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COMMON AGRICULTURAL POLICY OF THE EU AND IMPACTS OF POSSIBLE ACCESSION ON THE AGRICULTURAL POLICIES OF TURKEY

Abstract:

The Common Agricultural Policy has taken a large part of the EU's budget despite a steady decline of its share. This makes the member countries financially responsible for supporting and sustaining the CAP. The budget debate has played an important role in both the enlargement and the discussions on future reforms of the CAP. The CAP, one of the oldest and most controversial EU policies has been affected deeply by the political and economic integration of Europe.

Upon possible accession to the EU, Turkey would need to transform its agricultural sector according to EU standards under the terms and conditions provided for in the Accession Treaty as determined by the outcome of the negotiations on Chapter 3 of the accession talks.EU enlargement and budgetary constraints will lead to some challenges for Turkey in the process of adapting its agricultural structure and policies in to the CAP.

In this essay, we will assess and focus on the evolution of common agricultural policy within EU and its impacts of EU integration on Turkish Agriculture Sector

Keywords:

European Union, Common Agricultural Policy, CAP Reform, Turkey-EU Relations

JEL Classification: F15, A10

I. INTRODUCTION

The transformation process of agricultural sector in the European Union (the EU) has played an important role in the Union's expansion and should be evaluated in terms of impacts on world agricultural markets. Planning and designing of the EU's agricultural sector policy has been improved to fulfill its basic role as stabilizing supply of food in the EU.

Agricultural sector in the EU has been given highest priority for food safety and supported by the protective, intervention and regulative measures. Since, the agricultural sector has certain features lead the government to interfere in the market by assisting farmers. These can be generally summarized as dependency on the factors of production, inelastic demand for agricultural products both in the short and long run, supply function with the previous year's price, fluctuations in output due to climate changes, environmental disasters and immobile resources, its dual structure, the validity of the law of diminishing productivity, production under the competitive markets, and its role as 'oligopoly" or "monopoly" purchaser of inputs (Tunç, 2006:177).

The EU has been extensively involved in protecting the agricultural sector since the Treaty of Rome was signed in 1957. Introduced in 1962, CAP payments strategy was closely tied to farmers' production or net returns, to overcome a shortage of food supplies due to the devastating effects of World War II. Later, the EU changed its support system from coupled support to a decoupled income system due to over-production in the EU and pressure from the World Trade Organization to reduce instruments that distort trade and can harmonize world trade liberalization reform. The EU's CAP has experienced big changes in recent history as a result of the MacSharry Reform in 1992, The Agenda 2000, the Fischler Reform in 2003, and the CAP Health Check in 2008.

Since accession negotiations with the EU began in 2005, Turkey has had to comply with the entire acquis of 35 negotiation chapters. Agriculture and rural development is one of the economic criteria that must be able to apply the EU legislation on direct farm support schemes and to implement the common market organizations for various agricultural products. Turkey must comply with the rules and legislation framework of the first pillar (export subsidies, market intervention and direct payments) and the second pillar (development of rural areas).

In this article, first we will outline the major historical steps in the CAP reforms. Secondly, reform period and structure of the agricultural sector in Turkey are summarized. Finally, the impacts of Turkish integration to the EU on agriculture sector are investigated.

II. NEVER-ENDING STEPS: CAP REFORMS

The CAP, one of the oldest and most controversial EU policies has been affected deeply by the political and economic integration of Europe. The initial objectives of

CAP were to increase agricultural productivity, improve food availability, stabilize markets, ensure reasonable prices to consumers and enable the rise in standard of living of farmers following World War II.

The EU Common Agricultural Policy is based on three core principles as adopted at the Stresa Conference in 1958:

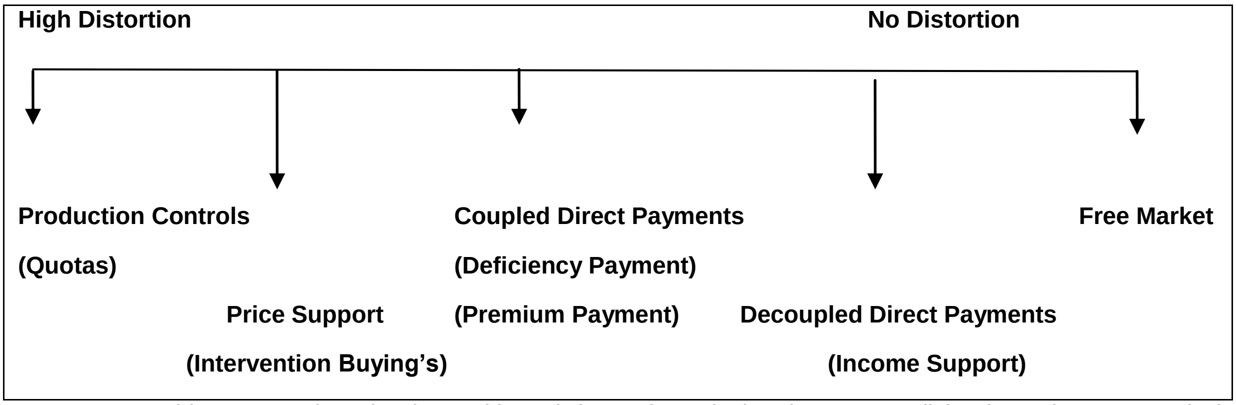
-Single market for agricultural products

