over half of its budget on a policy that does not really help to sustain rural life; allows large-scale fraud; increases food prices for consumers; and is environmentally damaging. It is difficult to have confidence in a set of institutions and political processes that produce such an outcome. However, as it matures, the EU may show an increasing capacity to learn from its errors and to develop a set of agricultural policies that are more relevant to the needs of the twenty-first century. Securing change in the CAP is often a slow and frustrating process, but too much impatience might undermine what is still in many ways a cornerstone of the EU. For Euroseptics, the CAP is all what is wrong with the EU; for those who believe in the European vision, it demonstrates how difficult it is to create a new international entity through a process of bargaining and mutual adjustment.

As the process of international economic integration known as globalization starts to influence agriculture, one of the last reservoirs of fully autonomous national policies, there is a need for European cooperation to ensure that objectives other than those of purely economic character are taken into account. Of course, there is a paradox in that the EU both facilitates the activities of the transnational corporations that are the main driving force behind globalization, and also seeks to create a social Europe that takes care of the socially excluded. The tension between the need for a competitive economy and the common desire for a caring society can never be completely resolved. Nevertheless, part of Europe's mission must to sustain and develop its rural areas and the people who live within them in a way that protects the environment and respects the rights of farm animals. Europe thus needs a common agricultural policy, but one with different objectives and mechanisms from the current policy. It must have it and one day it will have it.

1.1.6. New Challenges

Franz Fischler, European Commissioner for Agriculture, has launched a radical plan for reform of the CAP, declaring that 'restoring the credibility of the common agricultural policy will require a wholesale makeover.' He declared, 'It would be fundamentally wrong to use the deplorable Farm Bill as a pretext for following the American lead in returning to Stone Age, trade-distorting agricultural policies. Policy of this type helps nobody - not farmers, not taxpayers, not consumers, not enlargement and not even the WTO.'[19] Reform plans have been launched with some fanfare before and one predict with confidence that this one will be diluted by the Farm Council. As an initiative, it is bold and imaginative, although not without its problems.

The Commission's hope is that its plan would achieve a number of objectives. It would make the increasingly criticized CAP more acceptable to consumers and taxpayers, thus underpinning its continuation. Fischler emphasized, 'By makeover, I mean that the intention is not to call into question the fundamentals of the CAP - we will continue to need a strong common agricultural policy at EU level'. Renationalization is explicitly ruled out, although some room is allowed for national discretion within a common framework. The plan will have little impact on the budgetary cost of the CAP and has already been criticized on these grounds by Germany's budget commissioner. What it does seek to do is to change the way in which support is given to farmers, allowing them greater freedom to act as businesspersons in contact with the needs of their customers. The plan does represent a systematic attempt to reorient the objectives of farm policy to place greater emphasis on environmental, landscape, food quality and animal welfare objectives. More money would be made available to spend on rural development. With the US having lost moral authority in the Doha Round, trade negotiations because of the recent Farm Bill, the EU hopes that it would have a strong negotiating hand to shape the outcome.[20]

There are five main elements in the proposal:

(a) to cut or 'decouple' the link between production and direct payments and the CAP. Payments would be made to farmers based on historical payments. The scheme would apply initially to arable crops, beef and sheep, as well as grain, legumes and starch potatoes. Revised payments for rice, durum wheat and dried fodder would be incorporated into the scheme. Other sectors could follow later. It has been argued that this arrangement would discriminate unfairly against all producers of non-supported crops currently outside the aid system.

(b) introduction of 'cross compliance'. Payments would be conditional on meeting, environmental, food safety, animal welfare and occupational safety standards. The practicalities are far from clear. The Commission intends to leave member states to work out the details, but its own framework document will not be available for some months.

(c) to increase EU support for rural development by modulating direct payments to larger farmers. This 'dynamic' modulation effectively revives the concept of 'degressivity' by reducing payments to farmers by three per cent a year up to a twenty per cent maximum (which would be reached in 2011). The money will go to Brussels and there is a stated intention to redistribute money from richer to poorer states. In the first instance, this will mean southern states and probably Franz Fischler's Austria (which meets the description of a 'more extensive/mountainous' country). In the longer run, applicant states could benefit. The maximum payment made to a farm will be capped at €300,000, a move that will particularly affect Britain and Germany (although there is an interesting legal issue about how one defines 'a farm'). Germany will be taken a double hit because the ending of intervention for rye will particularly hit eastern Germany where it is extensively grown. The Commission has tried to sweeten this pill by allowing capped money to be used for rural development in the member state concerned.

(d) to introduce a new farm audit system. It is admitted that this will impose costs on farmers and hardly fits in with the stated goal of helping 'farmers to get on with their work by cutting red tape and simplifying paperwork'. One can see how the logic of cross compliance points in that direction. Initially, smaller farms receiving less than €5,000 a year in direct payments will be excluded. Financial assistance will be available from rural development funds, but this is hardly likely to meet the full transaction costs for the farmer.

(e) new rural development measures to take account of the 'public goods' that farmers provide such as upkeep of the landscape and animal welfare. This, of course, also offers a way of delivering subsidies likely to be more compatible with world trade arrangements in future.

1.2. WTO AND CHANGES IN AGRICULTURE

For some time, the Commission has been working with its partners in the candidate countries to coordinate positions increasingly within the WTO, something that was reinforced in the signing of the Ljubljana Declaration by ministers from both sides in May 2001. Prior to the fourth WTO ministerial conference that was held in Doha, Qatar in November 2001, this underlined the shared belief among both current Member States and candidate countries of the need for a new round of multilateral trade negotiations. The EU entered into the Doha discussions with four main aims and, following their conclusion, issued a statement declaring that the results were ‘highly satisfactory’[21]. These aims were:

(a) agreement on further trade liberalization to boost international economic growth;

(b) strengthening of the rules-based nature of the multilateral trading system, and a decision to reach an agreement between WTO rules and international environmental agreements;

(c) putting development and the needs of the developing countries at the heart of the negotiations;

(d) responding to the expectations of society by reaffirming that the overarching goal of the WTO and the new round is sustainable development. From the agricultural point of view, the resulting agreement is fully compatible with the EU mandate adopted at the Berlin Council in 1999[22].

Aimed at substantially improving market access and incorporating the issue of geographical indications, the Doha text also refers to the reduction of all forms of export subsidies and trade distorting support, and to incorporating non-trade concerns such as food safety into the negotiations.

1.2.1. The WTO and the Doha Agenda

With the specter of the failed Seattle WTO Ministerial in 1999 and on-going public demonstrations against economic globalization, WTO members were under great pressure to reach agreement at the Doha Ministerial in late 2001. In the lead up to the Doha talks, a number of proposals were floated to breach expected developing country opposition to the inclusion of investment rules on the negotiating agenda. Most notably, the EU put forward a proposal for an essentially plurilateral approach enabling countries to opt out of final investment rules. Interestingly, at least in the initial stages of preparatory discussion before the Doha Ministerial, the large caucus of developing countries under the "Group of 77" umbrella did not seem as implacably opposed to the inclusion of investment rules as expected. Yet, within this broad grouping, there was strong opposition by the so-called "Like Minded Group" of India, Malaysia and Pakistan who resisted commencing negotiations on investment and merely sought further study on the possibility. Overall, developing countries were more concerned with matters such as the elimination of agricultural export subsidies, reform of the use of anti-dumping and countervailing duty laws, further talks on textiles and the reform of the Agreement on Trade-Related Aspects of Intellectual Property Rights to enable governments to take necessary steps to protect public health. Not surprisingly, developing countries opposed the inclusion of environmental rules in the WTO, an area promoted strongly by the EU.

The strategic interests of the US appear to have been to resist the push for negotiations to reform the use of anti-dumping and countervailing duty measures while advocating reform agricultural rules to assist US producers.

1.2.2. The Doha Ministerial Declaration

The broad divergences between WTO member states in the lead up to the Doha Ministerial set the scene for trading compensatory bargains across separate issues to achieve consensus for the start of negotiations. Unlike the failed Seattle Ministerial in 1999, WTO Ministers succeeded in agreeing to an agenda to commence negotiations. The overall outcome of the Doha Ministerial was to launch immediate negotiations on nine different topics, eight of which are to be concluded as a single undertaking by 1 January 2005. The eight are implementation, agriculture, services, industrial tariffs, subsidies, anti-dumping, regional trade agreements and the environment. Negotiations on reform of the dispute settlement rules were concluded by May 2003.

From the perspective of developing countries, it might be slightly ambitious to describe the Doha agenda as a development round of negotiations. However, there were three primary areas of interest for developing countries included in the single undertaking negotiations. Firstly, implementation of existing commitments is an issue for negotiations in its own right together, with a separate Decision on Implementation-Related Issues and Concerns.

Developing countries have expressed concern with the lack of implementation of existing commitments virtually since the coming into force of the Uruguay Round set of agreements. Further, developing countries succeeded in including anti-dumping and subsidy reform amongst the topics for immediate negotiation. The Doha declaration also contains long substantial sections on topics such as technical assistance, capacity building and least developed countries. Aside from the negotiating program, a general work program was also launched on priority issues for developing countries such as trade and debt, finance and technology transfer, as well as special and differential treatment.

On the opposite side of the ledger, developing countries failed to include legally binding language in the trade related intellectual property rights (TRIPS) Agreement to enable them to address public health emergencies. This was strongly resisted by the pharmaceutical industry on the basis that it would act as a giant carve-out for the TRIPS Agreement. Instead, a separate Declaration on the TRIPS Agreement and Public Health contains a political statement supportive of public health.

Outside of the context of implementation issues, no substantial progress was made on a long-standing issue of interest for developing countries being further market access for textile products. This remains an inherently sensitive topic in many developed states particularly the US. Similarly, the issue of movement of people (rather than movement of goods or capital) was not addressed in the Doha agenda. Whilst this is not surprising (given the even more politically sensitive aspects of this topic especially since the September 11 disaster), this issue is of considerable interest to developing countries given their comparative advantage in this area.

Within the developed states, the EU scored a major victory with the immediate launch of negotiations on certain, albeit limited, environmental initiatives. As a trade-off, the EU agreed to relatively strong language in the agricultural mandate particularly on reducing export subsidies. This is an area which pits the European Union against most of the rest of WTO member states (and to a large degree, the United States)[23].

1.2.3. Alteration of Agriculture

The present enlargement process of the European Union not only creates hopes but also fears. Concerns about the stability of labor markets lead to the question whether the rights of workers from newly admitted countries could and should be restricted. There are other questions as 'do transition regulations need justification depending on how much they interfere with fundamental principles of the European Union' or 'how does the Convention, which has been placed by the Laeken Summit, have to proceed in order to secure the support of all member states during the next inter governmental conferences?

Agriculture is only a small and dynamic part of integration problem but absorbs a great short of employment, industrial resource transfer, investment opportunities, and health. Beyond doubt, there are various problems at EU level to be solved indeed. A major problem is the adaptation of the institutional architecture of the European Union; another is the reform of the common agricultural policy.

1.3. THE EFFECTS OF ACCESSION OF CEESs ON CAP

A hard section of EU – CEESs relations had been on the convergence of agricultural policies during negotiations. Common Agriculture Policy of the EU has a revaluating nature in the enlargement process. The altering fiscal and agricultural structure of the EU would be dealt with.

1.3.1. The Importance of Agriculture in the CEEC Economies, the Community Budget and the *Acquis Communautaire*

In 1999, the share of agriculture in GDP was 5.1 % for the CEEC (10) compared with 2 % for the EU (EUROSTAT i.e. The Statistical Office of the EU, 2000). The average share of agriculture in employment was 26.1 % for the CEEC (10) and as high as 35.2 % in Romania and 25.6 % in Poland, but only 5.7 % in the EU (15) in 1999. In Lithuania and Romania, the share of the work force in agriculture has increased since 1989, as farming may act as a buffer providing an element of food security and additional income during the transition process[24].

Table 1.1
Basic Data on Agriculture in the Applicant Countries

	Land area (mio ha) 2001	Gross value added in ag. euro billion 2000	Agriculture as % GDP 2000	Ag. employment (1000) 2000	Ag. % total employment 2000	Food expenditures % income 1999
Bulgaria	5.5	1.6	14.5	342b	11.3b	54a
Czech Rep.	4.3	1.9	3.9	193	7.4	32
Slovakia	2.4	0.8	4.5	119	6.7	32
Hungary	5.9	1.8	4.1	227	4.8	42a
Poland	18.4	5.0	3.3	2698	18.8	30
Romania	14.8	4.6	12.6	4861b	42.8b	58
Slovenia	0.5	0.6	3.2	81	9.9	24
Estonia	1.0	0.3	6.3	32	7.4	36
Latvia	2.5	0.3	4.5	118	13.5	39
Lithuania	3.5	0.8	7.5	262	19.6	40
CEEC(10)	58.8	17.8	5.1	8933	21.4	37
Cyprus	0.1c	0.3b	4.2b	14b	9.2b	19
Malta	.01	0.08	2.3	3	1.9b	
IEU	130.0	167.5	2.0	7129	4.3	17

a:1998, b:1999, c:2000
Source: European Commission (2002)

Though over the years the share of agriculture in EU spending has been reduced, the CAP continues to absorb just under half of the community budget. In 2002, 46 % of the budget was earmarked for agriculture with a further 36 % for the Structural Funds.

With accession, the applicant countries will be obliged to take on the *acquis communautaire* relating to food and agriculture, including veterinary and phytosanitary rules.

By 2000, the candidate countries had requested 170 derogations and temporary exceptions from the *acquis* on non-agricultural questions, but 340 relating to agriculture[25].

Particular difficulties arose relating to meat and milk production, and it was estimated that roughly 50 % meat production in Poland and 40 % in Hungary failed to meet EU standards. The two countries have asked for derogations of three to five years before the *acquis* is fully adopted in these areas. In some cases, the cost of the investments required to bring the processing industry in line with the *acquis* is prohibitive, so it seems likely that many firms in the CEECs will close.

As transport costs for agricultural products tend to be relatively high, this is likely to have implications for farmers upstream. The CEEC processing firms have been lobbying governments to grant financial assistance for the adjustment process and, as shown below, FDI (Foreign Direct Investment) can play a crucial role in this context.

1.3.2. Transition in Agriculture

As shown in Table 1.2, production collapsed in the CEEC (10) at the beginning of transition, followed by a stabilization of the level of production in most CEECs. There has been a general decline in output in the Baltic Countries, in particular after the Russian crisis.

Table 1.2
Agricultural Output (US$ million, base year 1990) 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bulgaria	8,960	6,979	4,777	4,001	4,753	5,456	4,352	6,857	5,635	4,736
Czech Rep.	5,777	4,053	2,822	2,905	2,557	2,709	2,722	2,730	2,610	2,095
Estonia	2,360	2,292	1,561	1,117	1,000	675	663	620	589	n/a
Hungary	9,740	5,259	4,302	3,885	4,129	4,196	4,150	3,804	3,721	3,889
Latvia	5,573	5,185	2,653	1,351	1,102	1,165	1,028	1,015	779	n/a
Lithuania	8,835	5,796	2,733	2,092	1,348	1,594	2,293	2,503	2,315	n/a
Poland	16,100	12,053	12,273	12,737	12,399	13,241	13,811	14,750	13,521	10,718
Romania	17,019	12,792	11,863	12,999	13,990	13,990	14,026	12,916	9,886	9,145
Slovakia	3,023	1,990	1,730	1,857	2,190	1,799	1,767	1,763	1,693	1,698
Slovenia	908	884	823	789	823	834	852	841	853	n/a

n/a: not available

Source: Cioni who bases her estimates on Maddison (2000) and European Commission.

Recovery was generally faster for grains, while milk and beef production has been declining in most CEECs as many animals were slaughtered in the first years of transition. Various reasons can be given for the fall in output:

(a) the reduction in subsidies at the beginning of transition;

(b) the disruption or "creative destruction"[26] associated with the transition process;

(c) macroeconomic uncertainty;

(d) the Russian crisis;

(e) adverse weather conditions such as drought in many of the CEECs in 1992 and also in 1993 in some countries, and flooding in the late 1990s;

(f) the worsening terms of trade for farmers with prices for inputs and other non-agricultural products rising faster than those for outputs do in the early years of transition. Subsequently in most CEECs, the terms of trade tended to level out (Davidova and Buckwell, 2000).

A feature of agricultural production in countries such as Bulgaria, Romania and Poland is semi-subsistence farming, which is oriented to own consumption and limited direct sales (Pouliquen, 2001). Given the high cost of implementing EU hygiene and veterinary standards, there is a risk that this type of production could continue on a semi-legal basis without undergoing restructuring in an enlarged EU. Because of the lack of alternative sources of income and social security nets in rural areas in these countries, governments have been reluctant to undermine the buffer provided by this type of agriculture.

Agricultural productivity in the CEECs is lower than in the EU, but has been increasing since the mid-1990s (Swinnen, 2001)[27]. CEEC agriculture still tends to be characterized by lower use of high quality seeds and animal breeds, irrigation, fertilizers and plant-protection chemicals than the EU (Davidova and Buckwell, 2000)[28]. Productivity tends to be higher in countries such as Hungary which have been able to attract high levels of FDI in food processing, but lower in countries like Romania, Bulgaria and Poland, where small-scale farmers seem less able or willing to undertake restructuring and improvements in farming methods (Swinnen, 2001). Productivity is expected to rise when these countries join the EU, due to improved access to capital, technology and know-how (Swinnen, 2002).

After 1989 agricultural policies in the CEECs were characterized by an initial phase of liberalization of prices and trade, and the elimination of subsidies. Consumer prices for food products rose rapidly, while real farm incomes fell, leading to a second phase of *ad hoc* price and trade intervention during the early 1990s to protect producers and consumers from the adverse effects of early reforms (Hartell and Swinnen, 2000). In a third phase from about 1995 as governments gained experience in intervention in agriculture longer-term measures were introduced, and there was a more systematic tendency to adopt CAP-like measures[29].

Subsequently adjustments to policies were introduced, partly in response to domestic pressures and to meet international obligations but also to reflect the changes in the CAP, though certain delays (Hartell and Swinnen, 2000). After 1994 there was a tendency to rely less on price support, and more on direct payments (producer subsidies) to farmers. A difference with EU policies has been in the CEEC use of a wider range of measures, including input subsidies and subsidized credit, but these will have to be brought in line with EU regulations with enlargement (Davidova and Buckwell, 2000).

One of the difficulties in comparing the level of agricultural support of different countries is that a wide range of policies is available (directly subsidies, price support, subsidized credit, tax breaks and so on) and the combination of measures adopted varies between countries. The PSE (producer subsidy equivalent, whose name was changed to producer support estimate from 1999)[30] provides a means of collapsing all these different policies into a single measure of support.

The PSE can be defined as the subsidy necessary to leave the revenue of farmers unchanged if all policies with an impact on the agricultural sector were abolished. Each year the OECD publishes PSE estimates for various countries. These are expressed either in money value (generally in dollars) or as a percentage of the value of agricultural production at the farm gate (Nello, 2002)[31]. Table 1.3 provides PSE estimates for the CEEC(10) and EU. Table, with the exception of Slovenia, shows the level of support to agriculture in the CEECs tends to be lower than in the EU, but has generally been increasing in recent years (Nello, 2002)[32].

Table 1.3
Percentage PSEs in the EU and CEEC(10)

	1986 - 1990	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 *
Bulgaria	n/a	n/a	-39	-45	-4	-27	-25	-54	-10	2	6	2*	
Czech Rep.	57	54	52	31	28	20	12	13	9	21	25	16	17
Estonia	75	71	59	-97	-32	-10	0	7	5	19	15	10*	
Hungary	34	-18	11	16	20	24	14	9	7	13	23	20	12
Latvia	80	76	83	-101	-40	6	5	3	4	17	18	18*	
Lithuania	77	72	-262	-124	-37	-15	1	5	7	20	21	18*	
Poland	17	-18	1	18	15	18	18	23	22	23	19	7	10
Romania	45	45	15	8	16	19	10	12	3	25	20	11*	
Slovakia	51	51	35	28	26	23	18	11	13	26	25	23	11
Slovenia	n/a	n/a	n/a	35	28	32	37	29	37	44	48	43*	
EU(15)	48#	47#	48#	47#	49#	49#	49	43	38	38	36	33	35

*Estimate, # EU(12), n/a: not available.
Source: EC Commission and OECD

1.3.3. Agricultural Production and Consumption in an Enlarged EU

One of the early fears was that when the CEECs joined the EU the application of the CAP would lead to substantial price increases in the new member states, thereby stimulating agricultural production and adding to the problem of EU surpluses[33].

However, studies that are more recent generally suggest that with enlargement agricultural production will not expand significantly for various reasons:

(a) the narrowing of the price gap between the EU and CEECs, with prices for some agricultural products and in certain CEECs exceeding those of the EU (Table 1.4) [34]. This is due to reductions in EU prices following the 1992 and 1999 reforms, increases in CEEC prices, and the real appreciation of exchange rates in the CEECs[35].

(b) the slow pace of restructuring may limit the production capacity of the CEECs (Pouliquen, 2001).

(c) difficulties in meeting the *acquis* may cause many CEEC processing firms to close, and this is likely to have implications upstream for agricultural output.

Table 1.4
Selected Product Prices in the CEECs in 1997

	Wheat	Sugar beet	Milk	Beef	Pigmeat
Bulgaria	86	n/a	59	63	81
Czech Rep.	92	54	95	71	83
Estonia	98	71	56	43	96
Hungary	76	n/a	72	54	83
Latvia	95	n/a	48	35	86
Lithuania	116	52	40	43	78
Poland	109	n/a	50	54	74
Romania	104	50	93	n/a	111
Slovakia	89	97	64	69	79
Slovenia	146	50	90	99	113

Source: Agra Europe 1/8/99

According to Münch (2000), accession will bring about significant price increases only for beef, sugar, milk and dairy products and coarse grains (barley, maize and rye). The simulations of the Commission Report of March 2002 also suggest that enlargement will bring price increases for cereals[36]. Though production of wheat is likely to rise, wheat prices are expected to remain competitive on world markets so eventual surpluses could be exported without export subsidies. According to the Commission study, surpluses are likely result for rye. Increased feed requirements are predicted to absorb higher maize production, while developments on the barley market are likely to depend on exchange rate movements. The production of beef is expected to increase, but on a manageable scale if no major change in consumer preferences occurs. Higher consumption of fresh milk and cheese are predicted, but the impact of accession on dairy production will depend on the allocation of production quotas, and developments in the structure of production in the CEECs.

Table 1.5
Agricultural Trade between the EU and CEEC (10) Million ECU

	EU imports from CEECs	EU Exports to CEECs	EU trade balance
Average 1988-90	2119	1143	-976
1991	2515	1734	-781
1992	2406	2164	-242
1993	2184	2913	729
1994	2404	3172	768
1995*	2779	4301	1522
1996	2897	4663	1766
1997	3106	5043	1937
1998	3142	5389	2247
1999	3486	4549	1064
2000	3802	5307	1506

*EU(15) from 1995
Source: Eurostat (2002)

With accession CEEC, consumption of pork is expected to rise, while a fall in production is predicted because of increased competitive pressures. In the CEECs, feed use tends to be inefficient, and prices are generally higher, in particular for high quality pork, than in the EU (15). In contrast, poultry production is competitive in the CEECs and is expected to increase slightly to meet expanding demand.

1.3.4. EU-CEEC Trade

Trade may provide an indication of future patterns of specialization in an enlarged EU. There has been a rapid increase in EU-CEEC agricultural trade, but EU exports to the CEEC (10) have been growing far faster than EU agricultural imports from these countries (Table 1.5).

As a result, an EU deficit with the CEECs was transformed into a surplus from 1993. Only Hungary had a surplus in agricultural trade with the EU in all years since 1989, though Bulgaria had a smaller surplus over the 1989-92 and 1996-99 periods[37].

In 2000 the three main CEEC partners in agricultural trade with the EU were Poland with 30 % of all CEEC(10) exports and imports, Hungary with a further 31 % of exports but only 10 % of imports, and the Czech Republic with 19 % of exports and 12 %

of imports. Germany was the main EU partner, accounting for 45 % of CEEC (10) agricultural imports to the EU in 2000.

Table 1.6
The main partners in CEEC agricultural trade (1998)

	exports					imports					
	EU	Other OECD *	CEEC	NIS	other	EU	Other OECD	CEEC	NIS	other	
Bulgaria	27	12	10	34	17	37	14	10	2	37	
Czech Rep.	31	4	38	17	10	50	8	20	0	22	
Estonia	16	4	19	60	1	49	23	10	5	13	
Hungary	44	N/a	13	18	N/a	42	N/a	8	1	N/a	
Latvia	20	1	22	47	2	51	8	29	4	8	
Lithuania	23	11	17	47	2	53	12	25	8	2	
Poland	43	6	14	32	5	48	11	9	3	29	
Romania	61	14	7	5	13	41	16	23	4	16	
Slovakia	20	0	61	11	8	39	3	43	0	15	
Slovenia	40	6	3	3	48	50	7	13	2	28	

*excluding the Czech Republic, Hungary and Poland
n/a: not available
Source: OECD (2003)

The share of agriculture in total exports of the CEECs to the EU declined from 17.5 % in 1989 to 3.9 % in 2000, while the share in total imports fell from 10.9 % to 4.6 %[38]. The fall of the agricultural share of CEECs imports was even more dramatic for the Baltic States passing from 51.3 in 1992 to 8.1 % in 2000 for Estonia 40.0 % in 1992 to 11.3 % in 2000 for Latvia, and 50.6 % in 1992 to 9.5 % in 2000 for Lithuania.

Traditionally the CEECs imported animal feeds, and exported live animals and meat to the EU and this trend has continued since 1989. Van Berkum (1999) and Cioni (2002) found that trade in processed agricultural products was rising considerably faster than that of primary products, in particular in EU exports to the CEECs. The share of EU processed products in agricultural exports to the CEECs rose from 41.2 % in 1989 to 62.6 % in 2000, while the share in EU imports increased from 21 % in 1989 to 34 % in 2000 (Cioni, 2002).

Difficulty in meeting EU standards, poor quality and less experience in marketing help to explain the difficulties experienced by the CEECs in exporting food and agricultural products to the EU, but these countries also accuse the EU of agricultural protectionism. Most of the concessions in agricultural trade between the EU and CEECs are covered by the Association or Europe Agreements. Because of its sensitive nature, agricultural trade was treated separately in these Agreements, and in general the concessions were less favorable than in other sectors[39].

In most cases, the agricultural trade arrangements of these Agreements fix a quota, rising in time, of EU imports of various agricultural products from the CEECs on which import levies and tariffs are gradually reduced. The concessions were granted on products imported in substantial quantities by the EC from the CEECs during a reference period[40]. At the European Council Meeting in Copenhagen in June 1993, it was decided to bring forward the timetable for implementing the agreement by 6 months. The Agreements also envisage the use of safeguard measures following consultations between the two parties concerned if imports cause serious disturbance to markets.

The agricultural provisions of the Europe Agreements were severely criticized by the CEECs, especially with the transformation of an EU agricultural trade deficit into a surplus from 1993. The criticisms include the following:

(a) in principle, the concessions should apply to all agricultural products exported to the EU in significant quantities during the base period, but in practice, the coverage was not complete[41].

(b) the pattern of trade during the base period reflected the legacy of the state trading system and the upheavals of transition rather than comparative advantage.

(c) though the concessions were to be asymmetric in most cases with the EU liberalizing trade faster, on average the barriers applied by the EU at the beginning of the period were higher.

(d) the EU continued to apply export refunds on its agricultural exports to the CEECs in a situation where domestic CEECs products were already having difficulties in competing.

(e) the Association Agreements failed to remove many barriers on trade[42].

(f) various aspects of health regulations and standards were not covered by the agreements[43].

However, when criticizing the Association Agreements, the climate in which they were negotiated has to be recalled. Negotiation of the Agreements temporarily broke down on the issue of agriculture in September 1991.

