

**COMMON AGRICULTURAL POLICY: TURKEY'S
HARMONISATION**

A Master's Thesis

by

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September 2007

To my parents

**COMMON AGRICULTURAL POLICY: TURKEY'S
HARMONISATION**

**The Institute of Economics and Social Sciences
of
Bilkent University**

by

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MASTER OF ARTS**

in

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INTERNATIONAL RELATIONS
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ANKARA

September 2007

I certify that I have read this thesis and in my opinion it is fully adequate, in scope and in quality, as a thesis for the degree of Master of Arts in International Relations.

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ABSTRACT

COMMON AGRICULTURAL POLICY: TURKEY'S HARMONISATION

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This thesis is a study on Turkey's harmonization with the Common Agricultural Policy (CAP). The CAP is the first policy of the EU which covers approximately 44% of the EU budget. Since the early days of its adoption, the CAP keeps Member States' agriculture under one common framework.

Since 1959, Turkey's application date for associate membership, Turkey's EU vocation has been going on by affecting the agricultural sector in Turkey. It was after long years that in 1999 at the Helsinki Summit of the EU, Turkey was declared a candidate state. At this point it is obvious that during the accession negotiations, Turkey's adaptation to the EU acquis regarding the agricultural chapter will be one of the determining factors of her EU membership. That is why a set of reforms have been introduced in the agricultural sector of Turkey.

The aims of this thesis are to evaluate Turkey's harmonisation with the CAP and to designate that the agricultural chapter of the acquis should not be a preventative factor for Turkey on her EU vocation. In this respect the evolution of Turkish agriculture in line with the CAP will be touched upon and a comparative study will be provided to illustrate Turkish agriculture's conformity to the CAP.

Keywords: Common Agricultural Policy, European Union, Turkey, harmonisation, reform.

ÖZET

ORTAK TARIM POLİTİKASI: TÜRKİYE’NİN UYUMU

Mercan, Gülşah

Yüksek Lisans, Uluslararası İlişkiler Bölümü

Bölüm: Avrupa Birliği ve Global Ekonomi Politikası

Tez Yöneticisi: Yrd. Doç. Dr. Gülgün Tuna

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Bu tez Türkiye’nin Ortak Tarım Politikası (OTP) uyumuna dair bir çalışmadır. OTP AB bütçesinin yaklaşık %44’ünü kapsayan ilk AB politikasıdır. Kabul edildiği ilk günlerden beri OTP, Üye Devletlerin tarımını tek ortak çerçevede tutmaktadır. Türkiye’nin ortak üyelik başvuru tarihi olan 1959’dan beri Türkiye’nin AB yolculuğu tarım sektörünü etkileyerek devam etmektedir. Uzun yıllardan sonra Türkiye 1999 yılında AB Helsinki Zirvesi’nde resmi aday ülke olarak belirtilmiştir. Bu noktada tarım faslıyla ilgili olarak Türkiye’nin AB mevzuatına uyumunun, üyeliğini belirleyen faktörlerden biri olacağı açıktır. Bu yüzden Türkiye’nin tarım sektöründe bir dizi reform gerçekleştirilmiştir.

Bu tezin amaçları Türkiye’nin OTP’ye uyumunu değerlendirmek ve müktesebatın tarım faslının AB yolculuğunda Türkiye için engelleyici bir unsur olmaması gerektiğini göstermektir. Bu bağlamda Türk tarımının OTP ile uyumlu olarak gelişimine değinilecektir ve Türk tarımının OTP’ye uyumuna dair karşılaştırmalı bir çalışma sunulacaktır.

Anahtar Kelimeler: Ortak Tarım Politikası, Avrupa Birliği, Türkiye, uyum, reform.

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LIST OF ABBREVIATIONS

ARIP: Agricultural Reform Implementation Project
ASCUs: Agriculture Sales Cooperatives and Cooperative Unions
CAP: Common Agricultural Policy
CEECs: Central Eastern European Countries
CU: Customs Union
DIS: Direct Income Support
EAGGF: European Agricultural Guidance and Guarantee Fund
EC: European Community
ECU: European Currency Unit
EEC: European Economic Community
ERDF: European Regional and Development Fund
ESF: European Social Fund
EU: European Union
GATT: General Agreement on Tariffs and Trade
GDP: Gross Domestic Product
GNP: Gross National Product
IMF: International Monetary Fund
MAF: Ministry of Agriculture, Food and Forestry
MARA: Ministry of Agriculture and Rural Affairs
MIT: Ministry of Industry and Trade
MNCs: Multinational Companies
RDA: Regional Development Agencies
SAPARD: Special Accession Programme for Agriculture and Rural Development
SCA: Special Committee on Agriculture
SEEs: State Economic Enterprises
SPO: State Planning Organisation
SPS: Single Payment Scheme
UK: United Kingdom
USA: United States of America
WW II: World War II

CHAPTER: I

INTRODUCTION

Since the early days of mankind, agriculture has been a major source of living. It is the oldest human activity that enhanced his survival. Its direct relation with nutrition attests to its vital importance. From the past to the present, it seems that agriculture has not lost its importance but has evolved on the basis of modern world requirements and today it has even given its name to one of the most significant policies of the EU as the *Common Agricultural Policy*.

The Common Agricultural Policy (CAP) is a significant case to be analysed because this policy addresses large masses. It socially, politically and economically affects the living standards of the rural population in Member States and it covers nearly half of the EU budget. That is why it would be rational to designate the CAP as one of the milestones of the EU policies. In this regard, defining the CAP only as an economic policy would be wrong because it has also political dimensions. Agriculture has been a major source of employment in candidate and member countries for long years. Its contribution to states' GDP can not be disregarded. Along with its economic facets agricultural policies affect the political welfare of a country. That is why, till recent years, the governments assumed an intervening role in this sector.

Since today the CAP is the most difficult policy area to accommodate for the candidate countries, it would be much significant to examine this policy in the framework of Turkey's membership. It is predicted that the agriculture chapter of the *acquis communautaire* will be one of the most challenging chapters for Turkey during the accession negotiations because of agriculture's share in Turkish economy and agricultural labour force.

This thesis purports to analyse the CAP at a time when Turkey is in the process of EU membership. In a way this thesis tries to elaborate Turkey's eligibility to benefit from the CAP when she becomes a member approximately in 10 years' time. Although in the past, Turkey was totally different from the EU Member States in terms of agricultural structure, recently she has taken important steps in order to harmonize her agricultural policy with the CAP. Besides, Turkey needs to follow closely the dynamic character of the CAP and transfer it into her own agricultural policy in order not to face problems in the agricultural realm when she becomes a member of the EU. That is why this thesis tries to explain the evolution of Turkish agriculture in line with the CAP. In a way the reflection of the CAP on Turkish agriculture will be observed and the question how Turkey prepares herself to the CAP will be explicated.

In order to achieve this purpose various methods of research have been used such as analysis of secondary data from the major publications in this field. The material has been collected via internet, journals and reports obtained from Bilkent University Library. Information has also been obtained by personal contacts with Nilgün Arisan Eralp, Director of the National Program at the Secretariat General for EU Affairs, and Fatma Can, Head of the Department of Agriculture and Fisheries at the Secretariat General for EU Affairs. During this analysis, the literature search was

carried on using the following keywords: CAP, EU, harmonisation, Turkey, reform, etc.

The structure of this thesis is as follows:

Chapter 1 describes the historical background of the CAP. In this context the objectives, principles, decision making mechanisms of the CAP, its financing along with its success and failures are elaborated. It shows that the CAP was established with France and Germany's collaboration. Food shortages which emerged in Europe after World War II laid the ground for the CAP because in the 1950s food was scarce and the quality was poor. Moreover the Europeans wanted to reach food at reasonable prices especially after the war economy. So the CAP targeted itself to increase the agricultural productivity, to stabilize markets, to increase the living standards of the farmers, to provide food at reasonable prices and to ensure self-sufficiency in terms of food in the EU. The CAP brought stability to the EU markets; it provided guaranteed prices to agricultural products. So it enhanced income stability for the producers. It promoted sustainable development inside the Union. Along with its achievements the CAP has become the center of criticism for the underdevelopment of Third World countries, for its costs on consumers and for environmental degradation. Hence reforming the CAP turned out to be inevitable in such a negative environment.

Chapter 2 provides a comprehensible guide to the major CAP reforms that unfold the evolution of the CAP. When the early reforms of the pre-1992 period are analysed, it seems that they did not achieve much. For instance, the 1968 Mansholt Plan foresaw the transfer of farming sector into a larger and potential industry by removing the small and family farms. Yet this idea led to great reactions among the members, especially France, and ultimately it was rejected. The reforms of the 1980s

diverted the attention on the budgetary burden of the CAP. However, the achievement of the 1980s reforms became limited because restructuring schemes were not supported within the CAP's functioning mechanisms. The 1992 Mac Sharry Reform questioned agricultural support prices offered to farmers and introduced direct payments as compensation. Agenda 2000 is perceived as a continuation of the 1992 Mac Sharry Reform because it also focused on reduction of support prices and supported direct payments. Agenda 2000 foresaw a sustainable and environment-friendly agricultural policy inside the Union. The 2003 CAP reform launched Single Farm Payment which replaced the direct payments. So from then on the link between the production and subsidies was broken and market oriented production was introduced.

Chapter 3 evaluates Turkey's harmonization with the CAP. It highlights Turkey-EU relations in terms of an agricultural perspective. It is demonstrated that since 1959 Turkey's EU vocation has been going on by affecting the agricultural sector in Turkey. In this regard, Agricultural Reform Implementation Project (ARIP), designed for facilitating Turkey's harmonization with the CAP, is analysed. So, in this aspect four components of the project are focused on:

- Component A: Design and Implementation of the Direct Income Support system (DIS)
- Component B: Farmer Transition
- Component C: Agriculture Sales Cooperatives and Cooperative Unions (ASCs/ASCUs) Restructuring
- Component D: Project Support Services

Throughout this analysis the difficulties Turkey is experiencing and the developments reached in the field of agriculture and an evaluation of ARIP are

provided. The Agricultural Strategy Paper is also another program Turkey has initiated for the years 2006-2010 to make Turkish agriculture more competitive and organized. Thanks to these programs it is expected that Turkey's agricultural and agro-industrial sector will come to the level of world standards and private and public sector investments will be effectively oriented. Along with these initiatives, recently agricultural laws like Seed Law or Decree on Supports for Rural Development Investments have been enforced in Turkey to bring her agricultural policy in line with the CAP.

Chapter 4 is a concluding chapter comparing Turkish Agricultural Policy with some of the Central and Eastern European Countries' Agriculture. It is shown that enlargement has an important effect on the CAP. In this respect the CEECs' membership seems to be risky because of these countries' large agricultural potential, population and low income. At this point structural funds and direct payments compose the main problematic areas against both the CEECs and Turkey's membership. That is why a gradual approach was followed in the agricultural trade liberalisation and achievement of single market in the CEECs. The same attitude will also be taken for Turkey during her membership in approximately 10 years' time because Turkey also has a large agricultural population and potential like the CEECs compared to the EU-15. In this respect, a comparison of Turkey's agricultural policy and structure with that of Poland and Romania is provided to the reader at this part of the chapter in order to show that Turkey will not be absorbing the CAP's budget when she becomes a member because she has already taken important steps on the EU road in terms of agricultural policy.

This thesis has been written with the aim of contributing to studies on the issue of the CAP and it is hoped that this work will be beneficial to those interested in the agricultural sector of Turkey.

**PART I: EUROPEAN UNION'S COMMON AGRICULTURAL
POLICY**

CHAPTER: II

LITERATURE REVIEW

2.1 General View on the Common Agricultural Policy

2.1.1 The Concept of Agriculture:

“Agriculture is the utilization of natural resource systems to produce commodities which maintain life, including food, fiber, forest products, horticultural crops, and their related services.”¹ The origins of agriculture date back to about 9500 BC in the area of Mesopotamia of Southwest Asia. During this period people cultivated crops in common nature. By 5000 BC Sumerians worked on certain agricultural techniques and applied large scale cultivation and also helped to form a labour force employed in agriculture. Empirical data show that during the period of Middle Ages Muslims contributed to agriculture through developing irrigation techniques, even building dams or reservoirs and through inventing agricultural machines and preparing “farming manuals” to produce certain crops like sugar cane, cotton, rice, saffron etc. Hence stating that agricultural production is as old as the

¹ 2007. Definition of Agriculture. Department of Education. State of Maine. <http://www.maine.gov/education/aged/definition.html> (accessed February 1, 2007).

early days of human beings or as old as human history should not sound fishy since it is the oldest activity that people did in order to continue their lives.²

Since the very beginning agriculture has been important in terms of meeting the vital needs of the human. May be that is why the first and the most radical reforms have been on the issue of agriculture because agricultural production is an ongoing process. It is evolving as the needs of people change, as the contemporary world brings new technologies on agricultural production. Agriculture has always preserved its strategic importance since it is the primary source of food so nations have always searched for ways of being self-sufficient. Thanks to agricultural production subsidies they have become less dependent on others and this type of policy brought to the fore state interventions. It could be stated that agriculture is one of the most intensive sectors in which state interventions highly prevail. These interventions are mostly in the type of political and social arrangements.³

In fact in the past many states supported their agriculture through price supports or subventions but this ended in overproduction. To tackle this problem direct income payments (payments on the basis of production) were introduced to the farmers and still this solution is valid in order to ensure social and economic stability in the agricultural sector. It is important to bear in mind that effective use of financial resources is the indicator of continuity and productivity in agricultural production.

Today the increasing size of population, global warming and seasonal instabilities and polluted natural resources attract attention to agriculture. Also the working population in the agricultural sector is a good example to signify its weight in the economic realm although the employment rate is gradually decreasing thanks

² 2007. History of Agriculture: Earliest Beginnings. Encyclopædia Britannica, Inc. <http://www.britannica.com/eb/article-10760/history-of-agriculture> (accessed February 1, 2007).

³ Ebru Ekeman. Mayıs 2000. *21. Yüzyılın Eşiğinde Avrupa Birliği'nde Ortak Tarım Politikası*. İstanbul: İktisadi Kalkınma Vakfı, İKV:158 : 1.

to technological developments in the agriculture field. Yet this reality does not cover the direct relation between agriculture and nutrition.⁴

2.1.2 History of the CAP

2.1.2.1 Beginnings of the Common Agricultural Policy

Common Agricultural Policy (CAP) constitutes one of the most important and expensive policies of the EU. It represents one of the cornerstones of the EU since the very beginning having a share of about 44 % on the EU budget. It is the first policy of the Union.⁵ As its name indicates Common Agricultural Policy is not only a kind of an economic but also political policy keeping Member States' agriculture under one umbrella. That is why it is referred as a common policy. Setting out a common price for the agricultural products of the Member States and supporting these products inside of the Union through certain mechanisms and instruments and protecting these agricultural products from foreign markets by common techniques form the essence of this policy. In order to serve this aim a common fund protecting and supporting agricultural output among member countries was introduced. This policy together with this fund's share, as indicated above, suggests how agriculture has been a serious issue since the early days of the EU project.⁶

In the late 1950s when the nations of Europe came together to have a common market they realised that they needed a Common Agricultural Policy since agriculture was at the heart of policy making among the EU nations. For them,

⁴ 2003. Kamuoyuna ve çiftçiye açık mektup. Tarım Reformu Uygulama Projesi. <http://www.arip.org.tr/mektup.htm> (accessed February 5, 2007) .

⁵ Wyn Grant. 1997. *The Common Agricultural Policy*. New York: St.Martin's Press: 6.

⁶ Ekeman, *op.cit.* : 1.

agriculture was the key actor to improve their economies and even shape their culture or societies. In a way developing their agricultural sector was a key point to gain an important status in the world markets and to ensure European unity or to plant the first seeds of the European identity.⁷

In fact even in the first days of the European project the architects of the European Economic Community (EEC) could not conceptualize agriculture without a free market model. So they tried to bring their agriculture into a common line to achieve a common market. Another reason making agriculture such a vital and first issue to be dealt within the European project was the labourers employed in the agriculture sector which was corresponding to 20% of the working people of the six members of the EEC.⁸

2.1.2.2 Establishment of the Common Agricultural Policy

“The Common Agricultural Policy is essentially the product of a compromise between France and Germany.”⁹ France was a country developed in the agricultural sector and Germany was a country efficient in industrial goods. So Germany was attractive for France to introduce her agricultural products to Germany in order to benefit from her industrial goods. Since France was not specialized in industrial markets it seemed like a chance for her to sit at the table with Germany in order to ensure the flow of her agricultural products. Also Germany perceived the agriculture

⁷ Grant, *op. cit.* : 6.

⁸ Preben Almdal. 1986. *Aspects of the European Integration. A view of the European Community and the Nordic Countries*. Odense University Press: 77, 78.

⁹ Grant, *op. cit.*: 63.

issue from a normative background after having been exposed to famine and scarcity after the Second World War.¹⁰

As mentioned earlier when the CAP was decided to be established after the collaboration of France and Germany, in order to justify this project as a common policy “common support system” and “external tariff” were designated to limit imports coming from non- members.¹¹

France’s demand in the negotiations was to protect her farmers for their produce in Germany. Only if this was achieved “German manufacturing exports” could enter French markets. In fact when we think in terms of the weak agricultural but strong manufacturing sector in Germany we see that the interests of the manufacturing sector could prevail much more than the interests of the farmers. In this case Germany could be seen to subordinate the interests of the agriculture sector to the ones of the manufacturing sector. However the supposed idea did not happen because there was a strong agricultural lobby in Germany and thanks to the “Agricultural Act” which came into effect in 1955, Germany realised that agriculture deserved a “special treatment” so in 1957 the CAP was established. Also the danger of insufficient food supply which emerged in Europe after World War II laid the ground for the CAP because in the 1950s food was scarce and the quality was poor.

¹² In short, the CAP had a lot to do under the conditions of the late 1940s and the 1950s because of food shortages. So the Europeans were in search of enough food in good quality and at reasonable prices. Yet bringing the agriculture sector under one common framework was a difficult task since among the founding Member States there were some members like France which were highly sensitive to this issue. Even

¹⁰ Almdal, *op. cit.*: 78, 79.

¹¹ *Ibid.* : 79.

¹² Grant, *op. cit.* : 63.

the farmers' political weight in France was standing out. Hence the issue needed to be handled quite delicately in the beginning.

Along with the prevention of starvation among the Member States, another reason behind the establishment of the CAP was to protect and even increase the income levels of the working population in agriculture. Since agriculture was directly linked to the improvement of living conditions during the period of the 1950s founding members were automatically oriented towards integrating their agricultural markets and politics.¹³

Removal of the differences among market mechanisms was another factor which precipitated the establishment of the CAP. Differences among the national agricultural policies of Member States constituted a deadlock to the free flow of agricultural products. For instance Germany was protecting her domestic market through placing import quotas or tariffs on foreign agricultural products. On the other hand France was encouraging agricultural exports by giving support payments and export incentives to her agricultural producers. So these instabilities of Member States in terms of following efficient and coherent market policies were enough to initiate the Common Agricultural Policy immediately.¹⁴

The final reason that helped the implementation of the CAP was to equalize the imbalance between France and Germany. Since at the outset the Customs Union was excluding the free movement of agricultural products and only including the free circulation of industrial goods, Germany and France were in a conflict of interests. That is while this situation was in favour of Germany, efficient in the industrial sector, France was highly unsatisfied because nearly 25% of her working population was in agriculture. So the emergence of the CAP was in a way an important step that

¹³ Armağan Candan. Ağustos 2003. *Avrupa Birliği'nin Ortak Tarım Politikası*. İstanbul : İktisadi Kalkınma Vakfı 15 Soruda 15 AB Politikası Serisi No:2 : 5.

¹⁴ Ibid.

mitigated the conflict of interests between the two important founders of the European project.¹⁵

2.2 Objectives of the CAP

All the reasons mentioned above enhanced the desire of the Member States of the European Economic Community to come together and reach a decision establishing the CAP. The objectives of the CAP which were set out under article 39 of the Treaty of Rome are as follows:

(But before defining these objectives it must be borne in mind that article 39 of the Treaty of Rome became open to criticism because of its overproductionist tendency and so ignoring the character of the environment.¹⁶)

- “1. To increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labour.
2. To ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture.
3. To stabilize markets.
4. To assure the availability of supplies
5. To ensure that supplies reach consumers at reasonable prices.”¹⁷

Related with the first objective thanks to multinational companies (MNCs) technical progress was achieved in agriculture since these companies introduced farming with “powered machinery”, fertilizers and agrochemicals. Intensive farming techniques were another key factor that stimulated technical progress and agricultural production even in the form of “increased output” among Member States.¹⁸

¹⁵ Ibid.

¹⁶ Grant, *op. cit.* : 64.

¹⁷ Eve Fouilleux. October 2002. *The Common Agricultural Policy*. Oxford: New York, p:247 (in *European Union Politics*, Michelle Cini).

¹⁸ Grant, *op. cit.* : 64, 65.

When it comes to the second objective the income gap between the rural and urban segment of the society was a major source of concern among the members of EEC. Hence forming a price policy in favour of increasing the income level of people engaged in agriculture was the ultimate goal of the CAP. However this aim was never reached because the net beneficiaries of the CAP's price policies were large scale farmers and the ones dealing with trade of agricultural products.¹⁹

Achievement of the third objective was also important since agricultural markets are the ones that are less stable than other markets. Their vulnerability is emanating from agriculture's dependence on external uncontrollable conditions.²⁰

The fourth objective stems from the experience of WW II during which the Europeans were subjected to food shortages. "Food security" was even raising doubts during the Cold War years but not in the form of WW II thanks to the integrated global economy.²¹

The final objective was also open to question since the EU was providing its consumers with prices above the world levels.²²

In fact all these objectives defined in article 39 of Rome Treaty have been clustered around two different points:

The first point suggests that these five interrelated objectives make the CAP a mechanism that aims to increase productivity in agriculture through balancing the supply and demand for agricultural output. In this respect the CAP is referred as a body of "welfare state" by providing a shelter for farmers through increasing their income levels and relieving them from a disadvantaged position in society. Hence

¹⁹ Ibid. : 65.

