

CHAPTER 8. ALIGNMENT WITH EU AGRICULTURAL AND RURAL DEVELOPMENT POLICIES

8.1 *Agriculture is poised for structural change.* As Turkey still heavily protects its agriculture and foods sectors, a reduction in protection on the way to the EU would tend to hurt agriculture. However, simulations of the long-term impact of EU accession suggest that the increase in market access into the EU could generate a significant increase in demand that would support significant growth of the agricultural and food sectors in Turkey. Despite this favorable impact, the high share of employment in agriculture is likely to decrease in the future, as in other countries that have liberalized agriculture. The structural changes in production required to boost competitiveness and take advantage of the new environment will also put pressure on rural labor markets. Consequently, one of the key rural development concerns would be whether economic activities in rural areas will be able to absorb labor force leaving the agricultural sector. A main challenge will be to support adjustment to structural changes in agriculture, and promote rural development.

8.2 *The dual challenges will be to support adjustment to structural changes in agriculture and promote rural development off-farm more widely.* Strengthening policy coherence will be particularly prominent in the process of EU accession. Particular emphasis will be placed on coherence of instruments and policy objectives between the agricultural and rural development policies, and of their respective institutional and implementation arrangements in line with the CAP.⁸⁸ The accession process also implies the EU alignment of Turkey's national rural development policy and objectives. This chapter reviews options that may complement initiatives considered by the Government, including strengthening the coherence and coordination between commodity policies, rural investment policies, and irrigation and drainage policies.

⁸⁸ The reformed CAP consists of two pillars, with the rural development representing the 2nd pillar. The 1st pillar concentrates on providing a basic income support to farmers, while the 2nd pillar supports agriculture as a provider of public goods in its environmental and rural functions and rural areas in their development. See: <http://www.europa.eu.int/scadplus/leg/en/s04002.htm>.

8.1. ALIGNMENT WITH THE EUROPEAN UNION COMMON AGRICULTURAL POLICY (CAP)

(a) Comparative support to Agriculture in Turkey and the EU

8.3 *Turkey increased the level of producer support but mainly through tariff protection and trade barriers that are reflected in high consumer prices.* Turkey increased the level of producer support (measured by percent PSE and NAC) since the second half of 1980s (Table 8.1). Continually high import tariffs on agricultural commodities and non-trade barriers have kept agricultural prices high, with 22 percent of consumers' food expenditures an indirect subsidy to agricultural producers—roughly on par with the EU-25.⁸⁹

Table 8.1. Indicators of Support to Agriculture Turkey and EU (1986-2004)

	1986-88	2002-04
Turkey		
Total Support Estimate (TSE)/GDP (%)	3.94	4.40
Percent Producer Support Estimate (PSE) (%)	16	25
Percent Consumer Support Estimate (CSE) (%)	-16	-22
General Services Support Estimate (GSSE) /TSE (%)	9.7	10.8
Nominal Protection Coefficient (NPC)	1.17	1.28
Nominal Assistance Coefficient (NAC)	1.20	1.34
EU		
Total Support Estimate (TSE)/GDP	2.82	1.24
Percent Producer Support Estimate (PSE)	41	34
Percent Consumer Support Estimate (CSE)	-38	-21
General Services Support Estimate (GSSE) /TSE	9.1	8.2
Nominal Protection Coefficient (NPC)	1.80	1.32
Nominal Assistance Coefficient (NAC)	1.71	1.52

Source: OECD (2005)

8.4 *Support, through direct payments and other programs, remains lower than in the EU.* With reform of most budgetary subsidies for agricultural outputs and inputs and substitution by the recent Direct Income Support program Turkey's *overall* level of support has been and continues to be about 10-15 percent below that of the EU.⁹⁰ The

⁸⁹ Non tariff barriers have been particularly distorting in the case of beef imports. Official beef imports have largely ceased owing to an import ban imposed by the government in 1996 on the account of mad cow disease. However, domestic beef production is not enough to meet demand for beef. On the other hand, a considerable cattle import has been made illegally (an estimated 1 million cattle in 2001), which is also of concern for public health. Owing to these illegal imports, beef prices do not increase as much as would be expected. Instead of banning legal beef imports, more targeted measures could be considered—such as establishing a system of cattle registration and traceability. In addition, the high cost of feed due to high import tariffs on maize and interventions of TMO could be adjusted to allow livestock farmers to access to lower cost as well as better livestock suitable feed crops such as soybeans.