This was seemingly due to protests on the part of French farmers, but farmers in other EU countries, such as Denmark, Ireland and the UK were equally opposed, as they feared that increased imports from Central-East Europe would lead to market disruption and depress internal EU prices.

In an attempt to ease some of the tensions over agricultural trade, further concessions were introduced with the so-called double-zero agreements in July 2000[44]. These entailed that the value of all CEEC agricultural exports to the EU exempt from duty rose from 37 % to 77 %, while the equivalent increase in EU products exempt from duty rose from 20 % to 37 %[45]. The EC Commission had proposed further agricultural trade concessions through what are called "double-profit" agreements from June 2002[46].

1.3.5. FDI in the CEEC Food Industry

FDI can play a crucial role in providing capital, know-how and technology and in contributing to the restructuring and modernization of the food industry. The impact of FDI may involve imitation effects by other firms, and spillovers up and down stream in the food and agricultural sector. For example, processing firms with FDI may provide financial capital to farmers in order to improve quality using better animals for breeding, seeds, fodder, pesticides or fertilizers (Gow and Swinnen, 1998). FDI in food processing in the CEECs has played a crucial role in providing a shortcut to enable firms to meet international health and hygiene standards[47].

According to the OECD (1999), slightly less than 12 % of total FDI inflows have been invested in the food and beverages sector. In some countries, the percentage was much higher, amounting to 28 % in Hungary for the 1990-96 period, and 25 % for Bulgaria between 1990 and 1997 (Van Berkum, 1999). In Poland foreign investment in the food chain amounted to $3.3 billion between 1992 and 1997 or 25 % of total FDI (Kupiec and Leat, 1999).

Table 1.7
The Share of Foreign Investment Enterprises in total Sales (per cent)

	1993	1998
Czech Republic	11.5	31.5
Hungary	41.3	70.0
Poland	13.7	40.0
Slovenia	17.6	24.4
Estonia	26.6	28.2

Source:UN/ECE Economic Survey of Europe 2001, No.1

By 1996, it was estimated that some 60 % of Hungarian food processing was controlled by foreign enterprises, including multinationals such as Nestlé, Unilever, Tate and Lyle, and Parmalat (Table 1.7, Gow, 2000). Despite the fears of foreign dominance, according to Gow (2000), with the exceptions of sugar, poultry and beverages, the market share of the largest processors decreased between 1990 and 1996.

Food and agricultural products tend to be bulky, and may be perishable, resulting in relatively high transport costs. Despite the importance of multinationals in the food industry, strong local consumption patterns remain so much FDI is aimed at the market of the host country and neighboring states (Traill, 1997). FDI in food processing seems less motivated by lower costs of natural resources or cheap labor (Van Berkum, 1999). Much FDI in CEEC manufacturing sectors is aimed at re-export to the EU (Senior Nello, 2002), but this appears less the case for the food industry, except in sectors such as sugar and milk where FDI is also used as a strategy for gaining control of the production quotas necessary to operate in an enlarged EU.

FDI tends to be concentrated in the more highly processed sectors of the food industry such as confectionary, tobacco and beverages, rather than in more resource-intensive activities such as milling or meat-production (Van Berkum, 1999). Alcoholic beverages, milk and dairy production have also attracted substantial FDI (OECD, 1999).

FDI has been of particular importance in the sugar industry where (aside from the aim of gaining control of quotas) modern technology implies that processing is on a large scale and a few large multinationals such as Tate and Lyle or Eastern Sugar tend to dominate production. In 1999, the share of productive capacity in the sugar industry with foreign investment amounted to 100 % in Hungary, Lithuania and Slovenia, 95 % in Slovakia, 90 % in the Czech Republic, over 75 % in Romania and over 50 % in Poland[48].

1.3.6. The CAP as a 'Moving Target'[49]

One of the difficulties encountered by the candidate countries in preparing for EU membership is that in recent years the CAP has been changing. Major reforms were introduced in 1992 and 1999, with a mid-term review in 2002, and further reform is likely to be necessary for the financial perspective after 2006.

Central to the MacSharry Reform of 1992 was a 29 % cut in the intervention price for cereals. Farmers were to be compensated for the price cut by direct payments on a per hectare basis. The calculation of the level of compensation was based on average yields in the past in each region. For farmers claiming compensation for an area producing less than 92 tones of cereals, compensation was available unconditionally in what was called the "simplified scheme". Farmers claiming a higher level of compensation through the "general scheme" were required to set-aside or leave idle a certain percentage of their land. The percentage of land that had to be set-aside varied with market conditions, and, for example, was 15 % in 1993[50]. The intervention price for beef was also cut by 15 %, and premium per head of cattle were introduced to compensate farmers. The MacSharry reform also included "accompanying measures" with a series of financial incentives for early retirement, reforestation and protection of the environment.

According to Buckwell et al (1997), the direct payments over-compensated cereal farmers for the price cuts by 16 % between 1992 and 1996. This entailed excess payments of 2 billion ECUs in 1993, 4.2 billion in 1994 and 5 billion in 1995.

The initial aim of basing direct payments on historical yields of cereal production was to "decouple" support to farmers from the quantity produced. As will be explained below, the concept of "decoupling" has important implications in the GATT/WTO context. A policy that is not decoupled, such as price support (where the transfer to the farmer depends directly on the quantity produced) is generally considered to cause more distortions in international trade. For instance, the EC's reliance on price support for so many years encouraged farmers to produce more, leading to surpluses. These surpluses could either be held in public storage (the famous grain mountains, wine lakes and so on) or sold on world markets with the help of export subsidies. However, as numerous empirical studies have illustrated, the increase in EC net exports of many agricultural products had the effect of lowering prices on world markets and increasing their instability[51].

In the context of the MacSharry reform an example of totally decoupled support is a lump-sum payment to farmers (or a bond) which farmers would receive as compensation for the price cut regardless of whether they continued to produce or not. In contrast, the direct payments introduced by the reform were considered only "partially decoupled" as to receive full compensation farmers, had to continue producing.

With regard to agriculture, the March 1999 Berlin Agreement of the European Council entailed cuts in support prices of 15 % for cereals and dairy products, with partial compensation for farmers of 50 % and 65 % respectively through direct aids. Prices for beef were to be cut by 20 % with 85 % compensation for through direct payments. The direct aids continued to be calculated on an acreage or headage basis, and in the case of cereals were still based on historical yields. Quotas (or physical limits) on the production of milk were to continue until at least 2006, and sugar quotas were also left in place.

By 2002, direct aids accounted for roughly 62 % of the CAP budget, and were expected to rise to 68 % in 2006. This amounts to transfers of 30 billion euro to farmers in the EU (15) each year, or 4000 euro per farm.

Rural Development Policy became the second pillar of the CAP (but still only accounted for 10 % of CAP spending in 2002). New legislation was introduced in order to promote environmentally friendly measures using "good farming practices" and to encourage products for which there is a market, while discouraging production of those in surplus.

The reform also introduced the concept of cross compliance whereby countries have to indicate appropriate environmental measures, which farmers have to take in order to receive their headage and acreage payments in full. A further innovation was modulation which entails that member States can, if they wish, introduce measures to "modulate" i.e. reduce the acreage and headage payments a farm can receive on the basis of overall employment on the farm, overall prosperity of the holding, or total amount of aid paid to the holding. The funds saved in this way may be used to further rural development (including environmental) objectives.

The Berlin Agreement reflects the increasing emphasis placed on the "multi functionality" of agriculture. Rather than being considered mere producers, there is growing recognition of the role of farmers in protecting the environment, animal welfare, promoting rural development and meeting the new insistence of consumers on adequate guarantees concerning the health implications, safety, quality and variety of food. Stress is also being placed on the "European model" of agriculture, which also takes into account the historical, social and environmental role of agriculture.

A proposal to introduce degressivity i.e. the phasing out of direct payments was rejected at the time of the Berlin agreement, but was revived as part of the Commission proposal for the 2002 mid-term review. According to the Commission proposal, direct payments should gradually be reduced by 20 % over six or seven years, using the funds so released for additional spending on rural development objectives. This proposal was supported by the Netherlands, Sweden and Denmark, but was opposed by France and Italy[52].

The July 2002 Commission proposal for the mid-term review also entailed decoupling direct payments from production, and increasing the use of cross compliance and modulation. It was proposed to cap subsidies to individual farms at 300,000 euro, though this measure could be eased for farms such as those in East Germany employing a large number of workers. Both the UK and Germany feared that this ceiling could penalize their larger farmers. More generally, countries such as France, Ireland and Spain criticized the Commission proposals as being less a "review" and more a revolution, arguing that the 1999 Berlin Agreement was supposed to have fixed the main features of the CAP until 2006.

Price support had always favored the largest farmers, and between 1973 and 1990, 80 % of support went to the 20 % richest farmers[53]. One of the stated objectives of the 1992 and 1999 reforms was to correct the inequity in the distribution of CAP transfers. However, “compensation” is highest for those who produced most and who were expected to lose most from the price reductions. The system of direct payments therefore increases the iniquity of the system.

1.3.7. Applying Direct Payments in the Applicant Countries

There has been considerable debate about how far (or whether) direct income payments should be extended to farmers in countries joining the EU. These payments were considered part of the *acquis*, and were extended to the three EFTA countries, Austria, Finland and Sweden, when they joined the EU in 1995.

At least initially, such payments were introduced as compensation for the reductions in price support introduced by the 1992 MacSharry reform and the Berlin Agreement. At first the EC Commission maintained that as prices for most CEEC agricultural products were below EU levels, farmers in the new member states would benefit from higher prices when they joined the EU, so compensation in the form of direct payments was superfluous[54]. This view was reflected in the Berlin Agreement, which made no financial provision for extending direct payments to the new member states even though the Commission argued subsequently that this did not necessarily exclude the CEECs from receiving such payments (EC Commission, 2002).

However, the initial stance of the Commission was some what undermined by rapid narrowing of the gap between prices for agricultural products in the EU and CEECs, and by the fact that it was questionable how far direct aids in effect represent compensatory payments. For this reason, the term “compensatory payment” was replaced with “direct aid” in the Berlin Agreement. If the direct aids are compensation for a once-and-for-all price cut, presumably they should be temporary and eventually eliminated. The compensation argument was also weakened by the lack of correspondence between injury and compensation: the MacSharry reform overcompensated and the Berlin Agreement under compensated the price cuts.

The concept of cross compliance introduced with the Berlin Agreement is linked to the more general debate about whether direct payments should be rendered conditional on realizing environmental and other rural development objectives. However, if this occurs the case for not extending direct payments to the applicant countries is further weakened.

In the January 2000 Issues Paper the Commission proposed a gradual phasing in of direct payments to farmers in the new member states (EC Commission, 2002a). These countries would receive direct payments equivalent to 25 % of the present system in 2004, 30 % in 2005 and 35 % in 2006, and would only receive full direct payments in 2013. The Commission also suggested allowing additional national aids in the new member states up to the total level of support applied before accession.

In order to meet problems of administrative costs and fraud, the new member states could opt for simplified system of direct payments for 3 years, renewable for up to two more years[55]. This would entail area payments per hectare on the whole of the agricultural area of the applicant countries. There would be no obligation for farmers to produce in order to receive these payments, and so the direct aids would be "decoupled" from the level of production[56].

In March 2002 the Commission published an extensive study of the impact of enlargement on agricultural markets and incomes (EC Commission, 2002b), confirming the view that immediate payment of 100 % direct payments on accession of the CEECs would lead to social distortions and inequalities. Moreover, there would be non-rural beneficiaries who had generally become landowners because of the privatization process, which included restitution in most CEECs.

The report took into account four different policy scenarios:

(a) no enlargement;

(b) application of the 1999 CAP without direct payments;

(c) introduction of the CAP with full, immediate direct payments, and

(d) accepting the negotiations of candidate countries.

The working assumption of the analysis was accession of eight CEEC candidates from 2007 [57]. According to the Commission report, even without direct payments the CEEC farmers would benefit on average from a 30 % increase in income because of EU market support. The predicted increase in farm incomes ranged from 60 % for the Czech Republic, 59 % for Latvia, 55 % for Estonia, 45 % for Slovakia, 35 % for Poland to –4 % for Slovenia, which was the only applicant CEEC expected to undergo an income loss.

With the scenario of full application of direct payments in the new member states, the average expected income gain tripled reaching a level of 89 %, while assuming that the applicant countries negotiating positions were accepted, the predicted gain quadrupled to reach an estimated 129 %.

According to the Commission, if realized, income increases of this order would create tensions between the farm and non-farm sectors, and would slow or stop the restructuring process by discouraging farmers from leaving the sector, and permitting semi-subsistence agriculture to continue. The EU experience has shown that direct payments are usually reflected in higher land prices, and these would hinder restructuring of farms in the applicant countries. However, the non-application of direct payments would also lead to distortions and income disparities in an enlarged EU. Moreover, insofar as the direct payments in the EU (15) increased land prices, the value gap between East and West would widen, giving a cost advantage to CEEC farmers, and encouraging speculation when the land market was liberalized.

The proposed difference in treatment between "rich" Western farmers and their poorer counterparts in the CEECs has been fiercely criticized in the applicant countries. Polish farm associations have been urging their members to vote “no” in the referendum on EU accession unless comparable treatment with farmers in the EU (15) was guaranteed. In contrast, the present net contributors to the EU budget (Germany, Britain, Sweden, the Netherlands and Austria) oppose the extension of direct payments to the new member states for 2004 - 2006 because it was not foreseen in the Agenda 2000 financial framework.

1.3.8. Applying other CAP Measures in the New Member States

Difficulties are also likely to arise in applying supply-control measures such as quotas and set-aside to the new member states. The administrative costs of such measures are high and there are considerable opportunities for fraud in the absence of effective controls.

In the case of production quotas, it is necessary to ensure that the base quantities are appropriate. The EC Commission has proposed taking 1995-1999 as the reference period, as adjustment was underway, and statistics tended to be more reliable. However, this has been contested by some of the CEECs as not being representative. For instance, milk production fell during these years due to the process of restructuring, so countries such as Poland and the Czech Republic argue in favor of a quota based on production in the 1980s, or some estimate of "productive potential". This has so far been rejected by the Commission as not being consistent with the objective of limiting excess supply[58].

Doubts have also been expressed about the effectiveness of compulsory set-aside as a supply-control measure in the CEECs[59]. Following privatization, many CEEC holdings are small and fragmented, and are often owned by non- farming landowners. If the EU system were applied in the applicant countries, small farmers could avoid the obligation to take land out of production (by requesting compensation for land producing less than 92 tonnes of cereals). The Commission proposal that the applicant countries could opt for a simplified system of direct payments was an attempt to resolve such difficulties (EC Commission, 2002a).

A further sensitive issue is whether the CEECs will be allowed derogation on land ownership. Land prices are much lower in the CEECs, and though the Commission suggested a general derogation of 7 years (12 years for Poland), the initial delay requested by some of the countries (18 years in the case of Poland) was much longer.

It is frequently argued that the use of structural actions in the CEECs would be more appropriate than the extension of direct payments. As part of the pre-accession strategy to prepare for EU membership the CEEC applicant countries are already participating in ISPA (the Pre-Accession Structural Instrument) and SAPARD (Special Accession Programme for Agriculture and Rural Development).

The SAPARD measures applied by the candidate countries include investments in agricultural holdings, processing and marketing, rural infrastructure and diversification, though the picture varies according to candidate country (EC Commission 2002a).

When the CEECs join, the EU three types of program are envisaged to assist rural development (EC Commission, 2002a):

(a) measures under Objective 1 of the Structural Funds[60],

(b) the four accompanying measures (early retirement, Less Favored Areas/Areas with Environmental Restrictions, agri-environment measures and afforestation)

(c) certain special additional measures to assist rural transition. These measures include assisting semi-subsistence farms, improving quality and standards, setting up producer groupings, establishing land registrars, and encouraging good farming practices.

(d) all these measures would be partially financed by the European Fund for Agricultural Guarantee and Guidance, and the Commission has proposed that the Community co-financing rate should be up to 80 %.

1.3.9. Budgetary Implications

Table 1.8
Financial framework for EU enlargement Million €, 1999 prices

	2004	2005	2006
Commitment appropriations			
Agriculture	2048	3596	3933
Of which: *total direct payments*	-	1173	1418
Market expenditure	516	749	734
Rural development	1532	1674	1781
Structural actions	7067	8150	10350
Internal policies	1176	1096	1071
Administration	503	558	612
Total commitment appropriations	10794	13400	15966
Berlin 1999 scenario: total commitment appropriations	11610	14200	16780
Total payment appropriations	5686	10493	11840
Berlin 1999 scenario: total payment appropriations	8890	11440	14220

Source: EC Commission (2003)

In the January 2002 Issues Paper (EC Commission, 2002a) the Commission set out its proposals for the budgetary allocation for EU enlargement over the 2004-2006 period (Table 1.8). These were based on the assumption that 10 countries would join

2004 (Bulgaria and Romania were expected to join later) and that direct payments would be phased in gradually, in line with the Commission's proposals.

The Commission's avowed aim was to keep within the budgetary key agreed for enlargement at the 1999 European Council. The Berlin estimates were based on the assumption of the 6 "front-wave" candidates of the Luxembourg group joining in 2002[61], even though by then accession negotiations had begun and such an early deadline was clearly unrealistic. Presumably, in confirming the hypothesis, which had been set out in the initial 1997 Agenda 2000 document, the EU wished to avoid possible diplomatic incidents that might arise if the date were postponed, and leave a certain room for manoeuvre.

What emerges from Table 1.8 is that the annual budgetary allocation for enlarging to the CEEC (8) proposed by the Commission in 2002 is below the Berlin allocation for the CEEC (5). Under the 2002 proposal the total appropriations for payments (all in 1999 prices) for agriculture amounted to 8 255 million euro for 2004-2006, while those of the Berlin Agreement were 12 410 for 2002-2006. The total allocation for accession was 45 400 million in the 1999 financial perspective, and 28 019 million in the 2002 proposal[62].

A new financial perspective will have to be decided for the years after 2006, and one of the complaints of the applicant countries is that the absence of any indication of the budget for those years renders programming difficult. The main contributor to the EU budget, Germany fears the additional burden likely to be posed by enlargement after 2006, and has proposed an increase in co financing, which implies more of the cost of agricultural policy being borne by Member States.

1.4. SUCCESSFULLY INTEGRATING THE NEW MEMBER STATES INTO THE CAP

Agriculture negotiations, the largest of chapters in the enlargement process, have been opened with 10 of the countries applying for membership of the EU (Cyprus, Czech Republic, Estonia, Hungary, Poland, Slovenia, Latvia, Lithuania, Slovakia and Malta). With accession of the first wave countries set for 2004, the Commission is looking to address the remaining issues: Direct payments, quotas, supply management instruments and rural development. Its enlargement and agriculture issues paper[63], published in January, identifies the path to be taken.

1.4.1. Enlargement

Proposals for the enlargement of the EU had have provoked concern from at least some sections of the EU farming community. In the 1980s, the prospects of Spanish and Portuguese entry worried some French producers who faced the prospect of competition from their Southern neighbors. In the 1990s, it was the turn of the Spanish and Portuguese among others to express concern at the possible erosion of their bargaining power in CAP negotiations following the expansion of the EU northwards to Sweden and Finland, and eastwards to Austria (Middlemas, 1995)[64].

The prospect of further enlargement of the EU to incorporate the CEECs was likely to be one of the issues that provoke very intense debate among agricultural policy makers in the early years of 21st century. The wider political and international security impetus behind the movement to incorporate in the EU, for instance, the so-called 5-plus-1 countries (Czech Republic, Estonia, Hungary, Poland, Slovenia and Cyprus) would create profound economic questions, not least for the EU agricultural policy community. These questions include the cost to the CAP of the CEESs' entry, and the degree of compatibility with the EU necessary before entry for the CEECs' agricultural and food industry structures. The European Commission had prepared strategy papers on the issue of CEEC reform in which the need for structural reforms in the relevant agricultural economies was recommended and encouraged, and the prospect of accompanying reforms of the CAP was specified (Agra Europe, 1995 and Commission, 1996)[65]. The proposed extension of the EU to include Hungary, Poland, the Czech Republic, Estonia, and Slovenia would have significant implications for the CAP. This enlargement would lead to a 50 per cent increase in the agricultural land of the EU and it would double the size of agricultural labor force (Commission, 1997). Agenda 2000 argued for the continued reform of the CAP to prevent serious problems if the present CAP system were to be extended to cover the proposed new member states. To avoid budgetary problems and the extension of surpluses the Commission argues for reductions in the intervention price of cereals (20 per cent), beef (20 per cent) and dairy products (10 per cent). An increased emphasis on structural adjustment in the agricultural sector and a more environmentally friendly approach were also advocated. The Commission had believed in Agenda 2000 that by 2006 such reforms would reduce expenditure on intervention buying by ECU 3.7 billion, but would add ECU 10.5 billion to direct income support and structural improvements expenditures. Agenda 2000 maintains that, if growth in the member states is in the region of 2.5 per cent, then the natural growth in the size of the budget will allow the extra costs of enlargement to be contained within the 1.27 per cent budgetary contribution of the member states. However, this rather rosy scenario assumes that the reforms to the CAP will be fully implemented and that the costs of the structural help are as estimated in Agenda 2000. Furthermore, other CEECs wished to join the EU, therefore the pressures on CAP of enlargement were likely to grow in the early part of the 21st century[66].To encourage the necessary restructuring in the agricultural sectors of new Member States, the Commission proposed to 'beef up financial support through an enhanced rural development policy'[67]. This means a 50 % rural development top-up as compared to that received by the current EU-15. Fully compatible with the budgetary commitments set down at the Berlin Council in 1999, despite expanding to include 10 countries rather than just the six foreseen, the strategy was one that 'makes sense in economic, ecological and social terms. It also ensured that EU Money is well spent in boosting the necessary restructuring process in the new Member States'[68].

1.4.2. Simplified Direct Payments Scheme

The introduction of direct payments is an important issue given the structural change necessary in agriculture in most parts of the candidate countries as well as generally much lower income levels. Progressive introduction is foreseen starting in 2004 at a rate, as stated above, equivalent to 25 % of the 'normal level', increasing to 30 % in 2005, 35 % in 2006, and reaching 100 % of the support level applicable in 2013. This will give the new Member States the opportunity to undertake necessary restructuring in rural areas and should avoid the creation of income disparities and social distortions. In order to lighten the administrative burden in the early years, a simplified scheme has been proposed (shown in Table 1.9).

Table 1.9
Agriculture Commitments Budged

Agricultural Expenditure Foreseen and Commitments for the 10 new Member States (in Million EUR – 1999 prices)			
	2004	2005	2006
Total Direct Payment	p.m	1173	1418
Market Expenditure	516	749	734
Rural Development Foreseen	(748)	(1187)	(1730)
Rural Development Committed	1532	1674	1781
TOTAL	2048	3596	3933

Source : Agriculture D.G. – No.42, March 2002 Newsletter, European Commission

1.4.3. Additional Financial Support

In order to help accelerate the implementation of Turkey's pre-accession strategy, increased financial assistance will be provided from 2004[69]. This increase is intended to enable Turkey to strengthen its public administration, support the adoption of the *acquis*, and to facilitate Turkey's integration into the European economy. Pre-accession assistance will focus on helping Turkey meet the Copenhagen criteria, and in particular, on strengthening public administration at all levels, institution building, and investment related to the adoption of the *acquis*. Assistance will also be available for improving the functioning of Turkey's economy and its capacity to cope with competitive pressure within the internal market. Cross-border cooperation with existing EU Member States and other candidate countries will also be promoted. Priorities for assistance will be drawn from the Accession Partnership and the Regular Reports. In order to facilitate the full devolution of implementation, Turkey will need to take further measures to ensure sound financial control. Capacity building for Turkey's public administration will be matched by resources for investment in regulatory infrastructure, *acquis*-related investment and economic and social cohesion.

Table 1.10
Expenditure Charged to the EC Budget for Turkey (€ million)

FINANCIAL IMPLICATIONS	2004	2005	2006	Total
Pre-accession financial assistance for Turkey, current Prices	250	300	500	1050

Source: State Planning Organization General Directorate for European Union Affairs (2003)

Turkey will be asked to prepare a National Development Plan to guide the commitment of resources to addressing economic and social cohesion issues. The Commission had put forward in 2003, a revised Accession Partnership for Turkey based on priorities emerging form 2002's Regular Reports (Table 1.10). In this context, the Commission proposed to the budgetary authority that grants assistance to Turkey should be allocated under heading 7 of the financial perspectives 2000-2006 and should be steadily increased in the period from 2004 to 2006. The size of annual allocations will be linked to performance in meeting the Copenhagen criteria and in the effective management of pre-accession assistance.

It can be expected that total assistance could at least double by 2006, taking into account Turkey's needs and absorptive capacity (Commission of Communities Brussels, 9.10.2002, Accession Partnership with Turkey, Council of the EU, 14.4.2003).

1.5. TRANSITIONAL AND OPTIONAL PAYEMENTS SCHEME

For a limited period of three years (renewable twice by one year), new Member States will have the option to grant direct payments as a de-coupled area payment applied to the whole agricultural area. Control of the payment will be monitored under the IACS (integrated administration and control system). On Commission approval, new Member States will also be allowed to use national top-ups where EU support does not reach pretransition levels. This should not exceed the level of payments received in current Member States.

1.5.1. Financial Management of Pre-Accession Aid (SAPARD)

On 20 July 1999, the Commission laid down the indicative budget allocations among the applicant countries from Central and Eastern Europe under the SAPARD program - representing an overall budget of EUR 520 million in each year of the program's seven-year run (2000-06). In line with the Union's forward budget planning drawn up at the European Council in Berlin on 25 March1999. These allocations (see table below) are based on the objective criteria set out in the Council Regulation of 21 June 1999 setting up SAPARD: the size of the agricultural population; the total agricultural area; per capita GDP, based on purchasing power parity, and the specific situation of rural areas.

The SAPARD program was created to support the efforts being made by the applicant countries in the run-up to accession as they prepare for their participation in the common agricultural policy and the single market. The plan is to fund a wide range of structural adjustment and rural development schemes in these countries and forms part of the broader pre-accession strategy being pursued under the "Accession Partnerships" that have been set up between the Commission and the applicant countries.

The budget allocations have been decided, each applicant country started to draw up a seven-year development plan for the appropriate regional areas, which, after consultation with the competent authorities and organizations at the relevant levels, submitted to the Commission. These plans are meant to provide a sound basis for programming and must have therefore contained various components specified in the SAPARD Regulation, such as a description of the situation in the rural areas of the applicant country.

An explanation of the strategy being proposed, including its main priorities and quantified objectives; an indicative financial table, and the names of the authorities appointed to administer the program. Once these plans have been assessed and approved by the Commission, they would form the basis for each country's agricultural and rural development program. In financing the programs, the Community may contribute up to 75 % of total public expenditure, although this may rise to 100 % of the total program volume for technical assistance. In the case of revenue-generating investment, total public aid may not exceed 50 % of the overall volume, of which the Community share is limited to 75 %. Measures eligible for SAPARD assistance in concrete terms, SAPARD can provide funding for the following measures:

(a) investment in agricultural holdings;

(b) improvements to methods for processing and marketing agriculture and fishery products;

(c) veterinary and plant health controls, food quality and consumer protection;

(d) promotion of production methods that protect the environment and conserve rural heritage;

(e) diversifying economic activities and developing alternative sources of income;

(f) farm relief services and farm management services;

(g) setting up producer groupings;

(h) village renewal and conservation of rural heritage;

(i) land improvement and reparcelling;

(j) updating land registers;

(k) vocational training;

(l) improvement of infrastructure in rural areas;

(m) management of water resources for agriculture;

(n) forestry and farm woodland projects, investment in private forest holdings, processing and marketing of forest products;

(o) technical assistance (studies, monitoring, information, publicity campaigns).