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

from this point of view it is clear that the CAP has more than an economic dimension, it has also social and political aspects.²³

The other point is focusing on the period that the CAP was prepared. As the conditions shaping the objectives of the CAP have changed since the end of WW II, the CAP needs to be modified according to the requirements of today's modern world. That is today there is no more a serious number of people working in the agricultural sector and no more threat to the security of food supplies thanks to the global trade environment. Plus recently environmental issues are gaining more attention in the phase of agricultural production. So in the light of all these new factors, the objectives of the CAP need to be adjusted.²⁴

2.3 Principles of the CAP

Three principles that would be complementary to the objectives of the CAP were set out during the Stressa Conference in Italy in 1958 in the following way:

- **Market Unity:** It envisages free movement of agricultural commodities under common pricing and marketing among Member States. This principle aims at a single market through removing customs duties, quotas and other trade barriers among members. In order to reach this aim members need to pursue common rules and mechanisms and need to be controlled by the Community. However the aim of a single market could not be accomplished under this principle because of the influence of administrative authorities on fixing common prices.

²³ Ekeman, *op.cit.* : 5.

²⁴ Ibid.

Destabilisation of exchange rates on agricultural products is another example to this end. Especially fluctuations on exchange rates were at peak during the 1970s so a monetary system in the name of Green Rate was established to deal with these fluctuations. However with the adoption of the Euro in 1999, these instabilities were removed and the single market on agricultural products was ensured.²⁵

- **Community Preference:** Producers and their agricultural products inside the Community should be more privileged than those of the third countries. This principle will ensure the protection of the agricultural sector inside the Community against cheap foreign competition of overseas suppliers. To serve this aim two mechanisms were introduced on the name of levy (prélèvement) and export restitutions. Levy (prélèvement) is collected from the imported products and recently it was substituted to the customs duties with the World Trade Organisation's Agricultural Agreement. The second protection mechanism called export restitutions requires Community products' being exported to overseas markets where the prices are low.²⁶
- **Financial Solidarity:** It foresees sharing financial responsibility for financing the CAP. This is a two- folded principle: While the CAP expenses are met by the members of the Community, the tax incomes of the CAP serve the needs of the Community. In this respect a special fund, called European Agricultural Guidance and Guarantee Fund (EAGGF) was set up in 1962 in order to fund the CAP. While the Guarantee Section of this Fund finances the expenditures necessary for the operability of market and price policies through covering 45%

²⁵ Candan, *op.cit.* : 6.

²⁶ *Ibid.* : 7.

of the Community budget, the Guidance Section finances rural development expenses with having a share of 3% in the Community budget.²⁷

Hence in the light of these principles one can draw the conclusion that “Community Preference” and “Financial Solidarity” seem to serve French interests. Even in his book, *Snouts in the Tough*²⁸, Michael Atkin claims that “the second and third principles were ‘major victories for France, since they, in effect, committed other European countries to provide markets for French produce and to contribute jointly to the cost of doing so.’ ”²⁹

2.4 Decision Making Mechanisms of the CAP

The European Commission and the Agricultural Council are the main decision making bodies of the CAP. During the decision making process the Union as a whole has more power than the authorities of the Member States. While setting out the price and market mechanisms of the CAP is under the responsibility of the Union, ensuring the social security of the farmers and direct taxation on the agricultural sector are under the authority of Member States.³⁰

The main task of the *European Commission* is drafting legislation on agriculture as in the case of other policies of the Union. Right along with this, the Commission also inspects the markets and if necessary initiates modifications for the better operability of markets. So, in a way the Commission undertakes a managerial

²⁷ Ibid.

²⁸ Michael Atkin, 1993, *Snouts in the Tough*, p:54, as quoted by Grant, Wyn.

²⁹ Grant, *op.cit.* : 68.

³⁰ Ekeman, *op.cit.* : 8.

position on the agricultural policy.³¹ During its function the Commission is assisted by the Management Committees, composed of the public officials specialized in their sectors, and attaches importance to the needs of producers, consumer unions, agricultural cooperatives and trade commissioners.³²

The Agricultural Council is responsible for taking decisions on the CAP expenditures and their allocations. Agricultural Council Meetings are distinguished in the Union through their length and density. These meetings are held even more frequently than the other meetings in the EU Council and are organised by the Special Committee on Agriculture (SCA).³³ “One of these meetings is set aside to discuss what is called the ‘price package’ for the following year, at which the member states decide on such issues as the level of guaranteed prices, the quotas each member state will receive, and the criteria for calculating direct aid payments.”

³⁴ In the decision making process of the CAP the Commission brings a proposal upon the request of the European Council, composed of the heads of the Member States. Then the proposal is elaborated by the European Parliament and the Agricultural Council.³⁵ During the evaluation of the Commission proposal the SCA of the Agricultural Council forms “Specialist Committees” in order to carry out technical procedures.³⁶ In the end the proposal can be refused or asked for modification by the Agricultural Council. Generally the motive behind the rejection of Commission’s proposal is the Council’s functioning through unanimity principle.³⁷

The Parliament is the consultative body in the agricultural policy and has more authority in dealing with the CAP’s budgetary expenditures. Yet its power is

³¹ Fouilleux, *The Common Agricultural Policy, op.cit.*, : 251.

³² Ekeman, *op.cit.* : 9.

³³ Grant, *op.cit.* : 172

³⁴ Fouilleux, *The Common Agricultural Policy, op.cit.* : 251.

³⁵ *Ibid.*

³⁶ Grant, *op.cit.* : 172

³⁷ Fouilleux, *The Common Agricultural Policy, op. cit.* : 251.

limited in the decision making process of the CAP. In his book ‘The Future of the CAP: Change and Stability 1996-2015’³⁸ B. Gardner states that:

“With its presented limited role in the legislative process, the Parliament can...have little direct effect on the development of policy. The consultation process introduced under the Single Act does allow it to delay measures which it does not like, but the airing of criticisms of the development of policy within the agriculture and other committees is a far more important influence on the decision-makers.”³⁹

Member States respect the Agricultural Council’s decisions and the ones taken by the Union on the issues of market and price mechanisms and take an active role in direct taxation and social security of farmers as indicated before. France and Germany are the two important members on the agricultural policy issues. In fact Germany seems to have a more influential role with its pressures on France to change her stand on agricultural policy during the GATT Round negotiations and in the long run although France is the net beneficiary of the CAP after Germany, Germany seems to change the direction of agriculture towards a more competitive route that will be in favour of her trade interests.⁴⁰

2.5 Financing the CAP

In 1962, European Agricultural Guidance and Guarantee Fund (EAGGF) was set up in order to finance the CAP and this fund was divided into two parts as Guarantee and Guidance Section in 1964.⁴¹ In the first years of the Community EAGGF was being financed by the Member States’ contributions. However in the

³⁸ B.Gardner, *The Future of the CAP: Change and Stability 1996-2015*, p:11, as quoted by Wyn, Grant.

³⁹ Grant, *op.cit.* : 175.

⁴⁰ *Ibid.* : 160, 161, 182.

⁴¹ Beata Kowalkowska. 11/2006. European Parliament Fact Sheets , Financing of the CAP: The European Agricultural Guidance and Guarantee Fund (EAGGF). http://www.europarl.europa.eu/facts/4_1_6_en.htm (accessed February 15, 2007).

following decades, from 1978 onwards, the expenses of the CAP have started to be covered by the Community's own resources. So it was not until 1978 that the Community gained financial autonomy.⁴²

In order to achieve the operability of the Fund EAGGF Committee works in line with the Commission. The Court of Auditors and Parliament's Committee on Budgetary Control also give assistance by making "retrospective" observations.⁴³ The EAGGF distinguishes among the other funds such as Rural Development or Social Funds through its share in the EU budget. In the first years of the Community the Fund was covering 90% of the EU budget which was a sufficient amount to point up its importance. However through years the Fund's share in the Community budget decreased and even came to a level of 44.9 %. The Community's setting up new common policies on environmental, trade and industrial sectors is one of the reasons for this end. By this way the Community prepared budgets for these new policies so the weight of the EAGGF on the EU budget gradually decreased. Also the reforms carried out for restructuring the CAP were another reason of the Fund's decrease at about a 45% rate. However the serious decline in the Fund's share did not undermine its importance since it is still covering about half of the EU budget.⁴⁴ In this context, recently the Fund's share in the EU budget is at the heart of the discussions among the members because of agriculture's covering only 1.5% of the 2003 budget income. Related to this, the amount allocated to EAGGF was declared as € 44.780 million in 2003.⁴⁵ So it seems easy for a certain milieu to justify these discussions

⁴² Candan, *op.cit.* : 10.

⁴³ Kowalkowska, *op. cit.*

⁴⁴ Ekeman, *op.cit.* ; 29.

⁴⁵ Erhun Baş. Mayıs 2004. *Avrupa Birliğinde Ortak Tarım Politikası Alanında 2003 ve 2004 Yıllarında Gerçekleştirilen Reformların Genişleme Süreci ve Türkiye'nin Adaylığı Göz Önüne Alınarak İncelenmesi – Uzmanlık Tezi.* Ankara: Avrupa Birliği Genel Sekreterliği Tarım ve Balıkçılık Dairesi : 6.

when one takes into consideration the low level income of EAGGF and its burden on the EU budget.

2.5.1 EAGGF: Guarantee Section

This is the most important component of the EAGGF. It covers approximately 46% of the EU budget and 90% of the EAGGF.⁴⁶ The spending under the Guarantee Section is compulsory and difficult to predict before as production levels and international prices change constantly.⁴⁷ The EU Council, as in the case of EAGGF: Guarantee Section, has the last word in determining the compulsory spendings of the EU budget.⁴⁸ The amount allocated to the Guarantee Section was announced as € 8700 million in 1978 through reaching € 40.245 million in 2004 with the new comers and even € 42.835 million in 2005.⁴⁹ The Guarantee section, till 1992, was funding the expenditures related with the CAP's price and market mechanisms through intervention and support purchases. It was also being used for buying surplus production and selling storage surplus via export channels to non members. However with the 1992 Mac Sharry Reforms price supports inside the Guarantee Section decreased significantly and the share of the direct payments given to farmers increased notably.⁵⁰ Even today while direct payments compose 70% of the EAGGF's Guarantee Section, export refunds (restitutions) cover 15% and stocking costs 5%.⁵¹

⁴⁶ Ekeman, *op. cit.* : 29.

⁴⁷ Kowalkowska, *op.cit.*

⁴⁸ Ekeman, *op. cit.* : 31.

⁴⁹ Kowalkowska, *op. cit.*

⁵⁰ Baş, *op.cit.* : 6, 7.

⁵¹ Ekeman, *op.cit.* : 30.

According to 2003 Guarantee Section expenses, herbal products cover the largest sectoral dispersion with 58.5%. Animal products and then rural development incentives follow this rate subsequently with having a share of 29.3% and 10.5%.⁵²

When the allocation of Guarantee Section expenses on the basis of member states is analysed it is clear that France is the major beneficiary with her large agriculture fields followed by Germany (14%), Italy (13%) and Spain (11%). The amount received by France from the Guarantee Section for the year 1997 was corresponding to 23% of total expenditure of the section.⁵³

2.5.2 EAGGF: Guidance Section

Covering approximately 10% of the EAGGF and only 4 % of the Community budget, the Guidance Section funds Structural Reforms in the agriculture sector and limitedly Rural Development Measures. Although Rome Treaty established the Guarantee Section in line with the Guidance Section, it was only in 1970 that the latter became operational.⁵⁴ The total amount allocated for the Guidance Section was announced as €6.536 million in 2004 and €6.841 in 2005.⁵⁵ This section encourages investments for the improvement of agricultural fields and provides infrastructure and training for the projects on agricultural scale. The related projects are co-financed by the Guidance Section and the Member State that will be the net beneficiary of the project. While determining the financial assistance, the Guidance Section takes into consideration the quality of the agricultural project and the

⁵² Candan, *op.cit.* : 11.

⁵³ Ekeman, *op. cit.* : 31.

⁵⁴ *Ibid.*

⁵⁵ Kowalkowska, *op.cit.*

Member State's economic position vis-à-vis the operability of the project. The Member States' involvement in the financing process makes the Guidance Section differentiated by the Guarantee Section in which total expenditures are covered by the Community budget. In this context the Guidance Section has in common with the European Social Fund and European Regional Development Fund in terms of the Community's limited financial support.⁵⁶

In the framework of Structural Reforms, the Guidance Section provides financial support for the undeveloped regions, agricultural structures, rural development and polar regions. Among these spheres undeveloped regions (2.7%) get the largest share from the Guidance Section followed by sequentially the agricultural structures (1.6%), rural development (1.3%) and polar regions (0,05%).⁵⁷

When the allocation of Guidance Section expenses on the basis of member states is analysed it is clear that Germany is the net beneficiary of the funds. In 1996 Germany's share on the Guidance Section Fund was 21% of the total expenses followed by Spain (17%) and France (13%).⁵⁸

The spending under the Guidance Section is not within the context of compulsory expenditures as it is in the Guarantee Section. Hence not the EU Council but the European Parliament determines the amount and content of the expenditures.⁵⁹

⁵⁶ Ekeman, *op. cit.* : 31.

⁵⁷ *Ibid.* : 32.

⁵⁸ *Ibid.*

⁵⁹ *Ibid.*

2.5.3 Other Financing Mechanisms

2.5.3.1 European Regional and Development Fund

(ERDF):

Created in 1975, ERDF aims to eliminate regional disparities among the members and boosts economic development in the least favoured regions. ERDF is highly important for these backward regions in terms of enhancing economic and social cohesions and providing structural developments.⁶⁰ In this respect Public Sector Organs including “ Government Departments, Regional Development Agencies (RDA), Local Authorities, Further and Higher Education Establishments, Other Public bodies, Community and Voluntary Sector Organisations” can not be ignored in terms of meeting these objectives.⁶¹

2.5.3.2 European Social Fund (ESF):

Set up in 1957, ESF contributes to the enhancement of employability and human resources development. In the age of globalisation through providing vocational training to increase the quality of production and campaigning for the labour rights ESF aims to eliminate the unemployment problem. This fund is used for meeting the objectives of the European Employment Strategy in which the Member States come together and work for the improvement of labourers’ skills and for the launch of new job opportunities. Like the ERDF, the ESF also helps the

⁶⁰ A Guide to European Structural Funds for the North West. Eurofunding - nw.org.uk. http://www.eurofundingnw.org.uk/ERDF_questions.asp?section=fund (accessed February 20, 2007).

⁶¹2007. European Regional Development Fund . London Borough of Haringey. http://www.haringey.gov.uk/index/business/business_support/european_funding/european_regional_development_fund.htm (accessed February 21, 2007).

development of backward regions. Initiation of Seven Year Programmes under the cooperation of Member States and European Commission is a good example for this end. Between 2000 – 2006 ESF channeled €70 billion, a big amount covered by the concerned Member States' funding from their public or private sectors, to achieve its objectives.⁶²

2.5.3.3 LEADER:

LEADER is designed to bring Rural Development activities under one umbrella. It supports the labour force in rural areas and sets funds for the implementation of local projects targeting innovative strategies.⁶³ Local Action Groups (LAGs), preparing the development strategy of their own regions, are the net beneficiaries of the LEADER.⁶⁴ LEADER Programme was in a way the rural force of the local actors. Thanks to local cooperations it became easier to promulgate the problems of the rural sectors.⁶⁵ For the period 1994-1999 € 1.7 billion was allocated under LEADER: II and between 2000-2006 the amount increased to € 2.02 billion for LEADER: III.⁶⁶

⁶² European Social Fund. http://ec.europa.eu/employment_social/esf2000/introduction_en.html (accessed February 22, 2007).

⁶³ Ekeman, *op.cit.* : 33.

⁶⁴ 2004. LEADER+. Europa. <http://europa.eu/scadplus/leg/en/lvb/g24208.htm> (accessed February 23, 2007).

⁶⁵ 2006. The LEADER programme and the rise of rural development in Spain : Rural development in Europe : the EU leader programme reconsidered. INIST-CNRS.

<http://cat.inist.fr/?aModele=afficheN&cpsid=1550440> (accessed February 23, 2007).

⁶⁶ Ekeman, *op.cit.* : 33.

2.6 Success and Failures of the CAP

As the process of globalisation seriously affects agriculture, achievement of the CAP objectives and restructuring of the CAP on the basis of global developments are highly important in order to keep the agricultural sector alive and increase productivity through not only free but also fair trade among member states.

The CAP enabled stable markets for the Europeans to sell their products. These were such markets that the European farmers had the opportunity to enter one of the biggest markets of the world. Thanks to technological developments that came along with the CAP reforms productivity in the agricultural sector increased. In this way living standards of the farmers improved. The guaranteed prices for the producers ensured stable incomes. They were even protected against the foreign products through customs duties, quotas and tariffs. Moreover thanks to the funds set up for the European farmers productivity and employability in rural areas were ensured.⁶⁷

Along with the producers the CAP also brought advantages to European consumers. Food scarcity was a major problem after WW II in Europe. Through the CAP the risk of food shortages was eliminated among the Europeans and Europe became a self-sufficient country on the basis of agricultural production. The CAP also presented products at reasonable prices and in high quality.⁶⁸

According to the supporters' views the CAP is important in terms of promoting sustainable development among members. The CAP brings economic, social and environmental progress in a coordinated way; it improves quality of life for all member states, and so plays an important role in the developing rural

⁶⁷ Candan, *op.cit.* : 11, 12.

⁶⁸ *Ibid.*: 12.

communities. Also thanks to export incentives inside the Union, overproduction, which was a big problem especially in the 1990s, is targeted to be removed from the EU markets to the world markets.⁶⁹ Besides, since supporting the agricultural sector brings along itself scientific and technical developments, member countries in the Union completely benefit from these developments and transfer them into other sectors beyond agriculture. Plus, thanks to the “cross compliance” instrument of the CAP, which breaks the link between production and direct payments, farmers are subjected to respect preexisting environmental, animal health and welfare legislations in return for Single Farm Payment. Through the CAP’s “set aside” instrument, a market management tool under which farmers get payments for not using lands, reduced water pollution and habitat creation are aimed. CAP is also a key actor in terms of accelerating Rural Development among the members. It improves competitiveness of farming and promotes investments in agricultural infrastructure.⁷⁰

Despite all these achievements the CAP internationally receives much criticism. This policy is blamed for causing problems among trading partners and for the underdevelopment of some countries. Opponents of the CAP believe that the “CAP increases Third World poverty by putting Third World farmers out of business”⁷¹, that is since the CAP supports an oversupply of products sold in Third World Countries it hinders these countries’ exports to the West through decreasing their incomes.⁷² In the end this overproductionist mentality led to “butter mountains” and

⁶⁹ Reform of the Common Agricultural Policy. Europa.

<http://europa.eu.int/scadplus/leg/en/lvb/l60002.htm> (accessed February 24, 2007).

⁷⁰ December 2005. A Vision for the Common Agricultural Policy. HM Treasury- Department for Environment Food and Rural Affairs.. <http://www.defra.gov.uk/farm/capreform/pdf/vision-for-cap.pdf> : 33 (accessed February 24, 2007).

⁷¹ 2007. Common Agricultural Policy. Wikimedia Foundation. http://en.wikipedia.org/wiki/Common_Agricultural_Policy (accessed February 25, 2007).

⁷² A Vision for the Common Agricultural Policy. HM Treasury-Department for Environment Food and Rural Affairs, *op.cit.* : 10.

“wine lakes” in the 1970s.⁷³ It is also believed among the opponents of the CAP that it damages international trade via export supporting and import protection policies. In this way it brings a shadow on developing countries’ economies through export subsidies, production controls and non tariff barriers.⁷⁴ Opponents also blame the CAP for being a capitalist movement. They criticize industrialization, high finance, domination by agro-business and big corporations. They believe that through removing the CAP organic farming will be popular by putting an end to agro-business and so on capitalism because initially in fact landowners are benefiting from the direct payment system not farmers themselves.⁷⁵

CAP also has domestic costs on consumers and tax payers and it is perceived as a social burden due to bringing €50 billion annual cost to EU consumers. Also this cost’s being shared disproportionately on the poorest side of society where much of people’s income is spent on food is a good example for this end. In this respect, support for farmers is given without taking into consideration the income or wealth of farm owners. That is while many farmers are poor; some of them in member states are in better conditions, so giving the same support without taking into account farmers’ material status is another failure of the CAP.⁷⁶

The environmental dimension of the CAP is another hot issue that is open to criticism. The concentration of agriculture in the EU through the CAP caused environmental costs such as “water pollution” and damage to “wild life”. Increased usage of agricultural chemicals and intensive farming methods were among the reasons of the environmental degradation. Moreover it is rather costly to restore the

⁷³ Candan, *op.cit.* : 14.

⁷⁴ *Ibid.* : 15.

⁷⁵ 2001. A System Under Siege. Socialist Party. <http://www.socialistparty.org.uk/TheSocialistIssue204.htm> (accessed February 25, 2007).

⁷⁶ A Vision for the Common Agricultural Policy. HM Treasury - Department for Environment Food and Rural Affairs, *op.cit.* : 26, 27, 28.

exploited natural resources. For example the cost of cleaning dirty waters caused by the agricultural production in the UK is about £211 million a year. But against the harm that the CAP gives to the environment, supporters of the CAP indicate that thanks to CAP reforms in recent years, the decreased level of market price support has reduced the environmental costs caused by modern agriculture.⁷⁷

⁷⁷ Ibid. : 29, 30, 31.

CHAPTER: III

REFORMS OF THE CAP

3.1 Reforming the Common Agricultural Policy

3.1.1 Reasons of the Reforms:

The reasons behind the CAP reforms were to reorganize the agriculture in Europe as a policy that would not cause harm to the environment and not bring down animal health and welfare standards while ensuring food safety. These reasons can be classified as a) Costs of the CAP, b) GATT Crisis, c) Environmental Concerns and d) Impact of enlargement on the CAP.

3.1.1.1 Costs of the CAP

CAP reforms have always been on the agenda of the EU: Starting in the 1960s, the issue of reforms still continues today. The decision making body for the

CAP is the Agricultural Council but member states' influence on the decision making process can not be ignored. In this respect France is a good example.⁷⁸

When one analyses the post World War II period and Cold War years it is clear that being self-sufficient in terms of food supply composed one of the main motives of the European Economic Community. In fact in the first years of the European project the Community reached its goal but in the following decades, by the 1970s, overproduction in the form of wine lakes, beef wars or butter mountains was the major threat knocking the EU, then EC, door. The agricultural production exceeding the EC citizens' demands was making the CAP more costly day by day and increasing its burden on European consumers. The CAP in this period was in a way shrinking the EC resources. So the concerns on agricultural production shifted this policy towards a reform process. In fact a variety of tools from production quotas to price cuts were used to deal with the overproduction problem inside the policy. Since the main aim is to put under control the supply of agricultural output in order to cope with overproduction these two options seem to be idealistic. Yet since the 1992 reform the second option has been used, given the first option, bringing production quotas, was conceived as a shadow on production capacity and competition of EC by certain milieu. Whereas the second option works more in favour of balancing the supply and demand side because when the prices are lowered for agricultural output then automatically production of the food will decrease. So in a way the balance will have been enhanced.⁷⁹

⁷⁸ Implementation of the European Community's Common Agricultural Policy: expectations, fears, failures. J-Stor. <http://www.jstor.org/view/00208183/dm980227/98p01142/0> (accessed March 5, 2007).