⁹⁰ Reflected by Nominal Assistance Coefficient (including both market support through tariff protection as well as additional payments made to producers).

difference reflects higher support extended by the EU through non-market subsidy instruments (i.e., budgetary transfers). Support in Turkey for general services, such as research and development, extension and marketing, has been quite volatile with considerable decline in 2004. Since success of alignment efforts with EU will largely depend on upgraded support to farmers on advice on cropping patterns, access to new technologies and better marketing, increased support for general services in agriculture will be quite important for Turkey.

8.5 Alignment of market support, through reduced trade protection, with CAP would have an uneven impact by major commodities but would enhance consumers' welfare. Producer farm gate and world reference price differentials measured by the NPC are higher for many commodities in Turkey than those of EU (Table 8.2). A simple (static) simulation based on NPC ratios of 2004 show what would be the affect on production values in Turkey of alignment with the current levels of agricultural prices in the EU-25. The biggest reductions in price and in value of production would be seen for potatoes, grapes, sunflower, maize and barley. Beef, milk and wheat would have price reductions as well; whereas prices for sugar beet, poultry and sheep would have to be increased. It is important to note that these price reductions would positively affect consumers' welfare as food expenditures would decline.⁹¹

Table 8.2 Change in Value of Production with EU CAP Alignment (in %)

	<i>Production Value Share</i>	<i>Difference in NPC, 2004 (Turkey vs. EU25)³</i>	<i>Difference in NAC, 2004 (Turkey vs. EU25)³</i>	<i>Change in Value of Production with Market Protection Alignment¹</i>	<i>Change in Supported Value of Production with Full CAP Alignment²</i>
Wheat	23.3	0.12	-0.18	-10	12
Barley	8.3	0.27	-0.25	-20	15
Maize	3.6	0.37	0.12	-21	-6
Sunflower	2.1	0.29	-0.1	-23	7
Sugar beet	5.4	-0.42	-0.48	16	17
Potatoes	5.9	1.55		-58	
Grapes	11.4	0.51		-33	
Milk	14.2	0.13	0.09	-9	-6
Beef	13.3	0.15	-0.97	-7	45
Poultry	7.1	-0.14	-0.26	8	15
Sheep	5.6	-0.29	-1.05	28	101
Weighted Average of above	100	0.19	-0.27	-12	17

Notes: ¹ Assumes full NPC alignment with EU-25; ² Assumes full NAC alignment with EU-25; ³ in percentage points

Source: OECD (2005) and World Bank staff calculations

⁹¹ These static results do not take into account supply responses and production shifts across agricultural commodities, growth of domestic aggregate demand, nor any kind of general equilibrium effects (see the analysis below). As other studies have shown earlier, for example Nash, et al. (2002), and the modeling exercise conducted for the CEM has confirmed, CAP alignment may have a positive impact on both consumers and farmers in the medium to long term as farmers adjust to the new policies and as real household incomes increase.

8.6 ***On current EU policies, full alignment with CAP would entail an increase in overall support for Turkish agriculture, but subsidies will have to be aligned with a moving CAP landscape.*** Although the market support portion of the agricultural producers' total support would decrease, Turkey's total producer support would increase further for many commodities if it were to become fully aligned with the levels *currently maintained* in the EU-25. Comparing NAC ratios⁹² for major commodities, Turkey's producer support for most of the commodities are currently lower than in the EU, and would have to increase, with the exception of maize and milk (Table 8.2). However, because the structure of CAP keeps evolving, it is uncertain that upon accession overall support for Turkish agriculture could in reality increase. In the years ahead, the share of CAP budgetary transfers in total support is unlikely to be growing by enough to fully offset the expected decline in EU agricultural trade protection. In addition, the CAP budgetary support to be received by producers in new EU members is likely to be phased in over long periods, with flexibility for the domestic budgets of Member States to "top-up" CAP transfers.