1.5.2. Allocating SAPARD Funds

Suitable measures for SAPARD assistance were:

(a) investment in agricultural holdings. This must comply with national minimum standards on the environment, hygiene and animal welfare. Each country sets limits for total eligible investment and lays down conditions concerning project viability and standards of occupational skill and competence for farmers.

(b) processing and marketing of products for which normal markets already exist. Assistance is granted to improve quality, hygiene and environmental protection in this area.

(c) agri-environmental measures. These must be pilot schemes intended to provide both administrations and farms with practical experience in this area.

(d) vocational training, i.e. support for training farmers.

(e) producer groups (registered after 1 January 2000). This flat-rate assistance covers both start-up and operating costs over the first five years, and is based on the proportion of the grouping's total output that is marketed.

(f) afforestation of agricultural land. This assistance is granted only for planting that is adapted to local conditions and which respects the environment. It may cover planting costs and an annual maintenance premium. For public land and fast-growing species cultivated on a short-term basis, assistance covers only planting costs.

Table 1.11
SAPARD Annual Budget Allocations for CEES's
(in EUR million, at constant 1999 prices)

ulgaria	Czech R.	Estonia	Hungary	Lithuania	Latvia	Poland	Romania	Slovenia	Slovakia	TOTAL
2,124	22,063	12,137	38,054	29,829	21,848	168,683	150,636	6,337	18,289	520,000

Source : Agriculture D.G. – No.14, August 1999 Newsletter, European Commission

The Regulation also covers eligibility of expenditure, the establishment of a managing authority, monitoring indicators, and annual and final reports and evaluations. The Regulation is not directly applicable to applicant countries because they are non-

Community countries. Instead, bilateral agreements will be concluded with each country. On 26 January 2000, the Commission adopted a communication on the financial management of the special accession program for agriculture and rural development in the countries of central and Eastern Europe (CEECs). The new rules are based on three principles: full decentralization of program management to an agency established under the responsibility of each country, financing arrangements based on differentiated appropriations and the application of the FEOGA Guarantee Section clearance of accounts procedure. These rules are intended to ensure rapid implementation of the SAPARD program, proper use of appropriations and effective controls. They will also help the applicant countries to get ready to manage Community assistance after accession. This proposed financial management system is in line with the principles of the FEOGA Guarantee Section and the relevant external aid provisions. The Commission will shortly be adopting a formal implementing Regulation based on the communication. As the CEECs are third countries, the rules will then need to be laid down in bilateral agreements.

1.5.3. An Accredited Agency in Each Applicant Country

The Commission proposed that each of the CEECs would set up a SAPARD paying and implementing agency in accordance with rules governing the FEOGA Guarantee Section and with the Regulation coordinating pre-accession instruments[70]. The agency must be accredited by the competent national authority, which will be the National Fund. The Commission will verify accreditation on the spot. Once this has been done, and the Commission has adopted the program, the first annual Financial Memorandum can be signed and Community financing will be transferred to the National Fund. The National Fund will act as the sole go-between for financial transfers and communication of the Commission and the paying agency. This will mean that all management tasks, from the project selection stage right up to payments to final beneficiaries, will be devolved from the Commission to the CEECs. Although substantial, this degree of decentralization is compatible with the provisions governing external aid; it reflects the principles of the FEOGA Guarantee Section, which gives Member States full responsibility for management. Decentralization is essential, in the context of the SAPARD, because the program will be helping to finance such a large number of mostly small projects. However, the Commission will retain general control and responsibility for the process as a whole.

1.5.4. A Suitable Financing Method

Another feature of the system is that payments do not need to be made and entered in the accounts on the date when the appropriations are committed. This technique, known as "differentiation of appropriations" is applied as a rule to Structural Fund spending in the Member States and to external assistance for multi-annual operations. It will enable the paying agencies to obtain Community financing up to the end of the second year after the resources have been committed. It may also help to avoid major under-spending in the early years of the programs.

1.5.5. Effective Controls through Clearance of Accounts

The Commission is also proposing to apply the principles of the clearance of accounts procedure to SAPARD operations. This procedure has proved its worth in the Member States in connection with the FEOGA Guarantee Section. The procedure provides for an independent body to certify the accuracy of the annual accounts of the paying agency. The Commission will also check that expenditure complies with SAPARD rules, in particular through spot checks. Financing may be refused for expenditure that is found not to comply. Moreover, flat-rate corrections will be applied when an agency has not carried out proper checks.

1.6. RURAL DEVELOPMENT

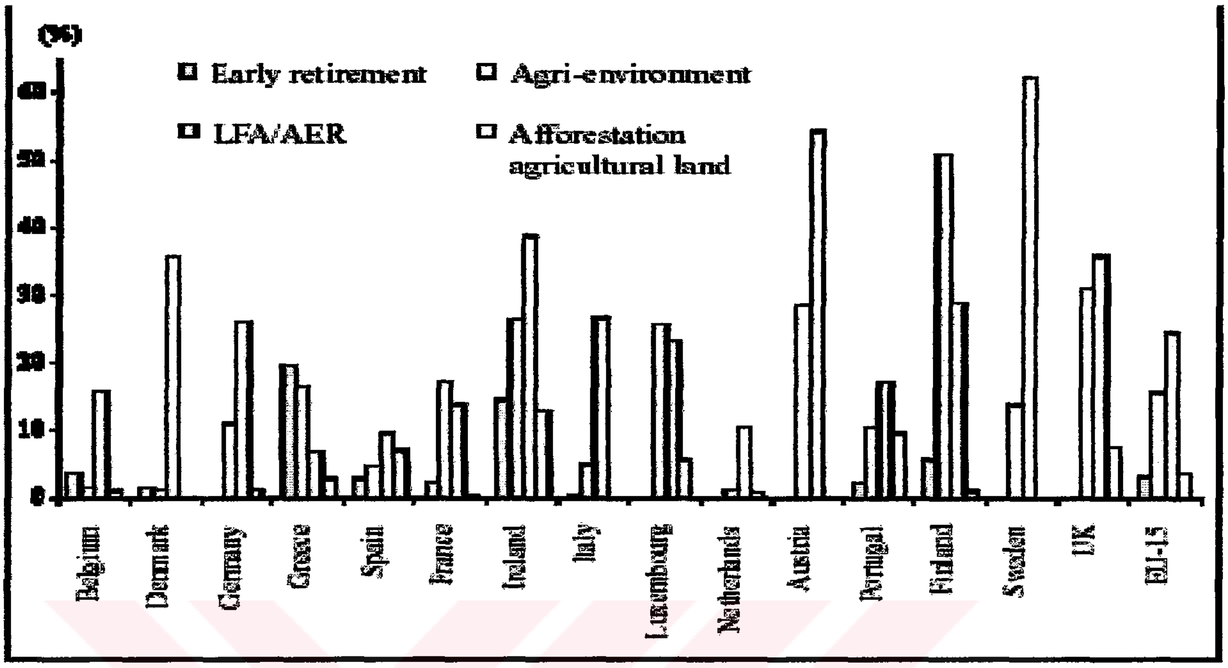
An enhanced rural development strategy, building on the work done under the SAPARD[71] programs that are currently in place will be introduced to tackle the structural problems in rural areas of new Member States during the transition period. Co-financed at a maximum rate of 80 % by the EU, this will provide support for agri-environmental and early retirement schemes, afforestation, producer groupings, investment and marketing, technical assistance as well as a new measure for semi-subsistence farmers. In addition, the new Member States will receive support for economic development of rural areas, training and labor market measures from the European Regional Development and Social Funds. Recent data is a better reflection of current production and consumption patterns. Therefore, production quota levels will be identified using a reference period of 1995–99. Devised to help new Member States to overcome the major challenges that joining the EU's single market and common agricultural policy presents, the strategy seeks to create the best conditions for the integration of the new Member States into the common agricultural policy.

1.6.1. Rural Development Programs 2000–06: An Update

The European Commission adopted 68 rural development programs (RDPs) submitted by the Member States and financed under the European Agricultural Guidance and Guarantee Fund (FEOGA) Guarantee Section. The final approval of all the RDPs was a key stage in the introduction of the new strengthened rural development policy under Agenda 2000. The focus has turned to the implementation on the ground of the programs. The Directorate-General for Agriculture was already examining the first wave of modifications (under EU legislation Member States have the option to modify their RDPs once a year) to the RDPs that were adopted the year before.

A principal aim of European Union rural development policy is to allow Member States as much flexibility as possible in designing their programs, allowing them to be tailored to the specific conditions and challenges facing their rural areas. An initial overview was possible of how financial support for rural development will be allocated. The overall funds for the period 2000 – 06 amount to EUR 105 billion (excluding leader+), or EUR 15 billion per year. This is being co-financed by the EU and the Member States, with almost half coming from EU funds. The FEOGA-Guarantee Section is providing EUR 4.7 billion a year and the FEOGA-Guidance Section some EUR 2.5 billion a year[72].

1.6.2. Where the Money is Being Spent



Graph 1.1: Share of Individual Accompanying Measures in RD Funding per Member State
Source: Agriculture D.G. – No.3, European Commission

At European Union level, a large share of the overall rural development expenditure (nearly 50 %) has been allocated to the four so-called CAP 'accompanying measures' — agri-environment, early retirement schemes, afforestation of agricultural land and support for less favored areas. However, planned spending on these measures varies widely between Member States, for example accounting for over 90 % of rural development expenditure in Ireland but only 13 % in The Netherlands.

Agri-environmental measures are now a compulsory part of rural development programs and out of the 'menu' of 22 rural development measures for which EU support is offered, it is the single measure which has attracted the highest share of financial resources. Average annual expenditure (EU and national) on agri-environment measures is planned to increase by 68 % from EUR 2.2 billion per annum in the 1994–99 period to EUR 3.7 billion per annum.

Most of the first annual reports for RDPs, for the year 2000, have been delivered and studied by the Commission services. At the Gothenburg Summit in June 2001, the Commission undertook to present a summary annual report on the implementation of the rural development programs. This report will be presented every two years, beginning in 2002 and will be based on these annual reports from the Member States. In 2004, the Commission will also submit to the Agricultural Council an overview of the mid-term evaluations on the RDPs, which must be carried out by the Member States.

1.6.3. Leader+

The FEOGA-Guidance Section also finances the Community initiative for rural development for the period 2000–06, Leader+[73]. Leader+ aims to encourage and support a series of small-scale pilot approaches to integrated rural development at a local level in selected areas across the EU. It also puts a strong emphasis on cooperation and networking between rural areas. Following the adoption of the general rural development programs for 2000–06, the Commission is in the process of approving Member States' Leader+ programs involving total EU financial support of over EUR 2 billion in the period 2001–06. Some 73 programs have been submitted, of which nearly half have been adopted by the Commission (2000). The selection of the Leader+ beneficiaries — local action groupings — is completed for some Member States/regions, or is currently under way in many others.

1.7. THE LINKS BETWEEN ENLARGEMENT, CAP REFORM AND GATT/WTO OBLIGATIONS

Before the 1986-94 Uruguay Round agriculture had never been included in GATT/WTO negotiations in more than a marginal way[74]. The main aspects of the Uruguay Round Agreement on Agriculture (URAA), signed at Marrakesh in 1994:

(a) The Uruguay Round Agricultural Agreement (URAA) introduced a series of commitments with regard to agricultural policies (with slower liberalization envisaged for developing countries) to be implemented over a six-year period (1995-2000);

(b) The domestic support provisions

- domestic agricultural support was to be reduced by 20 % from a base period of 1986-1988 In terms of an Aggregate Measure of Support.

(c) The export competition provisions

-Export subsidies were to be reduced by 21 % in terms of volume, and 36 % in terms of expenditure from a base period of 1986-1990.

-No new export subsidies were to be introduced.

(d) The market access commitments

-Non-tariff barriers were to be converted into tariffs (tariffication) from July 1995 and the resulting tariffs were to be reduced by 36 % compared to a base period of 1986-1988. All the resulting tariffs were to be cut buy a minimum of 15 %.

-Minimum market access was to rise from 3 % of domestic consumption to 5 % in 1999.

Special Safeguard Provisions can be invoked if a country experiences an import surge, or, on a consignment basis, if prices fall below the 1986-88 level.

(e) The peace clause protects policies (such as decoupled domestic subsidies or export subsidies) conforming to the URAA from certain kinds of challenge under the WTO until 2003.

The GATT Uruguay Round contained a "built-in agenda" with a commitment to beginning a new round of negotiations on agriculture within 1999. After the initial fiasco at Seattle, a new WTO round was effectively launched at Doha in November 2001. A major concern is whether an enlarged EU will be able to meet its Uruguay Round commitments, and possible additional obligations emerging from the Doha Round. The Doha mandate of November 2001 called for: *"comprehensive negotiations aimed at substantial improvements in market access; reductions, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support* (WTO, 2002*)."*

Though it still has to be decided how EU and CEEC commitments will be merged after accession[75], with regard to tariffs, the EU and CEECs will have to convince other WTO members that enlargement does not lead to an increase in the overall level of agricultural protection. Poland has a relatively high level of protection, while some of the other CEEC applicant countries (and notably Estonia) have lower levels than the EU (OECD, 2000). With enlargement it will probably be necessary to obtain WTO permission for some kind of compensation for third countries (such as Russia) facing higher agricultural trade barriers because of application of the CAP in the new EU member states.

The EU and some CEECs have already encountered difficulties in meeting their GATT commitments on export subsidies for certain products[76]. This is the case for dairy products for the EU, Slovakia and the Czech Republic, for sugar for Slovakia and Poland, and for a number of products for Hungary (Tangermann (2000), Buckwell and Tangermann, 2000). An earlier fear was that enlargement would lead to increased production for a number of products, requiring additional export subsidies for the disposal of surpluses, but the impact of enlargement on the level of EU production is expected to be less than initially predicted.

The future development of the CAP is likely to hang on its commitment to reducing domestic support. The obligation to reduce the aggregate level of domestic support excludes certain categories of policy and, in particular, those falling into the green and blue boxes. The WTO classification of policies follows a traffic-light analogy: red measures must be stopped, amber box policies should slow down (by means of reduction), while green measures can go ahead.

In the GATT/WTO framework, a classification of policies was agreed according to their impact on trade:

(a) green box measures which can be freely adopted and which are not negotiated at the international level. They are said to be "decoupled" from production, as they have a minimal effect on production and trade, and include training, research, environmental measures, payment for natural calamities, and so on.

(b) red box policies (such as import quotas) are forbidden, but no agricultural measures are included in this category.

(c) the amber box covers policies permitted within the limits agreed in international negotiations (such as export subsidies).

(d) blue box measures refer just to agriculture, and are those temporarily allowed (until 2003) as a result of an EU-US deal. They include support under "production-limiting schemes" based on acreage or animal numbers, and were initially designed to cover the 1992 EU direct payments and the US deficiency payments.

Green box policies such as environmental measures are permanently excluded from the commitment to reduce support because they are considered to have a zero or minimal impact on trade. These policies are considered to be "decoupled" from the level of production. The Community initially hoped that the 1992 MacSharry direct payments would fall into this category, but this was not accepted by the US. Instead, the EC and US agreed on the blue box which was specifically designed to cover the US deficiency payments and MacSharry compensatory payments. These are excluded from the obligation to reduce domestic support, but after 2003 when the peace clause no longer applies, their exemption could be subject to challenge.

At Seattle, the Clinton administration joined the "Cairns Grouping" of agricultural exporting countries in calling for the abolition of the blue box. It was argued that with the 1996 US FAIR Farm Act (which averaged agricultural assistance over a seven-year period), the US no longer required the blue box. However, this position was somewhat undermined by the additional emergency aid to US farmers in most of the following years and the 2002 Farm Bill which increased support to US farmers by an estimated 70 % over 10 years[77].

In June 2000, the US proposed a simplification in the way all forms of domestic support are disciplined through the WTO framework[78]. This would entail a distinction between "exempt" and "non-exempt" forms of support. Exempt programs would be those aimed at promoting sustainable agriculture and rural communities in a way, which minimizes distortions. All non-exempt support would have to be reduced in annual installments.

The EU was only able to meet its Uruguay Round commitment to reduce domestic support because its direct payments were classified in the blue box. If the blue box were abolished, an enlarged EU could run into difficulty in meeting this commitment. As Buckwell and Tangermann (2000) argue, the CEECs have some slack in their domestic support commitments, but probably not enough for full application of EU direct payments in their present form in the absence of the blue-box exemption.

The Commission proposal to introduce direct payments gradually and in a simplified form in the new member state can be interpreted as an attempt to find a way round this dilemma. Under the simplified system, the direct payments would be "de-coupled" from production and would be received even by farmers in the new member states who stopped production. The aim is clearly to exclude such payments from the commitment to reduce aggregate domestic support.

1.8. THE OUTLOOK FOR FOOD AND AGRICULTURE IN AN ENLARGED EU

Since the mid-1980s, the CAP has changed fundamentally. As aforementioned, one of the first indications of this change was the 1985 Green Paper published by the EC Commission[79]. This document called for an end to the almost exclusive reliance on price support, and listed among the priorities of the CAP: the reduction of surpluses, the promotion of the quality and variety of agricultural production, rural development, and environmental objectives.

After a rather limited attempt to move the CAP in this direction with a package of reforms in 1988, radical changes followed with the 1992 MacSharry Reform, and the 1999

Berlin Agreement. As a result of these measures, by 2002 market support had shrunk to only 28 % of CAP spending, rural development had become the second pillar of the CAP, and the "multifunctionality" of farmers was recognized as a central tenet of EU policy. Four developments influenced (and continue to influence) the pace and shape of CAP reform: the weight of agricultural spending in the Community budget, enlargement, GATT/WTO commitments, and the concern of the public for safer food and more environmentally favorable agriculture.

In order to finance emerging EU policy areas (and notably the Internal Market and Single Money Projects, which were accompanied by increased spending on structural actions), the CAP share of the EC budget had to be redimensioned, at least in relative terms. A new financial framework will have to be decided for the years after 2006, and this seems likely to provide a catalyst for further CAP reform. The net contributors to the Community budget (and Germany in particular) are reluctant to increase the budget ceiling, and if direct payments continue, they will eventually have to be extended in full to the new member states.

A solution to this dilemma would be to move further in the direction of co-financing of agricultural policy by the Member States, as the largest net contributor the EU budget (Germany) proposes. In addition, increased use of cross compliance and modulation could be encouraged, rendering the receipt of direct payments conditional on furthering rural development and environmental objectives. A further attraction of such a solution for the EC Commission is that in general Community financing of rural development measures is only partial. In other words, by strengthening the "Second Pillar" of the CAP, national co financing of the CAP would be increased, and in this way, there would be a partial re-nationalization of the CAP. The degressivity (i.e. partial phasing out of direct payments, and use of the funds released for rural development) proposed by the Commission in 2002 would reinforce this tendency, but is likely to be opposed by member states such as France and Italy.

A second factor influencing CAP reform was enlargement. Though the results of empirical studies vary considerably, all the early estimates of how much it would cost to extend the unreformed system of CAP price support to the new member states were substantial[80]. The solution proposed by Nallet and Von Stolk (1994) was to have different levels of administrative prices in East and West Europe. Aside from the dubious political feasibility of such a proposal, it clearly contravened the principles of the Single Market. The switch to direct payments (and the belief that their full application in the new member states could be delayed) was clearly influenced by enlargement.

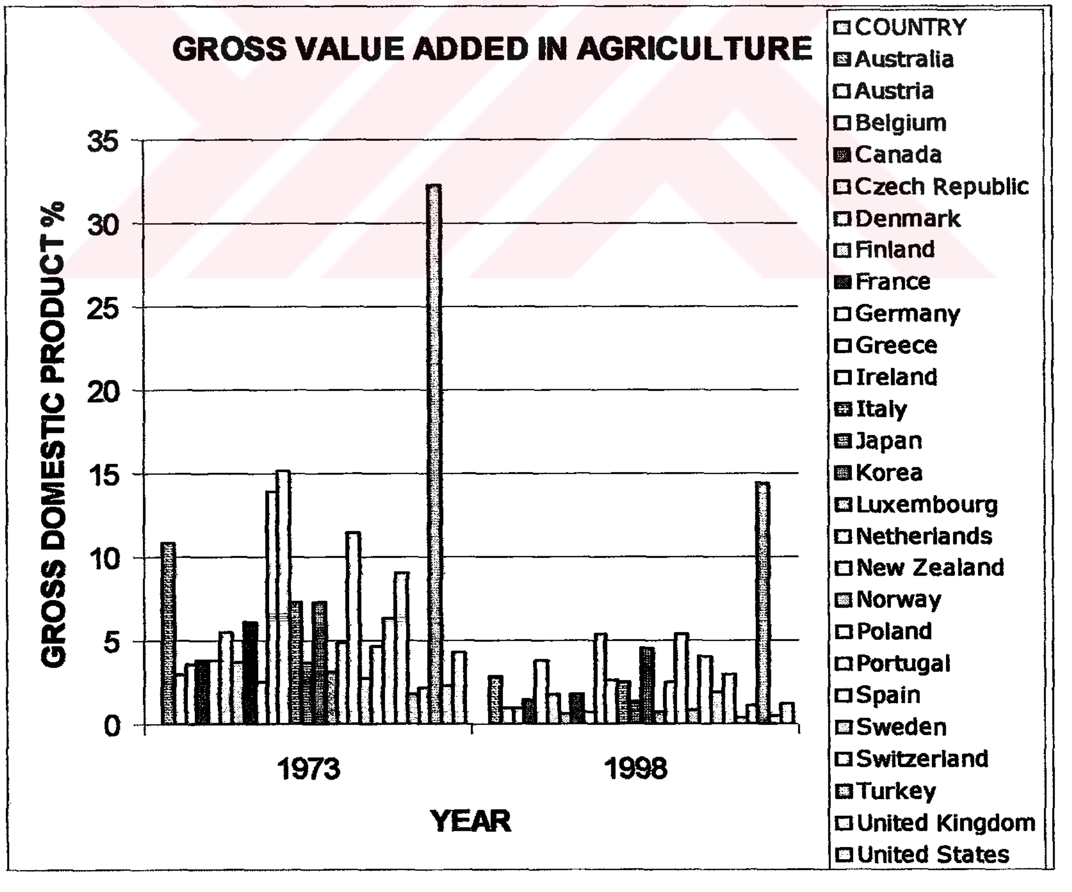
The third factor influencing reform is the GATT/WTO framework. The 1992 MacSharry Reform has to be read against the background of fear of collapse of the Uruguay Round because of disputes on agriculture. The US was pushing for larger cuts in domestic support and export subsidies, and easier market access than the EU was prepared to grant. When a compromise had to be reached, the EU solution was to transform price support into direct payments, thereby reducing the need for export subsidies. The initial EU aim was also to include direct payments in the green box, thereby exonerating them from the commitment to reduce domestic support, but ultimately the EU had to accept inclusion of the direct aids in the blue box. If the blue box were to disappear, the EU would have difficulties in meeting its commitment to reduce domestic support, and this would be even more the case if the present system of direct payments were extended to the new member states. The solution of the EC Commission is to offer the applicant countries the option of a simplified version of direct payments, which are clearly aimed at exclusion from the commitment to cut domestic support.

The fourth factor behind reform is the growing public insistence on increased priority for rural development, environmental objectives and guaranteeing the safety and quality of food. The Commission's proposals for the 2002 midterm review to some extent meets these requests by suggesting that the direct payments be rendered more conditional on furthering these objectives. After all there is little rationale for indefinite compensation for a once-and-forall price cut. This "greening" of the direct payments is likely to increase the chances of their inclusion in the green box, rendering it easier for an enlarged EU to meet its GATT commitments. In a Eurobarometer survey carried out in May-June 2002 on opinions towards the CAP, 90 % were in favour of healthier and safer food products, 89 % were in favor of environmental measures and 77 % in favor of adequate incomes for farmers. However, when asked if they thought the CAP performed those tasks well the satisfaction levels were 37 %, 41 % and 29 % respectively[81].

It is unrealistic to expect that a CAP based more on these new priorities will cost less. Health and quality controls involve high administrative costs, in particular, when associated with measures such as effective labeling, animal passports and the traceability of all stages of the production and distribution processes. Budgetary constraints are likely to become even tighter in an enlarged EU. The increased emphasis on rural development and environmental measures implies a shift towards measures, which already tend to be partially co-financed by national governments. It certainly was not what CEEC governments initially expected from participation in the CAP, but a partial re-nationalization of the CAP seems difficult to avoid.

II. AGRICULTURAL POLICY IN TURKEY AND AGRICULTURAL RELATIONS BETWEEN TURKEY & EU

The thoroughgoing structural developments of the last two decades could not affect the agricultural character of Turkish economy. Against the declining portion, agriculture still occupies a share in Turkish GDP of 14.3 % in 1998 (Graph 2.1). However, GDP per capita in agriculture is relatively low, and agricultural growth is restrained by high rates of interest and inflation, important structural deficiencies such as fragmented and smallholdings, a lack of farmers' organizations, inadequate marketing facilities, and inefficient open-market price formation.

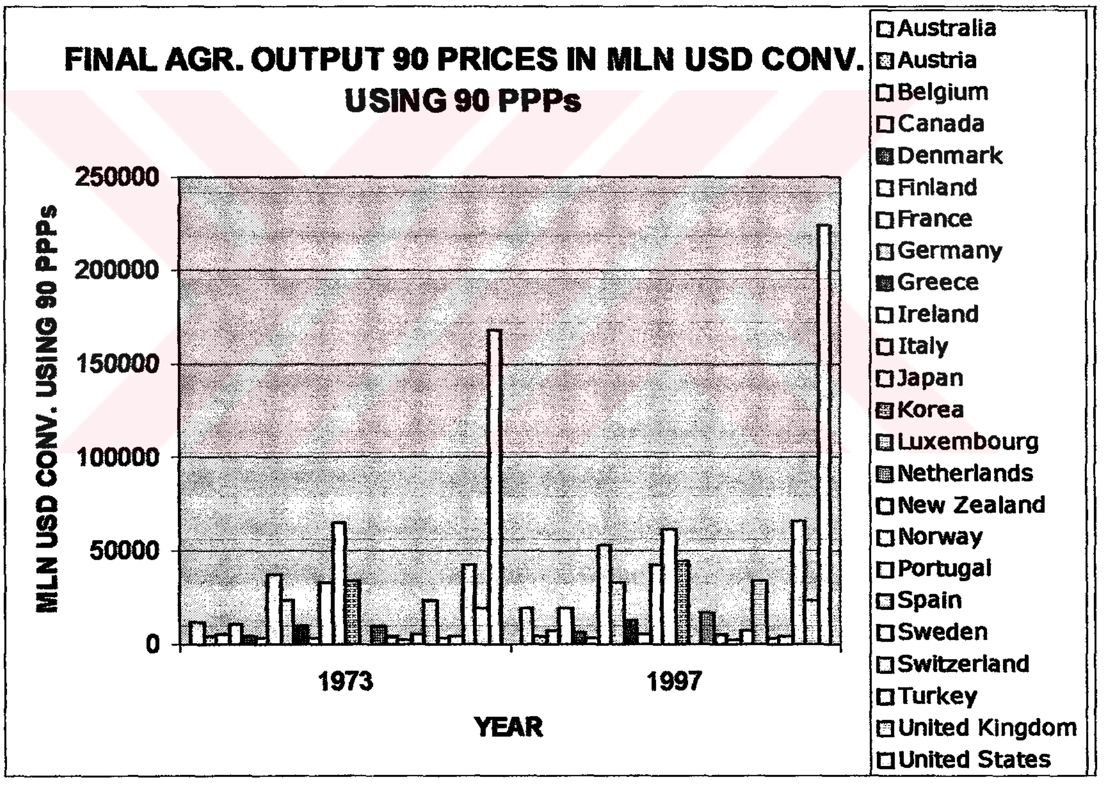


Graph 2.1: Gross Value Added in Agriculture
Source: National Accounts of OECD, Countries Volume 1 OECD Main Economic Indicators, May 2001, Paris

Consequently, Turkish agricultural productivity has been consistently falling over the past 10 years. Unfortunately, at present, Turkey is not self sufficient in a number of food products.