⁷⁹ Eve Fouilleux. October 2002. The Common Agricultural Policy. Oxford: New York: 250 (in *European Union Politics*, Michelle Cini).

3.1.1.2 GATT Crisis

Another reason behind the CAP reforms was the 1990 GATT (General Agreement on Tariffs and Trade) crisis. In 1986, in the Uruguay Round it was declared that agriculture would be part of the negotiations. So in a way agricultural trade liberalization talks started to be included in the Uruguay Round. However there were two sides that led to a crisis in 1990 on the issue of agricultural trade liberalization. While the USA and the Cairns Group (Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, Uruguay⁸⁰) were strong supporters of the liberalization, referred as the offensive side during the negotiations, the EU was in favour of a more protectionist policy on the agriculture issue on the defensive side. The claim of the USA was that the EU was constituting a major block vis-à-vis the development of third countries. It was using trade distortion policies and through high tariff barriers it was hindering competition with non-EU members. On the EU side there was a serious concern that when the tariff barriers were removed the American products would enter the EU markets through replacing domestic production inside the Union. Finally the USA and the Cairns Group brought a deadlock to the Uruguay Round negotiations through not continuing negotiations on other issues like intellectual property rights till liberalization of agricultural trade was ensured. So the 1990 GATT crisis eventually led to the CAP reform in 1992. In short terms this reform envisaged agricultural price support mechanism's being replaced by direct support given to farmers. In this way it was believed that the losses of farmers from this type of shift in agricultural support would be met. Yet there was still an

⁸⁰ John Emerson. 2005. The Cairns Group. Cairns Group. <http://www.cairnsgroup.org/map/index.html> (accessed March 9, 2006).

exception: The ones whose losses would be compensated were the small farmers themselves in order to help their endurance against the world market pressures. For the big farmers no compensation would be awarded since they could cope alone with the pressures coming from world markets.⁸¹

3.1.1.3 Environmental Concerns

Environment is another issue that leads to reforms in the agricultural policy of the EU. Inside the Union agriculture and environment seem to be intertwined policies especially in recent years with the increasing ecological concerns of member states. Even political intervention may be welcomed inside the Union as long as modern agriculture techniques continue on their harmful effects on environment. That is why environmental pressures have been taken seriously in recent years through drawing the attention on the results of modern agriculture.⁸²

Soil degradation is one of them. Not only agriculture but also urbanization and industrialization lay the ground for this end. Yet the major reason of degradation is agriculture-based. Its impact on soil is as follows: Firstly modern agriculture leads to “compaction” via heavy machinery practices. Secondly with the over usage of pesticides or herbicides “contamination” affects the environment harshly. Ammonia emissions through bearing “acidification” are another reason of soil and environmental degradation and finally “erosion” is the last problem that comes along with the modern agriculture techniques. Among these, the last factor -erosion- needs to be handled more seriously recently since the remaining problems –compaction,

⁸¹ Fouilleux, *The Common Agricultural Policy, op. cit.* : 254, 255.

⁸² Wyn Grant. 1997. *The Common Agricultural Policy*. New York: St.Martin’s Press : 200.

contamination, acidification -were alleviated through the limitations brought to agricultural production via agricultural reforms. In fact since the 1950s, erosion is protecting its place as a major threat to the environment. “Land consolidation”, “field enlargement”, “the use of inappropriate machinery” and “tillage practices” can be classified as the contributing factors of this end. Although the consciousness against erosion is increasing day by day inside the Union radical measures should be taken to cope with this problem because options like developing “vegetation and scrub” and decreasing the scale of agricultural lands do not bring permanent solutions to this problem.⁸³

Water pollution is another problem facing the EU because of modern agriculture practices. Its devastating effects are not only observed in landscape deterioration but also in human health through the inclusion of chemicals into drinking water.⁸⁴ In this context agricultural irrigation also has negative effects on the environment because generally the waters used for irrigation are dirty. Hence habitat destruction is an inevitable consequence of such an irrigation system.⁸⁵

Fertilizers’ usage in high doses in modern agriculture, intensive farming techniques, increased number of livestock and their wastes are enough to pollute lakes, rivers or irrigation canals. To cope with this problem investments should be made to upgrade farming techniques without giving harm to the ecological balance of nature.⁸⁶

Biodiversity and extinction of species of animals evoke serious concern in the environment realm inside the Union. Chemicals like pesticides or fertilizers, used heavily in modern agriculture practices, threaten severely the species of birds and

⁸³ 2004. *Agriculture and the environment in the EU accession countries - Implications of applying the EU common agricultural policy*. Luxembourg: Office for Official Publications of the European Communities. European Environment Agency. Environmental Issue Report No 37. ISBN 92-9167-637-3 : 20, 21.

⁸⁴ Grant, *op. cit.* : 200.

⁸⁵ *Agriculture and the environment in the EU accession countries - Implications of applying the EU common agricultural policy*, *op.cit.*: 24, 25.

⁸⁶ *Ibid.* : 22, 23.

mammals. Because of inappropriate farming techniques or intensified agricultural production the mankind jeopardize consciously or unconsciously the survival of these species. This fact is a clear indicator of the deformation of natural balance in the world:

“ ...‘Birds are considered good indicators of environmental health, and the loss of so many birds from the farmed landscape has been paralleled by a general decline in biodiversity’ (RSPB, 1995, A Review of the 1992 CAP Arable Reforms, p:7)”⁸⁷

Along with the chemicals, land abandonment is also another reason of deformation of the natural environment. Although setting aside the land, that is not using the land for agricultural production, at first sight seems to protect the environment via keeping the fertilizers and pesticides away from that particular land, the other side of the coin is different. This case negatively affects biodiversity. In such a situation meadows on the land can not be mowed and bacteria decrease the value of soil on that particular area.⁸⁸

So all the factors above require an effective agri-environmental policy inside the Union. Yet there are two conflicting views on this issue, farmers on one side and the environmentalists on the other:

For farmers, the agri-environmental policy needs to serve their interests, thus they want to be supported by agricultural subsidies. However, these subsidies need not to be in the type of payments for surplus production but can be paid for protecting the landside and biodiversity for example. Yet the general idea on the farmers’ side is to promote an agricultural business so that they can get financial support in a more concrete way. It is just at this point that the CAP Reforms come to scene as the Douglas Hogg, a British agriculture minister, says “it will be important to avoid

⁸⁷ Grant, *op. cit.* : 201.

⁸⁸ Agriculture and the environment in the EU accession countries - Implications of applying the EU common agricultural policy, *op. cit.* : 27.

creating a new class of subsidy dependent farmers under the guise of environmental or structural policy”(Hogg, D. 1996, Opening Address, Agra Europe Outlook 96 conference, London, p:9)⁸⁹

On the environmentalists’ side, however, the tendency is on having a radical change in farming. They want organic farming to be on the agenda. However there are concerns among some groups that organic farming will be a cost on EU consumers. Moreover subsidies need to be given in order to support organic farming.⁹⁰ So it seems not an effective solution when compared with the farmers’ view because subsidies are one more time on the scene.⁹¹

3.1.1.4 Impact of Enlargement on the CAP

Agriculture is such a critical issue for member and candidate countries in the EU that harmonization process of Member States with the CAP constitutes the number one priority during the transition periods. “Although its share in the contribution to GDP changes from one country to another, agriculture is socially and environmentally a sector of vital importance for all the future member states.”⁹²

On May 1, 2004 the EU opened a new era in its history with the accession of ten new Member States. (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia) Through this enlargement the number of farmers increased from 7 to 11 million with an increasing share of

⁸⁹ Grant, *op. cit.* : 203.

⁹⁰ Ibid.

⁹¹ Ibid.

⁹² 2003. Agriculture and Enlargement of the European Union. Parliamentary Assembly. <http://assembly.coe.int/Documents/WorkingDocs/doc03/EDOC9812.htm> (accessed March 10, 2007).

agricultural land, crop production and consumers in the EU.⁹³ So when one takes into consideration its coverage in the EU budget including agricultural subsidies and price support mechanisms, it seems difficult to expand the CAP on new comers at least in the way it was functioning before the 2004 enlargement. Another reason for this end is Central Eastern European Countries' having economic problems such as government deficits, debts, capital scarcity and unemployment. So although at first sight it seems reasonable for the EU to make its market larger and larger via new members in the long term, transition problems due to new members' instable economies especially on the CAP make it inevitable to enter a reform process in the short term.⁹⁴

The main concern behind the CAP with the Eastern enlargement was to what extent the CAP mechanisms and instruments would be adopted by new comers and how it would be financed in future enlargements while it is now covering almost half of the EU budget. Especially France was pushing on brakes on the enlargement issue since new comers had large agricultural lands and they would be the ones that would get a large piece from the agricultural cake. At the center of hot debates on the agriculture issue the new Member States' (especially Poland) desire was laying to benefit equally from the CAP as the founding EU members. So, in order to mitigate the situation the Commission came up with a proposal in 2002. It foresaw a gradual introduction of agricultural policy. That is the CAP would be extended into a transition period of ten years. So while in 2004 a Polish farmer would be getting 25% of a French farmer's agricultural income, this share would increase to 30% in 2005,

⁹³ Free trade, Fair Trade – Why or Why not? European Union - Delegation of the European Commission to the United States <http://www.eurunion.org/News/speeches/2006/060331ap.htm> (accessed March 10, 2007).

⁹⁴ Michael Ryan. 2005. Enlargement Costs of the Common Agricultural Policy. http://www-econ.stanford.edu/academics/Honors_Theses/Theses_2005/Ryan.pdf : 2 (accessed March 14, 2007).

35% in 2006 and finally 100% in 2013. By this way it was believed that the Eastern countries would be encouraged to change their agricultural policy because, otherwise, if the EU gave what the new comers wanted instantly, then there would be no incentive in the CEECs' part to make their agriculture in line with the EU. According to the Commission's proposal direct payments and production quotas and rural development policy would be introduced to new comers. Yet this proposal evoked concerns in the Northern European members' part. They were against the idea of direct aid within the first years of accession. The Dutch was one of them. The Swedes shared the same opinion with the Dutch by claiming that in case of giving direct aid there would be no incentive for agricultural restructuring in the Eastern part. France was already against the enlargement issue through referring to its costs. So in the Northern Part reform on the CAP was required immediately before the enlargement. Amazingly, the Eastern part was not satisfied with the Commission's proposal either, it was not much meeting their demands. Finally in 2002, at the Brussels Summit, the EU agreed on a gradual adoption policy of the Commission and the CAP expenditures were fixed for the period of 2007 and 2013 in order to keep financial stability inside the Union.⁹⁵

In fact when one thinks in terms of the CEECs' large farming population and low GDP, it is clear that the CEECs would be the net beneficiary of the Commission proposal. These counties would have the opportunity to enter the EU single market through taking direct payments and structural funds once they became members. However, on the EU side enlargement was bringing a cost of 40 billion euros cost per year and this cost increased at a rate of 11 billion euros a year because of direct payments and structural funds offered to new member states' farmers with the Eastern

⁹⁵ Fouilleux, *The Common Agricultural Policy*, *op.cit.* : 260, 261.

enlargement. So, as mentioned before, although in the long term the EU seems to be taking the advantage of enlargement through extending its markets, economy and self- sufficiency, in the short term this is not the case when taking into account the financial costs of enlargement. Just at this point the necessity of reforming the CAP comes out.⁹⁶

When one analyzes the early reforms of the pre-1992 period it is obvious that they all failed. For example the Manshot Plan of the 1960s intended for the removal of small farmers from the land and transfer of the farming sector into a larger and potential industry. The main reason behind this failure was the existing powerful farming lobbies at that time. The first major CAP reform was implemented in 1992 under the leadership of Ray Mac Sharry. This reform decreased the level of agricultural support prices and compensated farmers' loss through direct payments. Agenda 2000 could be assumed as a continuation of 1992 Mac Sharry Reform as it also supported direct payments and reduction of support prices. The second major CAP reform, based on decoupling subsidies from specific crops, was adopted on 26 June 2003. The key element of this reform was "Single Farm Payment" which replaced the farmer direct payments, so the relation between the production and subsidies was removed and from then on farmers could produce for the market not for subsidies. Additionally thanks to Single Farm Payments "environmental, food safety" and "animal welfare standards" were ensured.⁹⁷

⁹⁶ Jean-Cristophe Bureau. 2003. Enlargement and Reform of the EU Common Agricultural Policy: Impacts on the Western Hemisphere Countries. Inter-American Development Bank – Washington, DC. http://www.iadb.org/INT/Trade/1_english/4_SpecialInfo/Conference/2002/i_Oct202-AgricLiberal/Bureau.pdf : 60 (accessed March 18, 2007).

⁹⁷ http://en.wikipedia.org/wiki/Common_Agricultural_Policy , *op.cit.*

3.2 Major CAP Reforms (Evolution of the CAP)

3.2.1 1968 Manshot Plan

1968 Manshot Plan was the first plan to deal with the structural problems of the European Community's agriculture. According to this plan price supporting policies of the Community were leading to production surpluses through increasing their costs in the market. This fact was bringing a burden on the consumers' side and also on the EC budget and was not meeting the social goals of the CAP. In a way there was an imbalance between the consumption and production of agricultural output in the Community. Moreover the support system was bringing income instabilities in different sectors of the Community instead of improving the conditions of farmers. So the 1968 Manshot Plan foresaw a decrease in prices through limiting overproduction, replacement of small sized enterprises by large ones and restructuring agricultural holdings. In this respect the plan was perceived as a counterblow on family farms and gave rise to adverse reactions in the EC.⁹⁸ " 'In France, in particular, there [was] bitter reaction, as the debate took place against a background of concern about the prospects for the farm community, faced by acute problems of transition from a peasant-type, small-scale farming pattern, depending almost exclusively on family labour and making little use of purchased inputs, to larger scale, merchandised and capital-intensive units.' "⁹⁹ (Tracy, M. 1989, *Government and Agriculture in Western Europe 1880-1998*, 3rd edn, Hemel Hempstead: Harvester Wheatsheaf, p: 287.) Finally because of the reactions of

⁹⁸ Julius Rosenblatt; Thomas Mayer; Kasper Bartholdy; Dimitrios Demekas; Sanjeev Gupta; Leslie Lipschitz. *The Common Agricultural Policy of the European Community*. 1988. Washington: D.C.: International Monetary Fund : 19, 20.

⁹⁹ Grant, *op.cit.* : 71.

Member States this plan was rejected but it laid the ground for the future reforms of the Community.

3.2.2 Reforms of the 1980s

The 1980s could be referred as the crisis years for the agricultural policy of the EC along with serious budgetary problems, surpluses in agricultural output and even in livestock. It was in this period that the CAP became a serious threat for the Community budget. In this context dairy products were the main problematic area to be handled immediately because of covering 39 % of the EAGGF “Guarantee Section.” So dairy quotas and budgetary stabilizers were introduced sequently in 1984 and 1988. The objective laying behind the quotas was to cut the expenses on the dairy sector.¹⁰⁰

Quotas brought to the dairy sector although at first produced adverse reaction among the dairy producers, over time they turned to be effective in terms of decreasing production levels and budgetary expenses dedicated to this sector. For example while in 1980 dairy products were covering 43% of EAGGF: Guarantee Section, this share gradually decreased to 24% in 1990 and 7% in 1999. Also while in 1984 the value of dairy stocks was declared as 8.7 billion ECU, it was only 553 million ECU in 1996. This is also a good indicator of the quota’s success within this reform process.¹⁰¹

With the budgetary stabilizers overproduction was targeted to be eliminated inside the Community through reducing guaranteed prices and intervention

¹⁰⁰ Ibid. : 74, 75.

¹⁰¹ Ebru Ekeman. Mayıs 2000. *21. Yüzyılın Eşiğinde Avrupa Birliği'nde Ortak Tarım Politikası*. İstanbul: İktisadi Kalkınma Vakfı, İKV:158 : 43.

purchasing for certain products when the threshold for the output was exceeded. In other words as long as the guaranteed prices continued on unlimited quantities of production, it would be much more difficult to tackle the overproduction problem of the CAP.¹⁰²

Yet the reforms of the 1980s again did not bring stability to the agricultural policy of the Community, could not establish supply and demand balance and did not lessen the burden of the CAP on the Community budget. With the production quotas and budgetary stabilizers no radical restructuring schemes were promoted within the CAP's functioning mechanisms. The achievement of the 1980s reforms just became limited with the introduction of Guarantee thresholds and reduction of intervention prices. CAP's share on the Community budget and overproduction posed one more time a problem in the beginnings of the 1990s.¹⁰³

Also because of the fact that the Guarantee thresholds' being kept at high levels inside the Community and support prices' being only limitedly reduced in the case of overproduction, the reforms of the 1980s did not become operational. However they were conceived as an important step in terms of changing the nature of the CAP in which intervention purchases highly prevail. That is why these reforms were regarded as a turning point inside the agricultural policy of the Community since for the first time intervention purchases started to be questioned.¹⁰⁴

¹⁰² Grant, *op.cit* : 74, 75.

¹⁰³ Elif Seda Ülkü. Nisan 2006. *Avrupa Birliği Ortak Tarım Politikası Reformları*. İstanbul : İktisadi Kalkınma Vakfı, İKV:193 : 18.

¹⁰⁴ Ekeman, *op.cit* : 42.

3.2.3 1992 Mac Sharry Reform

It was hardly indispensable to initiate another reform on the agricultural policy of the Community by 1992 because of increasing budgetary expenses and instabilities on supply and demand side. Despite the whole limitations on production and budget brought by the reforms of the 1980s, the Community was entering in a phase of crisis in which mountains of beef and grains and lakes of milk were appearing because of the Community's intervention purchases. In fact the reforms of the 1980s had already given the signals of this type of overproduction crisis inside the Community for the following years unless fundamental shifts occurred in the nature of the CAP. Even the level of public stocks for the grains increased from 10 million tons in 1988 to 25 million tons in 1991, and for the beef from 380.000 tons in 1988 to 900.000 in 1991. The enormous increase on the basis of quantity was also reflected alarmingly on the EAGGF expenses through reaching storage costs to 30 billion ECUs in 1992 from 11 billion in 1981. Finally all these factors along with the pressures from world markets to the EC to decrease its export subsidies laid the ground for the Mac Sharry Reforms in 1992.¹⁰⁵

The main theme behind the Mac Sharry Reforms of 1992 was to decrease the production subsidies and their replacement by direct payments through which losses of farmers would be met during this shift of policy. Direct payments, by orienting the farmers towards less intensive farming techniques, were successful in terms of keeping production levels under control by eliminating the subsidies on the basis of production. With the Mac Sharry Reform in 1992 setting aside land payments, provided for not using the land for production purposes, were introduced to farmers in

¹⁰⁵ Bureau, *op.cit.* : 20.

order to keep stocking levels. Thanks to direct payments, an important leg of this reform, transparency was ensured inside the Community because the farmers had to apply for the government to take their payments and the government had to make public the amount of the subsidies it was granting.¹⁰⁶

Yet there were two clashing opinions on the operability of the 1992 Mac Sharry Reform.

Skeptics of Mac Sharry Reforms claim that direct payments which were provided for the losses of farmers made the CAP budget more expensive even reaching 40 billion ECU in 1996 because of support prices' being cut on production. Moreover still the solution of direct payments did not decrease the dependency of farmers on the support system of the CAP. Besides the reform was believed to bring a burden on the individual farmers in terms of meeting the requirements of setting aside land such as forming "surveillance systems."¹⁰⁷

Defenders, on the other hand, point to the fact that the 1992 Reform was an important success and completed the unfinished developments of its precedents. It made clear that the price support system would no longer continue the way it did before. So radical changes needed to take place inside the CAP in order to respond to the challenges coming from world markets and this was exactly what the Mac Sharry Reform accomplished.¹⁰⁸

In fact with the Mac Sharry Reform of 1992 the Uruguay Round of GATT negotiations, interrupted because of the EU and US disagreement on agricultural trade liberalization, was reopened. During the negotiations the EU maintained its strict attitude on the issue of controlling world trade whereas the US wanted market

¹⁰⁶ Jack Thurston. 2002. How to Reform the Common Agricultural Policy. London: The Foreign Policy Centre. <http://fpc.org.uk/fsblob/47.pdf> : 7, 9 (accessed March 22, 2007).

¹⁰⁷ Grant, *op.cit.* :78.

¹⁰⁸ Ibid.

mechanisms' taking an active role in deciding the prices. Yet the US' undermining the EU's position during the negotiations was a big mistake for the reason that the EU was determined on continuing its route on the basis of its own mechanisms. Although France at first sight was against any reform on the agriculture issue and also seemed to break down the negotiations with the concern of protecting her place as an important agricultural exporter in world markets, French farmers later on weakened their resistance against the conciliatory policy of the EU. On Germany's side, there was a strict desire to complete the Uruguay Round negotiations because she had interests in terms of benefiting from agricultural trade liberalization as being an industrialist country.¹⁰⁹

In 1994 when the Uruguay Round of the GATT was completed, the GATT was replaced by the World Trade Organization. The achievement of the negotiation was the Agreement on Agriculture which identified three different boxes representing to a certain degree protectionism on agriculture. The first box is the *Amber Box*: Protectionist countries pursue interventionist policies, directly influencing the production levels, through distorting international trade. These applications needed to be stopped. The second box is the *Green box*: Compared to the Amber box, the Green box is better in terms of having adverse effects on world trade. For a country in order to be in this box she needs to break the link between the quantity of production and subsidies. The Green box offers its producers a variety of services including research, disease control, food security, environmental and regional assistance, etc. This box can be referred as the mid-interventionist box. The third box is the *Blue Box*: In this box the production level is tried to be kept as low as possible and third world countries are helped to enter world markets by removing subsidies on production.