8.7 ***Full alignment is expected to take a long period, to be phased in after accession, and with a very different CAP landscape.*** First, the levels of NACs in the EU will likely continue its slow decline over the next ten to fifteen years, with NPCs falling further as a result of reduced trade protection, and the share of non-market transfers in total support growing but not by enough to fully offset the fall in NPCs. Secondly, the CAP non-market support levels received by agricultural producers in the recent 10 accession countries are lower than those in the EU-15. The level of support to agricultural producers in the EU-10 are being phased in from 2005-2012. Thus, if the current experience of recent EU accession countries is a good guide, Turkish agricultural producers would likely face a phase-in period as well. In addition, it is very unlikely that, in view of other spending priorities in the budget upon EU accession, Turkey will have much leeway to increase budgetary transfers to agriculture to "top up" CAP payments.

8.8 ***The implications for Turkish agricultural policy during the pre-accession period are fairly clear: market support for a number of commodities has to decrease in general through tariff reduction.*** This will facilitate convergence of such support to EU levels prior to accession and avoid any sharp falls in prices and initial contractions in agricultural income (as have been recently the case in Hungary). At the same time, government budget support for agriculture should be more focused on non-market distorting instruments. This should take the form of maintaining the DIS Program and expanding support for general services and the other non-distorting programs which Turkey is introducing through its draft Framework Agricultural Law. This is discussed in greater detail below.

⁹² Ratio between the value of total gross farm receipts including support, and production valued at world market prices without support.

8.9 *Adjustment of Turkish agriculture to reductions in tariff protection could be facilitated by further improving market access for Turkish exports to the EU during the accession period.* EU imports of all agriculture products originating from Turkey are tariff free if the value of consignment is below a pre-set entry price. For four different kinds of fruit and nine vegetables, however, this suspension of the MFN tariff is limited to certain calendar periods ranging from 3-8 months depending on the type of the product. Removing such seasonal restrictions would facilitate adjustment towards more dynamic products where Turkey has a comparative advantage.⁹³

(b) Impact of Alignment with CAP – General Equilibrium Modeling

8.10 *The economic impact of Turkey’s accession to the EU has been analyzed using the World Bank’s global general equilibrium model.*⁹⁴ The model focuses mainly on the agricultural and food sectors, where distortions are highest—except perhaps in services. The model is run in its comparative static version, i.e. with no dynamic aspects and results should be viewed as long-term changes to the steady-state assuming no change in the stock of factors (labor, capital and land) and productivity. Under the model simulation, Turkey eliminates tariffs on imports from the EU and aligns its tariffs with those of the EU, while the EU grants free market access to Turkish agricultural exports. As a result of alignment, the average agricultural tariff in Turkey declines to 6 percent, from 44.2 percent, and to 6.2 percent from 29.4 percent for processed foods. Domestic support—including export subsidies—would more than double under full EU membership, from base levels of \$2.2 billion to \$4.7 billion.

8.11 *Accession would lead to some restructuring of output towards agriculture and an increase in net exports.* The two agricultural and food processing sectors combined would see a slight rise in their share of total value added to 15 percent from an initial value of 14.3 percent, with an average output increase of around 15 percent. Within agriculture, the biggest simulated shift is in cotton, with output increasing by 63 percent and its share in agricultural value added increasing from 7.4 percent to 11.4 percent. Net exports of agricultural and food products are also projected to increase. The total increase in exports of these goods is \$4.5 billion, with net exports increasing by \$1.8 billion. Although imports would rise substantially because of the large decrease in tariffs, better access to EU agricultural markets would boost exports even more.

⁹³ Also some tariff rate quotas, at zero or reduced rates, exist for EU imports originating from Turkey with the full MFN tariff or the specific tariff component only applied for above-quota imports. Turkey in general has managed to fill the quotas over the last years, but in many cases the quotas cannot be completely used owing to inability to meet food safety requirements.

⁹⁴ The model was calibrated to the GTAP dataset (release 6.0) with supplemental information on Turkey’s domestic protection.. See van der Mensbrugge (2005) for more details on this model. Prior to Turkey’s accession simulation, a “pre-simulation” is run that incorporates known policy commitments—final implementation of the Uruguay Round including the elimination of textile and clothing quotas, EU’s expansion to EU25 and China’s WTO accession commitments.