2.1. AGRICULTURAL STRUCTURE OF TURKEY

The transition from an agricultural to a service-oriented economy has continued. In line with international trends, Turkey is experiencing a decline in the importance of the agricultural sector, while the service sector is gaining. During the period 1997-2001, the share of the agricultural sector in total gross value added declined from 13.8 % to 12.1 %.



Graph 2.2: Final Agricultural Output
Source: National Accounts of OECD, Countries Volume 1 OECD Main Economic Indicators, May 2001, Paris

The share of manufacturing and construction remained generally unchanged, while the share of the services sector rose from 56.3 % to 59.3 %. A similar pattern can be observed in terms of employment, although the share of employment in agriculture is still high. During 1997-2001, employment in the agricultural sector declined from 40.8 % in

1997 to 35.4 % in 2001, while the share of employment in the service sector rose from 35.1 % in 1997 to 41 % in 2001[82].

2.1.1. Population and Working Force

Important partitions of Turkish population still live in rural areas and are engaged in agriculture. Agricultural proportion in general population (75.8 % on 1927) steadily decreased but the decent as absolute value dates to late 1980`s.

Rural population proportion in 2001 was 33.5 % and the number of people active in the sector was about 9.7 million (around 41 % of the total labor force as in Graph 2.3) (Statistical Institute of State {SIS} & Official Web Cite of Turkey's Foreign Ministry).

Taking into consideration civilian employment by sectors it has been clear that a fall about 10 % could not lessen the importance of 35.2 % rural population (Table 2.1). In developed countries and EU proportion of agricultural population decreased about 5 percent making the difference more serious. Likewise, the pressure on farmland by people density accelerates in Turkey.

Table 2.1
Civilian Employment by Sectors (%)

Sectors / Years	Agriculture	Industry	Services	Total
1989	48.0	22.0	30.0	100.0
1990	46.9	21.4	31.7	100.0
1991	47.6	21.1	31.3	100.0
1992	44.7	23.2	32.1	100.0
1993	43.4	22.4	34.2	100.0
1994	44.3	21.9	33.8	100.0
1995	47.8	20.7	31.5	100.0
1996	45.9	21.8	32.3	100.0
1997	39.5	25.0	35.5	100.0
*2001	35.2	24.7	40.1	100.0

*Source: Kıral and Akder, 2000, *SIS.*

Active number of inhabitants per 100 hectares increased from 38 in 1965 to 45 in 1990; farmland per active person declined in the same era from 2.7 to 2.2 hectares (Table

2.2). Number of all inhabitants in agricultural sector per 100 hectares was 168 in 2001 (SIS, 2002).

Table 2.2
Density of Population in Agriculture Sector

Years	Active Agricultural Population Per 100 Hectares	Farmland Per Active Person (Hectares)
1965	38	2.7
1970	37	2.7
1975	42	2.5
1980	39	2.6
1985	44	2.3
1990	45	2.2

Source: Kıral and Akder, 2000, SIS

This excess agricultural population in agriculture and countrywide is one of the most important reasons of low productivity. In fact this is the outcome of a great amount of people habiting in agriculture sector whose participation in production is too insufficient (hidden unemployed).

Studies show that it is possible to carry on all the activities properly in agriculture sector by 57 % of workforce even in harvesting time when the demand to worker is at highest level[83]. Consequently, the real reason of the excess agricultural population is the short of creating employment opportunities on the other sectors.

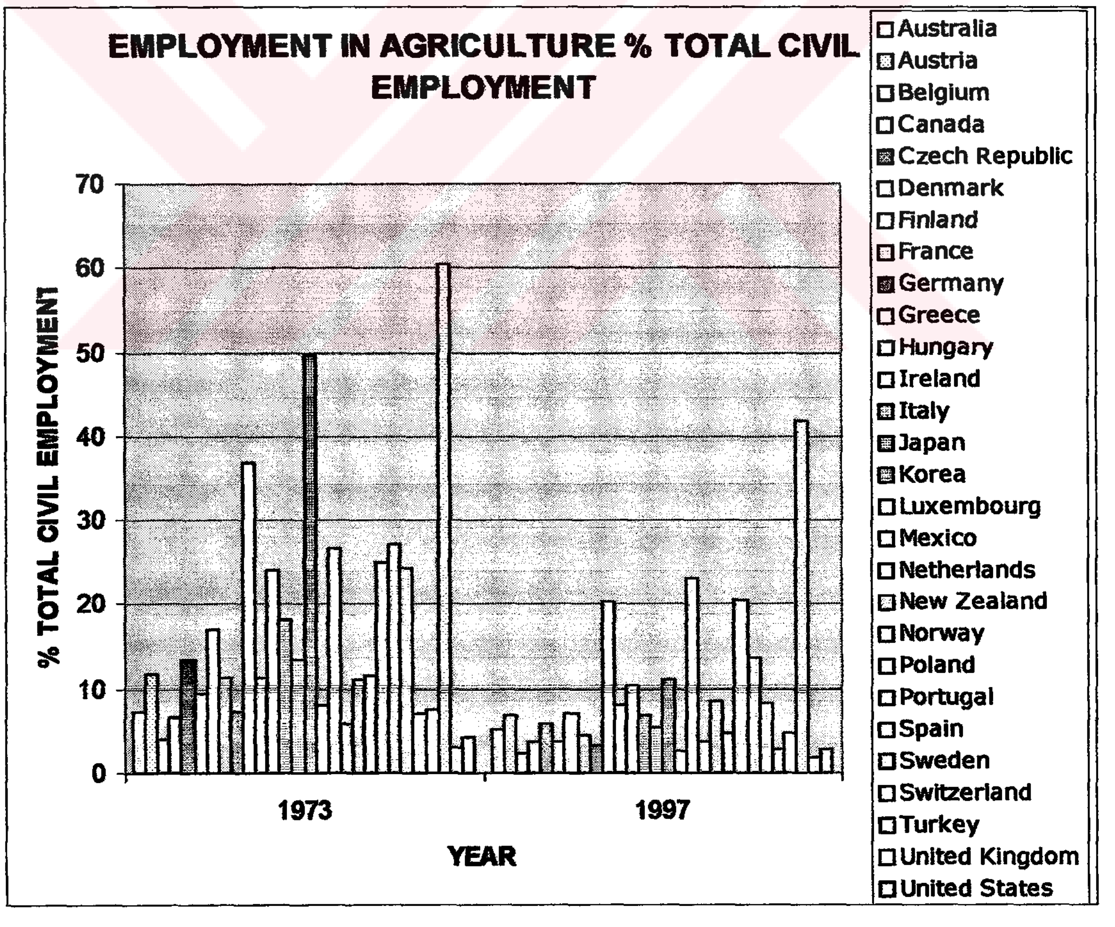
Productivity is higher in other sectors than in agricultural sector (industrial sector 5.9, in general 5.3) so the productivity declines countrywide[84]. In agricultural sector sheltering the excess population, the naturally low productivity goes down.

The next table shows that between the years 1971-1995 Turkish agricultural land productivity, in spite of decreasing proportion, constantly increased but contrarily between the years 1990-1995 because of shrinking in farmland per workforce, there was a decline in productivity of workforce.

Table 2.3
Improvements on Turkish Agricultural Land and Workforce Productivity, 1970-1995

Periods	Period Averages (%)		
	Δ (Product / Area)	Δ (Area / Workforce)	Δ (Product/Workforce)
1971-1980	2.53	0.56	3.11
1981-1990	1.53	0.90	2.44
1990-1995	1.24	-2.41	-1.20
General Average	1.87	0.10	1.97

Source: Çakmak and Zaim, 1998.



Graph 2.3: Employment in Agriculture
Source: National Accounts of OECD, Countries Volume 1 OECD Main Economic Indicators, May 2001, Paris

2001 General Agriculture Census gives the results: Agricultural workers who do not have a second job weights 88.6 %. The proportion of whose main jobs is agriculture and have a second job is 5.2 %; the proportion of whose main jobs is other occupation than agriculture and has agricultural work, as second job is 6.2 %.

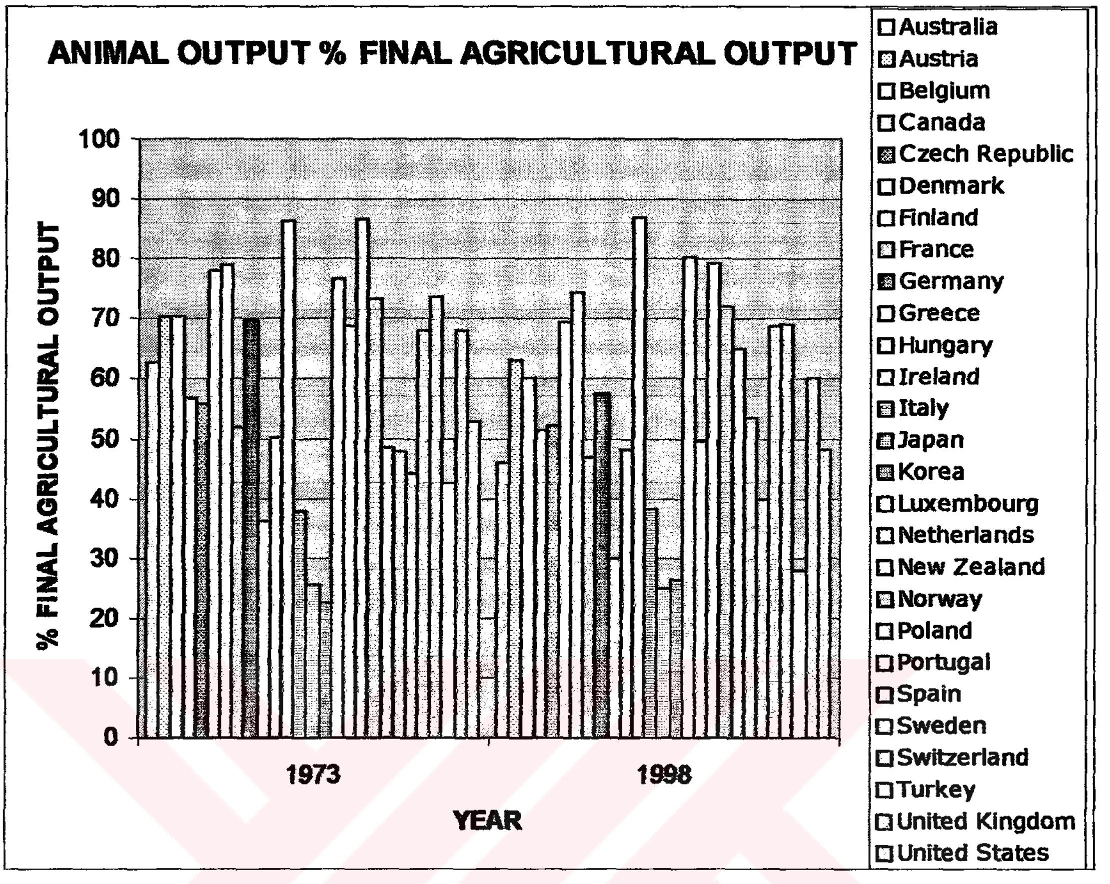
For those who have agriculture as main job is consisted of 67.5 % family workers free of charge, 31.3 % working on own jobs, and only 1.1 % salaried people.

Taking into account all the agricultural workers, proportions become: 58 % family workers free of charge, 34 % working on own jobs, and 6.5 % salaried people. If considered the employers, it is clear that 93.5 % of agricultural workers are composed of family workers.

On the other side, 92.6 % of owners of agricultural enterprises work only on their own land and do not want to assist a farmer in return for a share of the crop or being a tenant (SIS, 2003).

2.1.2. Fields and Usage

Total area of Turkey is 668 781 782 decares (66.9 million hectares). The 33.13 % of the area is treated farmland, 21.86 % is meadow and grassy area, 27.63 % is composed of forestland covered with heath and thicket. So 82.62 % of total area is used in agriculture, remaining 17.38 % part is inconvenient for agriculture (14.47 %) and unused (2.91 %) areas (General Agriculture Census by SIS, 2001).



Graph 2.4: Animal Output Percentage
Source: National Accounts of OECD, Countries Volume 1 OECD Main Economic Indicators, May 2001, Paris

Increasing population and mechanization started forest and grassy areas to be converted into field at 1950s. Therefore, the treated farmland that was 116.770.000 decares in 1934 doubled to be 228.080.000 decares in 1955 and actually it is 221.562.345 decares. Accordingly, meadow and grassy area in 1934 decreased until 2001 from 443.290.000 decares to one third in numbers 146.195.697 decares. This situation affects raising livestock negatively (Graph 2.4). As results of narrowing of grassy areas and excess animal population relative increase of livestock multiplied by three; over grazing caused the variety and quality of pasture to decline. On the other hand converting the grassy land into field caused especially sloppy lands on which farming without preventive measures is done becoming less productive and sensitive to erosion. It is noticed the most parts of the farmlands are subject to dry agriculture. Actually adequate irrigation for agricultural settlements has a proportion of 13.4 % of total (SIS, 2003).

Table 2.4
Agricultural Products by Sub-Sectors

Sub Sectors	Proportion (%)
Producing Vegetal Crops	63.0
Raising Livestock	26.0
Agricultural Arts	5.0
Forestry	5.0
Water Products	1.0
TOTAL	100.0

Source: Ceran, 1999

2.1.3. Product Compound

Table 2.4 shows the agricultural products by sub-sectors. As seen the great majority of agricultural production value is of vegetal corps (63 %). The percentage of stock raising in developed countries is above 50 % but in Turkey rather low level (26 %) is seen. The adequately underdeveloped raising livestock is a negative indicator for Turkish agriculture for two important reasons. First it has high value added products and second more employment opportunities for unemployed farm population.

Table 2.5
Production Branches of Treated Farmland

Production Branches	Proportion (%)
Grain	52.0
Bean	7.0
Industrial Plants	5.0
Oily Seeds	5.0
Vegetables	3.0
Long Lasting Plants	9.0
Fallowed and Left Uncultivated	19.0
TOTAL	100.0

Source: Ceran, 1999

Among the vegetal plants with the ratio of 52 % in sown area, grain has the first place.The other field products have the ratio of 17 % in sown area while vegetables have 3 % and long lasting plants have 9 % in portion. The 19 % of the land have been fallowed and left uncultivated (Table 2.5). Area with long lasting plants on is consisted of 55 % fruit yards, in which olive groves 23.7 % and vineyards 21.3 %[85]. Within the period, 1970-1997 Table 2.6 shows some important sort of fruit trees and productivity.

Table 2.6
Some Important Sort of Fruit Trees and Productivity

Years	Number of Trees (x1000 Unit)				
	Hazelnut	Apple	Orange	Pistachio	Fig
1970	184237	19061	7418	10937	6113
1980	247000	27850	8654	16150	5900
1990	264650	31500	9816	20385	9654
1995	271150	32530	11065	23850	9690
1997	271730	32125	11330	25340	9135
Years	Productivity (Kg./ Tree)				
1970	1.4	39.2	60.0	1.3	35.0
1980	1.0	51.3	78.5	0.5	34.7
1990	1.4	60.3	74.9	0.7	31.1
1995	1.7	64.6	76.1	1.5	31.0
1997	1.5	79.4	65.3	2.8	26.6

Source: Kıral and Akder, 2000

Table 2.6 shows fruit trees increase in number. Taking into consideration hazelnut, pistachio, and fig a little productivity differences are seen; but general trend is upwards. For apple during productivity per tree increasing except 1997, because of bad weather conditions and it has been clear that orange productivity, which was on an upper trend, decreased.

Table 2.7 shows animal productivity and numbers for period of 1970-1997. For a portion of 100 hectares of meadow and grassy area there is 26.8 cows, 53.6 cattle, 145 sheep, 27 goats, and 2.2 angora goats in Turkey. In addition, there are 593 hens on 100 hectares of active agriculture area. This numbers are for cattle and sheep ¼th and for hens $^{1}/_{5}$th of EU level.

One can see that against the decrease in cattle number from 1985 on, beef and milk productivity steadily increased. However, it should be noticed the productivity on beef was accounted by means of numbers in herd not the animals slaughtered. Raising poultry and beekeeping attract attention by improvements lately. These two branches have an increase in both animal presence and productivity.

Table 2.7
Number of Animals and Productivity in Turkey

				Animal Number			(x 1000 Unit)
Years	Cow	Cattle	Poultry	Sheep	Goat	Angora Goat	Beehive
1970	4402	12756	32306	36471	15040	4443	1821
1980	5931	15894	58584	48630	15383	3658	2225
1985	6102	12466	61046	42500	11233	2103	2585
1990	5893	11377	96676	40553	9698	1279	3284
1995	5886	11789	129085	33795	6173	531	3916
1997	5594	11185	166273	30238	5637	450	4002
				Productivity (Kg. / Livestock)			
Years	Milk	Beef	Egg (unit)	Spring Wool	Goat Hair	Mohair	Honey (Kg./Hive)
1970	977.3	17.2	59.2	1.3	0.6	1.5	8.2
1980	922.6	12.8	70.6	1.3	0.6	1.6	11.3
1985	1584.7	40.0	95.6	1.6	0.4	1.1	13.8
1990	1631.9	44.6	79.6	1.5	0.4	1.2	15.6
1995	1801.1	35.2	79.5	1.5	0.6	1.5	17.5
1997	1801.2	46.2	72.7	1.5	0.5	1.6	15.8

Source: Kıral and Akder, 2000

There is a big collapse on raising goat for 20 years. During this period, the goat stepped back $^1/_3$rd and angora goat $^1/_{10}$th of their initial numbers. Productivity per animal did not improve noteworthy. At the same period though not as much as raising goat, raising sheep regressed also. Sheep number retrogressed by 38 %, spring wool productivity per animal increased by 15 % (Table 2.7).

2.1.4. Structural Properties of Agricultural Enterprises

The number of enterprises has an increasing trend while the average enterprise size goes downwards in Turkey's agricultural sector. This differs from the EU just to the opposite direction. For example, small enterprises that have less than 5 hectares are an important portion (22 %) of the total agricultural area in Turkey. Nevertheless, in EU countries small enterprises that are of big number have an unimportant portion (6 %) of the total agricultural area. Another problem about land usage of enterprises in agriculture is lands itself are made of too many pieces. This causes especially mechanization troubles. The trend is good as generally towards an increase in five and less pieces and decrease in six and more pieces of land between years 1963-2001.

Table 2.8
Turkey's Agricultural Grouping of Enterprises Size by Regions

Economic Size Groups (ESU) / Accounting Method	<2	2-<4	4-<8	8-<16	16-<40	40-<100	>100	Total
By rate of Exchange	72.8	17.9	6.6	1.5	0.3	0.1	0.8	100.0
By Purchasing Power Parity (PPP)	36.8	27.7	21.8	9.8	2.7	0.3	0.9	100.0
Regional Distribution (PPP)								
Middle North	33.0	29.4	24.6	10.4	2.5	0.1	0.0	100.0
Aegean	32.1	28.0	24.9	11.4	2.8	0.2	0.6	100.0
Sea of Marmara	25.6	22.5	28.4	18.3	4.9	0.3	0.02	100.0
Mediterranean	34.5	23.8	21.4	10.0	3.4	0.6	6.3	100.0
Northeast	45.6	27.8	19.0	6.5	1.0	0.1	0.0	100.0
Southeast	36.0	39.2	19.3	9.3	4.6	0.2	0.4	100.0
Black Sea	52.3	30.6	13.2	3.2	0.6	0.1	0.01	100.0
Middle East	31.8	28.7	24.5	11.5	3.1	0.3	0.1	100.0
Middle South	36.8	26.7	23.0	10.2	3.0	0.3	0.0	100.0

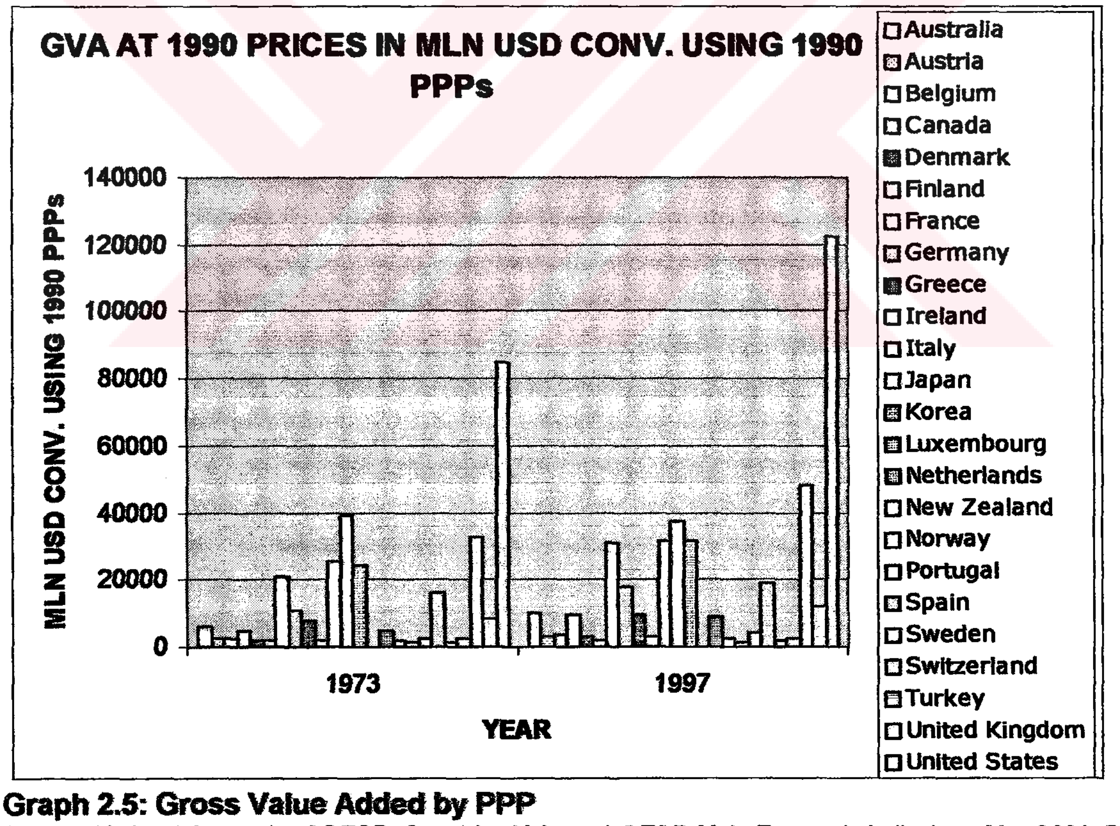
Source Arslan, 1998

Table 2.8 shows results of some research on Turkey's agricultural enterprises size, which used the same as EU enumeration methods. The size of enterprises is represented by ESU (European Size Unit: Standard size of enterprise, which obtains gross total of 1200 Euros per year). Considering Purchasing Power Parity at least a comparable size distribution for southern European Countries were being talked of. Still the agricultural enterprises greater than 16 ESU have rather small proportion (3.9 %). Table 2.8 has given also the agricultural regions distribution for the economical size groupings of enterprises.

Here it has been seen that small enterprises are intensive on Northeastern and Black Sea regions. Unique region, which raise Turkey's average at agricultural enterprises grouping greater than 100 ESU, is Mediterranean (6.3 %). Definite leader Southeastern region by active agricultural area proportion (37 %), unfortunately could not get first degrees with big (100+ hectares) agricultural enterprises by economical size.

2.1.5. Specialization of the Enterprises

Numeric data shows that the specialization of the agricultural enterprises portion (60 %) is lesser than EU average (80 %); because of insufficient number of specialized fruit grower enterprises (33 % in EU, 13 % in Turkey). Mixed producer enterprises portion is more in Turkey (40.4 %), than in EU (20.6 %). Specializations of big enterprises with more than 100 hectares are on field products. If economical size groupings of enterprises, which are more than 100 ESU taken into account most of them (92.3 %) specialized on vegetable growing. The enterprises specialized on field products are between the sizes of 16-100 ESU; mixed production is an important choice for all enterprises except those bigger than 100 ESU[86].



Graph 2.5: Gross Value Added by PPP
Source: National Accounts of OECD, Countries Volume 1 OECD Main Economic Indicators, May 2001, Paris

2.1.6. Agricultural Investments

During planned period agricultural investments ratio in total investment steadily decreased. Agricultural investment percentages in total investments were 13 in 1962-1967 (first 5 years development plan period), 11 in 1968-1972, 11.8 in 1973-1977, 10.0 in 1978-1983, 7.4 in 1985-1989, and 6.5 in 1990-1994[94]. This decline have continued for last years agricultural sector could have gotten percentages of 5.8 in 1996, 2.2 in 1999 from all the investments (SIS, 2000).

For the period 1987-1999 considering sector distribution of encouraging investment documents, except for the portion 16.6 % in 1990, the agricultural sectors proportion in all encouragements is too low, about 1-2 % level.

Yet it has been seen that investments in agricultural enterprises were insufficient to change the real capital structure. Some research on agricultural enterprises shows, wealth of land accounts for a high proportion (80-90 %) of overall passive, and the majority of this (75 %) is of fields. Nevertheless, wealth of land in EU has a lower proportion (61 %) of overall passive in 1993[87].

Table 2.9
Usage Level of Main Agricultural Inputs

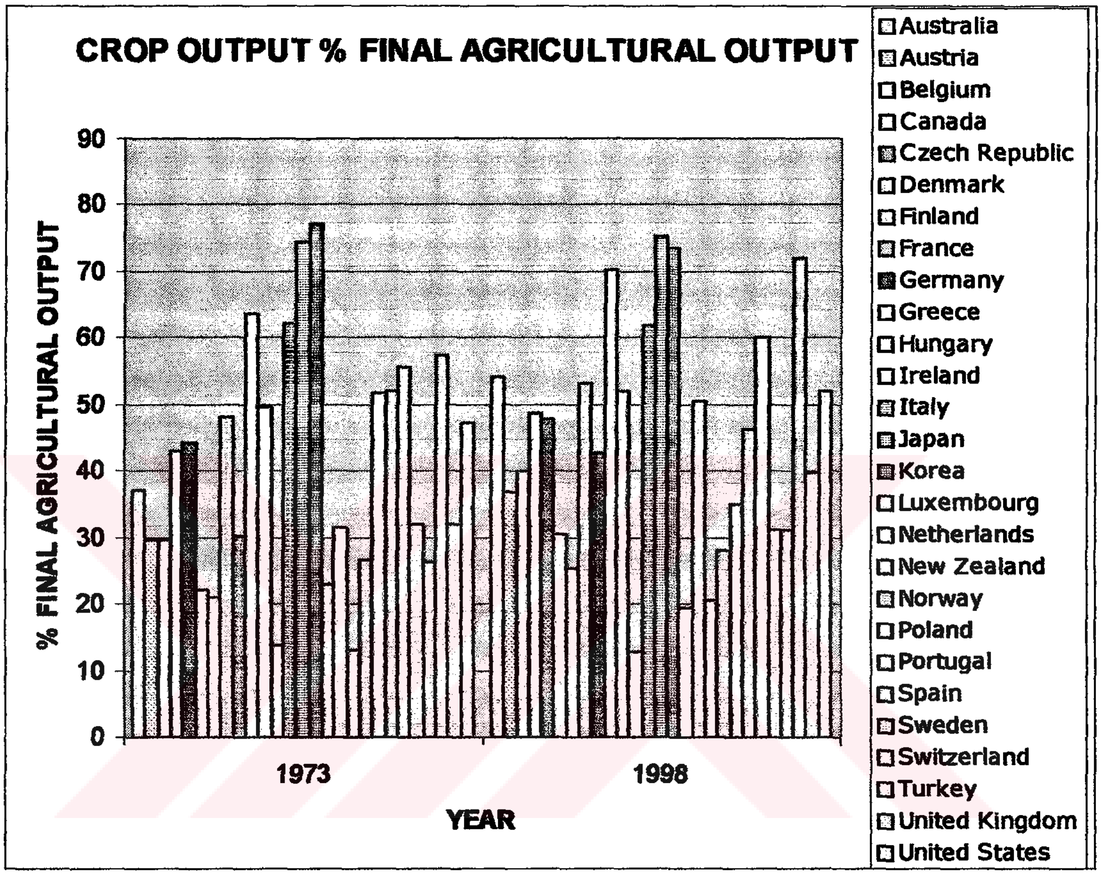
Inputs / Years	Fertilizer		Pesticide		Tractor	
	1000 tons	kg./hectares	1000 tons	kg./hectares	Unit	Unit/100ha.
1950	42	2.6	-	-	16585	0.1
1960	106	4.2	14.7	0.6	42136	0.2
1970	2145	79.0	25.1	0.9	105865	0.4
1980	5697	211.8	39	1.4	436369	1.5
1990	9515	343.3	35	1.3	695000	2.5
1992	9735	353.0	30	1.1	725993	3.03

Source: Tufan and Sayın, 1995.