¹⁰⁹ Ibid. : 79, 80, 81.

Additionally it is an environment-friendly box, afforestation and removal of chemicals on agricultural production are supported inside this box.¹¹⁰

3.2.4 Agenda 2000

Agenda 2000 can be viewed as an extension of the 1992 Mac Sharry Reform. The recent developments in agriculture, a new round of trade negotiations' being hold under WTO in 1999 and CEECs' accession to the EU in 2004 through bringing budgetary concerns on the EU side were the main reasons that made the Commission prepare a report in 1997 and approve it in 1999 at the Berlin European Council Summit.¹¹¹ The main motive behind Agenda 2000 was to provide a sustainable and environment-friendly agricultural policy inside the Union along with bringing multifunctionality to the CAP. In this way it was underlined that agriculture also had social, cultural and historical functions.¹¹²

The Commission Report, Agenda 2000, envisaged European agriculture's being competitive with world markets through price cuts. In this way direct payments were supported in the Union through eliminating price supports. It also introduced the Rural Development concept, the second pillar of the CAP, through which production support policies were substituted by environmental and rural economy instruments. So seven year programmes were prepared by the Member States for the period of 2000-2006 in order to create alternative income sources for the farmers and to introduce agro-environmental plans. Thanks to these plans the harm given to the

¹¹⁰ Fouilleux, The Common Agricultural Policy, *op.cit.* : 258, 259.

¹¹¹ M.A Keyzer; M.D Merbis. February 2000. CAP Reform in Agenda 2000 – An opening bid for the Millenium Round (CAPMAT simulations). Amsterdam: Centre For World Food Studies. http://ec.europa.eu/agriculture/publi/caprep/impact/4_en.pdf : 2 (accessed March 21, 2007).

¹¹² Fouilleux, The Common Agricultural Policy, *op. cit.* : 257.

environment by chemicals during agricultural production was targeted to be prevented and afforestation was encouraged. Rural Development measures targeted economically and socially development of rural areas. They supported investments in farm holdings, encouraged young farmers and assumed their training ¹¹³

Also because of price cuts, enhancing EU prices' being in line with the world, compensation was provided to farmers either via direct payments or rural development measures. Commission and Member States shared responsibility in the amount and type of compensation. So in a way the EU legislation was simplified and became more transparent thanks to this type of division of authority between the Commission and Member States.¹¹⁴

Within the framework of Agenda 2000 a set of innovations was introduced to the CAP. *Modulation* was one of them. In this way the Member States would be allowed to change the rate of direct payments on the basis of rural employment and welfare in their own countries. The amount of direct payments allocated to farmers would be in line with the size of farms. So in a way reduction of direct payments became inevitable for large farms. *Cross-compliance* was another important element of Agenda 2000. Through this means conditionality was attached into the production process inside the CAP. In other words farmers were compelled to abide by the production standards in return for direct payments. In this respect Member States were allowed to apply sanctions in the case of violation of production standards including Environmental and Animal Welfare considerations.¹¹⁵ Also *Equal Treatment to Farmers* ensured modulation and cross-compliance measures' being

¹¹³ 2005. CAP reform: background. Department for Environment, Food and Rural Affairs. <http://www.defra.gov.uk/farm/capreform/background/260603-back.htm#agenda2000> (accessed March 22, 2007).

¹¹⁴ Reform of the Common Agricultural Policy. Europa. <http://europa.eu/scadplus/leg/en/lvb/l60002.htm> (accessed March 23, 2007).

¹¹⁵ Ülkü, *op.cit* .: 30.

equally provided to farmers without distorting the markets of the EU and world-wide competition. Agenda 2000's final element was related with the *saved funds*. These were the funds collected via the reduction of direct payments as a result of modulation and cross-compliance. These funds' assessment was under the control of Member States with the aim of contributing to rural development.¹¹⁶

3.2.5 The 2003 CAP Reform

The CAP has been the center of criticism for long years by bringing a huge burden to the EU tax payers, by impeding Third World development via export dumping strategies, by distorting world-wide free trade and by damaging the environment in the EU Member States. So the reforms were inevitable results of these criticisms. Hence the 2003 CAP Reform was endorsed in order to touch upon the above criticisms.¹¹⁷

The 2003 CAP Reform brought important changes to the CAP. It introduced the Single Payment Scheme (SPS) by breaking the link between production and direct income support. Hence decoupled payments in a way took the place of direct payments inside the CAP. "...There would no longer any obligation to produce anything in order to get the direct paid premiums."¹¹⁸ SPS focused on consumer demands through making the market more operational. That is farmers started to produce for the market needs not for direct payments. It also made cross-compliance measures obligatory as they were introduced in Agenda 2000. In other words the

¹¹⁶ Ibid.

¹¹⁷ Peter Nedergaard. July 2006. "The 2003 Reform of the Common Agricultural Policy : Against all odds or Rational Explanations?" *European Integration*. Vol:28, No:3 : 203.

¹¹⁸ Ibid. : 215.

cross-compliance principle accorded priority to the quality in agricultural production and protection of the environment during the production process. Moreover farmers were faced with reduction in direct payments as long as they did not comply with cross-compliance measures.¹¹⁹

The EU's over protectionist policies on agricultural products were one of the main motives behind the 2003 CAP Reform because states were heavily criticizing the EU for bringing a shadow on international trade. World Trade Organisation negotiations were also another reason signaling radical changes inside the CAP and made the 2003 Reform inevitable on 26th of June, 2003. This reform targeted itself the development of rural areas and made the subsidiarity principle set out through limiting the role of the Commission. That is member states also had a say during the reform applications.¹²⁰

With the 2003 CAP Reform, competition starting from the local level was encouraged inside the CAP, and environmental protection, animal welfare and health standards during the production process were achieved. Rural development was also supported through introducing the modulation concept in which money is transferred from Pillar One to Pillar Two. That is instead of direct payments the budget dedicated to agriculture started to be used for rural development inside the Union. Hence, gradually the amount allocated for the large farms via direct payments decreased and even rural development policies were drawn up. Finally, Farm Advisory System was operated in order to control the farmers getting CAP payments. In a way a farm

¹¹⁹ Martin Konecny. 2003. The CAPacity building manual. Belgium: Friends of the Earth Europe. <http://www.foeeurope.org/agriculture/publications/CBM.pdf> : 37 (accessed March 24, 2007).

¹²⁰ Agriculture and rural policies- the new paradigms. <http://ressources.ciheam.org/ressources/en/report2005/chap2.pdf#search=%22Agricultural%20Reform%20Implementation%20Project%20%2B%20Turkey%22> : 7 (accessed March 26, 2007).

management tool was introduced to control whether agricultural production is in line with the environmental and animal welfare standards and food quality of the EU.¹²¹

So through all the above objectives and results, the 2003 Reform can be defined as an extension of Agenda 2000 and as a significant breakthrough in terms of alleviating the burden of the CAP on the EU budget. Thanks to decoupled payments farmers were oriented towards markets and production on the basis of direct payments was eliminated. The 2003 Reform stressed the public expenditures on farming or subsidies to be provided in a more justifiable manner and diverted the attention on food quality, social balance, environment, animal welfare and landscapes as Fischler, European Commissioner for Agriculture, says: “We cannot expect our rural areas to prosper, our environment to be protected, our farm animals to be well-looked after, and our farmers to survive, without paying for it. In future farmers will not be paid for overproduction but for responding to what people want: safe food, quality production, animal welfare and a healthy environment.”¹²²

In short all the reforms of the CAP are towards reducing its burden on the EU budget and making it more transparent and simplified as a policy inside the Union. From time to time these reforms targeted themselves to cope with the overproduction problem, to arrange direct payments and support policies of the Union, to support rural development through taking into account environmental protection, food safety and animal welfare standards and to strengthen confidence in world trade. In fact all these goals indicate the major problems of the CAP and these reforms represent partly the solutions since in each phase the CAP encountered new challenges because of the reasons mentioned in the beginning of this chapter. So these reforms in a way

¹²¹ Ibid.

¹²² Eve Fouilleux. March 2004. “CAP Reforms and Multilateral Trade Negotiations: Another View On Discourse Efficiency.” *West European Politics*. Vol:27, No:2 : 248, 249.

complemented each other, each one of them tried to cover the deficiency of its precedent and each one was required to be restructured as the CAP has also an evolving nature inside the Union.

**PART II: TURKEY'S HARMONISATION WITH THE COMMON
AGRICULTURAL
POLICY**

CHAPTER: IV

THE DEVELOPMENTS IN THE AGRICULTURAL SECTOR AND HARMONISATION OF TURKISH AGRICULTURE WITH THE CAP

4.1 Turkey-EU Relations in terms of an Agricultural Perspective

It was in 1959 that Turkey applied for association membership with the European Community. In the late 1950s the association membership was seen as a positive approach and it was only two weeks after Greece's application that Democratic Party under Menderes submitted Turkey's application. The reasons lying behind this application were Turkey's Western vocation, introducing Turkey's exports to the European markets and stimulating economic growth in Turkey. The Greek application was another important motive for Turkey's EU vocation in order not to be alienated in the international arena. Finally on September 29, 1959 official relations between Turkey and the Community began and the 22-year period that would end with the Customs Union Agreement was launched. The motive behind this agreement was Turkey's full membership.¹²³

In 1963 Prime Minister İsmet İnönü signed the Ankara Agreement with the Community. This was an important agreement in terms of agriculture and it

¹²³ Meltem Müftüleri Baç. 1997. *Turkey's Relations with a Changing Europe*. Manchester: Manchester University Press : 54.

introduced a three-stage period in Turkey. But before touching on these stages it should be kept in mind that this agreement brought different opinions. Marxists strictly opposed this agreement by indicating that Turkey would be captive to European imperialism and this was not a natural way of developing for Turkey. Even two important institutions, the State Planning Organisation(SPO) and the Foreign Ministry put the blame on each other for making Turkey prey to European powers. While SPO criticised the Foreign Ministry for “selling out the country”, the Foreign Ministry spoke about the “religious fanaticism” of SPO. ¹²⁴Yet finally İsmet İnönü thought the Ankara Agreement was important for Turkey’s Western vocation and three stages were introduced with the association agreement:

The first stage is referred to as the *preparatory stage* that would cover 5 to 9 years. It brought tariff quotas to certain agricultural products like hazelnuts, tobacco, figs and raisins. Turkey also benefited from financial aid, 175 million ECU, given by the Community. The second stage is the *transitional stage* covering 12 to 22 years. In this stage Europe would get rid of all restrictions on Turkey. That is, tariff reductions on textiles, agricultural and industrial products would be introduced and Turkey was provided with financial aid by the Community. In return, Turkey was supposed to lower her protection tariffs on industrial goods and adopt a Common External Tariff that would be in line with the Community. The third stage was the *final stage* foreseeing Turkey’s membership to the Customs Union that would integrate Turkish agriculture to the CAP.¹²⁵

With the finalisation of the preparatory stage, the Additional Protocol was signed between Turkey and the EC in 1970 and entered into force in 1973. The additional Protocol launched the transitional period. The Ankara Agreement was still

¹²⁴ Ibid. : 55.

¹²⁵ Ibid. : 56, 57.

valid but this protocol laid the details of the negotiations and envisaged the establishment of the Customs Union by 1995. Tariff reductions, financial aid and free movement of labour were all handled in this Protocol. For instance Turkey was supposed to lower her tariffs on imported products of the Community and fulfill the necessary requirements in order to bring her agricultural policy in line with the CAP. In return, Turkish industrial products would enter freely into European markets but textiles and petroleum products were excluded. Also restrictions on free movement of labour between Turkey and the EU were removed.¹²⁶

Towards the end of the 1970s the relations between Turkey and the EU were frozen. The 1973 oil crisis and 1974 Cyprus problem were among the major causes for this end. In short although the Customs Union (CU) process started in the mid-1970s, it was suspended towards the beginnings of the 1980s. This CU process foresaw a gradual inclusion of agricultural production of Turkey to European markets but this was never realised because the EU continued to impose high tariff barriers. Additionally Germany issued a ban on the requirement of Turkish workers. So also the free movement of workers via the CU process was not realised. The EU was not the only actor in terms of not fulfilling the obligations of CU, neither did Turkey. For instance while the CU required gradual removal of customs tariffs, Turkey did not do much for this goal and she did not adopt the Common External Tariff. Besides she did not remove quantitative restrictions in industrial goods.¹²⁷

This negative situation was overcome by Turkey and the country applied for full membership on 14 April 1987. The shift in the Turkish economy from inward to an outward economy and Turkey's import liberalisation strategies accelerated

¹²⁶ Ibid. : 59, 60.

¹²⁷ Nilgün Arisan Eralp. Director of the National Program at the Secretariat General for EU Affairs. Course notes. 2007, February 27.

Turkey's progress on the EU road¹²⁸ and finally in 1995 the Customs Union Agreement was signed and Turkey was obliged to bring her agricultural policy in line with the CAP. Only processed agricultural products and industrial goods were covered by the CU. For classical agricultural products' to be included in the CU, Turkey was required to adopt the CAP.¹²⁹

The Helsinki Summit of the EU in 1999 is referred to as a mile stone for Turkey-EU relations because Turkey was declared as a candidate state and was treated on equal footing with other Member States. After the Helsinki Summit, the Accession Partnership Document for Turkey was prepared and accepted in December 2000 at the Nice Summit. This document defined the obligations Turkey needed to undertake. In response to this document, in March 2001 Turkey prepared National Program for the adoption of the Acquis or Accession Partnership Document. It was revised in 2003. On 17 December 2004, the European Council stated that Turkey fulfilled the Copenhagen criteria and she was ready to start the negotiation talks. Finally, on 3 October 2005, accession talks between the two parties started.¹³⁰

The Negotiation Framework was published on 12 October 2005 stating that the negotiations would be challenging for Turkey. It emphasized that the outcome of the negotiations could be open-ended and the absorption capacity of the EU was underlined. According to this framework the EU might put forward certain escape clauses on three policy areas on a permanent basis. These safeguard clauses were covering free movement of labour, structural funds and agriculture. In the agricultural realm Turkey had the possibility to be excluded from the CAP and in this respect she

¹²⁸ Müftüler Baç, *op. cit.* : 63.

¹²⁹ 2000. *Tarımsal Politikalar ve Yapısal Düzenlemeler Özel İhtisas Komisyonu Raporu.* (Sekizinci Beş Yıllık Kalkınma Planı) Ankara: Devlet Planlama Teşkilatı : 48.

¹³⁰ EU-Turkey Historical Review. Delegation of the European Commission to Turkey.

<http://www.deltur.cec.eu.int/default.asp?pId=4&lang=1&prnId=1&ord=0&fop=1> (accessed May 10, 2007).

might even be kept out of structural policies.¹³¹ This is a negative attitude towards Turkey because she works hard in order to harmonize her agricultural policy with that of the EU. In such a situation the EU would be in a more advantaged position because the EU would be benefiting from Turkey in various aspects such as geopolitically or militarily while Turkey would be in a more backlash position because in such a case, then, it will not make sense for Turkey to be a member of the EU unless she benefits from these three key policy areas. Yet even if the negotiation process with the EU does not lead Turkey towards full-membership, Turkey should anchor EU policies as closely as possible and transition measures or escape clauses especially on the agriculture issue should not be deterrent for Turkey on her EU road.

When it comes to recent negotiations between Turkey and the EU according to the decisions which were taken by the General Affairs and External Relations Council on 11 December 2006, Cyprus still continues to be a deadlock in the relations between Turkey and the EU in terms of agriculture and rural development. In this context, member states' not going through opening chapters related with the Cyprus problem is a good example for this end. This fact shows that Turkey will face hard conditions during the negotiations because Cyprus is added as an additional condition for the agriculture chapter.¹³²

The real motive behind the suspension of the agricultural chapter during the negotiations was based on Turkey's attitude towards Cyprus especially on the imports and exports of agricultural goods. They asked for opening Turkish airports and seaports to Cyprus. But, such a demand would be to the disadvantage of Turkey because Turkey's attitude towards Cyprus has nothing to do with the agriculture and rural development chapter. It is more related with the services sector because the EU

¹³¹ 2005, October 12. *Negotiating Framework*. Brussels: Council of the European Union : 11.

¹³² 2006, December 11. *Council Conclusions on Enlargement*. Brussels: Council of the European Union : 3.

blames Turkey with preventing the means of transportation and blocking the functioning of the Customs Union. This is why recently they refer this issue to the European Court of Justice through suspending the agricultural chapter of Turkey.¹³³

4.2 General View on Turkish Agricultural Policy

With her 68.6 million population and with an area of 769.604 km², Turkey is the largest country among the candidate countries of the EU. Even “the growth of the whole population is higher than in the EU on average.”¹³⁴ Thanks to improved social and economic conditions and suitable climate in the country, larger and fertile farms are situated in the western and southern parts of Turkey (Aegean and Mediterranean regions). Land and climatic conditions along with social and economic developments are very important for rural economies’ development in Turkey. Although recently an increasing urbanisation and orientation of agricultural labour towards manufacturing sectors have been observed thanks to the improved economic situation and restructuring, agriculture is still the most important key actor in terms of providing employment in Turkish economy.¹³⁵

Agriculture has been one of the leader sectors in Turkey through its contribution to the Turkish economy. For long years agriculture has been a major source of employment and a net contributor of Gross Domestic Product (GDP) in Turkey. Yet, as a result of the modern world requirements agriculture’s share in

¹³³ Fatma Can. Interview with the Head of the Department of Agriculture and Fisheries at the Secretariat General for EU Affairs. May, 2007.

¹³⁴ 2003, November. Agricultural Situation in the Candidate Countries, Country Report Turkey. <http://europa.eu.int/comm/agriculture/external/enlarge/publi/countryrep/turkey.pdf> : IV Executive Summary (accessed May 8, 2007).

¹³⁵ Ibid. : 6.

Turkish economy decreased and industrial development was given impetus in the country. The following proportions are good indicators of this end: While in 1980 agriculture was covering 26% of Turkish GDP, it was 17.3% in 1998. The sharp decrease in the agricultural sector also reflected to the exports of Turkish agricultural products. In 1980 while agricultural products were covering 57% of Turkish total exports, it was only 10.3% in 1998. Hence the notable decrease of agricultural employment in total employment from 62.5% in 1980 to 41% in 1998 was a natural outcome of such an environment. In fact these steady decreases in the agricultural sector were signals of Turkey's industrial development and her departure from an agricultural-based to an industrial-based economy as it is the case in developed countries. Yet it should be borne in mind that even in 1998 the agricultural labour force corresponded to 41% of total employment. This is still a share that can not be ignored in terms of agriculture's representing nearly half of the total employment in Turkey on the base of 1998 statistics.¹³⁶ Even this share alone corresponds to the total agricultural labour force of the EU-15 before the 2004 enlargement.

As stated above, agriculture in Turkey can be referred as a key sector through its contribution to the economy. It has been a major source of employment for years. Today the agricultural labour force is representing 33% of total employment and even in the past, not so long before, agriculture was covering about half of the employment in Turkey. In this framework, its reflection in the economy is in line with its labour force. For instance for the year 2004 agriculture was corresponding to 11% of the Gross Domestic Production and the total value of agricultural production was stated as €29 billion. Along with these numbers for the same year the export

¹³⁶ Ebru Ekeman. Mayıs 2000. *21. Yüzyılın Eşiğinde Avrupa Birliği'nde Ortak Tarım Politikası*. İstanbul: İktisadi Kalkınma Vakfı, İKV:158 : 89.

value of Turkish agricultural output had a surplus of €2.35 billion. So when one takes into account all these economic indicators, then it would not be surprising that the agricultural budget covered € 2.3 billion in 2004. It should be noted that all these economic statistics are good enough to show the importance of agriculture in the economic realm. That is why for long years and even today to a certain extent agriculture and economy are referred as intertwined areas.¹³⁷

As a result of its contribution to GDP, labour force and its creating incentives for industrial development through providing capital in Turkey; agriculture has been one of the main sectors in which heavy state interventions prevail. The government used price supports, export incentives and import protection policies to increase farmers' income, to ensure self-sufficiency in food and also to encourage exports through contributing to the Turkish economy. Turkish government gave its support to agriculture by intervention prices. Since these policies were not based on certain regulations, in other words since they were arbitrary, they led to distortions in Turkish markets by making the agriculture a heavy burden on the Turkish economy. Moreover most of the agricultural policies under the control of the government were in favour of rich farmers rather than the small farmers. They were the ones suffering from the intervention prices of the government.¹³⁸

The policies that the government pursued, making agriculture a leader sector in Turkey, varied from one area to another. For instance while for the crops sector a “domestic price support” mechanism was used via limiting imports by high tariffs it was “support producer prices” for the livestock sector. In order to ensure the

¹³⁷ 2006. Screening Report Turkey / Chapter 11 Agriculture and Rural Development
http://www.abgs.gov.tr/files/tarama/tarama_files/11/screening_report_11_tr_internet_en.pdf : 2
(accessed June 15, 2007).

¹³⁸ Çakmak, Erol H.; Kasnakoğlu, Haluk. 2002. Assessment of Agricultural policies and the Impact of EU Membership on Agriculture in Turkey. Ankara.
<http://par.iamm.fr/ressources/recherche/champ1/turquie.pdf#search=%22differences%20between%20EU%20and%20Turkish%20agricultural%20policy%3F%20%22> : 1 (accessed May 12, 2007).

credibility inside the Turkish markets for consumers “price controls” and “export taxes” were applied and “input subsidies” and “credit” were provided for the farmers in order to increase their income and enhance the development of rural lands. Besides, no production quotas were introduced by the government at the outset by drifting the agricultural sector into a deadlock.¹³⁹ That is along with its returns, Turkish agriculture had also costs on consumers and producers or overall on the Turkish economy.