- Community preference

- Common financing of the CAP

The CAP has undergone some reforms aimed at protecting the EU’s agricultural sector by minimizing the market distortion of domestic policies.

Figure 2.1. Domestic Agricultural Policies – ranked by Degree of market Distortion



Source: Ronald Knutson, (2007), The ranking of domestic agricultural support policies in Turkey are made by using the ranking of domestic agricultural support policies in USA in — as cited in Yılmaz, 2012:23

There are recently several types of CAP measures. The EC distinguishes itself in Pillar I with direct payments (coupled and decoupled) and market measures (e.g. safety nets, export subsidies and quotas) and in Pillar II with rural development schemes.

The main aim of the CAP reforms is to reduce the share of traditional CAP spending within the total EU budget. The share of the CAP on the EU’s budget has fallen steadily from 88.5 % in 1970 to 40.8 % in 2012; it still constitutes the biggest share in the EU budget and makes it arguably the most criticized part of the EU budget.

The European Union budget is financed by members through three channels: duties and agricultural levies on imports, the Value Added Tax (VAT), and Gross National Income (GNI). The cost of the EU’s farm subsidies and tariffs to consumers and taxpayers in the EU now stands at €86.9bn, of which €52.5bn stem directly from CAP subsidies (Howarth, et al., 2012:3). But, net cost or benefits of EU member countries change according to the relative size of their economies.

This means that some countries (Germany, Sweden, the Netherlands and Britain) pay out more than they receive back in CAP contributions. But other countries (Spain, Ireland, Portugal and Greece) receive more from the EU than they pay in - they are net recipients. France and Italy's contributions and receipts are roughly in balance. So, while net contributor countries are willing to agree to the reductions in the EU's budget, the "net recipients" would like to veto the budget cuts. With the addition of ten new member States, the net contributor member states tried to develop new strategies for compensation of the cost and for fiscal sustainability. Therefore, the principal motivation of CAP reforms may be linked to the EU enlargement process.

Table 2.1.Common Agricultural Policy Expenditure Shares in the EU Budget

Years	Total Expenditure, €bn	Common Agricultural Policy Shares (% Total Exp.)1
1970	3.567	88.5
1980	16.4	70.5
1990	45.6	63.4
1999	86.9	45.8
2000	89.4	46.4
2010	141.4	40.9
2011	141.9	40.4
2012	147.2	40.8

Source: Authors Own Calculations

1.included both Pillar I and II

The CAP has been marked by major reforms to address and design new policies towards the accession of new members and budget burdens. The principles of the Common Agricultural Policy were adopted in 1962 after the signing of the Treaty of Rome in 1957[1]. Until 1992, the member states protected the agricultural sector via three channels:

1) Minimum Pricing / Price Guarantees: Minimum level to protect farmers against low prices by buying surplus goods.

(2) Import Quotas: Import quotas and levies in the event that the world price falls below internal price.

(3) Subsidies: To guard against low world prices, farmers were given subsidies to produce more crops.

[1]The legal base for the CAP is defined in Articles 32-38 in Treaty of Rome.

CAP price support was successful in meeting its objective of price stability a common policy of prices and the protection of farmers; however, it also led to distortions in resource allocation due to the reduction of competition with market failures. The other negative impacts of the price support mechanism of farmers can be summarized as the net-loss of consumer welfare, a decrease in world prices and downward pressures towards the share of world agricultural income for other countries outside the Union (Tunc, 1992:29).

Additionally, by the 1980s, the EU had to contend with almost permanent surpluses of most of the major farm commodities, which were exported (with the help of subsidies), stored or disposed of within the EU (Gay, et al., 2005:4).

During the Uruguay Round, the EU was under pressure to reduce the trade-distorting impact of the CAP by lowering its level of support and border protection (Daugbjerg, 2012).

Since 1992, the Common Agricultural Policy has been immersed in a fundamental reform process, aimed at moving away froma policy of price and production support to a more comprehensive policy of farmer income aid (Vochita, 2008:924).