2.1.7. Input Use in Agriculture

Table 2.9 gives usage level improvements of main agricultural inputs during period of 1950-1992. Considering by input types:

(a) chemical fertilizer: Chemical fertilizer usage rose from only 42 thousand tons in 1950 to 425 thousand tons in 1963, and to 10 million tons in 1992 in Turkey. Fertilizer per hectare was 2.6 kg. in 1950, and 353 kg. in1992. However, the improvement is not enough for EU level. To represent the active substance per hectares, usage of fertilizer is 631 kg. in Holland, 383 kg. in Deutschland, 341 kg. in France, and 72 kg. in Turkey[88].



Graph 2.6: Crop Output Percentage
Source: National Accounts of OECD, Countries Volume 1 OECD Main Economic Indicators, May 2001, Paris

(b) agricultural tools and machinery: Tractor comes first between power machinery in agriculture and tractor number per agricultural land unit used as measurement of agricultural mechanization level. Tractor number per 100 hectares treated agricultural land in Turkey was 0.1 in 1950, 0.2 in 1960, and 0.4 in 1970, subsequently increased quickly and past 2 in 1992 (Table 2.9). This level is beyond the world average but below the improved countries. Tractor number per 100 hectares treated agricultural land is 19.6 in Germany, 8.4 in France, 7.8 in England, and 6.3 in Greece.

(c) agricultural struggle pesticide: The amount of agricultural struggle pesticide used was too low before 1960, increased in 1960-1980, and declined after 1980. For treated land of 100 hectares, usage amount is about 1.1 kg. in Turkey.

Turkey's productivity of some important field products is fairly back of EU countries. This is the result of low usage of productivity expander inputs, and structural problems such as inefficient use of machinery for the absence of effective producer ccoperatives (Table 2.10)[89].

Table 2.10
Productivity of Some Important Field Products

Products / Countries	Productivity (Kg./ hectares)				
	Wheat	Barley	Corn	Sugar Beet	Sunflower
World	2238	2184	3852	33621	1154
Improving Count.	2115	1515	2699	29015	1155
Turkey	1941	2093	4016	34699	1389
Western Europe	4803	4041	7895	54036	1256
French	6554	5513	7886	68284	2080
Germany	6747	5302	7228	50951	-
Greece	2550	2427	10588	61053	1476
Spain	2016	2096	6773	46160	621

Source: Tufan and Sayın, 1995

2.2. TRADE OF PRODUCTS RELATED TO AGRICULTURE

In 2001, overall agricultural trade between Turkey and the EC showed mixed tendencies. EC imports of agricultural products originating in Turkey increased by 14 % to € 2,188 million. EC exports to Turkey decreased by 24 % to € 771 million. The trade balance in favor of Turkey amounted to € 1,417 million compared to € 903 million in 2000. EC imports were dominated by fruit and nuts. Raw hides and skins, cotton, essential oils and fats, beverages, spirits and vinegar were the main export goods from the EC[90].

In 1970, the proportion of Turkish agricultural products in total exports was 74 %. This ratio had been declined to 18.1 % until 1990. For some major agricultural exporters of EC in 1990 same percentages show: Greece 27.8 %, Ireland 23.7 %, Nederland 22.8 %, Denmark 22.4 and Spain 15.3[91].

The purpose of Turkish Agricultural Policy was self-sufficiency rather than to maximize import revenues until 1980s, so Turkey had been satisfied being a small sized net agricultural exporter. The Liberalization Program of 1980 changed this way of thinking to such an extend directing Turkish farmers not only compete in conventional agricultural products but also compete in European and World market by exporting the remaining ones. On the route of same program, the tariffs on the agricultural imports from Europe and World were gradually cancelled. Thus, now, Turkey acquires 35 % of foodstuff imports from EU and makes 40 % of foodstuff exports to EU. In general, Turkey imports livestock, cereal plants, vegetal and other kinds of oils from EU, in return exports fresh fruit, vegetable, hazelnut, treated agricultural products and tobacco to EU.

The second largest market for Turkey is Middle - East which has a steadily increasing export proportion (8 % in 1965, 30 % in 1990). As the results of study of Kançal (1989) on comparison exports of Turkish agricultural products to EC and Middle - East shows, for some products when the proportion of Turkish agricultural exports to one market increases while the other decreases (F. Kaymakçı 1992 p.9). Against the proportion of Middle - East exports increases and EC's decreases on meat, dairy products, egg, bottle cork and lumber, reverse occurs on fish, other sea products, fruit, drinks and oil seeds exports. For these products the proportion increase in one of these markets compensates the others decline. From the beginning of 1990s Turkey's export on sugar, tuber products, fiber, animal and vegetal oil increases in both market while tea, tobacco and cereal plants have a negative tendency.

2.2. COMPETITIVENESS-WEAKNESSES OF TURKISH AGRICULTURE AND WORLD MARKET SHARE

On the research about competitive power on 'Turkey versus EC', The Foundation of Economic Development had found tobacco, hazelnut, raisins, and leguminous plants superior; but onion, potato, and other tuber products have little competitiveness[34]. The advance of amount of tuber products produced in such a short period worth to be subject of another study.

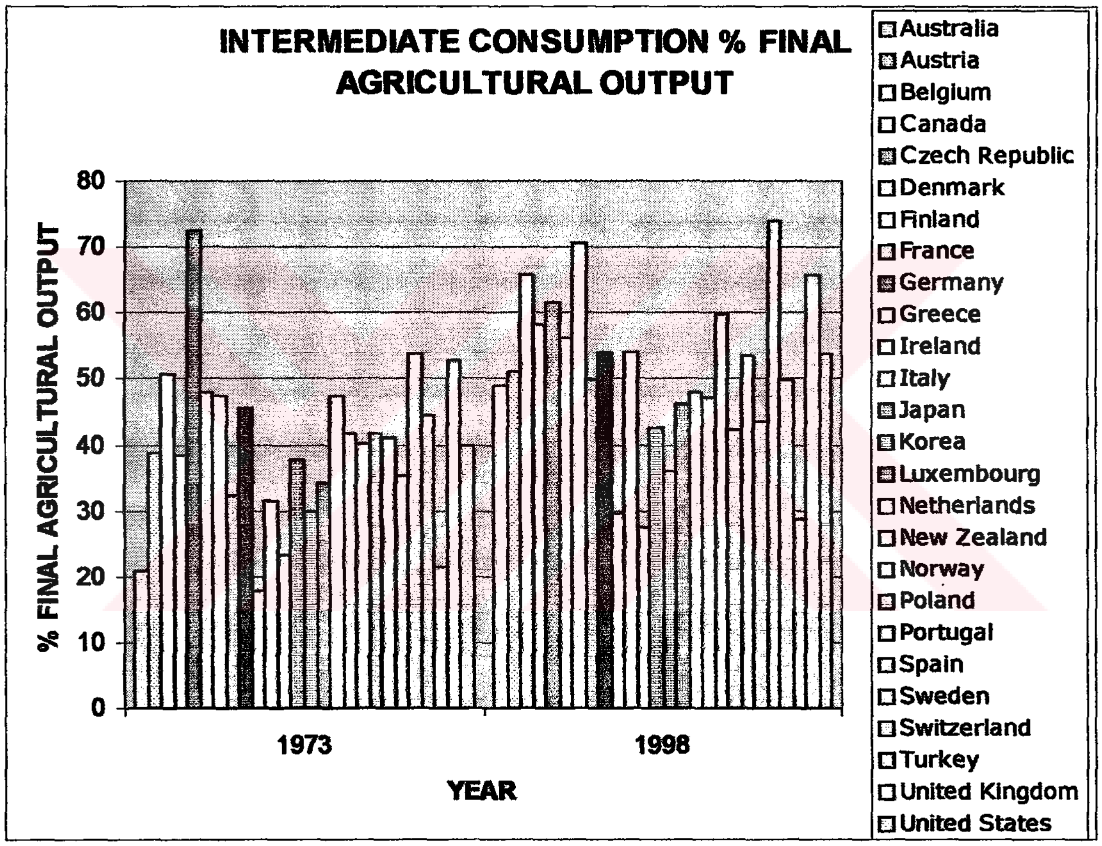
The Turkish Government has continued to implement the agricultural policy reform, which started in 2000. This reform consists of the replacement of many agricultural price support systems with a system of direct income supports; an 'Alternative Crop Project' aimed at the substitution of tobacco, tea and hazelnut production; the restructuring of the agriculture sales co-operatives and co-operative unions; the phasing out of input and credit subsidies; and the privatization of state-owned enterprises such as food industries.

2.2.1. Agricultural Support Systems in Turkey

Currently, the agricultural support systems in Turkey are, in some significant ways, different from those in the EU. The support systems in Turkey mainly focus on selected products basis of market price support and through farm input subsidies. On the other hand, one of the fundamental objectives of the Common Agricultural Policy of the EU is to provide direct income support based on historical (reference) yields together with a comprehensive system of subsidies and intervention applied at production, importation and exportation stages in order to protect and enhance the competitiveness of agricultural products in international markets.

In Turkey only modest amount of funds in recent years have been allocated to direct farm income support. Even though Turkey's agricultural sector may be quite competitive in certain products, the excessive price support system, not unlike the EU agriculture, has led to inefficiency and has de-emphasized productivity.

A recent general equilibrium analysis[92], which built on *representative* national consumer and with a special *comparative assessment* similar to Turkey, concluded model results revealing output consequences of the warranted shift of agricultural support policies from price subsidies to direct income transfers are likely to be deflationary. Under the new agricultural income support regime, results also reveal an increased ratio of the stock of debt to GDP, with interest costs rising and further curtailing capital investments. With relative contraction of the gross domestic product, the burden of the fiscal debt is more severe, and the path of private consumption is significantly impeded. Consequently, the initial (modest) gains of consumers' inter-temporal welfare turn negative over a longer period.



Graph 2.7: Intermediate Consumption
Source: National Accounts of OECD, Countries Volume 1 OECD Main Economic Indicators, May 2001, Paris

However, unfortunately in Turkey's case, price support policies were not successful and did not produce targeted results for producer incomes, since subsidies were heavily directed to certain farm inputs such as fertilizers and chemicals, and covered only a limited number of products. In EU's case, subsidies are comprehensive and well thought out in terms of increasing producer incomes. In Turkey, the support purchase prices, above the world average, caused an increase in the cultivation areas of certain crops, thereby resulting in excess production and forcing the state to purchase excess amounts, which in turn brought about high stock costs. With a view to lessening these problems, the system on "Directly Income Support for Farmers" is designed to extend to the whole country as a new means of agricultural support.

On the other hand, it is important to note that the EU agricultural sector is one of the most protected and heavily subsidized agriculture sectors in the world. As a result, the EU is currently confronted with the pressing problem of oversupply for a number of agricultural products. It is because of this reason that the CAP has been increasingly restricting and regulating the supply of certain products. Due to the problem of overproduction and the burden of subsidies on the budget, the Community is taking actions towards restructuring the CAP through reducing subsidies and letting product prices merge with international price levels. In fact, taking into account the huge burden the enlargement process will bring to the budget, it is still unclear whether the candidate countries will be incorporated into the CAP following full membership.

2.3.2. Progress of Turkey's Aligning Fisheries System for 2001-2002 on Regular Report by EU

No progress has been made with regard to resource management, inspection and control, structural actions, market policy, state aids and international fisheries agreements. Concerning fleet registration, Turkey has continued the implementation of the pilot vessel registration system started in 2001. The transfer of anglers and vessel licenses to a database is complete and the fishing records of the vessels are being used for statistical purposes. The system is still not in line with EC requirements.

2.3.3. Overall Assessment on Progress of Turkey's Fisheries System by EU

Turkey has made little progress in the alignment of its fishery policies with the acquis. It should make more resources available to finalize preparatory work in this field. Turkey is a member of the General Fisheries Commission for the Mediterranean. Its application for membership of the International Commission for the Conservation of

Atlantic Tuna is still pending, but Turkey applies its recommendations on fisheries management. Turkey is supporting the efforts to set up a Regional Fisheries Commission for the Black Sea Region. Turkey has to step up efforts to reform its inspection and control bodies and train and upgrade human resources and equipment. It has to modernize and align its fishing vessel register.

Turkey should increase its efforts to establish producer organizations, improve licensing and registration of fishing and aquaculture activities, and introduce a Hazard Analysis Critical Control Points system into fish handling and fish processing enterprises. There is a need for gathering harmonized fishery statistics and market (including price) information as well as marine biology data. The Report of 1998 mentioned that Turkey had a well-established fishing industry, and that weaknesses in the sector include enforcement of health standards and inefficient processing methods. It also added that in the absence of detailed information about the organization of the market for fishery products in Turkey, structural policy and the management and conservation of fish stocks, it was difficult for EU to assess Turkey's capacity to apply the acquis in this sector. Since 1998, no progress has been achieved in aligning legislation with the acquis.

Major discrepancies with the main elements of the EU's fisheries policy remain, particularly on resource management, inspection, control, market, and structural policies. Turkey should focus further efforts on modernizing the fleet registration system, on establishing producer organizations and on aligning with the acquis in this field. Administration, inspection and control systems should also be improved. More resources should be made available to finalize preparatory work in this field. The difficulties of fisheries system may be dealt as a unique subject in another study.

2.3.4. Progress of Turkey's Aligning Agricultural and Rural Development System for 2001-2002 on Regular Report by EU

Limited progress in aligning legislation has been made. Agriculture in Turkey accounted for 12.1 % of gross value added in 2001, as compared to 13.6 % in 2000. Just over one third (35.4 %) of the Turkish labor force allocated in the agricultural sector in 2001[93]. This figure is similar to that of in 2002, the State budget for agricultural policies amounts to approximately €1,690 million. Out of the total agricultural budget for 2002, €875 (an additional amount of €312.5 million has been transferred from the 2001 budget to the relevant 2002 budget lines) million finances direct support schemes to farmers and €815 million is devoted to general support measures. State support to agriculture, including rural development, represents about 2.76 % of the State budget. Input support measures have been abolished as of 2001 (EUROSTAT, Turkish Budget 2002).

The Government has been implementing a nation-wide farmer and land registration system. Approximately 2.2 million farmers (nearly 60 % of the total) as well as about 11.8 million hectares of farmland (50 %) have been registered. Electronic crosschecks are made using title deeds, farmers' IDs and plot numbers.

Cadastral work on rural areas has been progressing. It now covers about 85 % of the rural areas. Ten percentages of cadastral maps are now digitized. Furthermore, Turkey has enacted a law changing inheritance rules, with the aim of reducing farmland fragmentation. Beyond the improvements on Veterinary and phytosanitary issues, including food safety; with regard to s*pecialized crops,* a *tobacco* law was adopted in January 2002. It aims to end state-subsidized tobacco purchases as of 2002, and to introduce auction sales, individual purchasing contracts between producers and buyers and the liberalization of the market. As regards *sugar*, two pieces of implementing legislation relating to the sugar law were adopted in 2002. They relate to the rules and procedures of the Sugar Board and to sugar quotas. The latter lays down principles and procedures for the determination, allocation, cancellation and transfer of companies' quotas as well as for the new quota allocations.

2.4. ADAPTION OF EU LEGISLATION IN THE FIELD OF CAP

Turkey-EU relations in the field of agriculture, from the point of view of ensuring the free circulation of agricultural products, are characterized by three processes:

harmonization of the Turkish agriculture with the CAP; implementation of a preferential regime (agricultural concessions) between the parties on trade in agricultural products; and the system on processed agricultural products.

2.4.1. Accession Partnership Document

The most challenging job for Turkey during the process of alignment with the acquis communautaire will be the transposition of the EU agricultural legislation into the Turkish legislation. More than half of the EU legislation, which covers around 80,000 pages of document, is related to agriculture. Agricultural sector is heavily protected and subsidized in the EU. Moreover, CAP of the EU is quite detailed and intricate in application.

Turkey's agricultural policy differs substantially from the CAP. Turkey needs to undertake major efforts to align with the Union acquis. The first priority is to set up basic mechanisms and administrative structures to be able to manage agricultural policies. Within this framework, as it is spelled out in the Accession Partnership Document, Turkey is required, interalia, to establish a well-functioning land register system, to further improve agricultural statistics, and to upgrade inspection and control mechanisms particularly on veterinary and phytosanitary matters, including at external borders. The further development of producers' organizations in conformity with European Union legislation and the establishment of financial mechanisms (FEOGA) appear to be of consequential importance.

It is equally important to improve the overall quality standards and safety further of agricultural products in Turkey. In this respect, as a matter of priority, veterinary and phytosanitary legislation to combat diseases is put in place, including the necessary structures for enforcement and control. This would entail training, upgrading of laboratories and other relevant equipment for inspection, and sampling in order to exercise sufficient quality control.

It is apparent that the short-term priorities listed in the Accession Partnership Document are measures that shall be taken by Turkey not only to harmonize with the CAP but more importantly to strengthen the inadequate infrastructure of the agricultural sector, which lags behind the one in the EU. In parallel with the priorities of the Accession Partnership Document, the National Program adopted by the Turkish government on 19 March 2001 contains the legislative, institutional and administrative reforms and human and budgetary resources, Turkey intends to deploy in the above-mentioned issues.

2.4.1.1. Turkey's Short-Term Homework about Accession Partnership (Adopted by the Council of the EU on 14 April 2003)

Council of the EU assigned Turkey's short-term homework about accession partnership (State Planning Organization General Directorate for European Union Affairs, Ankara) as:

(a) complete the establishment of animal identification systems, which are a key element of the Integrated Administration and Control System. Also, begin preparatory work on other elements such as the land parcel identification systems.

(b) prepare a strategy for the introduction of the EC rural development policy and the forestry strategy.

(c) adopt a veterinary framework law and acquis harmonized secondary legislation; strengthen the human, technical and information resources of the relevant administrative, scientific, testing and inspection bodies; ensure enforcement of legislation; step up animal disease eradication efforts, contingency planning and monitoring capacity.

(d) identify sites for the development and operation of an EC-compatible system of Border Inspection Posts with third countries.

(e) adopt a program for transposition of the veterinary and phytosanitary acquis; strengthen the administrative, scientific and technical structures enabling the efficient and effective implementation of the acquis on plant protection, in particular laboratory testing; strengthen inspection arrangements both of the domestic production as imports of plants and plant products, as well as in food-processing establishments.

2.4.1.2. Turkey's Medium Term Homework about Accession Partnership (Adopted by the Council of the EU on 14 April 2003)

Council of the EU assigned Turkey's medium-term homework about accession partnership (see http://ekutup.dpt.gov.tr/ab/kob/2003i.pdf, 08.06.2003 for the full paper) as:

(a) complete the establishment of the Integrated Administration and Control System.

(b) set up the administrative structures required for the implementation of EC rural development policy and the forestry strategy.

(c) adopt the legal basis, administrative structures and implementation mechanisms for the establishment of common market organizations and effective monitoring of agricultural markets.

(d) submit a plan and timetable for upgrading the system of Border Inspection Posts third countries in line with the acquis.

(e) re-organize and strengthen the food safety and control system and upgrade its human, technical and financial resources to ensure that EC food safety standards are complied with.

(f) establish an up-grading plan with timetables to modernize food-processing establishments to meet EC hygiene and public health standards, and further establishment of testing and diagnostic facilities.

2.4.2. Overall Assessment on Progress of Turkey's Agriculture by EU

A direct income support system is under implementation. All crops are currently eligible for the per-hectare payment, the only criterion being that the land has been cultivated. Farmers must have at least 5 hectares to be eligible; farms of fewer than 5 hectares will be aggregated so that they can benefit from the direct income support system. Aid is limited to a maximum of 20 hectares per farmer (see http://europa.eu.int/comm/agriculture/external/enlarge/countries/turkey_en.htm, for details 15.06.2003). With respect to **horizontal issues**, the Government should focus on completing the land/farmer registration system and on establishing the key elements of the Integrated Administration and Control System. Turkey is also encouraged to continue its work on the preparation of the EC's organic farming system. As regards the implementation of trade mechanisms, work is needed to improve market access of agricultural and food products.

As regards **common market organizations**, the new tobacco law is a step in the right direction, through the introduction of an auction system and individual purchasing contracts between producers and buyers. The provisions on market access, of tobacco products and monopolistic control over imports are not in conformity with the rules of the Customs Union. As regards sugar, the new law has some similarity with the common market organization in the field. Turkey is encouraged to adopt the legal basis and implementation mechanisms for the establishment of common market organizations. Turkey is encouraged to press ahead with the establishment of appropriate and efficient administrative structures, including those for effective monitoring of agricultural markets.

Regarding **rural development**, Turkey is encouraged to finalize the assessment of the EC legislation and continue plans to develop a comprehensive rural development strategy, with appropriate administrative structures to support restructuring and development of the agricultural and rural sectors.

Concerning the **veterinary field**, Turkey is still in an initial phase of transposition and therefore it is encouraged to step up its preparatory work in order to align with the Community acquis. The rapid adoption of a Framework Law would be a welcome step.

Turkey is also asked to step up implementation efforts concerning animal disease control (including finalization of the preparatory studies). In particular, it is necessary to establish OIE standards in diagnosis and test methods, to increase analysis capacity of veterinary laboratories and to achieve their accreditation. Improvements in vaccine quality control and production are also required. Studies concerning contingency plans for OIE List A diseases need to be completed and tested. Disease surveillance and eradication programs and epidemiological capacity should be strengthened and extended, through upgrading of equipment and training of veterinarians and other staff.

Turkey is furthermore encouraged to establish a national plan for upgrading agri-food establishments on the base of the relevant acquis. The veterinary border inspection points and border control in Turkey should be modernized in terms of facilities and equipment (including laboratory and information technology) and strengthened with sufficient numbers of trained veterinary officers, technicians and auxiliary staff in order for them to be operated in conformity with the acquis requirements.

In the **phytosanitary sector,** the acceleration of the adoption of pending legislation concerning harmful organisms, pesticides and plant variety protection would be a welcome development. The administrative capacity to enforce existing and new legislation to monitor and control diseases needs to be upgraded. Turkey is encouraged to establish new, or to refurbish existing, plant health laboratories within the most important border inspection posts for agricultural products. The laboratory capacity for residue monitoring and control of plant-protection products should be upgraded.

Turkey has made some progress in the adoption of implementing **food safety** legislation, mainly as part of the Turkish Food Codex. Turkey should continue its efforts to achieve full harmonization with the acquis and to accelerate adoption of legislation on HACCP and GMP controls. As regards institutional reform, the number of the authorities overseeing agriculture, forestry and rural development, their organizational complexity and the diverse geographic coverage of their respective decentralized offices result in cumbersome structures where responsibilities are dispersed and often shared between different entities. This situation renders the definition and implementation of the common agricultural and rural development policies difficult. A phased and gradual inter-institutional reorganization is required to make these authorities more efficient. **Food safety** controls in Turkey require much reinforcement. Existing control procedures do not sufficiently ensure that food complies with the food safety standards established in the acquis. More training of responsible officials, harmonization and standardization of sampling and testing procedures are needed. Key areas of food safety and control in Turkey which are essential for progress to be achieved in practice are the establishment and implementation of rapid alert systems, risk assessment, technical and hygienic improvement of food processing establishments through the setting up of food safety systems, particularly GMP and HACCP. Public health laboratories need to be equipped and procedures for accreditation need to start.

In its Report of 1998, the Commission encouraged Turkey to reform its agricultural policy, to align its agricultural policy on the CAP and to achieve free movement of agricultural products. Since then, Turkey has made progress in its agricultural reforms by reducing state intervention through the introduction of a switch from agricultural price support and agricultural input subsidies to the establishment of a flat rate direct income support scheme per hectare. No progress has been made on liberalization of agricultural trade. Progress on alignment with the acquis in the field of agriculture is limited. In general, progress in terms of alignment with the acquis in agriculture, forestry and rural development policies has been limited. Turkey should focus further efforts on continuing its agricultural policy reform process, in particular the implementation of the direct income support scheme and the crop substitution scheme, as well as the restructuring of co-operatives, and the privatization of state owned enterprises. It should take forward the establishment of basic mechanisms for the implementation of agricultural policies (registration of land, farmers and bovines). Work should start on the establishment of a plant passport system. The alignment of veterinary and plant health legislation, including the establishment of appropriate administrative structures, with the acquis should be accelerated.

2.4.3. The Project on Quality Framework and Export of Turkey

The financial agreement on the project of “Supporting Turkey’s Quality Framework” which is financed by EU was signed in 17 April 2001. The project was financed by MEDA

II (Mediterranean Development Programme 2000-2006) budged and had objectives of to test and documentation of the products according to EU norms, accepting and harmonizing to the EU standards, to form necessary mechanism to acquire an efficient market control and thus to aid the endeavor of canceling the technical obstructions on trade. On the framework, the support for five years by The Commission would include a donation sum of 13.6 million Euros. The first step of the project is to prepare a national report about present Turkish condition of quality framework. The second step is technical support by way of cooperation with international and European institutions working on Turkish public and private sectors in education, advisement, translation, evaluation, document procurement; standardization, doing test, to document and drives with the aim of giving information to public. This project will help harmonizing Turkey's technical legislation and eliminating technical restrictions on trade, so assist her harmonization of quality framework; because of increase of product quality, it will raise the exporting performance of Turkey. Furthermore, with accomplishment of technical harmonization a product that is tested and documented in Turkey and open to market control by EU rules would have free movement. In the extend of the project there is also giving knowledge to consumer, public and private sectors about convenience evaluation and the results related the acceptance of EU legislation.[94]

2.5. ADAPTATION OF STATISTICAL INFRASTRUCTURE INTO EU LEVEL

In most fields, Turkey's *statistical* infrastructure is still very different from that of the EU. Co-operation between the Turkish authorities and Eurostat has started recently (EC Commission 2002 Reg. Report on TR.). Insufficient infrastructure of Turkey has been a huge bricking stone on the road of agricultural investigations made before 21st century. For example on all the studies examining the results of probable full membership, the first proposal was to overcome the need for insufficient reliable data[95]. Systemic work was essential about gathering the data which to reflect Turkish Agriculture best. The other proposals of these empirical studies were: - Instead of assessing agriculture separately of other sectors, to apply mathematical model to other sectors would make good use of studies' results more. - Whatever the methodology is used in until it would be worthwhile to create a climate in which all studies discussed more systematically together (Arıkbay C. 1992, p. 94)[96].

The short of reliable statistical data amass about production because of the multi purpose of production. Producers have different aims on the agricultural products and it is very hard to estimate the amounts consumed, bartered or stored by time.