The agricultural policies employed by the government can be categorized as follows:

Output Price Support: It is the most commonly used support mechanism in Turkey leading to hot debates in Turkish politics. It was first introduced in 1932 with the crop, wheat. Over time its target area was expanded. While till the 1960s it was employed to specific crops like grains, opium, tobacco and sugar beet by the 1970s the number of crops with output price support increased to 22. Yet from 1994 onwards a serious decline in supported crops was observed in Turkey as the case was in the world. This was also a consequence of the 1992 Mac Sharry Reforms which foresaw the decrease in production subsidies. Before 1992 it was under the responsibility of the government to decide on output support prices. In this respect the State Economic Enterprises (SEEs) and Agricultural Sales Cooperatives (ASCs) were charged with buying the agricultural products at “floor prices” by the government. Yet since 1993 the private sector also came into the scene for buying the agricultural output. Also in 1993 as an alternative to floor prices, deficiency payments were introduced. This was a more transparent mechanism since a “target price” was declared beforehand with a continuing limited intervention price. In this way farmers

¹³⁹ Alberto Valdés. 2000. *Agricultural Support Policies in Transition Economies*. Washington: The World Bank : 91.

were encouraged to sell their products to ASCUs in return for deficiency payments given for covering the imbalance between the target price and obtained price. The Treasury made the payments via Agricultural Bank to the farmers and the targeted crops included cotton, sunflower, tobacco, tea and hazelnut under the deficiency payments but from 1994 onwards this mechanism (deficiency payments) was no longer used in Turkey because of economic problems.¹⁴⁰

Trade policies: Till the early 1980s imports of agricultural products were under the control of SEEs, there were also restrictions on imports of fertilizers and pesticides. Along with import restrictions export subsidies were provided to “horticultural and livestock products, fresh and processed vegetables, citrus fruits, some cereals and sugar.”¹⁴¹ However with the 1980s trade liberalization dominated Turkish markets and in 1995 with the Customs Union Agreement trade between the EU and Turkey flourished. The Customs Union Agreement, which involved the trade of industrial products and processed agricultural products between the EU and Turkey, was a precondition for Turkey to align her agricultural policy with the CAP, so structural adjustments on the agricultural sector came into being in Turkey from then on.¹⁴²

Supply Control Measures: This was not an effective policy arrangement for Turkey but on certain sectors like tobacco in 1986, hazelnut in 1983, and tea in 1987 this measure was applied. Also to a certain degree sugar beet production was limited via supply control measures.¹⁴³

¹⁴⁰ Ibid.

¹⁴¹ Ibid. : 92.

¹⁴² Çakmak, Erol H.; Kasnakoğlu, Haluk, *op. cit.* : 1.

¹⁴³ Valdés, *op.cit.* : 93.

Direct Payments: They can be defined as another version of output price support. They are given on conditions like natural disasters, as an encouragement for farmers dealing with livestock and in return for sugar beet pulp to producers.¹⁴⁴

Reduction in Input Costs: Input subsidies are the key agricultural support mechanisms in Turkey taking various forms. Here they are:

- Capital grants: “Incentive credits”, “income tax reductions”, “reductions in customs unions” are all referred as capital grants.
- Interest Concessions: Investment credit is given to farmers and interest rates in return for this credit is kept below the rate of inflation to encourage farmers.
- Fertilizer Subsidies: Till 1997 it was up to the Government to decide on the prices of chemical fertilizers but from 1997 onwards reduction on the amount of subsidies has been observed.
- Seed Subsidies: Production and distribution of subsidies are in a way under the control of the State through the subsidies granted to farmers and refund payments for the “hybrid seed producers.”
- Pesticide Subsidies: The State provides subsidies on conditions of “epidemic diseases” or “pest infestations” and after 1985 subsidies on services for producers.
- Cultivation Services: The State supports the farmer (especially the sugar beet producers) with machinery and equipment.
- Feed Subsidies and Improvement of Breeding Stock: For the period between 1985 and 89 rebates on animal feeds were provided and a support price was given to industrial feed between 1988-89 and “artificial insemination” for bulls and sheep was encouraged through subsidies.¹⁴⁵

¹⁴⁴ Ibid.

¹⁴⁵ Ibid.

General Services: Research and training of farmers, inspection services such as monitoring animals or inspecting factories, pest and disease control services and infrastructure services such as state investment on irrigation, water, electricity and land are all categorized under the General Services provided by the State to farmers in Turkey.¹⁴⁶

Income Taxes: Income taxes are just collected by large farmers, so in a way the small farmers are protected.¹⁴⁷

Consumer Subsidies: Consumers are not provided with subsidies for their consumption but via “price controls” and “market interventions” they are protected against trade distortions.¹⁴⁸

So with a close look at these agricultural policies of the Turkish Government it is obvious that price support mechanisms and input subsidies have composed the heart of agriculture in Turkey. However these two important mechanisms have transformed through time on the basis of increasing income of farmers or changing political conditions. For instance while price support was used for protecting the value of agricultural products in a certain line and increasing the farmer’s income, the input subsidies were used for increasing agricultural productivity and decreasing input costs. Yet over time both of these mechanisms lost their key importance as support instruments and they were replaced by the Project of Alternative Products and Direct Income Support in Turkey.¹⁴⁹ In this way the direct relation between the production and subsidies was removed in Turkey to the contrary

¹⁴⁶ Ibid. : 94.

¹⁴⁷ Ibid.

¹⁴⁸ Ibid.

¹⁴⁹ Erhun Baş, Mayıs 2004. *Avrupa Birliğinde Ortak Tarım Politikası Alanında 2003 ve 2004 Yıllarında Gerçekleştirilen Reformların Genişleme Süreci ve Türkiye’nin Adaylığı Göz Önüne Alınarak İncelenmesi – Uzmanlık Tezi*. Ankara: Avrupa Birliği Genel Sekreterliği Tarım ve Balıkçılık Dairesi : 44, 45.

of previous agricultural support mechanisms. So the agricultural supports were oriented more towards the target audience because previous support models were more in favour of large farmers. By this way the imbalances in terms of productivity between large and small farmers were removed.

In short; the current agricultural reforms in Turkey are results of the Uruguay Round Agreement and foresee replacement of “out price supports” and “input subsidies” with direct payments to farmers according to the lands they own. In fact if these reforms were totally implemented, Turkey could have an agricultural policy similar to the CAP and could contribute to her rural development by accelerating on the way to EU.¹⁵⁰

4.2.1 Agricultural Reform Implementation Project (ARIP) (2000-2007)

Turkish agricultural policy for long years had a protectionist tendency and carried the roots of nationalist orientations. Yet in certain periods (between 1980-1984) and especially in recent years (from 2001 onwards) a serious reduction in the support and protectionist policies of Turkish Government was observed in agriculture. Thanks to the economic reforms of 1980-1984, export-oriented economy became a model for Turkey by taking the place of the import substitution strategy of long years. The new model brought along itself new institutional amendments. Yet since these amendments were presented in an “unstable economic environment”, they could not reach their intended goals. Agricultural policies turned out to be profitable opportunities for certain interest groups because of unstable governments, and

¹⁵⁰ Harry Flam. 2003, February. Turkey and the EU: Politics and Economics of Accession. Institute for International Economic Studies. <http://www.iies.su.se/publications/seminarpapers/718.pdf> : 20 (accessed May 15, 2007).

gradually deteriorating economic conditions. Even the term agriculture was being referred as a “political football” for politicians in order to secure their votes. This is a clear sign of how agriculture and politics have been intertwined for long years in Turkey. So the main reason for agricultural policies’ being a huge burden on the Turkish economy may be the lack of stable government and long-standing policy route in Turkey. Even the World Bank diverts the attention to these instabilities in both governmental and economic realm for Turkish agriculture’s deterioration rather than adopting the new techniques of modern world. So since 2001 with the initiatives of the World Bank and IMF “Agricultural Reform Implementation Project (ARIP)” has been introduced in Turkey. ARIP is a good indicator of radical agricultural policy amendments and institutional restructuring in the agricultural domain. According to World Bank statistics the results of ARIP are highly satisfactory and they stimulate the agricultural sector in Turkey.¹⁵¹

Although at first sight the period of ARIP covered the years between 2001 and 2005 later on the term of this project was extended till the end of 2007. It should be noted that as long as the reforms on the agricultural sector are fully achieved Turkey can advance on the EU road with concrete policies and be a model for other candidate countries in terms of agricultural policy.¹⁵²

The World Bank’s contribution to this project was \$600 million. Out of this amount \$400 million was given as investment loan and \$200 million as adjustment loan. Turkish Government’s contribution to this project was declared as \$61.96

¹⁵¹ Arie Oskam; Alison Burrell; Tuğrul Temel; Siemen Van Berkum; Natasha Longworth; Irene Molina Vilchez. 2004. *Turkey In the European Union: Consequences for Agriculture, Food, Rural Areas, and Structural Policy*. Wageningen: Wageningen University, : 107.

¹⁵² 2001, June 6. *Project Appraisal Document on a Proposed Loan In the Amount of US\$600 million to the Republic of Turkey For an Agricultural Reform Implementation Project/Loan*. Document of the World Bank. Report No: 21177-TU : 3.

million.¹⁵³ Under this project (ARIP) while the Treasury was kept responsible for “Project Support Services”, “Information Campaigns” and “Socio Economic Monitoring Systems”, the Ministry of Agriculture and Rural Affairs (MARA) took the responsibility of performing the Direct Income Support System (DIS).¹⁵⁴ In a way the Treasury served as the main coordinator of the project through forming a Project Coordination Unit. Policy counseling and coordination among different units were provided through a “Steering Committee” composed of the Ministry of Agriculture and Rural Affairs (MARA), the Ministry of Industry and Trade (MIT), the State Planning Organisation (SPO), Ziraat Bank, the Ministry of Finance, the State Title and Cadastre Agency, the State Statistics Institute (SIS) and the Agricultural Chamber of Producers under the leadership of the Treasury.¹⁵⁵

The project targeted to support the Turkish Government’s applying the agricultural reform program in a stable way. Through this project artificial incentives and government subsidies were removed in the agricultural sector. In this way the State’s intervening role was curbed heavily in the agriculture domain. Introduction of Direct Income Payments, removal of input subsidies and intervention prices, privatisation of State Economic Enterprises (SEEs) and restructuring of Agricultural Sales Cooperatives compose the heart of ARIP.¹⁵⁶ At this point it should be noted that all these major parts of this project indicate a more market oriented agriculture policy through banishing Turkish agriculture from strong nationalist or protectionist tendencies.

¹⁵³ Ibid.,: 27.

¹⁵⁴ 2003. 3rd meeting of the EC-Turkey subcommittee No 1 on 'Agriculture and Fisheries.' <http://www.euturkey.org.tr/abportal/uploads/files/1.%20Subcommittee-%203d%20meeting%20-10-11-June%202002.pdf> :10 (accessed May 20, 2007).

¹⁵⁵ Project Appraisal Document on a Proposed Loan In the Amount of US\$600 million to the Republic of Turkey For an Agricultural Reform Implementation Project/Loan, *op. cit.*: 19.

¹⁵⁶ Çakmak, Erol H. 2004. *Structural Change and Market Opening in Agriculture: Turkey towards EU Accession* . ERC Working Papers in Economics 04/10. <http://www.erc.metu.edu.tr/menu/series04/0410.pdf> : 12 (accessed May 20, 2007).

ARIP was also important in terms of eliminating the effects of economic crises in Turkey through focusing on structural and social issues. For instance, after the February 2001 economic crisis, ensuring stable economic growth through creating incentives for employment and restructuring financial and public sectors became the major goals for Turkey. So keeping in mind that agriculture and economy are correlated policy areas it could be stated that ARIP in a way provided social monitoring to economic crises through its “agricultural household surveys”.¹⁵⁷

ARIP is composed of 4 main components:

Component A: Design and Implementation of Direct Income Support (DIS)

Inside the European Union, direct aid payments provided per hectare or price supports making the price of products inside the Union above the world markets are the two important mechanisms of farm subsidies.¹⁵⁸ In this framework DIS system has been introduced in Turkey as an extension of direct aid payments of the EU.

Direct Income Support System composes the heart of the whole project in Turkey. First farmers suitable for DIS payments are identified. Then payments under DIS are made on the basis of enrollment of farmers to National Registry of Farmers. The registry needs to be as simple as possible in order to make payments effectively and to make this system run smoothly. Also laying out the criteria on the basis of which the amount of payments will be done is an important factor under this component. At this point it is decided that the payments will be given in accordance with the hectares possessed by the farmers, not in relation to the agricultural output or production of certain crops. This type of registry will enhance Turkey’s ability to

¹⁵⁷ Project Appraisal Document on a Proposed Loan In the Amount of US\$600 million to the Republic of Turkey For an Agricultural Reform Implementation Project/Loan, *op. cit.* : 5.

¹⁵⁸ Carsten Daugbjerg, Richard Tranter, Philip Jones, Jonathan Little, Leonardo Costa, Thomas Knapp, Miguel Sottomayor, Alan Swinbank. 2005. “The visibility of agricultural subsidies and market illusions in the Common Agricultural Policy: Some evidence from farmers’ views in Germany, Portugal and the United Kingdom.” *European Journal of Political Research* 44 : 750.

present a more transparent and reliable agricultural policy in terms of comparing the costs with world markets. In fact recently transparency in agricultural data is an important element on Turkey's EU vocation. So this component will serve much for this aim.¹⁵⁹ Besides technical assistance, training and software are subsidized under this component in order to make registry operate effectively. In this way agricultural statistical systems, another key element in terms of Turkey's harmonisation with the CAP, will be reactivated in Turkey. Also Social and Financial Monitoring and Evaluation System is foreseen to be formed under this component in order to supervise the efficiency of this program. Shortly the key elements of the DIS system are to register farmers in an accurate and transparent way in order to avoid fraud and give farmers the payments according to the land they own not by the crops they cultivate.¹⁶⁰

The Ministry of Agriculture and Rural Affairs (MARA) was nominated as an appropriate institution for the performing of the Direct Income Support System (DIS). In 2003 it was declared that in Turkey there existed 2.2 million registered farmers getting this DIS payment which was funded by the Treasury. However in order to prevent fraud on the DIS System various inspections are done through database entries. For example first, data from the farmers is transferred into a database, then through printouts farmers control their data, later on through farmer IDs each farm and field is controlled by Ministry Inspectors since each person in Turkey has a unique ID, finally the Treasury acts as a control mechanism in order to hinder illegal payments. But sometimes problems emerge when one farm is owned by many people and so the demand for DIS increases by creating budgetary problems in the agricultural sector. For example till 2003 about 1000 "fraud trials" were

¹⁵⁹Project Appraisal Document on a Proposed Loan In the Amount of US\$600 million to the Republic of Turkey For an Agricultural Reform Implementation Project/Loan, *op. cit.* : 22.

¹⁶⁰ Ibid. : 46, 47.

declared.¹⁶¹ So alternative methods should be developed in order to strengthen cadastre records.

Component B: Farmer Transition

Farmer Transition is expected to be beneficial to farmers dealing with alternative activities while the Turkish government is reducing its price supports and removing its input subsidies. Farmer Transition aims to decrease the production of certain crops like hazelnuts and tobacco in Turkey. Thanks to this component it is expected that hazelnut output in the Black Sea Region will decrease about 100.000 ha. Tobacco is also another crop vastly produced in Eastern and Southern Eastern Anatolia regions. Through the Farmer Transition component tobacco production is targeted to be reduced approximately 36.000 ha in these regions.¹⁶² Since the previous model of state was based on arbitrary purchase of crops, it was misleading farmers in their production. For example, although farmers had the chance to sell their crops at high costs to world markets, the value of their crops in these markets was decreasing because of the overproduction supported by the state. Just as mentioned during this reform program the main problem was observed on the crops such as hazelnut and tobacco since their overproduction was backed through artificially high price supports of the state. Thanks to ARIP the prices of these crops decreased and they were replaced by alternative crops and in order to compensate farmers' losses, payments were given in the transition period.¹⁶³ These payments were made in the form of "input costs for the new crops" and "costs of preparing and tending fields in the transition period." In the framework of "input costs for the new crops" the inputs

¹⁶¹ 3rd meeting of the EC-Turkey subcommittee No 1 on 'Agriculture and Fisheries. *op.cit.*,: 10, 11.

¹⁶² Annex: 2 Detailed Project Description / Turkey:ARIP.

http://www.arip.org.tr/documents/PAD_annexes-june.doc (accessed May 19, 2007).

¹⁶³ 3rd meeting of the EC-Turkey subcommittee No 1 on 'Agriculture and Fisheries. , *op. cit* : 14, 22.

covering seeds, fertilizers, chemicals and even fuel were ensured by the project itself and fixed payments were made to farmers for their alternative crop production. At this point research institutes played an important role in terms of defining the eligibility of crops to those particular lands. By this way overuse of inputs was prevented through protecting the environment. In relation to the costs of preparing and tending fields it was up to farmers to cultivate “annual or perennial crops”. During this transition period from state backed products to alternative crops farmers were compensated for transition costs by the project itself.¹⁶⁴

Component C: Agriculture Sales Cooperatives and Cooperative Unions(ASCs/ASCUs)Restructuring

This component requires structural reforming of Agricultural Sales Cooperatives and Cooperative Unions. In the past the State was controlling these cooperatives and using them in order to implement Turkish government’s policies or programs. For instance ASCs were undertaking intervening purchases on behalf of government, so as a result these cooperatives were not going beyond serving the interests of the state. Because of this fact ASCs became disengaged from their members through leaving heavy debts and extreme costs behind. In fact in recent years Turkish Government has questioned its role on cooperatives and opted for reducing the dependency of these cooperatives on the State. However transformation from government control to autonomous institutions was not an easy task for these cooperatives. They needed support services. So in 2000 the law on “Agricultural Sales Cooperatives and their Union” was put into effect through making these cooperatives independent actors serving for their own members.

¹⁶⁴ Annex: 2 Detailed Project Description / Turkey:ARIP, *op.cit.*

Along with this law a “Restructuring Board” was formed in order to help these cooperatives’ restructuring. Thanks to this law ASCs were engaged in the business sector more efficiently. This Board helped ASCUs’ being member-controlled by fulfilling the needs and priorities of their members, so they turned into self-reliant institutions without taking government grants in the business sector. Thanks to this component farmers participated actively in these cooperatives by increasing their income and so their productivity.¹⁶⁵

In short, this component accords priority on supporting farmers’ organisations. That is why the Action Plan of MARA (Ministry of Agriculture and Rural Affairs) foresees urgently on the restructuring of ASCs and their Unions. Drafting of cooperative law (as stated above, the law on Agricultural Sales Cooperatives and their Union), strengthening of rural-cooperatives by gathering many small sized agricultural units under one umbrella and amending the law on chambers of agriculture are all part of this Action Plan. Thanks to these reforms it is hoped that farmers’ organisations and “non- commercial farmer services” will be fostered in Turkey.¹⁶⁶

Component D: Project Support Services

This component involves a “Public Information Campaign” via television, radio and newspapers to give accurate information about this reform project to farmers. This campaign foresees training of the staff of Ministry of Agriculture and Rural Affairs. In this way it is believed that farmers’ problems during the

¹⁶⁵ Project Appraisal Document on a Proposed Loan In the Amount of US\$600 million to the Republic of Turkey For an Agricultural Reform Implementation Project/Loan, *op.cit.* : 14.

¹⁶⁶Oskam; Burrel; Tuğrul; Van Berkum; Longworth; Molina Vilchez, *op.cit.* : 112.

implementation of this reform will be tackled.¹⁶⁷ The Public Information Campaign will be a guide for farmers in terms of describing the goals and timing of recent agricultural reforms and informing about the support programs and under which conditions the farmers could benefit from these support services. Along with support programs advisory services; covering crop insurance, agricultural statistics and laboratory and food testing; will be provided to farmers. Besides, a Social Monitoring and Evaluation System is presented under this component in order to give consultation services about the project management. This system will be in a way a guide to the World Bank and other implementing agencies in Turkey in terms of directing the project support to related areas.¹⁶⁸ Also a Project Coordination Unit is formed under this component in order to deal with the financial regulations of the implementing agencies of this reform.¹⁶⁹

4.2.2 Difficulties experienced during the implementation of ARIP

While the farmers who produced crops not supported by the state were the net winners, those who took subsidies or fertilizers from the state to cultivate specific crops became the main losers.¹⁷⁰ But this project constituted a “safety net” for these groups. For example severance payments were given to redundant employees of ASCUs and grants were provided to farmers who cultivated alternative crops instead of crops backed by high support prices.¹⁷¹

¹⁶⁷ Project Appraisal Document on a Proposed Loan In the Amount of US\$600 million to the Republic of Turkey For an Agricultural Reform Implementation Project/Loan, *op. cit.* : 17.

¹⁶⁸ Annex: 2 Detailed Project Description / Turkey:ARIP, *op.cit.*

¹⁶⁹ Project Appraisal Document on a Proposed Loan In the Amount of US\$600 million to the Republic of Turkey For an Agricultural Reform Implementation Project/Loan, *op. cit.* : 17.

¹⁷⁰ *Ibid.* : 17, 18.

¹⁷¹ *Ibid.* : 19.

The project also diverted the attention to environmental risks. The main environmental problem emerged when hazelnut trees were uprooted at high altitudes where alternative crop production wasn't suitable. This fact brought the erosion problem back to the agenda since recently this catastrophe has been triggered in Turkey because of inappropriate agricultural techniques, deforestation and unnecessary plantations. ARIP, on the other hand, contributed to the environment through the application of proper agricultural techniques and decreased use of chemicals or fertilizers in agricultural production.¹⁷²

In the social context this reform project has brought agricultural productivity, lower food expenditures and a more stable economy to Turkey. Although at first sight farmers and employees of ASCUs were seen in a disadvantaged position because of the removal of state subsidies, later on ARIP became attractive for these groups through DIS payments, Farmer Transition Supports and severance payments given for the ASCU employees.¹⁷³

Proving the ownership of lands by the farmers was another problem experienced during the implementation of ARIP. Yet, concessions were made in certain situations to farmers without deeds. As long as they confirmed their ownership of lands to local MARA officers, the Village Council and *Muhtar*, they could receive DIS payments. In addition to this, in order to reduce the expenditures during land registrations an article facilitating this procedure was included in the loan conditions of the project. In this way it is hoped that there will be an increase on the rate of farmers with their own deeds. Moreover Component D of the project was beneficial in case of the land disputes on land boundaries. Thanks to this component the rights of the farmers were explained and "land dispute resolution

¹⁷² Ibid : 30, 31.