8.12 *Net fiscal savings are also expected as a result of alignment with the CAP.* Upon EU accession, and barring any transitional clauses or possible limitations mentioned earlier, domestic support to agriculture will be funded from CAP. Tariff revenues, on the other hand, would drop—from an initial level of \$1.3 billion to \$0.5 billion. Overall, EU accession would translate into an increase in net saving of \$1.3 billion, or 0.9 percent of GDP.

8.13 *Some caveats apply on the simulation results.* First, the sectoral shifts within agriculture are based on a high degree of factor mobility across sectors. The actual extent to which Turkish farmers can switch across crops—for example from other crops towards cotton—may limit the gains from accession. Second, the gains are being measured against a relatively static policy environment. The model has used 'static' protection rates and does not attempt to predict the evolution of protection over time. For example, should the EU open further its market to non-EU countries (e.g., in its everything-but-arms initiative, where sugar is expected to enter duty- and quota-free by the end of the decade), the impacts of Turkey's accession could be altered. Lastly, the usual caveats regarding the model's assumptions apply here—closure rules, perfect competition and returns to scale, no productivity impacts, etc.

8.2. PROMOTING RURAL DEVELOPMENT AND ITS EUROPEAN UNION ALIGNMENT

(a) Regional Dimensions of Rural Development Investment Patterns

8.14 *Creating opportunities for off-farm employment and strengthening agricultural productivity are key challenges.* Turkey still has a considerable share of rural population (35 percent). This sizeable rural population generates pressure on urban areas as a means to rapid migration from rural to urban parts of the country leading to all sorts of problems in urban cities over the last decades. As the share of agricultural GDP and therefore employment declines, Turkey needs to develop of farm income and employment opportunities in rural areas not only to increase economic growth in these areas but also to moderate the pace of rural-urban migration to a more manageable level. Therefore, the industrial and service sectors particularly need to expand further in rural areas, as they have in a number of recent Central and Eastern European (CEE) EU accession countries over the 1990s. At the same time, agricultural productivity has to increase further by adapting to the recent global advances in agricultural technical efficiency.

8.15 *Appropriately targeted public investment and participatory approaches should receive priority.* In this regard, government expenditures on agricultural research and extension, as well as infrastructural investments including roads and irrigation need to

expand further. Moreover, greater emphasis should be given in the future on participatory approaches, determining service priorities, promoting private sector involvement in and financing of service provision, and expansion of the role of cooperatives, producers union, and other types of farmers organizations. This leads generally to greater co-financing by beneficiaries to infrastructure and other rural investment programs, which may be a sizeable future source of increased investment in the rural sector.

8.16 *Rural spending at the provincial level tends to reveal that allocations may not very much reflect the regional priorities of the government with the exception of GAP investments.*⁹⁵ Although spending figures by seven regions seem to demonstrate that rural spending is higher in general in less developed regions, calculations made at the provincial level tend to indicate the opposite⁹⁶. Correlations between per capita agricultural GDP and per capita rural spending by 81 provinces show positive correlations (average 0.60) meaning more spending is made in provinces where per capita agricultural GDP is higher. Correlations between rural illiteracy levels and per capita rural spending also show that for all of the agencies with the exception of DSI, there is a negative correlation between the two: agencies' rural per capita spending is lower in provinces where rural illiteracy levels are high.

8.17 *Project prioritization would deserve greater attention.* Regional spending for each agency is diverse due to many reasons, particularly the location of natural resources (forests in the case of MOEF and water resources in the case of DSI). For example DSI allocates its agricultural spending based on ongoing irrigation projects in 26 different areas. However, funding amounts are insufficient to complete the current projects and there is no clear plan for prioritization of project implementation. Therefore, many areas that are in urgent need wait for a long time to receive enough funding to be completed. Another essential improvement for rural expenditures is to adequately prioritize the regional as well as "by project" investment needs. Dormant projects have to be eliminated from the investment program and projects that are close to completion must be given priority. For poverty alleviation purposes, less developed provinces mainly in the regions of East Anatolia, South East Anatolia and the Black Sea should receive greater shares of government investment expenditures.