On progress through advancing in harmonization with EU Turkish Ministry of Agriculture and Rural Affairs started to accumulate all the reliable enumeration system on a countrywide network. It is a registration system and improving the quality of the government services behind the other educational side effects. Only special stuff has right to access the system and quick improvement of the data permits optimist predictions for Turkey about reaching soon the member states' level at least on macroeconomic and regional statistics by improving the administration structure of Statististical Institute of State three years later from first consultation with Eurostat in June 2000[97]. Census results were 883 681 for agricultural enterprises, and 4 724 156 for cattle in 14.11.2002 at 12:30 pm, turned out to be former 1 210 084 and latter 6 900 262 in 17.06.2003 at 14:30 pm. The maximum data process was highest in April 2002 (9 502 cattle's record in Edirne) while the lowest in 31 March 2003 (256 cattle's record in Şırnak)[98].

III. EXPECTED BILATERAL CHANGES OF AGRICULTURAL STRUCTURE AND POLICY IN THE CASE OF FULL MEMBERSHIP

In case of full membership of Turkey with second major population, highest accession membership time, limited environmental habits and fiscal policy options would be a center of worry. Just like the worry of welfare effects of CAP on Turkey and product grouping harmonization to EU. Therefore, Turkish Agricultural Policy probably would have been affected by the EU accession process. There are rural problems of both sides and environmental worries more at EU member states, which can affect investment costs and would not end in short. Turkey needs improvements on the taxation structure to have an effective policy instrument for agricultural support.

3.1. POPULATION WORKING IN THE SECTOR

Considering the enlargement process of the European Union, Turkey's accession to the EU will increase the population of the EU-15 by nearly 17 %, surface area by 24 %. Enlargement will have major effects on the agricultural sector. Turkey's agricultural employment of 9.7 million people will unquestionably have significant implications for the EU's agriculture sector, where 6.9 million people are employed in the 15 member states. Although, the share of agricultural output in the whole EU economy accounted for 1.7 %, the value added generated through agricultural sector reached 133.9 billion. In Turkey, where agriculture is still a significant sector with a share of 12.1 % in the total GDP, it accounts for an output of merely 54 billion (see Graph 2.5)[99].

3.2. Time Needed During Harmonization of Agricultural Policy

CAP is reconciliation after bargaining between member states and a soft policy that can be reshaped by pressures, and new bargaining coming from both applicants and member states of EU. Turkish Agricultural Policy (TAP), dated back of the desired program of Turkey-EU Association Council decision 1/95. Although basic agricultural products have been excluded from the initial package, a preferential trade regime for these products has been adopted on 1 January 1998.

Further efforts are expected to be made in the same direction. Moreover, Turkey is progressively adopting many aspects of the Common Agricultural Policy. On the other hand, under the Customs Union Decision, the EU is expected to take as much account as possible of Turkey's agricultural interests when developing its agricultural policy.

Briefly, the observations proved that Turkish and European Agricultural Policies have vaguely uniting conditions and date actually; so it is hard to estimate truly the dimensions of products. The objective of the study would be to criticize the direction of effects of union under certain assumptions.

3.2.1. A Static Partial Equilibrium

For Turkey, it is possible to examine the welfare effects of the conversion from TAP to CAP by partial equilibrium analyze on affected groupings. These groupings are farmers, agricultural product consumers, and taxpayers.

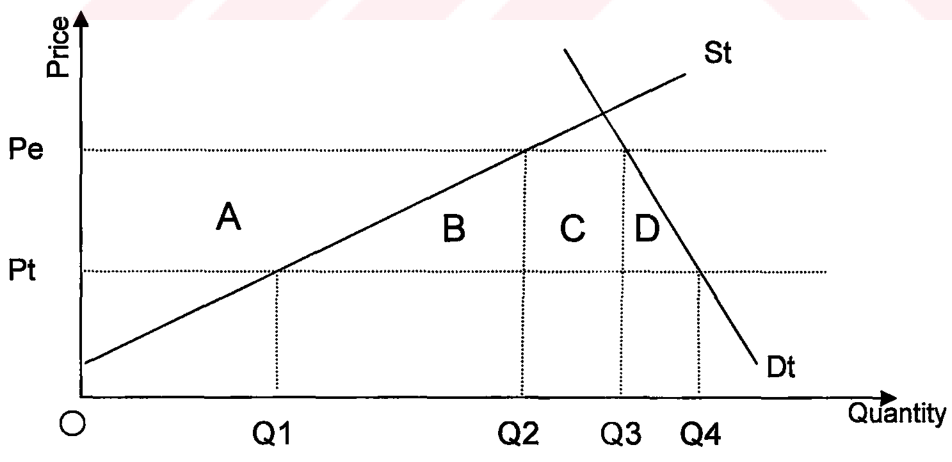


Figure 3.1: Welfare Effects of CAP on Turkey

Figure 3.1 shows a market model after accepting CAP in Turkey, it is assumed one or more products produced elastically represented by St curve, because producing and exporting capabilities of Turkish farmers will be unlimited with the producer and treating help of FEOGA after accession (Musto in Körner and Shams, 1990; Yurdakul et al,1992). It is assumed that intervention foundations are willing to buy all the agricultural production at intervention price Pe. Considering the demand side, Turkish demand curve Dt is not so elastic, because Turkish agricultural producers ought to reserve a little for themselves what ever the prices of these basic foodstuffs are. Therefore, higher EU agricultural price level is going to affect slightly the aggregate production demand.

Transition from Pt to Pe, would force Turkish consumers to pay more to imported or produced agricultural products resulting a slight decline at consumption from Q4 to Q3 level. Therefore, under CAP Turkish consumer surplus would decrease just as represented area D. Area B also represents the production loss of resources by permission to the inefficient Turkish enterprises to enter the market with high Union prices. Effect on taxpayers with abolishing reciprocal tariff and non-tariff restrictions is represented area C and supposed to be independent.

On the other side, high prices would provide price advantage to domestic producers, so production increase from Q1 to Q2. Area A represents producer surplus gain. Under mentioned conditions, these areas show the welfare changes of beneficiaries. For Turkey accepting CAP will cause a net welfare gain because producer surplus exceeds the sum of consumer and production diversion losses (Figure 3.1: A > B + D). In other words, one unit change on price level of agricultural products would have an entire effect on producers' income, while a 35 % portion of allowed expenditure of producers' income is affected (Kaymakçı, F. 1992 p.27)[100]. This rise in agricultural products and consequent improvement in agricultural income cause an indirect welfare effect to consumers in Turkey, which has a great active rural worker population. To apply all the CAP measures have a greater welfare gain effect on producers than negative welfare effects on consumers and taxpayers.

The report of State Planning Organization (SPO, 1990), supported the same argument. Report predicted that if Turkey had applied CAP in 1988 than would have gained nearly $1 billion (this would mean an increase 18 % overall welfare level) net profit. Same study had forecasted net welfare gain of $8.3 billion if the Turkey applied CAP in 1995. Study concluded that Turkey would have gained a net profit by transition to CAP, and later it would be higher.

Policy and price differentiation have different effects on consumers and producers depending on the type of the products in the market. Therefore, it is hard to asses all the effects by only aggregate production and consumption accounts because the differentiation of prices affects production and consumption especially for some product types oppositely.

3.2.2. Harmonization of Turkish Agricultural Policy with CAP for Product Groupings

Turkish agricultural structures have been evaluated as product groupings because of the above-mentioned difficulty. Because of the fragmented structure and investment problems of Turkish Agriculture different government supports have been applied through time, and seems to be same for a while considering the Union.

3.2.2.1. Cereal Plants

Self-sufficiency proportion of cereal plants except maize and rice exceeds 100 per cent. This excess supply has been continued for long years, it caused stocking and intervention expenditure problems. Especially MacSharry reforms declined the support prices by 30 % on three stages[101]. Therefore, set aside applied for cereal fields and no-production aid to the farmers is paid to compensate equal income.

Turkish self-sufficiency proportion is generally about 100 %. Grain consumption is rather high. Turkey consumes 200 kg. cereal plant per capita a year which, is only 90 kg. in EU. Although in small descending proportions, cereal plants are subsidized in Turkey. It is not supposed to be considerably different in harmonizing after concession looking reciprocal conditions. Nevertheless, cereal plant production (whether in effectiveness or productivity) should be higher in Turkey, where overpopulation and high grain consumption is common. Otherwise, Turkey would be a good market for European surplus.

3.2.2.2. Industrial Plants

The most important industrial plants are sugar beet or cane, cotton and tobacco. Both Turkey and EU are self sufficient in sugar beet and cane. The preferable commerce of sugar opportunities from franchise of old colonies had gotten it expensive to pack sugar beet or cane in the EU. Sugar consumption is rather high in Turkey. 'Turkish government guarantees to purchase all the sugar beet production. Therefore, the production fluctuations are up to designated price levels only. This monopoly factor eases the harmonization of uncompetitive Turkish Sugar Agriculture to CAP[102].

The insufficient tobacco production develops quickly in especially Italy and Greece. Supports are indirectly asserted by way of domestic product purchasing commercial units[103]. During the reform process on the rural development after MacSharry, EU poor area tobacco packer income support (initial percentage 80) was pulled down. The instrument for this rebate was quotas by tobacco kinds in EU, keeping an eye on qualified tobacco production by supporting the producers with 40 % of total subsidies (SOĞUK, H. 2001, p.64). EU is the biggest world market with nearly one third of imports and one sixth of exports of general world trade (web cites of OECD, EUROSTAT, and DEİK {Foreign Economical Relations Organization of Turkey}, 31 May 2003). Turkey exports one third of her orient tobacco production traditionally. With Ankara Agreement (1963, Article 10) EEC applied tariff reduction and with additional protocol (1963, Article 2) tariff exemption to Turkey. Therefore, Common Agriculture Policy easily adopts Turkey on tobacco. Cotton production level shows insufficient supply for both sides. The supply gap level in EU is rather high while Turkey exports a declining portion of her production and has a great production possibility. This potential would be well used by the projects of changed irrigation area such as Southeastern Anatolian Project. EU can absorb nearly all production improvement of Turkey by importing cotton. Because Turkey had diverted the other countries' exports to EC, quickly increasing her shares from 58.6 % in 1986 to 94.3 % in 1987.

3.2.2.3. Oily Seeds

Pod, soybean, sunflower productions are weaker branches for both side. While EU is nearly self sufficient on pod, and Turkey has a great production amount besides fluctuations. If Turkey could have efficiently used her production capacity, it would not be so hard for EU absorbing the surplus. There is a serious endeavor on purpose.

3.2.2.4. Olive Oil

Mediterranean region owns 99 % of olive oil and Turkey takes the fourth place after Italy, Portugal, and Greece with 9 % of total. EU is biggest producer and consumer of the world[104]. Agenda 2000 proposed to support the quality, production, and supply-demand equilibrium by increasing the guaranteed purchasing proportion by 31.6 %. EU accepted and quotas divided and distributed among member states. Additionally production support was limited with newly (from 1998 on) planted olive seedlings, and abolished the public intervention purchases and consumption subsidies. Instead, EU applied special stocking system that is more flexible (SOĞUK, H. 2001).

Turkey had a hard challenge harmonizing to CAP on olive oil in short run. To fulfill the adaptation Turkey should amend the same policies as in EU[105].

3.2.2.5. Fresh Vegetable and Fruit

EU is almost self sufficient in fresh vegetable while not in fresh fruit. Turkey had a comparative advantage on both product groupings in changing proportions according to product types, because of different climate, and environment conditions. However, production type forces to store in cold depot or to use up. To use her advantage Turkey would need to overcome some shortages about storage, standards and marketing.

Considering the EU market dominances, Turkey owns the greatest portion in hazelnut and raisins while Iran comes on top in peanut and USA in walnut and almond[106].

3.2.2.6. Meat, Milk and Dairy Products

EU has excess production. Most of FEOGA guarantee section payments go to milk and dairy production. There is a big loan of interference at EU level, and external trade regime turned out to apply quotas and changeable tariff to imports, refunding exports (İNECİ, S. 1992, p. 89). Comparing with Turkey EU is superior in fruitfulness, efficiency, and consumption. Therefore, it is quite hard for Turkey to adopt herself into CAP on these sectors. For meat, Turkish government subsidies (interest-free credits) are too low comparing the quantity with those in the EU[107].

3.3. NEW STRUCTURE WITH MINIMUM SPECIAL POLICY OPTIONS

The accession to full membership of Turkey bears two crucial uncertainties. First CAP is a moving target and second Turkey cannot see it because of the uncertain date obstacle on front of her. Therefore, before investigating the EU accession process affecting the agriculture policy of Turkey and the harmonization process there should be some assumptions. First EU is supposed to be living as today and common agricultural policy trend remains the same. Second is Turkey would be a full member of the European Union at 2013 as the French and German scientists predicted after Leaken Summit (2002). This ten-year period is quite a long period but considering the intense conservative nature of agriculture would not hinder to predict about everything.

3.3.1. EU Accession Process Affecting the Agriculture Policy of Turkey

The majority of effects on Turkish Agricultural Policy to bring forth by the accessing membership of Turkey would be effective in the course of harmonizing to CAP. Actually after the harmonization is completed, Turkey would be full member of EU and would have the right to vote to affect the CAP, which have taken place of TAP. Following the assumptions some probable changes on Turkish Agricultural policy would be:

(a) European Council with the help of other institutions of the EU will have the right to decide on agricultural policy as a whole including Turkey and beyond her initiative. FEOGA will finance the agricultural policy of Turkey. Former seems negative and latter looks like a positive change for Turkey.

(b) accepting CAP would cause the product prices to increase looking from the macro-economic point of view. This would increase the producer income to rise while high prices negatively influence consumers. If the non-agricultural wages increase also, inflationist pressure would get higher.

(c) the number of subsidized agricultural products would go up. Actually, grain, tobacco, and sugar beet have supports. In case of full membership, supplements would be industrial plants such as pod, soybean, sunflower, dried herb, milk and dairy products, beef and mutton, fresh vegetable and fruits, wine having FEOGA funds.

(d) free movement for Turkish agricultural products would start. For the subsidized products different prices would be assigned for inner or outer Union.

(e) farmers would figure out revenue and expenses before beginning the production because of the product prices would have been assigned before.

(f) with the rise in supported production type number, subsidizing cooperatives would function and producer organizations would become a powerful part of marketing the products. Fruit and vegetable wholesalers, commission agents, brokers etc. would be driven out of business.

(g) on the course of CAP, EU guaranteed prices for grain, sugar beet, rice, fresh vegetable and fruits, wine, milk and dairy products, beef and mutton. EU does direct income aid to olive oil, tobacco, pod, sunflower, linen, and marijuana; does production hectares or by the piece aid for cotton, silkworm, dried herb, and so on. The farmers producing these products would make good use of the same aid in case of full membership.

(h) there is excess production on grain, milk and dairy products, olive oil. EU developed some measures to shorten the production (production quotas, common responsibility levy, reduction in support prices, set-aside). Turkey is supposed to limit productions of excess products also.

(i) production factor subsidies would be cancelled.

(j) TAP that supports vegetal agriculture would turn out to support raising of domestic livestock by CAP.

(k) because of low agricultural value added Turkey would have low EU budget appropriation and the third countries would export comparatively low amounts of agricultural products, the contribution to the budget would be lower too[108]

.

(l) quality standards in agricultural products would improve besides packaging, transports, and storage conditions.

(m) actually traditional export products of Turkey such as hazelnut, tobacco, and raisins enter into EU market rather liberally. During the negotiation period of harmonizing to CAP the market conditions and supporting measures would encourage production on the related products. But Turkey would export nearly the same amount. Fresh vegetable and fruit demand would be higher, because of the improved standards, so some more export opportunities would be talked of.

(n) changing types on the production, turning small enterprises to be medium or big sized enterprises, retiring the old farmers would be parts of Turkish Agricultural system. FEOGA would compensate the loss.

3.3.2. EU Accession Process Affecting the Agriculture Structure of Turkey

Possible changes on the agricultural structures of Turkey under the accessing membership of EU conditions are:

(a) development of a country generally causes agricultural portion in economy to rise absolutely but to descent proportionally. With accession to membership, this formation woul accelerate. Actually, agricultural productions' ratio is around 12 % of GDP and supposed to decline at least to half of it.

(b) Turkey's agricultural population in general active working population is 35.4 % and rather high (SIS, 2001). A great portion of working people would be driven out of business after accession to membership. A migration to urban areas from rural areas would increase. Therefore, the ratio is supposed to fall to the level of Greece, which has the highest in Union with half of Turkey.

(c) the eliminated employees would cause high unemployment if they could not have been charged in industrial sector.

(d) industrial improvement and urbanization would change consuming habits. Demand would rapidly improve for expensive consumption. This would cause additional demand, import, and reform of the supply accordingly[109].

(e) foreign trade values would change just as the change of domestic agricultural product. The proportion of agricultural trade values of Turkey and other member states are actually very close.

(f) some reduction in vegetal excess production and some increase to meet the deficit is possible. For example, grain production except maize would decrease while sunflower, pod, soybean, olive, fresh vegetable and fruit production increase.

(g) Turkey would become EU's net importer of beef and mutton, milk and dairy products if she could not improve the production capabilities during harmonization.

(h) forestry and water products trade would increase. Foreign investment on water products would increase in Turkey.

(i) optimal sized enterprises would increase in number. Uncompetitive enterprises would not survive. Villager agriculture would reshape as agricultural enterprises. FEOGA will afford the expenses.

(j) modern factor usage would increase (tractor, chemical fertilizers, irrigation). This would lead to a rise in productivity of Turkish Agricultural enterprises, and production cost would decline in Turkey. If the efficiency at productivity levels of EU and Turkey converge than a sudden expanse of Turkish agriculture would be under consideration.

3.3.3. Special Policy Options for Turkey

Agricultural Policy possesses a strong dependence to macro-economic policy. "To put healthy agricultural policies into practice is impossible unless healthy macro-economical policy. Immoderate macro economy is the first excuse of Turkish Government for not carrying out agricultural policy commitments"[110]. High inflation rate, high interest rate, excess valued Turkish Lira policies negatively affect agriculture. To harmonize is rather hard without solving the structural problems.

The overvalued Turkish Lira against other money units causes foreign trade equilibrium to be lost in agriculture. This policy increased agricultural imports, while getting competitive power of agricultural exports down. This policy is pointed out to be just the reason of situation in livestock raising.

High interest rates diverge investors instead of agricultural investment to treasury bonds, bank deposits, shares etc. unproductively.

High inflation rates weaken the effect of agricultural subsidies. Reiterating delays in government subsidy payments to farmers cause waste of them under inflationist conditions.

It is clear Turkey would not be able to decide on her own Agriculture Policy by herself. There are two obstacles on Turkey's way. First GATT/WTO agreements decisions, and second the obligation to comply with the EU CAP. Turkey should consider these restrictions.

With the liberalization of international trade of agricultural products, the participation of Turkey may increase. Nevertheless, developed countries' high initial tariff assignation would delay the trade round effects of WTO.

Turkey would carry her WTO obligations out about liberalized trade while complying with the Customs Union with EU. To harmonize to the CAP rules is not an obstacle on putting the WTO decisions forward.

The number of the agricultural aid institutions is too high to be effective in Turkey. "Therefore, for a functioning support system, a unique administrator institution should direct a fund for agricultural aids. This institution should be under constitution of Ministry of Agriculture and Rural Affairs. The Council of Ministers should transfer some authority power to this institution (KAZGAN, G. 1996, p. 23)".

Harmonizing CAP concept requires Turkish Agricultural producer organizations to simulate the Europe. This requires building up a special cooperative structure for every product type. "Cooperativism is not supposed to be perceived as etatism. Cooperativism is the most democratically participation form of private enterprises. These enterprises studying harmonious along with the administrator institution would help agricultural section on registration of producers, education of the producers, transferring production aids to owners. (KAZGAN, G. 1996, p. 23)"

The first thing harmonizing to the CAP is to make producers into a grouping, which has an organizational structure. This is a way to improve the productivity by lowering the production factor prices too.

EU predicted the dynamism of CAP, and difficulty in harmonizing. Therefore, Turkey should inspect the improvements. As a general trend in CAP, the direct supports take the place of high production prices. There are no production factor subsidies, as Turkey proceeded leaving this policy.

CAP production supports and changeable aids would be applied during harmonization, instead of some subsidies, which are exceptional, and causing fiscal deficits on Turkish Government Budget. Another crucial subject on this policy is "The reform on the CAP was applied after excess production, storage, and fiscal aid problems. EU assigned great fiscal amounts to the project. But Turkey has got neither excess production nor fiscal opportunity.[111]" So it is necessary to select the suitable production to support.

The price supports are for only grain, sugar beet, and tobacco. Turkey should support oily seeds, olive oil, beef, mushroom, goat meat, milk and dairy products by direct support methods. Direct income support for olive oil, oily seeds, milk and dairy production, and credit support for livestock production would be suitable. Factor subsidies can be canalized this way. For tobacco and tea production, tax restrictions and quality promoting measures should be implied. Virginia and Burley tobacco production would increase Turkish exports.

CAP excluded some products such as tea, and potato. Turkey should improve a special agricultural policy for these products.

Price support system as in the CAP should designate the product prices before the planting season, so producers could make a sowing plan. Purchases should be done 'step by step price policy' and in certain intervals during the year. Price support system should consider the geographic situation. For example if geographical condition gives permission to irrigation than encouragement should be on cotton instead of wheat. Productivity differences between regions are of critical issue just like soil analysis.

Private sector should be encouraged on storage and transportation improvements. "Import and export policies should be reconsidered on livestock and production should be supported to save the sector. A special fund should be arranged to credit the farm, feed plant production facility should be a precondition[112]".

Another problem in customs union on agriculture would be related to definition. "The basic agricultural products and butter, powdered milk, meat, sugar etc. are considered as first degree treated agricultural products. So they are protected during both on production and treatment stages (SPO, 1966, p. 213)". Therefore, EU tariff reductions are meaningless for Turkey on these products.

The fragmentation of agricultural fields should be stopped. Counter - fragmentation encouragements such as credits for uniting inheritances, joining enterprises, and gathering of fields by companies should be applied.

Soil analysis for the proper fertilizing should be seriously taken into action. Teaching to farmers, fields that contains first classified soil should be assigned only for agriculture. Border trade analyses for healthier products by integrated labs are crucial.

Rational factor usage in agriculture would profit more for the workers. Agricultural improvement would cause the agricultural population to decrease. The migration to urban areas should be restricted, say by refunding only for treated fields. Rural agriculture related industry is a crucial factor of this improvement. Old, child and woman agricultural employment are difficulties reshaping the agricultural industry.

3.4. SECOND PILLAR OF CAP & TURKEY

Win Grant (1997, p. 220) distinguishes three phases in the development of EU rural policy. In the first phase from the foundation of the common market to the early 1970s rural development, was equated with agricultural development. Agriculture's general social function was seen to be keeping the out migration from rural areas at acceptable levels. From the 1970's to the 1980's there was an emphasis on integrated rural development within the context of a rural policy, using the EC's structural funds. A third, more recent, phase has seen a greater emphasis on environmental issues and an increasing recognition of the limits of achieving a solution to the problems of remoter rural areas through the CAP.

Nevertheless, rural development policy continues to be a significant aspect of the EU'S activities. Objective 1 assistance covers regions whose developments is lagging behind and whose GDP is less than 75 per cent of the EU average (the outermost regions of the Union and the former structural fund Objective 6 regions were assimilated to Objective 1 from 2000 to 2006). This covers the islands of Ireland, Portugal and Greece, 60 per cent of the population of Spain, and over a third of the population of Italy. Objective

2 covers those rural areas confronted with structural problems that do not come within the scope of Objective 1. As well as a low level of socioeconomic development, the areas selected must have met other criteria, such as the total share of population accounted for by agriculture, the level of farm income, and population density. The leading beneficiary was France, and France and Germany between them account for 59 % of the population covered. Some arguments suggested, “Since manufacturing and services are shifting to smaller communities, the economic vitality of rural areas does not depend on agricultural production, so it may be more efficient to foster rural communities through improved infrastructure for transportation and communication rather than through agricultural support” (Win Grant, 1997, p. 220). This is worth to be considered on another study.

3.4.1. Rural Development Policy of EU

The new policy for rural development will help to establish a coherent and sustainable framework for the future of Europe's rural areas. For the Commission this has always represented a key element in the discussions on the future of the CAP (Agriculture Council's Political Agreement on CAP Reform before Agenda 2000). The new policy is guided by a multi-sector, integrated approach to rural development. On the one hand, it recognizes that farming plays a number of roles including the preservation of the rural heritage. On the other hand, it recognizes that the creation of alternative sources of income must be an integral part of rural development policy.

A major innovation has been to bring a series of rural development measures together in a single, coherent package offering support to all rural areas in three main ways:

(a) by creating a stronger agricultural and forestry sector: The principal measures include those for the modernization of agricultural holdings and for the processing and marketing of quality agricultural products. In addition, the viability of agricultural holdings will be facilitated by measures for the establishment of young farmers and through improved conditions to encourage early retirement from farming. Forestry has been formally recognized as a key element of rural development for the first time where a new measure will seek to support the sector where it serves an ecological function.

(b) by improving the competitiveness of rural areas: Here, the principle objectives are to support the quality of life of the rural community and to promote diversification into new activities. The measures are designed to create alternative sources of income and employment for farmers and farming families and for the wider rural community.

Table 3.1
Rural Development Policy Payments in EU

Table of Amounts		
Measure	Payment (Euro)	Reference
Setting-up aid for young farmers	25 000	
Early retirement scheme	*15 000	per transferor and year
	150 000	total amount per transferor
	3 500	per worker and year
	35 000	total amount per worker
Compensatory allowance in less favored areas:		
Minimum	25	per hectare of areas used for agriculture
Maximum	200	per hectare of areas used for agriculture
Support for agri-environmental undertakings:		
Annual crops	600	per hectare
Specialized perennial crops	900	per hectare
Other land uses	450	per hectare
Premium to cover losses from afforestation		
• for farmers or associations thereof	725	per hectare
• for any other private law person	185	per hectare
Payment related to protective and ecological role of forests:		
Minimum compensatory payment	40	per hectare
Maximum compensatory payment	120	per hectare
* Adjustable subject to respect for total amount		

Source: Newsletter of European Commission Special Edition - 11 March 1999

(c) by maintaining the environment and preserving Europe's unique rural heritage: Agri-environment measures will support environment-friendly agricultural methods. They will be the only compulsory element in the new generation of rural development programs and hence a decisive step towards the recognition of the multi-functional role of agriculture. As an additional measure which will help in the further 'greening' of the CAP, the traditional compensatory allowances in support of farming in less favored areas will be extended to areas where farming is restricted by the existence of specific environmental constraints.

Guiding principles for the new rural development policy are those of decentralization of responsibilities and flexibility. It is for the Member States to come forward with proposals for rural development programs targeted at an appropriate geographical level. They can draw on a menu of rural development measures set out in the regulation according to their needs and priorities. The regulation itself reflects a major step in the direction of the simplification of European legislation: a single text replaces nine previously existing regulations.

Outside the European Unions least developed regions, the so-called Objective 1 regions, rural development measures will be financed from a single source: the FEOGA - Guarantee Section. This underlines the fact that because of the decisions taken in the Council rural development has become the second pillar of the CAP.

3.4.2. Turkey in Rural Problems

Comparison between EU (15) and Turkey leads to some facts[113]. Turkey has the higher rate of crowding with 1.77 %, whilst lowest Portugal has only 0.13. The increase of GDP by constant national prices is highest in Ireland with 6.65 % while lowest is in Italy with 1.36 % and Turkey's average position with 3.13 falls to lowest in per capita values. Turkey's population is 65.82 million and GDP is 408.21 billion ($ by PPP) while EU total population is 378.88 million and GDP is 8 328.07 billion ($ by PPP). If Turkey were a member of EU, would be second in population, sixth in GDP and the sixteenth in GDP per capita. The decrease in population acceleration speed is lower than the speed of GDP improvement (the lowest with Italy and Germany with 1.35 %) so the number of inhabitants is a serious problem for Turkey.