¹⁷³ Ibid : 33, 35.

mechanisms” were formed. Via the Public Information Campaign of this component small farmers were enlightened on potential changes in production and marketing. Since many farmers declared that at least one of their family members would go to big cities in order to find better incomes Component D’s Social Monitoring and Evaluation System turned out to be highly beneficial in terms of following the effects of migration to urban areas.¹⁷⁴

4.2.3 Evaluation of ARIP

There will always be risks and uncertainties in the agricultural sector since agriculture depends on natural conditions. The agricultural production period is also longer compared to other sectors. Marketing techniques and the income earned from this sector vary from one country to another but it is obvious that especially in recent years agriculture is a less profitable sector compared to other industries. Turkey distinguishes herself with her geographical location and appropriate climatic conditions for agricultural productivity. The agricultural potential in our country can only be continued via effective and reasonable policies in this sector. Only by this way Turkey can become endurable enough to competitive pressures coming from international markets.¹⁷⁵ That is why ARIP is an important initiative in bringing Turkey’s agricultural policy in line with the CAP and increasing her prestige by solving the uncertainties in the agricultural market.

ARIP curbed the heavy involvement of the Turkish Government in the agricultural sector. It also alleviated the financial burden of agriculture on the Turkish

¹⁷⁴ Ibid. : 33, 34.

¹⁷⁵ Tarımsal Politikalar ve Yapısal Düzenlemeler Özel İhtisas Komisyonu Raporu (Sekizinci Beş Yıllık Kalkınma Planı), *op.cit.* : 2.

economy. Related with the Component A of the project, Direct Income Support, significant developments were proceeded on the way to decreasing state support on agricultural production. ARIP has brought budgetary savings via the removal of support subsidies in the agricultural realm. Consumers have started to be satisfied from low food costs compared to past agricultural policies. Along with consumers, producers have also been pleased with their new income transfer, Direct Income Support (DIS) which breaks the link between production and subsidies. That is why ARIP is oriented towards small and poor farmers.¹⁷⁶ Through this agricultural reform project, many agricultural problems have been eliminated. For instance credit subsidies have been totally removed in Turkey, and to a great extent fertiliser subsidies have been decreased. Only subsidies on water, seed and pesticide continue to be limited. With the introduction of Direct Income Support, land registrations have been achieved through making the agricultural sector more transparent. In regard of Component B, agricultural production has been restructured in Turkey but the techniques used for uprooting the hazelnut trees were not appropriate since they gave harm to soil.¹⁷⁷ Also this component helped to eliminate the production imbalance which was a major threat to Turkey's position in the international trade environment. That is while in some crops there was overproduction, in some products the production was not sufficient. This fact caused a budgetary burden in the Turkish economy for long years through leading to market distortions.¹⁷⁸ Yet thanks to Component B of ARIP, covering farmer transition, this problem has been solved because production of some crops like hazelnuts, tobacco have been replaced with

¹⁷⁶Republic of Turkey-Agricultural Reform Implementation Project (Loan 4631-TU) Proposed Amendment of the Loan Agreement, http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2005/02/25/000012009_20050225093742/Rendered/PDF/31666.pdf : 1, 2 (accessed May 22, 2007).

¹⁷⁷ Oskam; Burrel; Temel; Van Berkum; Longworth; Molina Vilchez, *op.cit.*, :115.

¹⁷⁸ Tarımsal Politikalar ve Yapısal Düzenlemeler Özel İhtisas Komisyonu Raporu. (Sekizinci Beş Yıllık Kalkınma Planı) *op.cit.* : 40.

alternative ones. Through the Component C of ARIP many of the State Economic Enterprises (SEEs) were restructured and ASCs turned into real cooperatives serving the needs of farmers. In this way coordination and information networks between different cooperatives have been consolidated. Yet still there exist state owned organisations so the restructuring process needs to go on in Turkey in order to make these institutions “service providers” for farmers not for the State.¹⁷⁹ Additionally ARIP granted ASCUs, market distorting mechanisms in the pre-reform process, \$84 million severance payments and provided them with technical assistance and training during their restructuring.¹⁸⁰ Related with Component D, the effects of the new agricultural policy have been observed in Turkey and annual surveys have been carried out for the cost-benefit analysis of ARIP.¹⁸¹

Overall, the World Bank’s evaluation on the effectiveness of ARIP is quite positive: “By international standards, the magnitude of this fiscal adjustment from agriculture (agricultural transfers were cut by over two-thirds, or US \$4.3 billion) and its quality (since the adjustment squarely focused on subsidies rather than investments) are impressive.”¹⁸² The components of ARIP are in harmony with the EU’s CAP. The only difference is that Turkey needs to fulfill this reform process in a 7-year period while in the EU it took about 20 years. So at this point the effectiveness of ARIP could be questioned compared to the CAP.¹⁸³ Yet ARIP is not the only agricultural policy reform of Turkey, there is also the Agricultural Strategy covering the years 2006-2010 in Turkey. So along with her new amendments on agricultural

¹⁷⁹ Oskam; Burrel; Temel; Van Berkum; Longworth; Molina Vilchez, *op. cit.* :115.

¹⁸⁰ Republic of Turkey-Agricultural Reform Implementation Project (Loan 4631-TU) Proposed Amendment of the Loan Agreement, *op.cit.* : 1, 2.

¹⁸¹ Oskam; Burrel; Temel; Van Berkum; Longworth; Molina Vilchez, *op.cit.*, : 115.

¹⁸² *Ibid.* : 115.

¹⁸³ *Ibid.* : 116.

laws, institutional and administrative restructuring, Turkey advances on the EU road with concrete steps in terms of agricultural policy.

4.3 Recent Developments / Agricultural Strategy Paper

On 30 November 2004 with the decision of the Supreme Planning Council, the Agricultural Strategy Paper was adopted for the period between 2006-2010 in Turkey. The goal of this paper, introduced after ARIP, is to make the agriculture sector more competitive, and organized through using resources allocated to this sector in a more effective manner. At the same time it is targeted that agricultural production inside the country will be directed towards economic, social and environmental concerns. In this way it is believed to form a more sustainable agriculture policy.¹⁸⁴

This strategy foresees appropriate agricultural techniques to be used and productive agricultural territories to be analyzed in order to increase agricultural productivity and decrease the costs of production in Turkey. To reach this aim limitations are brought to the use of pesticides and fertilizers. Via this strategy irrigation investments are encouraged. In this way effective use of water resources is ensured and new techniques on this domain are introduced. Multiplication of agricultural exports is another goal that the Agricultural Strategy Paper sets for itself.

¹⁸⁴ Kemal Sandık. Livestock Sector in Turkey. Ministry of Agricultural and Rural Affairs. [http://www.taik.org/db/docs/m701_DrAgriculture\).pdf#search=%22harmonization%20with%20EU%20acquis%20in%20agriculture%20%2B%20Turkey%22](http://www.taik.org/db/docs/m701_DrAgriculture).pdf#search=%22harmonization%20with%20EU%20acquis%20in%20agriculture%20%2B%20Turkey%22) (accessed May 23, 2007).

That is why export support activities are sustained in order to protect Turkey's competitiveness in world markets.¹⁸⁵

In the livestock sector, through this strategy, modernisation of animal husbandry enterprises and their becoming more sensitive to hygiene conditions are targeted. So automatically improvement of animal health and welfare will have been ensured. Also this strategy foresees identifying the animals and marketing the animal products under close surveillance and control of the EU-based standards. In this way it is hoped that reliable livestock farms will increase in Turkey and the budget dedicated to this sector is believed to increase from 5% to 12% through support payments.¹⁸⁶

Also in the fisheries sector the Agricultural Strategy Paper introduces new developments. As in the case of the livestock sector it requires modernization of fishery enterprises and supports the development of fishery processing.¹⁸⁷

In short the objectives of this paper could be classified as:

- “Sustainable growth of agricultural production and improvement of product quality.
- Improvement of food security and safety measures.
- Strengthening of competitive capacities of farms.
- Improvement of agricultural markets and strengthening of farm-market linkages.
- Raising of rural incomes and improvement of rural living conditions.
- Strengthening of farmer organizations.”¹⁸⁸

To reach these objectives this strategy paper is supported by various mechanisms: “Direct Income Support (DIS) Payments, Deficiency Payments (Premium), Compensatory Payments (Farmer Transition), Livestock Support, Crop Insurance Support, Rural Development Support, Environment conservation

¹⁸⁵ 2006 . Ninth Development Plan: 2007-2013, TR. Prime Ministry, State Planing Organization. <http://ekutup.dpt.gov.tr/plan/ix/9developmentplan.pdf> (accessed May 24, 2007) : 90-91.

¹⁸⁶ Sandık, *op. cit.*

¹⁸⁷ Ibid.

¹⁸⁸ 2006. *Rural Development Report In Turkey, International Conference On Agrarian Reform And Rural Development (Icarrd)*. http://www.icarrd.org/en/icard_doc_down/national_Turkey.doc p:8 (accessed May 24, 2007) .

Payments (CATAK) and other supports including export subsidies, selected credit supports and research and development aids and some input supports.”¹⁸⁹ Among these support mechanisms DIS Payments get the highest share with a 45 % budget share followed by deficiency payments (13%), livestock support (12%), Rural Development Support (10 %) and compensatory payments, crop support, environment support, other support payments (for each 5%).¹⁹⁰

Table: Agricultural supports in Agricultural Strategy Paper (2006-2010)¹⁹¹

Agricultural Support Instruments	Budget Share (%)
DIS Payments	45
Deficiency Payments	13
Livestock Support	12
Rural Development Support	10
Compensatory Payments-Alternative crops	5
Crop Support	5
Environment Support	5
Other Support Payments	5
Total	100

In sum, the above mentioned principles of the Agricultural Strategy Paper point out that the Turkish government is on the way of launching initiatives for the development of rural areas. These initiatives of Turkey show that the country works hard in order to align herself to the CAP by undertaking agricultural-oriented reforms. Also these reforms are important in terms of meeting the Copenhagen

¹⁸⁹ Ibid. : 9.

¹⁹⁰ Ibid.

¹⁹¹ Ibid.

economic criteria for Turkey since these agricultural reforms bring economic stability.

4.4 Recent Arrangements in the Turkish Agricultural Sector

According to Turkey's pre-accession economic programme of 2006, in the agricultural domain important steps were taken on the way to the EU vocation. For instance the Seed Law was enacted in 2006 in order to improve the quality of the crops produced in Turkey. This could be viewed as an important development in terms of making the Turkish agricultural system in line with the CAP because in this way international seed systems and modern agricultural technologies were analysed during the preparation of the Seed Law. Moreover protecting the environment during agricultural production and increasing the socio-economic level of farmers have been given priority recently in Turkey and even organic agriculture implementations have been introduced. In this respect farmers have been provided with training.¹⁹²

For the period between 2006 and 2010, the Decree on Supports for Rural Development Investments was issued in 2006. With this Decree it is aimed that the development targets in the agricultural sector of Turkey will be reached to a great extent.¹⁹³ The Land Parcel Identification System is also another significant development launched in 2005 in Turkey. In this regard EU norms are taken into consideration. Along with this system Farm Accounting Data Network System has been initiated in the beginnings of 2007. These two implementations (Land Parcel Identification System and Farm Accounting Data Network System) are highly

¹⁹² 2006, November. Pre-Accession Economic Programme. Ankara.
<http://ekutup.dpt.gov.tr/ab/kep/PEP2006.pdf> : 83 (accessed May 26, 2007).

¹⁹³ Ibid. : 84, 85.

important developments for Turkey because thanks to them land registration and cadastral infrastructure have been consolidated through increasing the competitiveness of Turkish agricultural industry and helping Turkish Agricultural System to be in harmony with the EU's CAP.¹⁹⁴

To conclude, for long years agriculture has been a major source of employment and a net contributor of Gross Domestic Product (GDP) in Turkey. One of the most important criteria for EU membership is to have a stable economy that can compete in the unified market system. This criterion draws the attention on upgrading productive efficiency primarily on agriculture and agro-marketing sector. So Turkey prepared an Economic Reform Program to support her economic growth by limiting the state's interference and also by providing a suitable environment to become a member of the EU, because in order to join the EU all members need to have stable economies that can compete in world markets. So at this point a program called Agricultural Reform Implementation Project and the Agricultural Strategy Paper have been brought to life by Turkey. Thanks to these programs it is expected that Turkey's agricultural and agro-industrial sector will come to the level of world standards and private and public sector investments will be effectively oriented.¹⁹⁵ In a way ARIP and Agricultural Strategy Paper constitute for Turkey an important infrastructure on the way to the EU since they are designed for facilitating Turkey's harmonization with the CAP.

¹⁹⁴ Ibid. : 85.

¹⁹⁵ Project Appraisal Document on a Proposed Loan In the Amount of US\$600 million to the Republic of Turkey For an Agricultural Reform Implementation Project/Loan, *op.cit.* : 93.

CHAPTER: V

COMPARISON OF TURKISH AGRICULTURAL POLICY WITH SOME CENTRAL AND EASTERN EUROPEAN COUNTRIES

5.1 Eastern Enlargement of the European Union from an Agricultural Perspective

In December 2002, at the Copenhagen European Council Meeting, the EU decided to incorporate 10 new members which are Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. The enlargement, in fact, is an important concept in terms of setting the institutional, political and economic dynamics of Europe.¹⁹⁶

In order to become a member of the EU all candidate countries must comply with the *acquis communautaire*. Yet this is not the only criterion for full membership. Also fulfilling the required adjustments in line with the *acquis* is a must during the negotiation process for a candidate country. These adjustments greatly stand out in the agricultural and structural policies of the Union since they cover much of the EU budget. Even the innovations in these policies award compensation or side-payments to candidate countries in order to succeed in the accession negotiations. In fact when one takes into consideration the large agricultural potential, population and low

¹⁹⁶ Hans G. Jensen; Soren E Frandsen. Implications of EU Accession of Ten New Member States / The Copenhagen Agreement. Danish Research Institute of Food Economics. <http://www.foi.kvl.dk/upload/foi/docs/publikationer/working%20papers/2003/1.pdf#search=%22the%20impact%20of%20introducing%20the%20CAP%20in%20CEECs%22> : 2 (accessed May 31, 2007).

income of the Central and East European Countries (CEECs), then it is not much surprise that these countries pose a threat to the EU's enlargement at the outset. ¹⁹⁷

Structural funds along with direct payments were the main problematic areas against the Eastern enlargement. Rural development of the CEECs was not much debated at the outset of the accession negotiations.¹⁹⁸ Inside the Union, concerns about the enlargement issue concentrated on the CEECs' institutional capacities to adopt the EU policies and budgetary burden of supporting the CEECs' farmers as the CAP requires. So two different views emerged during the enlargement negotiations on the EU side: The first was about the adoption of the *acquis* by the CEECs and the second was about the eligibility of the CEECs for benefiting totally from the CAP. Under the first view many instruments were introduced in the mid 1990s like screening, monitoring and reporting in the CEECs. According to the second view, the CAP itself needed to entail a negotiation process in the EU and the CAP expenditures with the 2004 enlargement would be covered on the basis of the Agenda 2000 CAP Reform. According to this reform, it was foreseen that for the period between 2000 and 2006 the CAP expenditures would be stabilized at €40.5 billion and a 2% addition to this amount per year would be provided to adjust the inflation. Later this agreement was extended for the period of 2007-2013 in which direct payments and the CAP expenditures would be allocated on the basis of Agenda 2000 Reform for the enlarged EU with 25 members.¹⁹⁹ The fact was that the CAP expenditures were posing a problem for the EU-15 as they would lead to an unjust income distribution inside the Union with the enlargement because the CEECs

¹⁹⁷ Karen Henderson. 1999. *Back to Europe: Central and Eastern Europe and the European Union*. London: UCL Press : 107.

¹⁹⁸ Marian Rizov. February 2006. "Rural Development Perspectives in Enlarging Europe: The Implications of CAP Reforms and Agricultural Transition in Accession Countries." *European Planning Studies*. Vol:14, No:2: 219, 220.

¹⁹⁹ Jensen; Frandsen, *op. cit.* : 4, 5.

would be benefiting much from the CAP budget. Yet since the EU had a uniform agricultural system, it would be much more difficult to apply a “two class system.”²⁰⁰

During the negotiation talks it was aimed that gradually agricultural trade liberalization and single market would be achieved with the ten newcomers. However the idea of suddenly welcoming the CEECs in the EU markets posed a problem in terms of effective functioning of the Common Agricultural Policy. In fact this type of trade liberalization depended much on the willingness of the CEECs opening their own markets to the EU and their agricultural reform processes in terms of harmonizing their agriculture with the CAP. Such a trade liberalization brought reciprocal concessions to both the EU itself and the CEECs. Although at first sight it seemed like the newcomers would be the net beneficiaries of the EU membership, enlargement of the EU also needed to bring benefits to the EU’s then current members.²⁰¹

By 2002, the CEECs adopted the *acquis* in many policy areas except for the agriculture chapter. Institutional arrangements were needed to proceed in the CEECs’ side in order to satisfy the EU. In this respect the EU emphasized measures especially on “border controls”, “animal identification” and “land parcel registration” constituting the main elements of the CAP.²⁰²

In fact the harmonization of the CEECs’ agricultural policy with that of the EU was a delicate task. In the CEECs agriculture was such a sector that it constituted the heart of economic, social and political order. Moreover relative to the EU’s CAP, agriculture in these countries depended on backward techniques. So modernization

²⁰⁰ Claudia A. Herok; Hermann Lotze. 2000. “Implications of an EU Eastern Enlargement Under a New Common Agricultural Policy.” *Journal of Policy Modeling*: 22 (6) : 662.

²⁰¹ Stella Zervudaki. June 2000. Farm trade with the CEECs: preparing for accession. European Commission Directorate General of Agriculture.

http://ec.europa.eu/agriculture/publi/newsletter/23/23_en.pdf#search=%22the%20CEECs%20%20farm%20policy%20in%20line%20with%20the%20CAP%22 (accessed June 1, 2007).

²⁰² Jensen; Frandsen, *op. cit.* : 5.

efforts were needed in order to help their farm restructuring. Another point that was making the agriculture issue a delicate task was the complexity of the acquis communautaire and in this respect the agriculture chapter. So it was a little bit difficult for the newcomers to adopt and implement the CAP into their own agricultural policies. However through the efforts of the CEECs to restructure their agriculture during the transition period the negotiations in the agriculture chapter turned out to be successful.²⁰³

Although individually most of the CEECs were not populated much, their “combined population” equals 28.3 % of the EU-15 population. As stated above this was one of the major concerns of the EU on the way to enlargement. The Structural Policies of the Union were also perceived as another risk in terms of welcoming the CEECs. The aim of these policies; covering the European Regional Development Fund, the European Social Fund, the Guidance Section of the European Agricultural Guidance and Guarantee Fund and the Cohesion Fund; is to bring economic and social stability to the Union and to remove the imbalances between the regions. In short the income disparities of the members are targeted to be eliminated via these policies. Yet with the 2004 enlargement, Structural Policies of the Union posed a problem for the EU budget. The poor regions of the Union are referred as “Objective 1 regions” in Structural Policy framework and since the newcomers all fell into this Objective 1 status putting on brakes vis-à-vis the enlargement was a natural outcome of increased Structural Fund expenditures. It was believed that with the newcomers “the average EU GNP per capita” would decrease and the regional assistance would be concentrated on the CEECs through altering the threshold for Objective 1. Such a

²⁰³ CAP Reform, EU Enlargement and Mediterranean Agriculture. <http://72.14.221.104/search?q=cache:m7vfMxuWYmEJ:ressources.ciheam.org/ressources/en/report2004/chap2.pdf+integration+of+the+CEECs+into+the+CAP&hl=tr&gl=tr&ct=clnk&cd=28> : 23, 25 (accessed June 1, 2007).

drift of structural funds to the newcomers put the existing Member States in a disadvantageous position. So a set of reforms were introduced by the Commission in order to limit the structural expenditures and transitional arrangements were made.²⁰⁴

In fact the reason that the CEECs were all qualified for Objective 1 status was the difficult year, 1999, when their agricultural products were subjected to low world market prices. As a result farm incomes decreased and the input supplies of the farmers were ceased. Even the losses in the agricultural sector were declared as being four-fold compared to the previous year, 1998, in the CEECs. So all these negative developments were reflected in the amount of agricultural output of these countries. Along with the serious decline in the agricultural output, the CEECs were subjected to low prices for their products in 1998 and 1999. One reason for this end was the “global price deflation” along with the Russian financial crisis in that period. As a response to this negative environment, the tendency was to protect and support domestic producers in the CEECs and to introduce border protection. Because of these factors the CEECs abstained from liberalisation of agricultural trade and regional trade agreements for the years 1998 and 1999. But during this period the EU was aware of the importance of the CEECs in terms of ensuring peace, security and prosperity in Europe so in October 1999 accession talks were proposed to these countries by the EU and finally in 2000 “accession proceedings” started. In fact also on the CEECs’ side the EU was perceived as a recovery against the problematic years of 1998 and 1999. So a possible membership could be referred as a bilateral gain for two sides. One important point to bear in mind at this point is that the agricultural negotiations could not start at once because the CEECs were not in a position of according the hygiene and health standards of the EU. So they (especially

²⁰⁴ Henderson, *op.cit.* : 107-111.

Poland) demanded transition periods that can prolong to 4 years in order to harmonize their policies with the EU standards. Another issue that could be problematic during the negotiations was the production quotas, especially milk quotas. For instance Slovenia, Hungary and Czech Republic demanded an increase on production quotas. In such a case as long as the EU gave price supports to producers, an increase on quotas could bring a huge burden on the EU budget. Moreover this type of an increase on the level of production quotas could lead to exportation inside the Union. Along with these quotas direct payments were another problematic issue that came out with the enlargement. The EU was cautious about newcomers' fully benefiting from direct payments so the EU took a more flexible stand in the direct payments issue. That is in the accession process it was decided that the farmers would be given payments but not in the name of direct payments and direct payments would not be extended till the CEECs fully harmonized their agricultural system.²⁰⁵

5.2 Importance of Agriculture and the Reform Process in the CEECs

In the CEECs many people deal with agriculture. Even the population employed in agriculture is higher than the EU-15 itself. This fact shows the political importance of agriculture during the accession negotiations.²⁰⁶ Also agriculture in the CEECs differs from the EU-15 by the techniques used in this sector and farm structuring. A kind of a “dualism” prevails in transition countries. That is while

²⁰⁵ 24-28 July 2000. The State of Food and Agriculture in the Region. Porto, Portugal: Twenty second FAO Regional Conference for Europe. <http://www.fao.org/docrep/meeting/X7325E.htm> (accessed June 2, 2007).