⁹⁵ Priority development provinces are determined but by the decisions of the Council of Ministers on the Implementation, Coordination and Monitoring of the Annual Programs issued each year. The latest program (2005) selected 49 provinces out of 81 provinces as priority provinces that are located mostly in the East, South East and Black Sea regions and which have in general the lowest per capita income. GAP is the biggest regional integrated project that has a significant share of investments. Approximately 15 percent of rural budget expenditures are allocated to GAP projects (excluding energy) in 2002. As of the end of 2001, 10.8 quadrillion TL have been spent for GAP, reaching a cash realization ratio of 48.1 percent.

⁹⁶ The sources for data gathered and methodologies used for this analysis are elaborated on in the recent World Bank Report 'Turkey: Policy and Investment Priorities for Agricultural and Rural Development', 2005. The types of rural expenditures considered included: agriculture - including farmer support services such as extension and research, animal health, plant protection; forestry, erosion control, and other agri-environment programs; and, irrigation and other rural infrastructure - rural roads, water supply and sanitation, electricity.

(b) *Using EU Pre-Accession Funds for Rural Development*

8.18 *The scope for using EU funds during accession could be significant.* The rural development instrument of regional development policy (IPARD) serves as the framework for supporting sustainable agricultural and rural development in EU applicant countries during the pre-accession period. It aims to solve problems affecting the long-term adjustment of the agricultural sector and rural areas, to help implement the Community *acquis* in matters of the CAP and related policies. Subject to ex-post checks carried out by the Commission, the national authorities of the beneficiary countries are entirely responsible for managing funds. This system has a positive impact on the absorption capacity of the rural development funds after accession as this acquired experience is intended to prepare the future Member States for eventual management of structural fund and cohesion fund programs. All the recent accession countries, without exception, have been able to take up this challenge successfully. Policy priorities in order to create absorptive capacity for structural fund programs and for adjustment of agricultural sector regulations and policies to EU CAP requirements are reviewed below and summarized in the policy table at the beginning of the study.

8.19 *In order to be able to be eligible for IPARD funds, Turkey needs to complete three main activities:*

- ***Rural development strategy:*** A framework for rural development projects has to be developed by identifying priorities and measures for rural areas and ensuring harmonization with the EU's rural development policies. Efforts are under way to draw up the strategy, and the strategy is being finalized.
- ***An IPARD plan:*** This is to be a multi-year programming document which is based on the rural development strategy. The IPARD plan lays out the mix of prioritized activities drawn from the list of measures eligible for support.
- ***Rural Development Agency (Paying and Implementation):*** As payments under IPARD are to take place in a fully decentralized system (ex-ante controls), the new agency with all its branches has to be set up and proceed through a lengthy accreditation process. The agency can delegate some of its responsibilities to Special Provincial Administrations (SPAs, of which there are 81). In this process, Turkey should initially target a limited number of areas for developing a functioning administrative structure, and then accelerate the process to improve the system subsequently in more challenging rural areas.

8.20 *The capacity of SPAs to identify, plan, and execute agricultural and food sector investment programs needs to be strengthened.* Turkey also has to rapidly develop key *acquis* related food safety and regulatory functions such as phyto-sanitary inspection and control, livestock and dairy inventorization and traceability, agro-chemical control and organic certification, so that investments that need to comply with food safety measures, can be made eligible for the pre-accession funds.

8.21 ***Rural development policies that largely consist of support for non-farming activities in the services and industry sectors should be given particular attention.*** This has been demonstrated by the recent experience of Poland and Hungary. Maximum attention should be given to cooperation between agencies since rural development is multi-dimensional and covers various sectors. Examples of convergence in countries that heavily used structural funds have also shown that investment strategies need to be determined by careful analysis of regional specificities, bottlenecks and potential competitive advantages.

8.22 ***Country examples suggest that regional policies should be primarily focused on promoting efficiency, with growth oriented measures ensuring diffusion of convergence across regions.*** Also a number of studies have found that regional funding of essential infrastructure (transport, communication, power, water, education) is more effective than subsidies allocated to small businesses. As for the institutional arrangements, structural funds should be integrated into the government's overall strategy and public resource management process.

8.23 ***Taking advantage of structural funds also poses a co-financing challenge.*** The availability of sufficient beneficiary contributions (at least 25-50 percent) for rural development programs linked to structural funds can be a very important obstacle for investments in rural areas. Increasing access to finance in rural areas will key for increased use of such funds.