Considering rural population a descending trend in the proportion was seen in Turkey. Percentages are between 1927 and 1950: 85, in 1970: 61, in 1980: 56, in 1990: 41, and actually 34 (in 2003 with 22 205 740 persons). Through a study on agricultural worker demand, 35 % of rural population or in other words 10 % of total population is founded enough. The statistics of rural employees of agriculture have hidden 56 % of unemployment[114].

Especially during planned era Turkish governments, turned trade balance against agricultural sector and implied a veiled tax. This income is distributed between public and private sectors. Private sector includes industrial enterprises and commercial sector. Especially in developing countries where the commercial sector is more powerful than the industrial sector it is likely to be the income redistribution would increase merchant and intermediary wealth more than the investment and capital of industrial sector.

The capital of the commercial sector does not increase the investment, because of the habit of the profit it is probable to be used as revolving fund with high endorsement. This is a natural cause of not to obtain desired levels of investment, employment and production[115].

3.5. ENVIRONMENT

On the question of food safety, the EU stresses that liberalization must not result in the placing on the market of products that cause legitimate concern. It points out that the URAA's (Uruguay Round Agreement on Agriculture) permission to a WTO partner to set a level of health protection that is higher than that achieved by international standards while ensuring that environment and food safety is not utilized as a device for protectionism. The measures to be applied should meet a series of conditions.

3.5.1. The CAP and the Environment

The conclusions of the Presidency of the Council based on the work of the Special Committee on Agriculture, adopted by the Council meeting on agriculture on 24 April 2001, are a contribution to this important debate. The conclusions stress the need to improve environmental indicators as evaluation tools for ensuring that the Agenda 2000 guidelines are applied as effectively as possible.The Council recognizes the importance of the work undertaken by the Commission to establish appropriate environmental and socioeconomic indicators for sustainable agriculture. Those indicators are essential tools for better integrating environmental protection and sustainable development in the CAP. The Council has asked the Commission to accompany all future proposals with a qualitative assessment of their impact in these two areas. To sum up briefly, sustainable agriculture must meet the three related economic, social and ecological challenges and its production methods must reflect the concerns of consumers. The measures to be adopted must obviously comply with existing environmental legislation and meet the general objectives of European Union environmental policy[116]. They must be based on the provisions of the reformed CAP resulting from Agenda 2000.

Those provisions cover, interalia, the policy on agricultural markets. Under the common rules on direct support schemes in those markets, Member States must lay down environmental requirements they consider to be appropriate and may make payments dependent on compliance with those requirements (cross-compliance)[117].

3.5.1.1. Development in Organic Farming

A particular trend in agriculture is the increasing interest in environmentally sustainable farming systems. Organic farming is one such approach to reduce environmental pressure of agriculture. According to the international food standard-setting body, Codex Alimentarius organic farming is based on holistic production management systems (for crops and livestock). These emphasize the use of management practices, such as cultural, biological and mechanical methods, in preference to the use of synthetic off-farm inputs (Codex Alimentarius Commission, 1999).

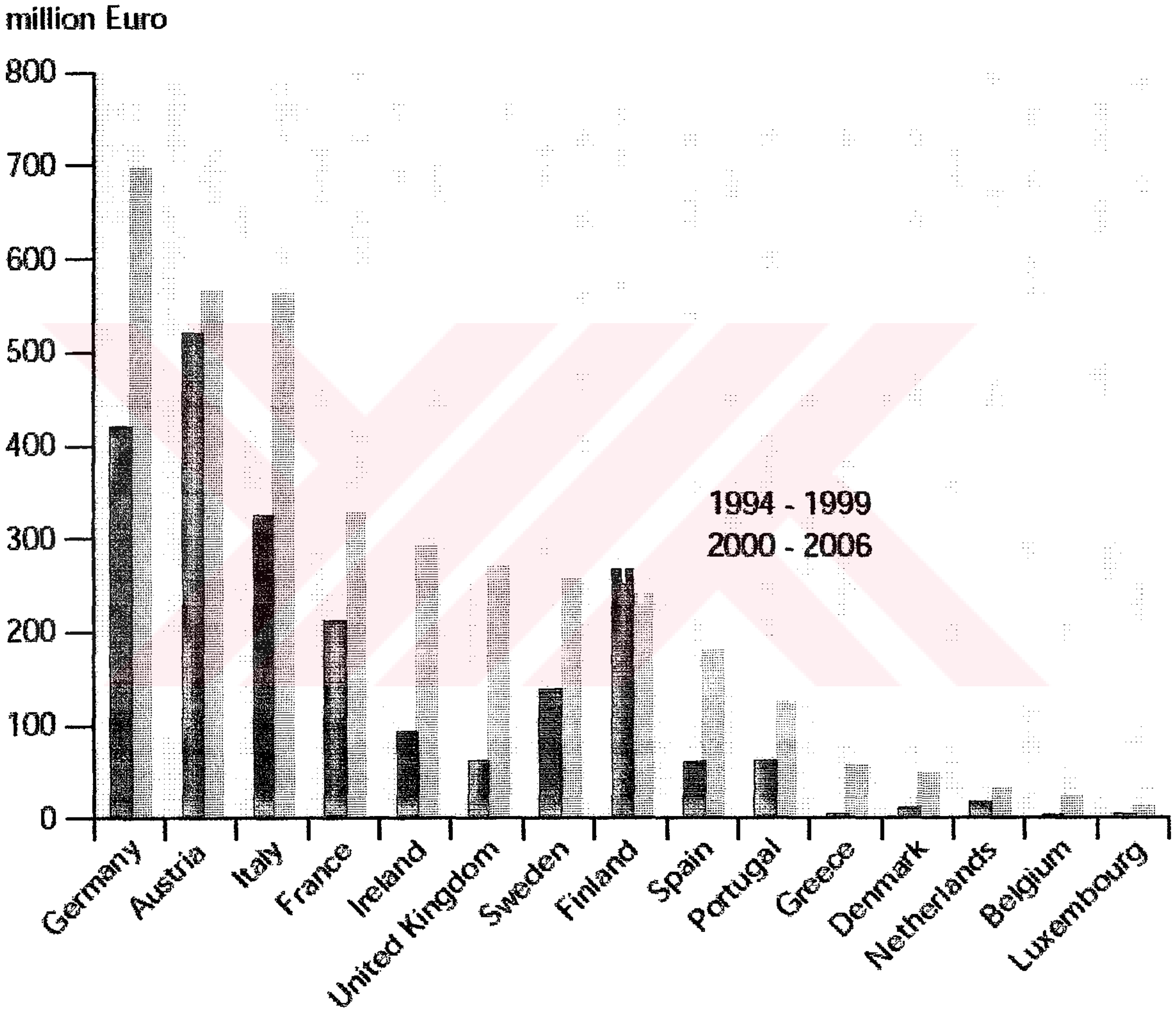
During the past five to ten years, most western European countries experienced a five- to ten-fold increase in organic agriculture and almost 3 % of the EEA (European Economic Area) is now farmed organically. In 2000, in terms of the area covered by organic farming, Italy led the way with nearly one million hectares followed by Germany (0.45 million ha), the United Kingdom (0.53 million ha) and Spain (0.38 million ha). The number of certified organic and in-conversion holdings in the EU rose from 29 000 in 1993 to 130 000 in 2000. It has been estimated that organic farming will account for 5-10 % of total farming in the EU by 2005. Important drivers for this trend include EU funding for organic farming under the agri-environment regulations and consumer concerns over food safety.

In 2000, the EU market for organic products represented EUR 8.6 billion with an estimated 10.3 billion for 2001. In 2000 Germany was the biggest market in absolute terms (EUR 2.5 billion) followed by UK (EUR 1.38 billion), Italy (EUR 1.2 billion) and France (EUR 1 billion). This is still small, however, in relation to EU's final agricultural production (EUR 240 billion). To increase the share of organic farming, the European Commission had formulated an EU organic farming strategy as requested by Agriculture ministers following the 'Copenhagen Declaration' on organic farming in May 2001.

Organic farming avoids the use of synthetic fertilizers and pesticides, thus minimizing risks of pollution from these substances. It also tends to employ management practices with less impact on biodiversity and places significant emphasis on animal welfare. Organic farming, however, also needs to address some environmental issues, such as adequate biodiversity protection, minimization of nutrient losses and soil conservation. Although further research is still required, a number of research projects and conferences have addressed the environmental impact of organic farming.

3.5.1.2. Structure of Common Agricultural Policy Support

The 1992 reform of the CAP took the first substantial step from market-based support (e.g. intervention to maintain producer prices) towards direct income support payments (e.g. payment per hectare or unit of livestock). The Agenda 2000 reform of the CAP continued this trend. Limited agri-environment schemes were introduced during the 1980s. It became a compulsory policy measure with Regulation 2078/92 and integrated into Member State rural development programs with Agenda 2000 (Graph 3.1).



Graph 3.1: Agri-Environment Scheme Expenditure
Note: Figures are for average annual expenditure and those for 2000-2006 are for planned expenditure.
Source: European Commission, 2002b.

CAP rural development measures are financed via the European Agricultural Guarantee and Guidance Fund (FEOGA) with additional co-financing by Member States. At the beginning of the 1990s, the Guidance section financed nearly all rural development measures. However, the Guarantee section has gradually increased its share and now accounts for about 60 % of rural development spending. The latter has increased substantially since the early 1990s and now stands at about 15 % of total CAP spending, including Member State co-financing. Nevertheless, the Agenda 2000 CAP reform brought no real increase in rural development spending and further efforts are required to shift a larger share of the CAP budget into environmentally sustainable rural development measures.

Rural development funding under the CAP does not relate only to environmentally - beneficial measures. It also includes general infrastructure, farm investment aids, support for young farmers, agricultural marketing and processing and other measures with no direct environmental link.

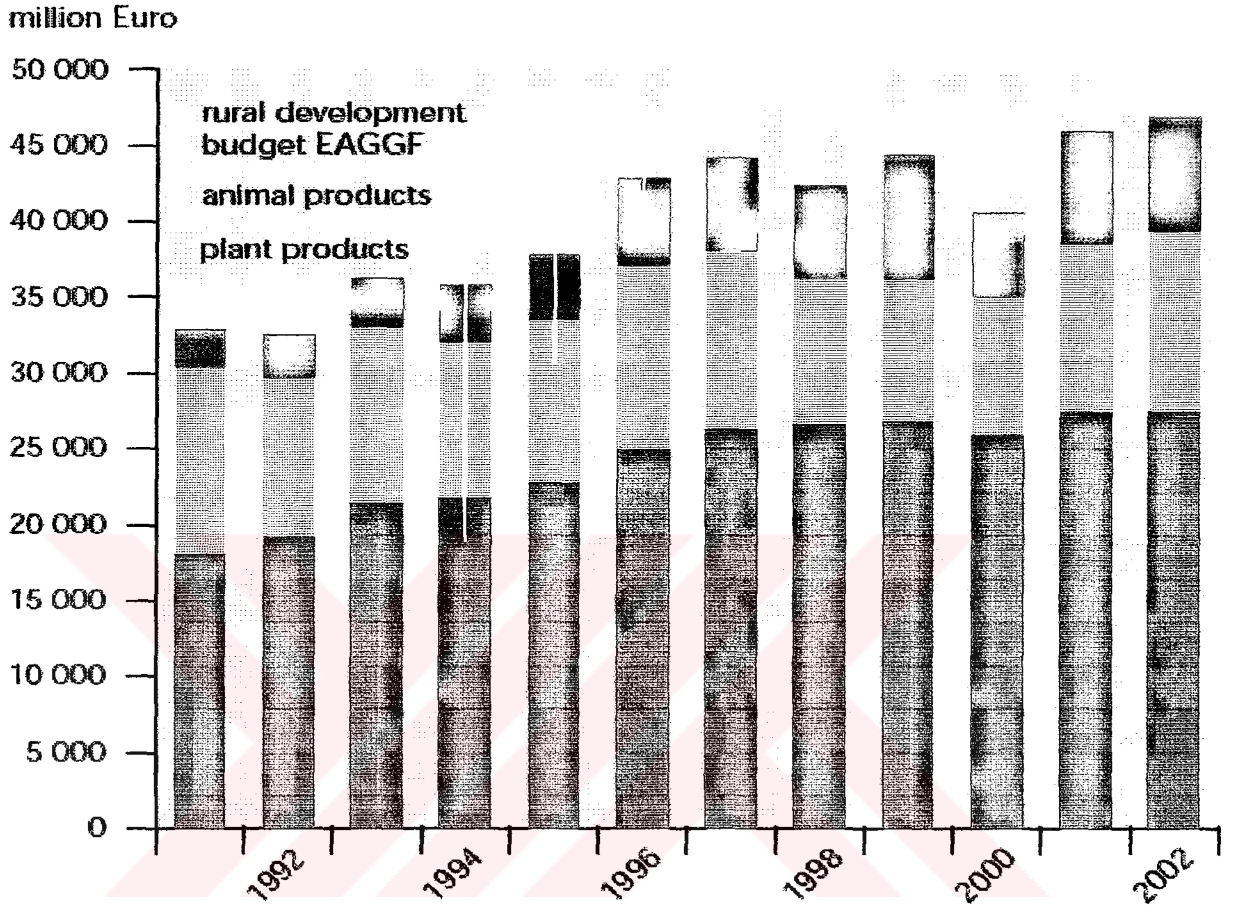
Agri-environment schemes compensate farmers for managing their land in a more environmentally friendly manner. They include measures to reduce impacts on landscape, biodiversity, soil, air and water and extend to all aspects of agricultural practice.

In 1998, one farmer in seven had an agri-environment management contract and more than 20 % of EU farmland was covered by agri-environment measures. Most evidence available to date shows that these measures lead to quantified reductions in use of inputs and the conservation of valuable farmland habitats.

However, more careful monitoring and evaluation of such schemes is still required. Substantial progress has been made in the introduction of environmental elements into the CAP (e.g. via agri-environment schemes).

However, persisting environmental pressures require further CAP reform to strengthen the economic incentives for farmers to manage their land in an environmentally sustainable way. At present, agricultural support, even the direct payments, is still largely tied to the level of (past) agricultural production rather than the reward of specific environmental services by farmers.

The enlargement of the EU to the east as well as international trade negotiations will also be important considerations in these reform debates.



Graph 3.2: CAP Expenditure on Commodity Support and Rural Development
Note: Data for 2001 and 2002 are budgetary appropriations; rural development (RD) figures include co-financing by Member states.
Sources: European Commission, 2002a and b

3.5.2. Strengthening the 'Second Pillar' of the CAP

In addition, the policy on rural development (referred to in Agenda 2000 as the 'second pillar' of the CAP alongside the markets policy) includes special environmental measures, known as agri-environment measures[118].

These provide for payments for commitments going beyond good agricultural practice. They constitute an important environmental tool, being compulsory in all rural development programs and based on a conscious, voluntary commitment by farmers to greener agriculture. The environment is no longer seen as an ‘add-on’ but as an essential part of agricultural and rural development and of the socio-professional life of farmers.

Farmers, as the first link in the production chain, have a tremendous responsibility for the sound management of environmental resources and that responsibility must be recognized. It should not be thought that more environmentally friendly agriculture means old-fashioned methods. For example, organic farming (one form of sustainable farming) uses modern, yet natural, plant-protection methods, which avoid the use of pesticides. Research carried out in universities and agricultural institutes has a key role to play in promoting innovative farming techniques that meet environmental, health and quality standards.

Finally, it must be stressed that the aim is not to call into question the objectives of the reformed CAP but rather to ensure that the measures carried out actually achieve those objectives. Fully applied, the rural development policy is an essential tool for creating the conditions for sustainable farming. Consolidating this ‘second pillar’ is one of the main priorities of the CAP. Compliance with the financial perspective for 2000–06 requires that the resources available must be used as effectively as possible, making the accurate targeting of measures and their evaluation all the more important.

3.5.3. Fiscal Resource for Development in Turkey

The agricultural contribution declined with the abolishment of “Aşar” tax in 1925. The increased productivity in agriculture can be transformed neither in 1950s nor later, to be a source of development in government budget. Tax policy could be used for increasing the agricultural productivity and effectiveness but it was not done either. Therefore, not producing enough resources and/or not transferring to the investor public sectors, a serial negativity depicted the development period.

Instead of tax policy replaced domestic trade balance mechanism, transferred the agricultural production resources to merchant sector, which has no habitant of saving-investment. Therefore, Turkish Economy could not avoid suffering without resources while income distribution had gotten worse[119].

Income tax and the similar implications like minimum responsibility or initiator production taxes are seemingly not suitable for agriculture in Turkey. In developing countries, the agricultural sector has a special job accumulating the capital. To play this role agricultural sector has objectives such as:

(a) increasing the total production, thus savings;

(b) accelerating the transformation to market-economy having money;

(c) transferring capital and work force to industrial sector.

These objectives could be achieved by a special tax system, which had been put outside of Turkey into action and improved as a proposal for Turkey before. A tax consultant called Nicholas Kaldor came in 1962 to Turkey, had advised to set a "potential production" tax depending on field size and having slightly increased proportion.

An increasing proportional agricultural income tax, which is set according to the size of the field and collected in a monetary tariff rate, may have effects on liaisons of agricultural ownership, agricultural products to come on the market, production and saving volumes.

There would be a positive effect with the tax set on the potential productivity of the field depending on the tariff rate. This is a result of an effect namely 'transformation of taxes'. Under this effect, known as the income effect of taxes also, taxpayers whose income decreased choose increasing production to obtain the old income level. Increase in production can be reached by either increasing the productivity, or increasing the factors or both.

Beyond to think on measures of increasing the productivity per unit, increasing the fields in the area is more probable. Along with the treated field area, aggregate productivity and income increase so tax may fit on profit. These two actions produce serious bricks on the rises on agricultural prices. As much the tax fits on profit, the possible future reflections lessen. Creating excess supply, production rise also stops the possible price increases. Steady agricultural sector prices, as the production rises, prepares an important precondition for transferring sources of agriculture out. If the domestic trade margins were turned to the good of agriculture, some resources would later return to agricultural sector. Setting the tax, an exemption of self-consumption or a little more the tax equity would be done for different income levels.

On the ownership side of this approach, there are areas over a certain dimension. The purpose is dissolving and weakening local big landowners. If the instrument were tax on the agricultural fields, the tariff rate would be higher proportioned above a certain level. So some lands would become more expensive to the owners. The cost increases if the area is left empty. Agricultural sector would transform accelerating to monetary economy by the collection of the tax as currency and farmers' obligatory marketing of their products. It would be hard to create agricultural market in the developing countries where the agricultural sectors have comparatively high weights. However, it would speed to transform into monetary economy undoubtedly.

Fitting tax onto the potential income may overcome some objections of the tax on gros income. Tax on gros income, may prevent accumulating of capital and improvement of agricultural sector by a heavy loan on net income above a certain production level.

Tax on the potential income, would not be effective to decline the production, as it does not produce the negative production replacement effect of income tax. Because the income tax principally would be generated after the income of economic action, the first effect would be generally to reduce the economic actions[120].

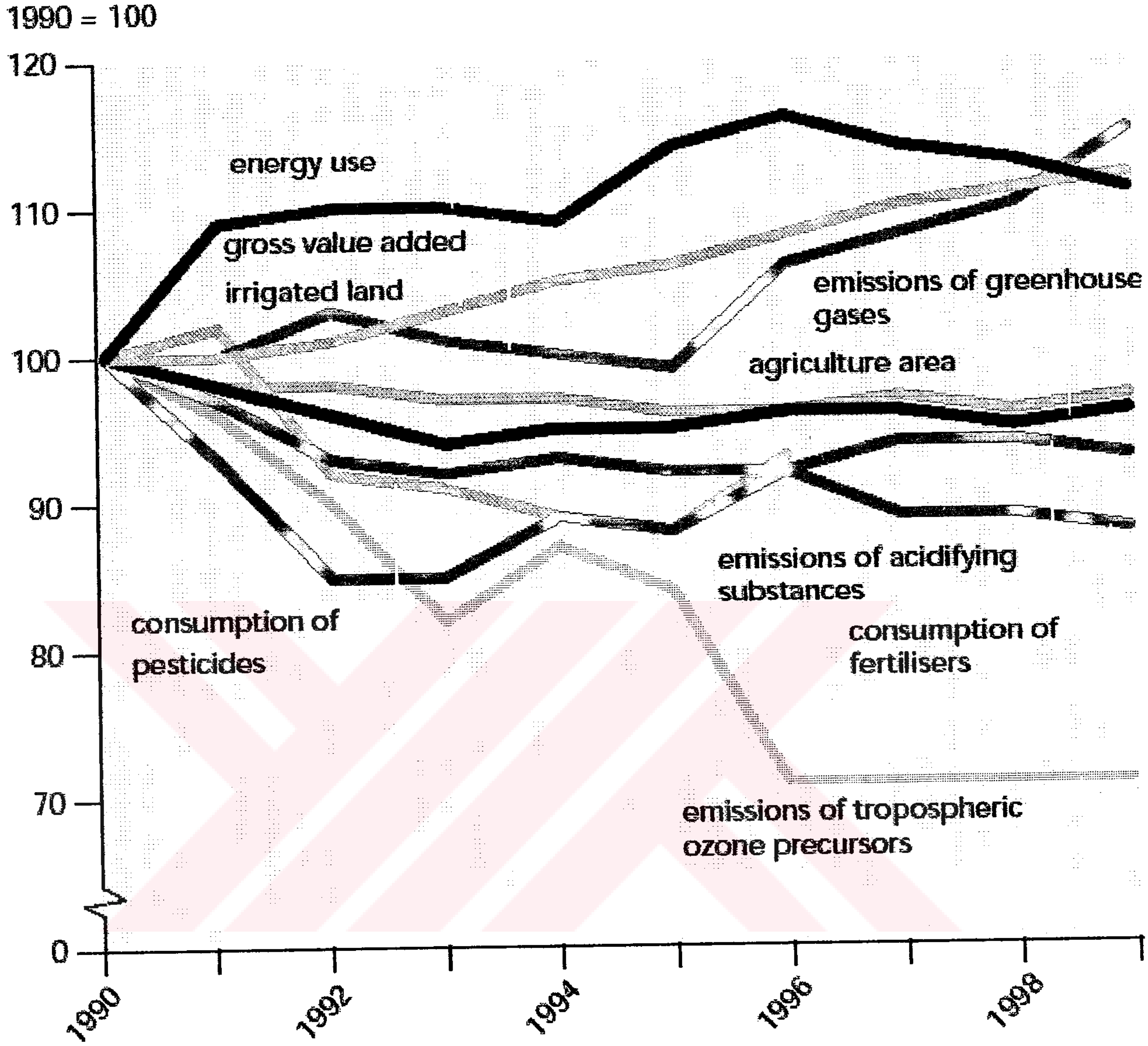
As a conclusion it can be said the properly set of agricultural potential production tax, supporting industrial sector by agricultural transfer of resources and capital, finally the family planning would be Turkey's unique capital until the quick development under the case of full membership of EU.

3.6. FOOD QUALITIES AND SAFETY

Biotechnology was a very fast developing industry in the early 1990s and the Commission has signaled that it regards this industry to be strategically important (Commission, 1991b). In 1985, world sales of biotechnology-related products (excluding fermented foods and drinks) amounted to roughly ECU 7.5 billion. For the year 2000, estimates for the biotechnology industry vary between ECU 26 billion and ECU 41 billion (Marks, 1993). However, anxieties have been expressed about dangers inherent in biotechnological techniques and their implications for human and animal health. Technical advice should be available to the Commission in the area of ethics in biotechnology so that a common system of regulation could be developed that would be based on acceptable and agreed ethical standards (F. McDonald & M. Potton Industrial Policy in the European Union, Macmillan, London, 1998 p.172-174).

The biotechnology industry is significantly affected by problems related to the protection of intellectual property rights. The economic importance attached to the protection of intellectual property in this field should not be underestimated since firms will invest in long-term high risk projects only if they are assured of adequate returns from the results of their research. Trade barriers also influence the development of the biotechnology sector because of a host of different regulations and standards, which often prevent or significantly limit trade in biotechnology products and services. The EU negotiated at the Uruguay round to establish rules for trade in the biotechnology sector. The WTO is seeking to implement these rules but trade barriers still present significant problems for the development of international trade in this sector.

The successful completion of the Single European Market for biotechnology depends on two elements – the legal framework for product authorization and the development of standards.



Graph 3.3: Components of Agriculture Eco-Efficiency, EU
Notes: Gross value added at basic prices, constant 1995 prices; excluding Luxembourg. Irrigated land relates to areas equipped to provide water to the crops; these include areas equipped for full and partial control irrigation, spate irrigation areas, and equipped wetland or inland valley bottoms. Consumption of fertilizers refers to the quantity of synthetic fertilizers in metric tones as consumed in agriculture.
Sources: EEA; Eurostat; ECPA; FAO

The regulatory system based on scientific analysis and evaluation covers worker protection and product legislation based on the three criteria of safety, quality and efficiency, which are also applied when assessing whether a product can be authorized for distribution on the open market. Standards are being developed by CEN (European standardization body) and the International Standards Organization.

Further action is proposed to develop the legal framework, the use of standards, the protection of intellectual property, and financial support for research and development. Issues related to ethical problems raised by biotechnology and the impact on consumer information and choice also require attention if this sector is to flourish[121].

3.6.1. Health Measures Taken in EU and Turkey

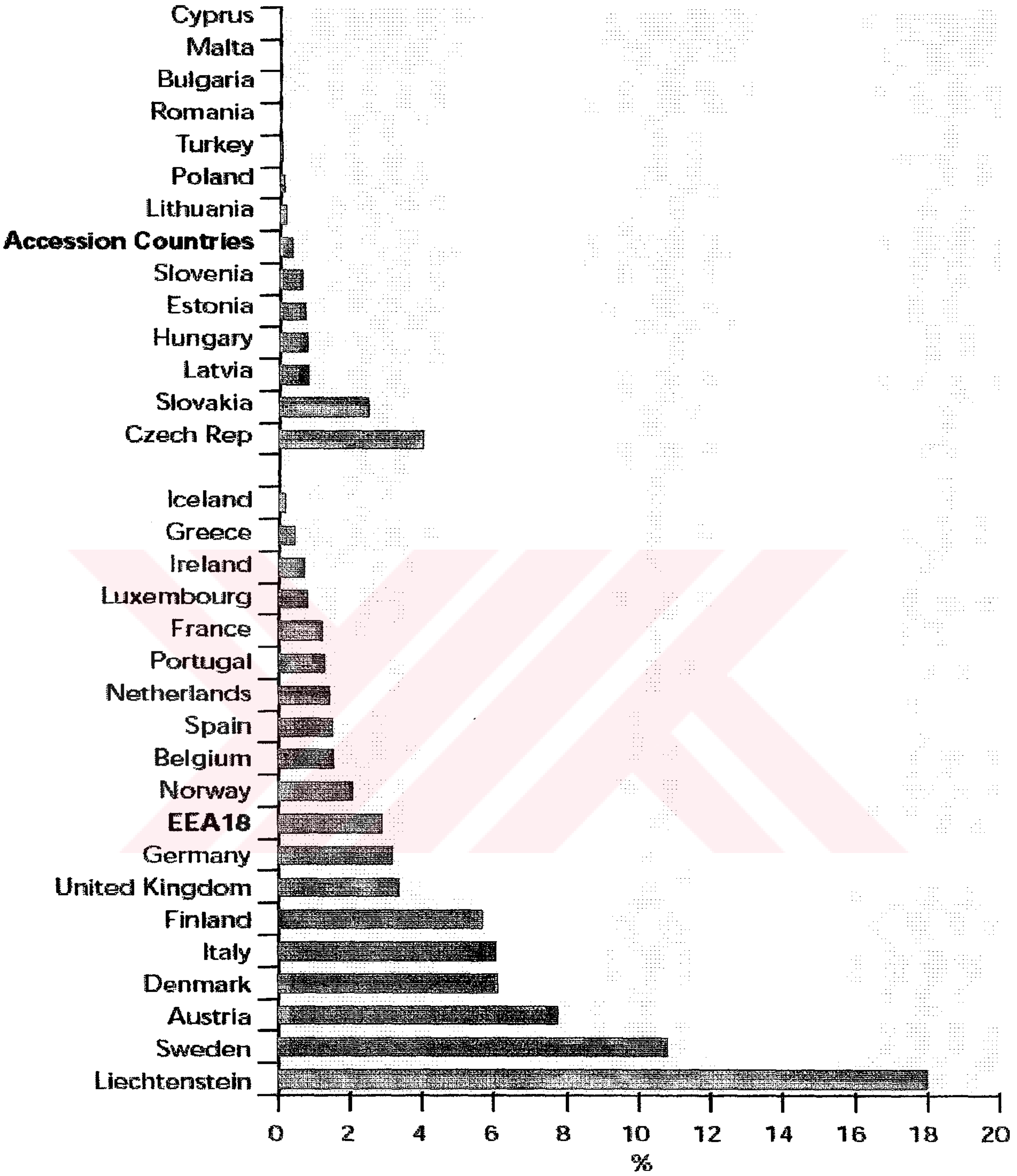
The production and consumption of food is central to any society, and has economic, social and, in many cases, environmental consequences. Although health protection must always take priority, these issues must also be taken into account in the development of food policy. In addition, the state and quality of the environment, in particular the ecosystems, may affect different stages of the food chain. Environment policy therefore plays an important role in ensuring safe food for the consumer. The food and drink industry is a leading industrial sector in the EU, with an annual production worth almost 600 billion €, or about 15 % of total manufacturing output. An international comparison shows the EU as the world's largest producer of food and drink products.