²⁰⁶ Henderson, *op. cit.*: 115.

market oriented, large and individual agricultural lands exist in the CEECs, at the same time there are small, subsistence and semi-subsistence farms.²⁰⁷

The CEECs' agricultural production is generally composed of meat, dairy products and cereals. In fact these are problematic products inside the CAP since their production is based on certain quotas. However, during the reform process accommodation of the CEECs to the CAP should not be disregarded. For instance while they were self-sufficient in terms of agricultural production, they have become net importers of food, with the EU as their trade partner since 1989.²⁰⁸

Agriculture was a subsidized sector in these countries before the reform processes. In the late 1960s livestock production and related to this, crop production in order to meet the feed requirements apparently increased in the Eastern European countries. For instance in Poland in the late 1980s the crop production was almost 50% bigger compared to the 1960s and in Hungary the ratio was about one quarter for the same periods. The state subsidies provided to both the consumers and the producers were the main motive behind the increased amounts of production and consumption in these countries.²⁰⁹ Yet from 1989 onwards the CEECs started to market their agricultural products through following a more liberalized policy in the agricultural sector. Gradually they reduced subsidies and support to agricultural production. In such a case inflation started to go up through decreasing consumers' income and purchasing power. These negative developments finally led to unemployment in the CEECs. Since the demand of consumers decreased, production and consumption were also hit in a chain reaction. These were all the results of the

²⁰⁷ Katarzyna Kosior. September 2005. "New Stakeholders in the Common Agricultural Policy: A Real Burden to Reform Processes in the Enlarged European Union." *European Law Journal*. Vol.11, No:5: 570, 571.

²⁰⁸ Henderson, *op. cit.* : 116.

²⁰⁹ William Liefert; Johan Swinnen. February 2002. Changes in Agricultural Markets in Transition Economies. Washington: Economic Research Service. <http://www.ers.usda.gov/publications/aer806/aer806.pdf> : 5 (accessed June 2, 2007).

reform processes in the CEECs before their membership. In fact this kind of a loss of importance in the agricultural realm led to concern among the economists at the outset because of the possibility that a drastically decline in profitability and support in agriculture could also affect reversely the course of structural reforms and farm restructuring in these countries. For instance privatization of land was an important issue that should be handled in the reform period of these countries. Yet in such an environment it turned out to be a compelling task because of low levels of support in the agricultural sector.²¹⁰

Price liberalization triggered an increase on the real prices of agricultural input in the CEECs. Even a kind of an imbalance occurred between the prices of agricultural input and output since the costs of input were much higher than the costs of output. This fact led to deteriorating “terms of trade” of producers since their costs of production raised. In Poland, Hungary and Romania the decline in “terms of trade” was about 30 - 60% while in Russia and Ukraine the gap was more serious with a ratio of 75%. In other terms, while wheat farmers in Russia in 1992 was selling 0.3 tons of wheat to buy 1 ton fertilizer, this ratio increased drastically to 1.4 tons of output in return for the same amount of fertilizer in 1997. So, because of this fact the output decreased by dropping the amount of input in these countries. Again a good example for this end is Russia in which the use of fertilizer per hectare decreased from 88 to 16 kilograms between 1990 and 1997.²¹¹

Alongside price liberalization, trade liberalisation was another reform policy of the transition economies. If in a country products are sold and bought via free trade, then it will be difficult to ignore world prices that would set the domestic prices of that particular country. When the CEECs followed a free trade strategy they

²¹⁰ Alberto Valdés. 2000. *Agricultural Support Policies in Transition Economies*. Washington: The World Bank : 1.

²¹¹ Liefert; Swinnen, *op. cit.* : 8.

realized that the world market prices for agricultural output were lower than the domestic prices. In fact during the pre-reform process the opposite approach was taken in the agricultural sector. That is domestic prices were kept above the world market prices via state subsidies and the “commodity flows” were determined by the countries’ economic planning. This is a good indicator that the pre-reform process in the agricultural realm was more centrally driven rather than market oriented.²¹²

Briefly price liberalization and trade liberalization were the main actors that totally decreased the agricultural output in the CEECs. Along with agricultural production this fact also reflected indispensably in agricultural consumption and trade. Price liberalisation’s role in the fall of agricultural output was that it removed state subsidies, decreased consumers’ incomes and increased the costs of agricultural input as stated above. Trade liberalization contributed to this end by causing world prices’ to be lower than domestic producer prices.²¹³

So it was a natural outcome of the reform process (covering the years the late 1980s and 1990s) that a drastical decline in the agricultural output was observed in the transition economies of the former Soviet bloc. The reason for this end was that the demands of the consumers were replaced by the planners. Even this reform process reshaped the production, trade and consumption in these countries. When the pre-reform period is analysed in the CEECs it is obvious that agricultural production was boosted via the direct and indirect subsidies through leading to artificially high levels of production and consumption. The case is also valid for Turkey before she started to align her agricultural policy with the CAP. Yet when the subsidies were ceased in the CEECs and even in Turkey, both production and consumption decreased. Hence the reform process created a food security problem in transition

²¹² Ibid : 11.

²¹³ Ibid : 12.

countries. The poverty, caused by the reduced subsidies and market liberalization, in a way spread throughout the whole population by preventing the CEECs from reaching food supplies. In other words transition countries, during the reform period, could not follow a healthy diet. In fact the aim of the reform process in these countries was to increase productivity by lowering the production costs. The same goal is also valid for Turkey because with the agricultural reforms in recent years instead of focusing on the amount of agricultural output, ensuring productivity via reduced production costs was targeted. Moreover this kind of productivity also enhanced the CEECs to be more competitive in the world markets via reduced prices.²¹⁴

The main components of the reform process in transition countries could be categorized as follows: i) market liberalization ii) farm restructuring iii) reform of upstream and downstream operations and iv) the creation of supporting market infrastructure. *Market liberalization* curbs the intervening role of government on allocations of resources and agricultural output. So the market turns out to be a more decisive mechanism on the amount of production and on the distribution of resources. In a way market liberalization changes radically the production, consumption and trade means of the countries. It makes agriculture and macro economy as intertwined concepts. That is any change in macro developments, including inflation or exchange rate fluctuations, will immediately affect agriculture via altering prices and consumer income. *Farm restructuring* is more related with the production and oriented towards the producer. Privatisation and land reform compose the main elements of farm restructuring. Overall this category deals with the organisation, management and ownership of farms. In fact farm restructuring and

²¹⁴ Ibid., Summary : iii.

market liberalization are interrelated, that is market liberalization encourages farm restructuring which aims at increasing productivity via decreased costs of production. In this way the quantity of production increases with a certain amount of input. This type of increase in output will also reflect in consumption. So the profit of the producers increases. In short market competition can be referred as the milestone of these two categories. Yet along with these common and intertwined goals, market liberalization differs from farm restructuring by its target audience. That is while market liberalization is more concerned about consumers and how the agricultural output is distributed, farm restructuring is a more producer-focused reform element. *Reform of upstream and downstream operations* foresees the state- run enterprises' turning into market oriented and "competitive enterprises". While upstream operations cover the provision of agricultural input, downstream operations concentrate more on storage, transportation, processing and distribution. In this context both of these operations' being market concerned is believed to increase productivity and performance. *The creation of supporting market infrastructure* requires restructuring institutions and providing services that would be in line with the "market-oriented agricultural economy". Forming agricultural banking and finance systems, putting into effect commercial law that would protect property, settle disputes and run contracts are important parts of this reform element.²¹⁵

²¹⁵ Ibid. : 2.

5.3 A Comparative Study: The State of Agricultural Policies in some of the CEECs and Turkey

Agriculture is an important sector in the CEECs and Turkey through its contribution to the economy. It has been a major source of employment for long years in these countries. Having a stable economy that can compete in the unified market system is one of the most important criteria for becoming an EU member. To reach this end candidate countries undertake a set of reforms. Upgrading productivity primarily on agriculture and the agro-marketing sector is one of them. So as a candidate member, Turkey prepared an Economic Reform Program to support her economic growth by limiting state interference in agriculture just like the CEECs did during the late 1980s and 1990s in order to become members of the EU. Through these reform programs it is expected that in both Turkey and the CEECs agricultural and agro-industrial sector would come to the level of world standards and private and public sector investments would be effectively oriented.²¹⁶

This part will concentrate on the implications of EU membership in the CEECs from a restructured agricultural policy view. The focus will be on Poland and Romania since they are among the largest agricultural countries in the EU. Yet the conclusions drawn here can also be valid for other CEECs and even for Turkey since agriculture in these countries has been a long time source of living.

²¹⁶ 2001, June 6. *Project Appraisal Document on a Proposed Loan In the Amount of US\$600 million to the Republic of Turkey For an Agricultural Reform Implementation Project/Loan*. Document of the World Bank. Report No: 21177-TU : 93.

5.3.1 POLAND / Overview on the Evolution of Agricultural Policies

“The most populous country in Central Europe and the sixth most populous in the European Union, Poland has been the exemplar for transitioning from communism to competitive democracy and a market economy.”²¹⁷

In Poland agriculture is an important source of living for 4.3 million people. It represents about 27.4% of the total employment in the country. This share is about 30% in Turkey. Yet agriculture accounts for 5% in the total employment of the EU. So in terms of harmonisation with the CAP and adoption of the EU acquis, it is not surprising that these two countries evoke concerns at the outset. When the share of agriculture in these countries' GDP is analysed, it comes out that agriculture is still an important contributor to Poland's and Turkey's economy. While in Poland agriculture was covering 4.9% of GDP in 1998, the share for the same year in Turkey was declared as 17.3%²¹⁸. These percentages are still so high compared to the 1.7% share of agriculture in GDP inside the Union.²¹⁹ Although these ratios make Poland a more eligible country for the EU, it should be borne in mind that Turkey is a twice larger and more populated country than Poland.

EU is a major agricultural trading partner for both Poland and Turkey. In 1999 the share of Poland's agricultural exports to the EU-15 was 45.5 % and the agricultural imports of Poland from the EU-15 accounted for 47.7%.²²⁰ Also for Turkey the EU-15, before the CEECs' membership, was an important trade partner.

²¹⁷ Monica Rana. Fall 2004. "Joining the Club." *Harvard International Review*. Vol.26, Issue:3 : 9.

²¹⁸ Ebru Ekeman. Mayıs 2000. *21. Yüzyılın Eşiğinde Avrupa Birliği'nde Ortak Tarım Politikası*. İstanbul:İktisadi Kalkınma Vakfı, İKV:158 : 89.

²¹⁹ September 2000. SAPARD Operational Programme for Poland. Ministry of Agriculture and Rural Development. http://ec.europa.eu/agriculture/external/enlarge/countries/poland/plan/plan_en.pdf : 15 (accessed June 5, 2007).

²²⁰ July 2002. Agricultural Situation in the Candidate Countries / Country Report on Poland. European Commission Directorate-General for Agriculture. <http://ec.europa.eu/agriculture/external/enlarge/publi/countryrep/poland.pdf> : 6 (accessed June 8, 2007).

Even for the period 1999-2001 the worth of the EU's import of Turkish agricultural products was 1.8 bio EUR.²²¹

Also in terms of farm structuring Turkey and Poland resemble to each other by large numbers of agricultural holdings compared to the EU-15. According to 1996 agricultural census the number of holdings in Poland is two million²²² while it is three million in Turkey on the basis of 2001 agricultural census compared to 6.8 million in the EU-15.²²³ Another point that Polish and Turkish agriculture have in common is the average farm size. Both Turkey (6 ha) and Poland (7.2 ha) are below the EU farm size with an average of 19 ha.²²⁴

Agricultural production in Turkey and Poland is nearly the same. In Poland cereals (18%), vegetables (7.4%), potatoes (6.9%) and fruits (6.3%) compose the main agricultural output. In terms of animal production milk (13.6%), pork (18.7%), eggs together with poultry (8.8%) are in vogue.²²⁵ In Turkey crops are the most important products of agricultural output with a ratio of 55.8%, followed by fruits (17.4%) and vegetables (13.7%). The livestock production in Turkey accounts for 24.9% with cattle, sheep and chicken production. As animal product, milk has fluctuated over years. While in 1996 milk production accounted for 20 mio liters in Turkey, it was less than 18 mio liters in 2001. According to agricultural output in 2000, milk was accounting for 8.4% of animal products that had a share of 19.3%.²²⁶

In the pre-reform period agriculture was a subsidized sector in Poland till the beginnings of the 1990s. Agriculture turned out to be such a policy area that both the

²²¹ November 2003. Agricultural Situation in the Candidate Countries / Country Report Turkey. European Commission Directorate-General for Agriculture. <http://ec.europa.eu/agriculture/external/enlarge/publi/countryrep/turkey.pdf> : 3 (accessed June 8, 2007).

²²² Agricultural Situation in the Candidate Countries / Country Report on Poland, *op. cit.* : 7.

²²³ Agricultural Situation in the Candidate Countries / Country Report Turkey, *op. cit.* : 4.

²²⁴ Agricultural Situation in the Candidate Countries / Country Report on Poland, *op. cit.* : 7.

²²⁵ *Ibid.* :10.

²²⁶ Agricultural Situation in the Candidate Countries / Country Report Turkey, *op.cit* : 6, 7, 13.

producers and consumers were under the protection of state via support mechanisms. In other words heavy state involvement in agriculture was an inevitable part of these types of support policies in Poland. Agricultural trade was monopolized by the state and subsidies were provided in a “closed and distorted economy”. The reason it was referred as a “closed and distorted economy” was that the state was defining the prices of agricultural output and it was the state that was following an overvalued exchange rate system. Because of these factors market transfers in Poland turned out to be difficult to operate because right and stable exchange rates were needed in order to compare the domestic prices in Poland with that of the world.²²⁷

The same situation was also typical for Turkey before her agricultural reform period. Through its contribution to GDP, employment and industrial development, agriculture in Turkey was one of the sectors that heavy state interventions prevailed. As in the case of Poland various support mechanisms were used by the state in the form of price supports, export incentives, import protection policies etc. in Turkey. The aim was to increase farmers’ incomes and since the state policies in the agricultural domain were arbitrary, since they lacked certain regulations, market distortions were observed in Turkey as in Poland.²²⁸

Yet through the reform process in Poland in the 1990s state support in agriculture was ceased because Poland started to apply price and trade liberalization. Thanks to her gradually liberalization efforts anti-trade and import substitution model were abandoned in Poland and “market efficiency” became the ultimate goal of the reform period. In order to launch a market based agricultural policy the Polish

²²⁷ Valdés, *op.cit.* : 65.

²²⁸ Erol H. Çakmak; Haluk Kasnaoğlu. 2002. Assessment of Agricultural policies and the Impact of EU Membership on Agriculture in Turkey. Ankara. <http://par.iamm.fr/ressources/recherche/champ1/turquie.pdf#search=%22differences%20between%20EU%20and%20Turkish%20agricultural%20policy%3F%20%22> : 1 (accessed May 12, 2007).

gave priority to set market information systems, adopt consistent legislation and clarify the administrative procedures. All these points drew the attention to the restructuring of institutions dealing with the agricultural sector in this country. Moreover it became obvious that Poland's agricultural competitiveness in the international arena could not be ensured via production-coupled supports of the government. So the government needed to take a back seat and allow market mechanisms to conduct the trade of agricultural goods in the country.²²⁹

Most of the agricultural expenditures in Poland are met by the Agricultural Social Security Fund. Recently agricultural expenditures have shifted towards rural development and it seems that rural development measures will bring radical changes in the agricultural budget. The Rural Development Program financed by the World Bank, SAPARD Program, designed for providing assistance to candidate countries in their harmonisation with the CAP, and PHARE Program, foreseeing the administrative capacities' to be developed for helping the rural development of Poland after accession, are good examples for this end.²³⁰ Development of rural regions is also an important part of the agricultural reform process of Turkey. Turkey is now applying Agricultural Reform Implementation Project since 2001 and she has just prepared Agricultural Strategy Paper. These are important developments on the way to restructure Turkish farming and ensure rural development inside the country.²³¹

During the accession negotiations, high agricultural employment along with fragmented and small sized farms in Poland were leading to a serious gap between the Polish agriculture and that of the EU. The reform policies of Poland concentrated on decreasing the level of agricultural employment. In this way an increase on

²²⁹ Valdés, *op.cit.* : 73, 74.

²³⁰ Agricultural Situation in the Candidate Countries / Country Report on Poland, *op.cit.* : 27, 28.

²³¹ Agricultural Situation in the Candidate Countries / Country Report Turkey, *op.cit.* : 20, 21.

average income and living standards of farmers, a smooth harmonisation with the CAP and achievement of a single market were targeted.²³² In fact the same problem also evokes concern for Turkey's EU membership. That is why during her agricultural reform process she focused on reduction of agricultural employment and training of farmers via the investments on new job opportunities. In this way both rural areas' development and improvement of living standards of the farmers were targeted.

In short, the problematic areas that were leading to concern in terms of Polish membership could be classified as the following: Rural development policies, sanitary and phytosanitary regulations, animal welfare regulations, market support policies, land markets and statistical reporting. In the rural development area Poland needed to build infrastructure for rural development policies and create incentives to reduce agricultural employment. In terms of sanitary and phytosanitary regulations Poland took important steps such as increasing the quality and standards of her products. She focused on the productivity of her agricultural products rather than the amount of production. Yet still the EU-15 underlined the lack of administrative structures that would lay down regulations in this area in Poland. Animal welfare regulations were another issue that needed be treated delicately before membership in Poland. Regulations in this area were foreseeing time limitation during the transportation of animals, limitation in the number of animals that would be kept in cages and banning the tethering of animals. So large animal producers took into consideration these requirements in order to ensure animal welfare but still no animal

²³² Mitold M. Orlowski. March 1996. Price Support at Any Price? Costs and Benefits of Alternative Agricultural Policies for Poland. The World Bank Europe and Central Asia Country Department II Country Operations Division: Policy Research Dissemination Center, Policy Research Working Paper 1584.http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/1996/03/01/000009265_3961019193506/Rendered/PDF/multi0page.pdf : 4, 35 (accessed June 10, 2007).

welfare legislation was introduced in the CEECs before membership. In the Market support policies field the EU Commission highlighted price support schemes to be in line with the EU standards. Introduction of supply control means like dairy quotas and set-aside requirements in the crops sector were among the demands of the EU in this field. In terms of land markets, the tendency in Poland was private ownership of lands and the owners proved their lands by titles. Yet the land market was a problematic area. So the Polish needed to develop a system that would be clarifying the transfer of lands and the collateral use of farms. Moreover she needed to introduce a dispute-resolve mechanism and information system on the ownership and prices of lands. Statistical reporting was the last point that led to criticism towards the Polish farming system inside the Union. Lack of statistical data on the number of farms and on the regulation of purchasing and distribution of agricultural products was an obstacle for Poland to benefit from the EU structural funds before membership.²³³ In fact the above mentioned problematic areas also constitute a handicap for Turkey in aligning her agricultural policy with the CAP. So they should be revised carefully by Turkey and be incorporated to her reform programs in order to prepare the required infrastructure and administrative capacity that would be in accordance with the EU standards.

²³³ December 1999. Agriculture in Poland and Hungary: Preparing for EU Accession. *Agricultural Outlook*. <http://www.ers.usda.gov/publications/AgOutlook/Dec1999/ao267h.pdf> : 22, 23 (accessed June 15, 2007).

5.3.2 ROMANIA/ Overview on the Evolution of Agricultural Policies

The agricultural sector in Romania provides employment to one third of the population and contributes one fifth of the GDP. Nearly half of the population living in rural regions deals with agriculture. Most of the expenditures of the population are concentrated on food, that is why domestic agriculture, for long years, has constituted the privileged part of agricultural policies in Romania. Thanks to domestic agriculture, the costs of food production are kept below. In recent years, as a result of economic openness, the pressures to make the agricultural sector competitive with the world markets have started to increase in the country.²³⁴

The EU is the major agricultural trading partner of Romania as for Poland and Turkey. The trade level on exports even increased to €11.5 billion by 2000 from €3.5 billion in 1991 and the imports reached to the level of €14 billion from €5 billion for the same year. In other words while Romanian exports to the EU had a share of 62.6 %, Romanian imports from the EU accounted for 56.2% by 2000.²³⁵

The average farm size in Romania, as well as in Turkey (6ha), is smaller than the EU average (19ha). With the land reform implemented after WW II, farm size for each family was limited to 5ha. As a result small-scale farms along with a fragmented structure characterize the agricultural holdings in Romania.²³⁶ The same agricultural structure is also valid in Turkey. 65% of the agricultural holdings in Turkey are composed of small-sized farms ranging from 0 to 5ha. Moreover both in Romania and Turkey subsistence and semi-subsistence farming are prevalent. In these types of farms, hidden unemployment, low productivity and low

²³⁴ Valdés, *op.cit.* : 48.

²³⁵ July 2002. Agricultural Situation in the Candidate Countries / Country Report on Romania. European Commission Directorate-General for Agriculture. <http://ec.europa.eu/agriculture/external/enlarge/publi/countryrep/romania.pdf> : 22 (accessed June 15, 2007).

²³⁶ *Ibid.* : 7.

competitiveness rule. People dealing with subsistence or semi-subsistence farming market a small amount of their production. So farmers produce just for their consumption. In a way these farms provide income security to farmers.²³⁷

In Romania cereals are the most produced crops. Between 1986 and 1990 wheat production had a ceiling of 7.3 million tons, while maize production was 9.8 million tons. Oilseeds are also among the most grown crops after wheat and maize. For instance between 1986 and 1990 sunflower seed production was 700.000 tons while soy bean was about 300.000 tons. So, during this period wheat and maize were representing the main exported goods of Romania, followed by sunflower oil, fruit and vegetables.²³⁸ Also in Turkey cereals; in turn wheat, barley, maize, rice; and vegetables and fruits are among the most produced crops. Fruits, vegetables, tobacco and tobacco products compose the agricultural exports of Turkey.²³⁹ Yet, as towards the end of communism the Romanian government followed an import substitution model via boosting agricultural exports, domestic shortages in the food sector occurred.²⁴⁰

In terms of livestock; milk production is highly widespread in Romania covering 14.5% of total agricultural output, followed by pork and poultry production with a share of 8.7% and 5.9% in turn.²⁴¹ As in the case of Poland livestock production is nearly the same in Romania. But in Turkey cattle, sheep and chicken production are highly expansive and fluctuations have been observed in milk production over years.²⁴²

²³⁷ Agricultural Situation in the Candidate Countries / Country Report Turkey, *op.cit.* : p:IV.

²³⁸ 1993. The State of Food and Agriculture. Rome: FAO Agriculture Series, no 26 ISBN 92-5-103360—9 <http://www.fao.org/docrep/003/t0800e/t0800e08.htm#b5-Romania> (accessed June 20, 2007).

²³⁹ Agricultural Situation in the Candidate Countries / Country Report Turkey, *op. cit.* : 7, 16.

²⁴⁰ The State of Food and Agriculture, *op. cit.*

²⁴¹ Agricultural Situation in the Candidate Countries / Country Report on Romania.*op.cit.* : 18.

²⁴² Agricultural Situation in the Candidate Countries / Country Report Turkey, *op.cit.* : 7, 13.

Between 1994 and 1996 interventionist policies of the state were standing out to sustain Romanian agriculture. Yet soon these policies turned to be unbearable because of their costs on the Romanian budget. The budget could not cover the agricultural subsidies. So the reform process in the agricultural sector became inevitable as a result of state's heavy involvement in the agricultural domain. With the initiatives of the World Bank, in 1997, the reform process was reintroduced in Romania.²⁴³ The World Bank was also the main actor in Turkey through its \$600 million contribution to the Agricultural Reform Implementation Project (ARIP), which was an important reform program intended to help Turkey's harmonization with the CAP.²⁴⁴ The reform process in Romania encouraged privatisation as in the case of Turkey. The privatisation process of 1997 enabled producer subsidies to be eliminated, import tariffs' to be decreased and export incentives' to be encouraged in Romania. In this way a more liberalised economic policy was maintained in the country.²⁴⁵ While in 1990 only 25 % of the agricultural land was privately owned, it was 80 % in 1993. Such an increase was also observed in the livestock sector via privatisation means. While in 1989, 56% of the livestock output was produced by the private farmers, it was 72% in 1992.²⁴⁶ Also with ARIP in Turkey State Economic Enterprises (SEEs) were privatised and Agricultural Sales Cooperatives, undertaking intervening purchases on behalf of the Turkish government, were restructured. In this way the state's role in the agricultural sector was reduced. This is a good sign of Turkey's implementing a more market-oriented and liberalized agricultural policy.

²⁴³ Valdés, *op.cit.* : 48.

²⁴⁴ 2001, June 6. Project Appraisal Document on a Proposed Loan In the Amount of US\$600 million to the Republic of Turkey For an Agricultural Reform Implementation Project/Loan. Document of the World Bank. Report No: 21177-TU : 3.

²⁴⁵ Valdés, *op. cit.* : 51.

²⁴⁶ Carmen Clapan; George Mergos. Impact of Price and Trade Policy Changes During Transition in Romania: The Case of Cereals and Oilseeds. CIHEAM- Options Mediterraneennes. <http://ressources.ciheam.org/om/pdf/b22/CI010270.pdf> : 240 (accessed June 23, 2007).

Till 1997 there were severe restrictions on imported agricultural products in Romania. The trend was towards a more export-oriented agricultural strategy. However, from 1997 onwards, thanks to privatisation agricultural imports of the country increased by outpacing the agricultural exports. They even doubled within four years' time and agricultural imports arrived at a value of € one billion in 2000²⁴⁷. In fact the privatisation model dates back to 1990 in Romania. Large-scale privatisation started with the 1990 August Law, foreseeing restructuring of state enterprises as commercial entities or "regies autonomes." In the first option (commercial entities) the state continued to hold its shares but these shares would be privatised in due time. In the second option (regies autonomes) the state would continue to play an active role in strategic issues like defense, energy, mining or public utilities. On the way to privatisation another important law came into effect 1 year after the 1990 August Law. According to 1991 August Law, state owned commercial companies would be privatised in 7 years' time. So, although privatisation process started just after the collapse of communism, it was not such an efficient process because institutional infrastructure was not satisfying enough. For instance land owners could not sell their lands as long as they could not prove them with permanent titles. So the process related with the titles needed to be accelerated as soon as possible during the reform process.²⁴⁸

Another point that Romania needed to fulfill throughout her reform process was the development of an information system shedding light on the distribution, marketing and the amount of agricultural production.²⁴⁹ In fact this factor is also important for Turkey to prove her transparency in the agricultural chapter of the EU acquis. Yet, Turkey also does not have such an efficient and extensive information

²⁴⁷ Agricultural Situation in the Candidate Countries / Country Report on Romania, *op.cit.* : 6.

²⁴⁸ The State of Food and Agriculture, *op.cit.*

²⁴⁹ Ibid.

system in the agricultural sector for the time being. This information system is important for presenting solid agricultural statistics to the EU along with increasing transparency in the agricultural chapter for Turkey.

Recently, a gradual decrease in the number of people employed in agriculture has been observed in Romania thanks to the reform process. While in 1990 agriculture's ratio in total employment was accounting to 20.25% in Romania, it was 17.9 % by 1993. This was due to the transformation period of Romania after the collapse of communism because in that period, in 1989, the government launched a reform program that would make her close to Eastern European countries' ongoing reform program.²⁵⁰ A similar decrease in the rate of agricultural employment was also observed in Turkey during her reform process. In 1980 the share of agricultural employment in total employment was 62.5 %. Yet this share decreased to 41% in 1998.²⁵¹ In fact when this share is compared to Romania, it does not seem to be a great accomplishment in terms of the decreased rate of agriculture in the total employment. However it should be underlined again that Turkey is a much larger and more populated country than Romania. So this share is a natural outcome of the population and size of Turkey.

In short, the reform process just initiated after the end of communism in Romania along with the recent reform program of Romania, prepared by the Romanian Ministry of Agriculture, Food and Forestry (MAF) for 2001-2005 were oriented towards integrating Romania gradually to the European Union. The objectives of the reform program were to create a competitive agri-food sector and to modernize the food processing and marketing via contributing to food security in Romania. To reach these goals agriculture was restructured in the country through

²⁵⁰ Clapan; Mergos. *op.cit.* : 239, 240.

²⁵¹ Ekeman, *op.cit.* : 89.

paving the way for privatisation of state owned institutions. Moreover these reform programs enabled a liberal policy to be followed in the trade of agricultural products in Romania.²⁵²

5.3.3 Overall Assessment

The reform process in the CEECs and Turkey introduced price and trade liberalization. A more market oriented strategy was followed during the reform period of these countries. Although price liberalization and reduction of producer subsidies led to producers' terms of trade being negatively affected, in the long run these policies brought productivity to agricultural output. Moreover the producers were compensated for their loss in the agricultural production by deficiency payments. Since price liberalization decreased the income of consumers by increasing prices vis-à-vis the static wages, the purchasing power of the people were affected negatively. Yet liberalization reforms increased the quality of production. In this way the agricultural output of these countries became endurable enough against the market pressures coming from the EU. Additionally market competition was stimulated in these countries via the reform programs.

Through the reform process or transition period both the CEECs and Turkey avoided protectionist tendencies in the agricultural sector. The import substitution model was abandoned and a more export oriented economy became a model for these countries.

²⁵² Agricultural Situation in the Candidate Countries / Country Report on Romania, *op.cit.* : 26.

During the transition period of the CEECs and reform program of Turkey state farms and cooperatives were restructured. Most of them were privatised. So the intervening role of the state in the agricultural policies of these countries was curbed apparently. Artificial incentives and government subsidies were removed. The market became a decisive mechanism in terms of defining the agricultural policies of the countries. Preparation of market information systems on production, consumption and distribution of agricultural output and clarification of administrative procedures and adoption of consistent legislation were composing the heart of agricultural reforms both in Turkey and the CEECs. Rural development was targeted via the reform policies in these countries. To reach this end, agricultural employment was limited and investments were made in order to create alternative job opportunities to farmers. Along with these investments vocational training was provided in order to orient the farmers towards alternative activities. In this way it was targeted that the living standards of farmers would increase and rural regions would develop.

So it is obvious that both the CEECs and Turkey prepared their reform program by taking into account the EU standards and brought radical changes to their farm policies. Abandoning their traditional agricultural system was a delicate and hard task and took time. Yet the reform process helped to increase productivity in the agricultural sector of these countries and bring their agricultural policy in line with the CAP.

As a candidate country Turkey has been recently restructuring her farming in the same way the CEECs have done. As in the case of the CEECs; it is possible that a transitional period will be laid for Turkey in the first years of her membership. That is why today the CEECs can not fully benefit from the CAP. These countries are still structuring their agricultural policy. For instance the CEECs still work on the

improvement of land markets and agricultural information system. So full membership does not mean fully benefiting from the policies of the EU. The process of reforms even continues after membership. Thus, by observing closely the agricultural developments in the CEECs, especially Poland and Romania, (as these countries resemble each other in terms of the share of agricultural employment in the overall economy, type of agricultural production and their population size compared to founder Member States of the EU) Turkey can draw a more effective route map in the following years to align her agricultural policy with the CAP.

Finally as Ebru Ekeman, an expert in Institution of Economic Development in Turkey argues, since the CAP is a multidimensional and comprehensive policy, it is difficult for Turkey to fully harmonize with the CAP without full membership. Yet it does not mean that the harmonisation process needs to be suspended or frozen till that date.²⁵³ Turkey has taken important steps on the EU road in terms of agricultural policy. Recently implementation of the ARIP, preparation of the Agricultural Strategy Paper covering 2006-2010 and enactment of agricultural laws are good examples for this end.

5.4 Cost and Benefit Analysis of Applying the CAP to Turkey

In December 2004 at the EU Council, European governments decided to launch EU accession negotiations with Turkey in 2005. In fact Turkey's membership to the EU has always been a paradoxical issue because of security and geopolitical issues along with high income gaps in the country and the budgetary consequences of

²⁵³ Ekeman, *op.cit.* : 104.

integrating such a populated and developing country to the EU's structural and cohesion policies. Although at first sight it seems as if the agricultural issue was not at the forefront of debates, budgetary costs of applying the CAP to Turkey, by 2015, have always been among the major concerns of the EU because of Turkey's large agricultural lands, high agricultural employment and low level income. Yet at this point it should be borne in mind that Turkey's membership will not be realized at least approximately before 10 years' time. So the results reached on this issue also need to be exposed to uncertainty because by that time both Turkey and the EU will have changed much.²⁵⁴

When analysing the costs of absorbing Turkish agriculture into the CAP the "time component" has a decisive feature on Turkey's share on the EU budget. The state of the CAP, that is the way direct payments are paid to farmers or the application of price reductions on certain products like sugar for example, during Turkey's membership is highly important during this analyse. The state of Turkish agriculture also needs to be taken into consideration during the accession process. Change in world market prices, population, incomes of the people or technological developments will affect directly Turkish agriculture in due time. In this framework Turkey's contribution to the EU budget is, as well, a determining factor laying off the net transfer that Turkey will receive. So Turkey's GDP in 10 years' time will determine her share in the EU budget.²⁵⁵

As stated above, the high rate of agricultural production and employment, low level income and large size of agricultural sector have been evoking concern inside

²⁵⁴ Harald Grethe. 2005. The CAP for Turkey? Potential Market Effects and Budgetary Implications. *The Agricultural Economics Society and the European Association of Agricultural Economists / Euro Choices* 4(2). <http://www.agrar.hu-berlin.de/struktur/institute/wisola/fg/ihe/Veroeff> : 20 (accessed June 25, 2007).

²⁵⁵ Harald Grethe. Turkey's Accession to the EU: What will the Common Agricultural Policy Cost? Germany: Institute of Agricultural Economics and Social Sciences, Humboldt-University of Berlin. <http://www.agrar.hu-berlin.de/struktur/institute/wisola/fg/ihe/Veroeff> : 6 (accessed June 25, 2007).

the Union. Along with these factors Turkey is a much more populated and larger country than the 12 new member states with Bulgaria and Romania.²⁵⁶ So at this point an important question comes to mind: What will be the budgetary consequences of applying the CAP to Turkey in 10 to 15 years' time? It is declared that the cost of applying the CAP to Turkey could be about € 6.3 billion in 2015 with direct payments and rural development policies and this amount would decrease to € 5.4 billion in 2025 since direct payments will be reduced by that time. Out of this amount (€ 6.3 billion) it is expected that about € 1.5 billion would be allocated for rural development in Turkey for the year 2015. So from an EU point of view Turkey will be an important beneficiary of the CAP funds in a possible membership. Parallel to above costs Turkey will be covering about 5.7% to 10.2% of the CAP budget in future. This is not in fact such a high ratio when compared to other EU members. For instance France got approximately € 9.9 billion before the Eastern enlargement in 2002. This amount was covering 21 % of the CAP budget in the EU 15.²⁵⁷ When it comes to the net transfer that will be allocated to Turkey, it is expected to be around € 1.6 billion in 2014, reaching € 2.6 billion in 2024. So when one takes into consideration Turkey's contribution to the EU budget with an expected GDP share of 2.9 % in 2014, these amounts seem not as a high figure that could bring a huge burden on the EU budget.²⁵⁸

In fact when one compares the Turkish economy and the EU's economy overall, member countries' budgetary concerns on Turkey could be justifiable because of Turkey's huge population and large agricultural sector. "With regard to the role of the agricultural sector in the economy as well as per capita income,

²⁵⁶ Grethe. The CAP for Turkey? Potential Market Effects and Budgetary Implications, *op.cit.* : 20.

²⁵⁷ Ibid : 23.

²⁵⁸ Grethe. Turkey's Accession to the EU: What will the Common Agricultural Policy Cost?, *op.cit.* : 14.

Turkey equals Bulgaria and Romania in shares of agriculture in employment and GDP, and per capita GDP in purchasing power standard (GDP_{PPS}).²⁵⁹ Moreover Turkey's economy is smaller than the EU 25 and Turkish GDP is a little bit more than 2% of the EU 25 GDP. So these indicators are effective enough to make Turkey in the eyes of the EU as a "net recipient" of the EU policies. In such a situation Turkey would not go beyond of being a burden on the EU budget because of her low GDP if she does not trigger her economic growth in the following years. But at this point there is an important point to keep in mind that Turkey would neither be member today nor "in the immediate future". By 2015 both the design of the CAP and Turkish economy will have changed so much.²⁶⁰

Another point that leads to concerns inside the Union in terms of Turkish membership is Turkey's fully benefiting from direct and rural development payments.²⁶¹ However, in order to make her transition to the EU's CAP smooth Turkey set out a structural adjustment and stabilization program under the name of ARIP and Agricultural Strategy Paper and she continues to enforce new agricultural laws that would raise her agricultural productivity to the EU standards. Thanks to these developments it is expected that Turkey's burden on the CAP budget will be lessened.

Furthermore statistics show that Turkey has a growing economy. Although the period of 1990s and the years 2000 and 2001 could be referred as lost years for Turkey because of her low growth rates, high inflation and increased level of unemployment along with political and economic turmoils, Turkey's stable economic development can not be ignored in the following years of this crisis period. For instance, "during the 2002-2005 period, GDP grew at an annual average rate of 7.5

²⁵⁹ Ibid. : 5.

²⁶⁰ Ibid.

²⁶¹ Grethe. The CAP for Turkey? Potential Market Effects and Budgetary Implications, *op.cit* : 20.

per cent.”²⁶² This achievement was followed by a decreasing share of agricultural industry from 14.1 % in 2000 to 10.3 % in 2005 with an increase of 2.1 % from 23.3 % to 25.4 % in the industrial sector for the same years.²⁶³ Additionally Turkish GDP is presumed to grow at an annual rate of 7% for the period of 2007 and 2013.²⁶⁴ So these ratios indicate that Turkey will not create such economic problems inside the Union in terms of the CAP especially when the decreasing share of agricultural employment and steadily growing GDP are taken into consideration.

Moreover Turkey’s membership will serve much the EU markets. Turkey will not affect the EU agricultural markets negatively and she would be a net exporter of fruits and vegetables along with being a net importer of animal products and cereals. It is expected that with the accession Turkish agricultural products’ prices would decrease at about 5% and price drops will be much observed in cereals and animal products whose prices are today above the EU level. In order to encourage production on alternative products, by which cereals and animal products will be substituted, price increases will be offered to Turkish farmers.²⁶⁵

To conclude, it could be argued that in due time thanks to her sustained economic growth Turkey will eliminate the impression that “what Turkey gains, others must pay”²⁶⁶ and she will be perceived as a net contributor to the EU markets instead of being seen as a “drain on the EU budget”²⁶⁷ through her improved agricultural sector, diversified products and being a unique model for the other candidate countries in terms of adjusting herself to the EU Structural and Cohesion

²⁶² 2006. Ninth Development Plan: 2007-2013. Turkey: TR. Prime Ministry/ State Planning Organization. <http://ekutup.dpt.gov.tr/plan/ix/9developmentplan.pdf> : 24 (accessed June 28, 2007).

²⁶³ Ibid: 24.

²⁶⁴ Ibid: 65.

²⁶⁵ Grethe. The CAP for Turkey? Potential Market Effects and Budgetary Implications, *op.cit.* : 22, 24.

²⁶⁶ Kemal Derviş; Daniel Gros; Faik Öztrak; Yusuf Işık; Fırat Bayar. August 2004. Turkey and the EU Budget Prospects and Issues. *EU-Turkey Working Papers* No.6. http://shop.ceps.be/BookDetail.php?item_id=1148 : 5 (accessed June 25, 2007).

²⁶⁷ Ibid.

Policies, especially for the CAP which accounts today for nearly half of the EU budget.²⁶⁸

²⁶⁸ Ibid :1-5.

CHAPTER: VI

CONCLUSION

In this thesis Turkey's harmonization with the Common Agricultural Policy (CAP) has been analysed. In order to do this analysis; this thesis has been divided into two parts. In the first part, general information about the CAP is given. This part sheds light on the main features, objectives and principles of the CAP along with the effects of the eastern enlargement on the CAP. Also briefly major CAP reforms are described in order to denominate the evolution of the CAP over time. In the second part, Turkey's harmonization with the CAP is examined. Turkey's membership to the EU is studied from an agricultural perspective and the agricultural reform programs designed for facilitating Turkey's harmonisation with the CAP are analysed. Thanks to this examination, the difficulties Turkey is experiencing and the developments reached in the field of agriculture are covered.

The first chapter provides a general overview of the CAP. The CAP targets itself to integrate the economic and political aspects of the Member States in the framework of agriculture. It introduces common prices for the agricultural production, and sets certain mechanisms and instruments to protect the production inside the Union against world markets. In this way it increases productivity and self-

sufficiency in agricultural production and brings market stability to the Union. The CAP's financing is procured by the European Agricultural Guidance and Guarantee Fund (EAGGF), set up in 1962. In addition to this fund, the European Regional and Development Fund, the European Social Fund and LEADER were introduced to meet the CAP expenditures. Because of its share in the EU budget, environmental consequences and its negative effects on trade with Third World countries, a reform process was initiated for the CAP.

The second chapter explains the reforms of the CAP. The reasons of the reforms are demonstrated and categorized under four components: a) Costs of the CAP, b) GATT Crisis, c) Environmental Concerns and d) Impact of enlargement on the CAP. For these reasons the CAP abandoned its protectionist tendencies inside the Union and became a more market-oriented policy area. The pre-1992 reforms were not productive enough. They dealt with production surpluses and the budgetary burden of the CAP but the reforms could not stabilize the CAP. So the 1992 Mac Sharry Reform and later Agenda 2000 focused on these problems and decreased the agricultural support prices through supporting direct payments to farmers. That is why the last two reforms are referred as the first major reforms of the CAP. The 2003 CAP reform, the second major CAP reform, launched the Single Farm Payment through replacing the direct payments. Thanks to this reform, meeting the environmental, food safety and animal welfare standards turned out to be obligatory during the production processes.

The third chapter describes Turkey's harmonization with the CAP. It provides a general view on Turkey-EU relations in terms of an agricultural policy. Agriculture in Turkey is a key sector through its contribution to the economy. For this reason state interventions prevailed in this sector via price support mechanisms and input

subsidies. Yet with the Agricultural Reform Implementation Project and Agricultural Strategy Paper the state's role in the agricultural realm has been curbed and a more market oriented strategy has been followed while making Turkish agriculture more in line with the CAP.

The fourth chapter compares Turkish Agricultural Policy with some of the Central and Eastern European Countries' agriculture. It states that Turkey has similarities with the CEECs' agricultural policy. Especially Poland and Romania are good examples for not absorbing the CAP budget, contrary to the expectations, through their high agricultural population and large agricultural lands. The same concern is also valid for Turkey because of agriculture's being one of the leader sectors in the country. Yet the comparative study of the chapter indicates that Turkey has taken important steps in terms of bringing her agricultural policy in line with the CAP and if in Poland and Romania the agricultural chapter of the *acquis* did not block their EU membership, the same case should also apply to Turkey since Turkey has restructured her agricultural policy in the way CEECs, especially Poland and Romania, did.

This thesis concludes that Turkey's accomplishments in terms of restructuring her agricultural policy in line with the CAP can not be disregarded. If with the 2004 and recent enlargement of 2007 the CAP did not pose an obstacle for the membership of 10 new member states plus Bulgaria and Romania, then the agricultural chapter of the *acquis* should not pose a deadlock on Turkey's membership. In other words although there are similarities between the three countries in the agricultural realm, recently a kind of a negative approach has been taken by the EU towards Turkey's membership during the accession negotiations. The agricultural chapter should not be a preventative factor for Turkey on her EU vocation. This conclusion is drawn by a

comparative study of Turkish agriculture with some of the CEECs' agriculture as Turkish agriculture is similar to that of those countries especially Poland and Romania. In order to reach this conclusion the agricultural situation and the transition periods of some of the CEECs have been examined and the CEECs' approach towards bringing their farm policy into line with the CAP has been analysed and the commonalities with Turkish agricultural infrastructure and recent Turkish agricultural reforms have been turned up. Yet this conclusion does not mean that Turkey is totally well-prepared to align with the agricultural acquis. She needs to go on her reform processes and restructure her agriculture radically since there are still inefficiencies in her reform programs. Transparency, lack of statistical data in the number of agricultural holdings or amount of production, incomplete land market, etc. are good examples for this end. In order to restart negotiations on the agricultural chapter Turkey needs to restructure her agriculture by taking into consideration the above factors.

In the near future, this trend may be directed towards the second pillar of the CAP: Rural Development. Throughout this thesis the focus has been much more on the first pillar of the CAP which includes the market support and direct payments. To a great extent Turkey's harmonization with the first pillar of the CAP has been analysed. The research in the future may be directed towards Turkey's alignment with Rural Development of the EU. Effective rural development strategies for Turkey such as increasing the competitiveness of rural areas, improving socio-economic conditions of the rural population and encouraging investments in rural areas may be analysed.

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