The food and drink industry is the third-largest industrial employer of the EU with over 2.6 million employees, of which 30 % are in small and medium enterprises. On the other hand, the agricultural sector has an annual production of about 220 billion € and provides the equivalent of 7.5 million full-time jobs. Exports of agricultural and food and drink products are worth about 50 billion € a year. The economic importance and the ubiquity of food in our life suggest that there must be a prime interest in food safety in society as a whole, and in particular by public authorities and producers[122]. This does not mean that the EU should be exclusively responsible for all aspects of food safety. However, it demands that all aspects of food safety are addressed at EU level. For example, EU legislation has to be enforceable in an efficient way in the Member States in line with the principle of subsidiarity.

Risk analysis must form the foundation on which food safety policy is based. The EU must base its food policy on the application of the three components of risk analysis: risk assessment (scientific advice and information analysis) risk management (regulation and control) and risk communication. [123]Agricultural eco-efficiency is improving slowly and less quickly than in other sectors. This can in part be linked to the increasing specialization of farming. The proportion of mixed farms fell from 27 % to 18 % in the decade to 1997. Although fertilizer use declined in the decade to 1999, nutrient surplus on agricultural land remains a serious problem causing nitrate pollution of ground waters and eutrophication of aquatic ecosystems. The current specialized farming practices in Europe have a negative impact on biodiversity. This is shown by the decline in farmland bird populations, which are negatively correlated with farming intensity. The common agricultural policy is one of the factors that has driven farm intensification. However, substantial progress has been made in the introduction of environmental elements into the CAP (e.g. via agri-environment schemes) [124].

Turkey had to increase developments of this critical issue through carefully productivity advances considering the relatively clearer soil. The productivity on food and feeding plants should be increased by cultivated high quality seeds, using high irrigation mechanization, and machinery instead of artificial fertilizing and nutrition.

In a study, comparison of EU and Turkey showed European farmer harvests on the same field 2.5 times more wheat, 2 times more barley, 2 times more maize, 1.5 times more sugar beet than Turkish farmer (Y. Şahin, 2002, p. 7). The organic farming seems not to be one reason for this drawback (Graph 3.4).



Graph 3.4: Share of Organic Farming by Country in 2000, EEA18 and Accession countries

Notes: Figures for 2000 are provisional. For Germany and Sweden two categories exist: organic production approved under organic farming certification system and organic farm management supported under agri-environment schemes complying with Regulation 2092/91. The figures for land under certified organic management in Sweden and Germany are 5.7 % and 3.1 %, respectively.

Source: FAO; Eurostat; Lampkin

Especially Southeastern Region (areas related and produced by GAP project) and Southern Marmora Region have fields non-polluted with pesticides and other fertilizer residues. Private sector should be encouraged to cultivate high-qualified seeds.

Agricultural sectors have a general effect on each other; especially this is solid in Turkey where the low productivity of feeding plants pulls livestock productivity down. Government wrong price guarantees should be diverted from wheat and barley out to maize, soybean, trefoil etc. to lower the factor prices in Turkey. Milk productivity of cows is one fourth of world average, livestock weights are two thirds of developed countries. Smuggling of livestock to Turkey and hand processing of milkman are other threats to health and production in Turkey. Consumption habitant of Turkish consumers converge to carbon hydrate, so in average consumes one fifth egg, one forth meat, and less than half milk of European consumer's usage (Y. ŞAHİN, 2002, p.16).

The RD (research and development) expenditures of Turkey is 0.4 percent of GDP while this percentage is 2.7 in America, 2.9 in Japan, 2.4 in Germany, 2.3 in French, 3.9 in Swiss, and 2.9 in Korea. Public sector makes 50-60 percent of total researches in French and Germany while this percentage falls to 30 in US and Japan[125]. The public good is crucial factor of human health and quality of live.

3.6.2. Veterinary and Plant-Health Mesures in Turkey

On *agriculture*, Turkey has started the registration of land and of live bovine animals. Preparations for a plant passport system have not started. Other elements under the relevant priority of the Accession Partnership have not been addressed. Concerning veterinary and plant health, an alignment strategy is under development. No upgrading of enforcement capacity has taken place. Turkey should focus on the transposition, implementation and enforcement of EC legislation in the veterinary and phytosanitary sectors. Overall, progress on alignment with the *acquis* in the field of agriculture is limited[126].

3.6.2.1. Progress of Turkey's Aligning Veterinary System for 2001-2002 on Regular Report by EU

The registration of bovines has continued. Approximately 4.5 million animals have been ear-tagged and registered, of which 3.0 million cattle and 0.4 million animal holdings have been recorded in a database. The current regulation is under review with a view to complying with the *acquis.*

As regards the **veterinary sector**, animal disease remains a matter of serious concern (foot and mouth disease, blue tongue, *peste des petits ruminants*, sheep and goat pox, and brucellosis). Since 2002, a new BSE surveillance system is in place in Turkey. It consists of inspection and monitoring of samples randomly taken from cattle which died or were slaughtered after showing neurological symptoms, and cattle slaughtered at 30 months and above. In total, 3000 different BSE diagnostic tests have been carried out. Seven implementing regulations were adopted following the adoption of the animal breeding law in March 2001. These regulations relate to embryo and sperm production facilities, to equidae studbooks, animal gene resources, registration of animal species, herdbook and pre-herdbook activities, animal breeding associations, and the principles of a national committee of animal breeding. As regards *animal welfare* and *animal-waste treatment*, no progress can be reported. The competent authority has made some efforts to strengthen the control of animal diseases and animal health. Monitoring programs have been introduced in the border regions. Control of animal and animal product movement is carried out in 11 transport control centers established in different regions. A law on animal health and control has been amended to increase the penalties for the transgression of animal control regulations. Disease-specific information manuals have been produced and distributed. In the area of public health protection, a regulation has been adopted to authorize private veterinarians to carry out public inspections and controls in slaughterhouses and meat processing plants. A regulation on veterinary homeopathic preparations entered into force in February 2002.

On *animal nutrition*, progress is limited to the publication of a circular withdrawing the authorization for use of anti-coccidiostats as additives in animal feed.

As regards the **phytosanitary sector,** the plant disease situation has not changed. There is limited progress in harmonizing Turkish legislation with the *acquis* in the area of *plant health* (*harmful organisms*), *pesticides* and *plant hygiene*. An amendment to the list of diseases and harmful organisms subject to quarantine as well as a regulation concerning methods of sampling and analysis of chemical fertilizers has been adopted. As regards seeds, propagating materials and plant variety rights, the regulation on registration of plant varieties was amended in January 2002, resulting in the inclusion of new varieties. Turkey is preparing legislation for the establishment of a national system of plant variety protection. As of 2002, all quarantine offices are linked to a database where information and statistics are recorded.

As regards **food safety,** a number of pieces of implementing food-safety legislation have been adopted. These concern honey, sampling and analysis methods contaminants in foodstuffs and maximum residue limits of veterinary medicinal products in foodstuffs of animal origin. The list of entry and exit customs offices designated for the import and export of foodstuffs has been amended. The Government has drawn up an action plan to fight aflatoxin in hazelnuts, pistachio and dried figs. A number of official food inspectors have been trained and seminars held. Some progress on controlling *food safety* has been achieved. Nation-wide sector diagnostic surveys (covering milk, meat and meat products and the fish processing industry) have been launched to assess the current situation with respect to the *acquis* requirements. Six in-service training programs have been held and 213 food inspectors trained on food control and inspection. Furthermore, sampling devices and equipment have been purchased and related training programs held.

3.6.2.2. Overall Assessment on Veterinary and Phytosanitary Issues, Including Food Safety by EU

A direct income support system is under implementation. All crops are currently eligible for the per-hectare payment, the only criterion being that the land has been cultivated. Farmers must have at least 5 hectares to be eligible; farms of fewer than 5 hectares will be aggregated so that they can benefit from the direct income support system. Aid is limited to a maximum of 20 hectares per farmer (Table 3.1). With respect to horizontal issues, the Government should focus on completing the land/farmer registration system and on establishing the key elements of the Integrated Administration and Control System. Turkey is also encouraged to continue its work on the preparation of the EC's organic farming system. As regards the implementation of trade mechanisms, work is needed to improve market access of agricultural and food products[127].

CONCLUSION

It seems that agricultural policy developments within the European Union were as important for Turkey's accession as developments in Turkey itself. Despite movement towards the starting of negotiations, which looked like to happen in early 2005, it was necessary for the existing member state governments to find it possible to admit to a modified EU even though the conditions proposed had not been met. For over 30 years, the Common Agricultural Policy has shaped the direction and structure of European agriculture so CAP is very important to any candidate states including Turkey. This is due to the continuing importance of agriculture both in the economies of the applicant countries and in the EU budget.

By 2002, because of the heavy fiscal loan on budget and excess production, direct aids increased to 62 % of the CAP budget. It was expected to rise to 68 % in 2006. This amounts to transfers of 30 billion euro to farmers in the EU (15) each year, or 4000 euro per farm. This is far beyond and not comparable with the case in Turkey. The candidate countries would receive direct payments equivalent to 25 % of the present system in 2004, 30 % in 2005 and 35 % in 2006, and would only receive full direct payments in 2013 as given in 1.3.7. This points out that for a while the protectionist structure in agriculture survives after accepting new member states despite WTO principles. Though it was not known clearly, there are a number of studies suggest that with enlargement agricultural production will not expand significantly for various reasons either.

One of the difficulties encountered by the candidate countries in preparing for EU membership was that in recent years the CAP has been changing. Major reforms were introduced in 1992 and 1999, with a mid-term review in 2002, and further reform is likely to be necessary for the financial perspective after 2006, as dealth with in 1.3.6. The reforms should be analised when building new policy in Turkish Agriculture to obtain the optimized decisions. For example as dealth with in 1.8., health and quality controls involve high administrative costs, in particular, when associated with measures such as effective labeling, animal passports and the traceability of all stages of the production and distribution process. Budgetary constraints are likely to become even tighter in an enlarged EU. The increased emphasis on rural development and environmental measures implies a shift towards measures, which already tend to be partially co-financed by national governments. It certainly was not what CEEC governments initially expected from participation in the CAP, but a partial re-nationalization of the CAP seems difficult to avoid.

In the second part of the study, it is seen that the thoroughgoing structural developments of the last two decades could not affect the agricultural character of Turkish economy. Against the declining portion, agriculture still occupies a share in Turkish GDP of 12.1 %. However, GDP per capita in agriculture is relatively low, and agricultural growth is restrained by high rates of interest and inflation, important structural deficiencies such as fragmented and smallholdings, a lack of farmers' organizations, inadequate marketing facilities, and inefficient open-market price formation. Consequently, Turkish agricultural productivity has been consistently falling over the past 10 years. Unfortunately, at present, Turkey is not self sufficient in a number of food products.

As the EU fairly demanded, Turkish Government has been implementing a nation-wide farmer and land registration system. Approximately 2.2 million farmers (nearly 60 % of the total) as well as about 11.8 million hectares of farmland (50 %) have been registered. Electronic crosschecks are made using title deeds, farmers' IDs and plot numbers. The most powerful and ironic instrument for this ongoing success was insufficient directly aid system. In most fields, Turkey's *statistical* infrastructure is still very different from that of the EU. Insufficient infrastructure of Turkey has been a huge barrier on the road of agricultural investigations made before 21st century. For example on all the studies examining the results of probable full membership, the first proposal was to overcome the need for insufficient reliable data. Systemic work was essential about gathering the data which to reflect Turkish Agriculture best. It started farst bout after seven months the speed of registering farmers slowed down to just sufficient level in 17.06.2003.

The other proposals of these empirical studies were:

- instead of assessing agriculture separately of other sectors, to apply mathematical model to other sectors would make good use of studies' results more.
- whatever the methodology is used in until it would be worthwhile to create a climate in which all studies discussed more systematically together as dealth with in 2.5.

Comparison between EU (15) and Turkey leads to some facts for rural problems dealth with in 3.4.2. Turkey has the higher rate of population increase with 1.77 %, whilst lowest Portugal has only 0.13. The increase of GDP by constant national prices is highest in Ireland with 6.65 % while lowest is in Italy with 1.36 % and Turkey's average position with 3.13 falls to lowest in per capita values. Turkey's population is 65.82 million and GDP is 408.21 billion ($ by PPP) while EU total population is 378.88 million and GDP is 8,328.07 billion ($ by PPP). If Turkey were a member of EU, would be second in population, sixth in GDP and the sixteenth in GDP per capita. The decrease in population acceleration speed is lower than the speed of GDP improvement (the lowest with Italy and Germany with 1.35 %) so the number of inhabitants is a serious problem for Turkey.

Considering rural population a descending trend in the proportion was seen in Turkey. Percentages are between 1927 and 1950: 85, in 1970: 61, in 1980: 56, in 1990: 41 and actually 34 (in 2003 with 22,205,740 persons). Through a study on agricultural worker demand, 35 % of rural population or in other words 10 % of total population is founded enough. The statistics of rural employees of agriculture have hidden 56 % of unemployment. This certainly points out the need for family planning in rural areas if the urban migration is not a policy option.

In 3.3.3. given a wide range of special policy options for Turkey, not reiterating all, some important findings were:

(a) an increasing proportional agricultural income tax, which is set according to the size of the field and collected on a monetary tariff rate, may have effects on liaisons of agricultural ownership, agricultural products to come on the market, production and saving volumes. There would be a positive effect with the tax set on the potential productivity of the field depending on the tariff rate. This is a result of an effect namely 'transformation of taxes'. Under this effect, known as the income effect of taxes also, taxpayers whose income decreased choose increasing production to obtain the old income level. Increase in production can be reached by either increasing the productivity, or increasing the factors or both. Beyond to think on measures of increasing the productivity per unit, increasing the fields in the area is more probable. Along with the treated field area, aggregate productivity and income increase so tax may fit on profit. These two actions produce serious bricks on the rises on agricultural prices. As much the tax fits on profit, the possible future reflections lessen. Creating excess supply, production rise also stops the possible price increases. Steady agricultural sector prices, as the production rises, prepares an important precondition for transferring sources of agriculture out. If the domestic trade margins were turned to the good of agriculture, some resources would later return to agricultural sector. Setting the tax, an exemption of self-consumption or a little more the tax equity would be done for different income levels.

(b) price support system as in the TAP should designate the product prices before the planting season, so producers could make a sowing plan. Purchases should be done 'step by step price policy' and on certain intervals during the year. Price support system should consider the geographic situation. For example if geographical condition gives permission to irrigation than encouragement should be on cotton instead of wheat. Productivity differences between regions are of critical issue just like soil analysis.

(c) private sector should be encouraged on storage and transportation improvements.

(d) Import and export policies should be reconsidered on livestock and production should be supported to save the sector. A special fund should be arranged. To credit the farm, feed plant production facility should be preconditioned.

Agricultural sectors have a general effect on each other; especially this is solid in Turkey where the low productivity of feeding plants pulls livestock productivity down. Government's wrong price guarantees should be diverted from wheat and barley out to maize, soybean, trefoil etc. to lower the factor prices in Turkey. Milk productivity of cows is one fourth of world average, livestock weights are two thirds of developed countries. Smuggling of livestock to Turkey and hand processing of milkman are other threats to health and production in Turkey. Consumption habitant of Turkish consumers converge to carbon hydrate, so in average consumes one fifth egg, one forth meat, and less than half milk of European consumer's usage. This is a matter of education more than income.

3.6.1 showed that research and development expenditures of Turkey is 0.4 percent of GDP while this percentage is 2.7 in America, 2.9 in Japan, 2.4 in Germany, 2.3 in France, 3.9 in Swiss, and 2.9 in Korea. Public sector makes 50-60 percent of total researches in French and Germany while this percentage falls to 30 in Japan and in the US. The public good is crucial factor of human health and quality of live. If ever the governments would be eligible for ten years instead of five, this difference should have not been so dramatic in Turkey.

As shown in 3.3.3. soil analysis for the proper fertilizing have not been seriously taken into action. Teaching to farmers, fields that contains first classified soil should be assigned only for agriculture. Border trade analyses for healthier products by integrated labs are crucial. And finally it can be said the properly set of agricultural potential production tax, supporting industrial sector by agricultural transfer of capital, and the family planning would be Turkey's unique capital until the quick development under the case of full membership of EU. At least the experiences of late member states do not stress the opposite.

ENDNOTES

1. The *acquis communautaire* is the body of EU legislation, practices, principles, and objectives accepted by the member states. It is composed of the Treaties; legislation enacted at the EU level and judgements of the European Court of Justice; Justice and Home Affairs; Foreign and Security Policy and Treaties of the EU with third countries. The *acquis* has been accumulating over the years and now amounts to some 12,000 legislative acts.
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8. Hill B. 1993 Agriculture, Johnson P. (ed.) European Industries, Edward Elgar, Aldershot.
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10. Commission 1991, Green Europe, January 1991, p. 15; Communication of the Commission to the European Parliament – The Development of Future of the CAP, Brussels.
11. The Independent 1991, 5 February, p.10.
12. Named after the town in Australia where they first met, in 2002 the group included: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, and Uruguay.
13. Agra Europe 1991, 17 January CAP Monitor, p.201, London.

14. The Economist 1993, 25 September 1993, p.54.

15. Irish Farmers Journal 1990, 4 July, p.9.

16. Agra Europe 1993, 27 November, p.16, London.

17. Financial Times, 1993 4 February, p.30.

18. Agra Europe 1995, 23 June, p.2, London.

19. Acquired from Wyn Grant's cap page (31.3.2003) w.p.grant@warwick.ac.uk United Kingdom

20. Acquired from Wyn Grant's CAP Page (1.4.2003) w.p.grant@warwick.ac.uk, United Kingdom

21. Europe server: http://europa.eu.int/comm/agriculture/external/wto/newround /doharesults.pdf (10.4.2003)

22. Europe server http://europa.eu.int/council/off/conclu/mar99_en.htm (10.4.2003)

23. Jürgen Kurtz, A General Investment Agreement in the WTO? Lessons from Chapter 11 of NAFTA and the OECD Multilateral Agreement on Investment, NYU School of Law • New York, NY 10012

24. The share of the work force in agriculture in 1989 was only 27.5 % in Romania, and 17.6 % in Lithuania. In the early years of transition, the share of agriculture in employment also rose in Poland and Bulgaria, but it has subsequently fallen.

25. Agra Europe, March 2001, p.2, London.

26. This term was coined by Kornai (2000).

27. Productivity as measured by yields per hectare. As Davidova and Buckwell (2000) point out, though there are wide variations in the estimates for labor productivity published by different sources, it appears to be particularly low on semi-subsistence farms, which are often characterized by hidden unemployment.

28. It is sometimes argued that the lower use of chemicals and fertilizers could provide the CEECs with a comparative advantage in the production of organic products, but it has to be remembered that this effect is counterbalanced by high levels of industrial pollution in many areas.

29. The CAP-like measures introduced in the applicant CEECs include: price support (the Visegrad 4, Lithuania, Bulgaria (until 1997), Romania (until 1998) and Slovenia), export subsidies (the Visegrad 4, Lithuania and Romania (from 1998)), direct payments (Bulgaria, Estonia, the Czech

Republic, Hungary, Slovakia and Slovenia) production quotas (Poland, Slovakia, Hungary and the Czech Republic from 2001).

30. Since 1999 with the change in name the OECD classification of certain policies has also altered slightly, but not sufficiently to cause a break in time series.

31. The PSE can be defined as:

$$PSE = (Pn - Pw)\,Q - L + B + D$$

Where: Q is the quantity produced, Pn and Pw are the internal and world prices respectively, D is direct payments, L is taxes on producers, and B is all public spending with an impact on the product (spending on technical assistance, credit subsidies, irrigation, infrastructure and so on). In percentage terms, the PSE becomes:

$$PSE\ \% = \frac{(Pn-Pw)Q+D-L+B}{QPn+D-L}$$

32. A negative PSE value implies that the farm sector was taxed in that year.

33. Anderson and Tyres (1993) or Tangermann and Josling (1994).

34. According to Euro-East no. 90 of July 2000, p.6, grain prices in Slovenia were 70-80 % higher than in the EU, and Polish beef prices were well above EU averages.

35. Swinnen and Bojnec (1997)

36. Depending on the reference areas and yields used, the introduction of direct payments in these countries is also likely to contribute to increased cereal production as more land would be devoted to crop production.

37. The Hungarian surplus was 646 million ECU in 1989 and 621 million euro in 2000, while the Bulgarian surplus was 14 million ECU in 1989, and 85 million euro in 1999, passing to a deficit of 18 million in 2000. Natural conditions help to explain the traditional success of Hungarian agriculture, but also a relatively favorable farm structure, which persisted after transition.

38. The statistic for 1989 does not include the Baltic States.

39. For a more complete discussion, see Tracy ed. (1994) for the agricultural arrangements of these Agreements, or Mayhew (1998) for the overall aspects. Through the interim trade agreements, the trade provisions of the Europe Agreements came into operation even before the full agreements were ratified. This was possible because of Community responsibility for the Common Commercial Policy. The "Interim Agreements" entered into force from 1992 for Poland

and Hungary, 1993 for Romania and Bulgaria, 1994 for the Czech Republic and Slovakia, and 1995 for the 3 Baltic States.

40. For most countries, the three years 1988-90 were taken as reference period. Average imports during the reference period were taken as the basic quantity for calculating quotas. In general, the concessions entailed a 10 % increase in quota each year for the first 5 years, with a levy or tariff reduction of -20 %, -40 % and -60 % in the first three years, subsequently frozen.

41. Estimates of coverage ranged from 67 % for Hungary to 79 % for Bulgaria wine (Tracy 1994, p.10).

42. In particular, the EU continued to apply minimum import prices on imports of soft fruit, which were of particular importance to Poland, and in 1992 and 1993, this measure was used to suspend Polish imports. Exports of sheep and sheep meat were covered by "Voluntary Export Restraint" agreements, while imports of beef and calves were covered by the balance sheet procedure whereby each year the quantity of imports is determined by requirements, calculated on the basis of trade and production data. If this quantity of imports is exceeded, safeguard measures can be introduced (Tracy, 1994).

43. In April 1993, for example, the EC suspended imports of cattle, pigs and meat from the CEECs following an outbreak of foot and mouth disease in Croatia. The Community maintained that health controls between the CEECs and the former Yugoslav Republics were inadequate.

44. September 2000 in the case of Poland. The name “double zero” refers to the reciprocal elimination of export refunds and import tariffs within the framework of tariff quotas (though this was just one aspect of the agreement).

45. Agra Europe, East Europe, July 2000.

46. These would cover certain sensitive goods excluded from the double-zero arrangements such as cereals, beef and dairy products and would entail tariff-free entry for a quantity equivalent to 2 % of domestic consumption of both the EU and CEECs reciprocally. There would also be complete liberalization of trade in certain products which are defined as not being sensitive (such as sheep meat, and certain coarse grains) and further concessions on products covered by double-zero arrangements through increases in quotas and cuts on the tariffs applying on the quotas to zero (Agra Europe East Europe, March 2002).

47. Swinnen (2002) or Gow and Swinnen (1998) had given examples of how FDI has helped processing firms to upgrade their agri-food products to international standards.

48. Gow (2000). In Poland the lower percentage, reflect the slower privatization process.

49. Words are coined by Susan Senior Nello Robert Schuman Centre for Advanced Studies Food and Agriculture in an Enlarged EU European University Institute Rsc. No. 2002/58 University of Siena.

50. The percentages of compulsory set-aside were: 12 % for 1994, 10 % for 1995, 17.5 % for 1996 and 5 % for 1997. Initially set-aside was to be rotational, but this obligation was dropped in 1996 (also because the administrative costs involved were substantial).

51. See Tarditi, Marsh and Senior Nello (1995) for a review of some of these empirical studies.

52. As reported on the Commission website, http://europa.eu.int/comm (2.04.2003).

53. This frequently quoted statistic was first published in Commission Document COM (91)100 of 1991.

54. The 1995 Agricultural Strategy Paper (EC Commission, 1995), and Agenda 2000 (EC Commission, 1997); according to the EC Commission (1995), depending on the product CEEC prices were between 40-80 % of EU levels.

55. The need for a simplified system arose because the EU applies 30 types of direct payment, and 6 for beef alone. The various types of direct payments are listed in an Annex to Council Regulation No.1259/1999.

56. This has important implications for GATT/WTO commitments.

57. It was assumed Bulgaria and Romania would join later.

58. Speech by the Commissioner for Agriculture, Franz Fischler at the PHARE COPA/COGECA/CEJA project of July 2000, http://europa.eu.int/rapid/start/c (8.01.2003).

59. Buckwell et al. (1997)

60. The criteria for a region to be classed under Objective 1 is that its GDP per capita is less than 75 % of the EU average.

61. The Czech Republic, Estonia, Hungary, Poland, and Slovenia.

62. Appropriations for payments.

63. http://europa.eu.int/comm/enlargement/docs/financialpackage/sec2002-95_en.pdf (25.3.2003).

64. Middlemas, K., 1995 'Orchestrating Europe, Fontana, London.

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69. Towards the Enlarged Union Strategy Paper Report of the European Commission on the progress towards accession by each of the candidate countries 'COM (2002) 700' final Commission of The European Communities Brussels, 9.10.2002.

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72. For a fuller explanation of RD funding, Fact sheet 'CAP reform — rural development' and Newsletter No. 21 of European Commission Directorate-General for Agriculture.

73. Commission Notice 2000/C 139/05 of 14 April 2000.

74. For instance, the treatment of agriculture in the Tokyo Round was limited to tariff reductions on some tropical products. The US was largely responsible for the exclusion of agriculture for the most part from earlier GATT Rounds, and for insisting on its inclusion in the Uruguay Round. By the mid-1980s, it was considered that the comparative advantage of US farmers would enable them to benefit from agricultural trade liberalization.

75. See Buckwell and Tangermann (2000), Burrell (2000) or Swinnen (2002) for a discussion of this issue.

76. According to the WTO Secretariat the EU exceeded its basic export subsidy commitment for nine out of twenty product groupings in 1999/2000 (Swinnen, 2002).

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