With the MacSharry Reform of 1992, price support was lowered especially for cereals and beefs and coupled direct payments were introduced in order to compensate farmers' revenue. These movements affected mainly arable crops (cereals, oilseeds and protein crops) and beef meat. The MacSharry Reforms lowered grain prices by 30 percent (Josling, 2001:16).

Another important step was made in the reform process with Agenda 2000. Under the Agenda 2000 agreement, CAP focused on both reducing agricultural spending and guaranteed prices to improve the competitiveness of the farming industry.

Under the Agenda 2000 agreement, some intervention prices were set at levels so low that they would be binding only in years of very low world prices, and other intervention prices were reduced greatly, with producers compensated by direct income support payments (Togan, et al. 2005).

During the period 2000-2006, financial assistance from the European Communities to the candidate countries of Central and Eastern Europe was provided through three instruments: the PHARE programme (2000-2006), The "Instrument for Structural Policies for Pre-accession" (ISPA) and The Special Accession Programme for Agricultural and Rural Development (SAPARD). These were all were key instruments designed to assist the ten Central and Eastern Europe in dealing with the structural adjustment in their agricultural sectors and rural areas. SAPARD was replaced in 2007 with the Instrument for Pre-accession Assistance (IPA) supporting rural development.

The overall pre-accession assistance was € 3 billion per year (1997 figures) during the 2000-2006 periods, half of which was allocated to PHARE. The precise appropriations for 2001 were € 540 million for SAPARD, € 1,080 million for ISPA, and € 1,620 for

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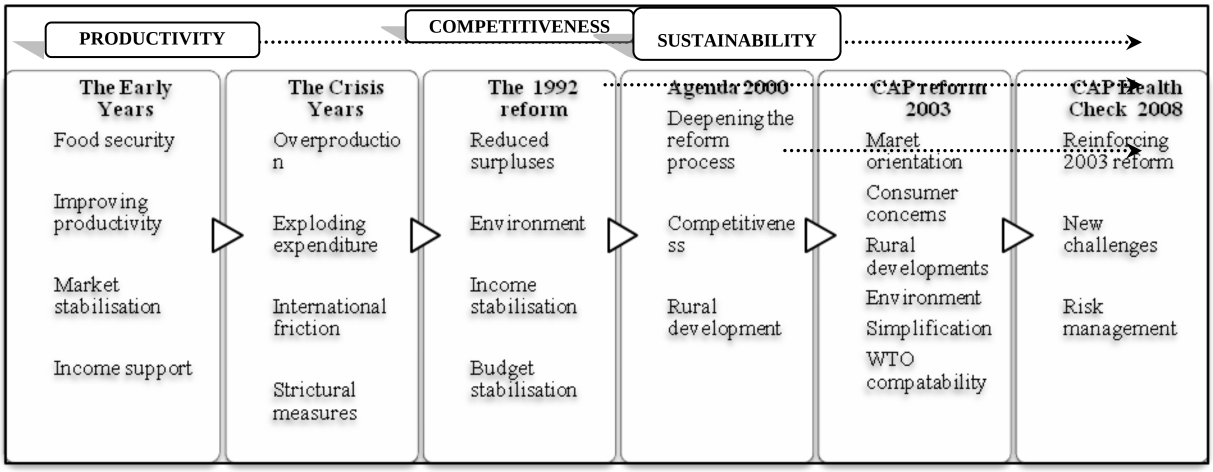
PHARE, amounting to an overall budget of € 3,240 million (European Commission, 2002).

A further step towards integration of EU into the CAP occurred in 2003, thanks to the Fischler Reform. Partially decoupled income support based on historical payments and environmental standards were introduced. Direct payments reduced up to 5% for big farms and increasing emphasis was placed on reinforcing rural development and environmental conservation and (cross-compliance)[2]

Since 2004, the CAP reforms have been implemented to address the transitional burden of12 new member states that are highly dependent on agricultural production.

The Single Area Payment Scheme (SAPS) a uniform payment per hectare up to a national ceiling, has been has introduced for transition to EU-12[3] to help them transition their agricultural policy into the direct payment system with the mechanism of “phasing-in”. This is taking place over a 10-year transition period before reaching the full EU-15 rate, from 25% of this full rate in Year 1 (i.e., 2007 for Romania and Bulgaria and 2004 for the other New Members States) (EP, 2010:25). Due to the transitional periods, the EU-15 received 34316 million EU, while the EU-12 got 3.253 million in 2008 from the CAP budget to Pillar 1 direct payments.

Figure 2.2. Historical development of the CAP



Source: European Commission, 2011

The current Common Agriculture Policy of the EU will expire at the end of 2013. The Council has asked the Commission for a report on priorities by 2010. The priorities for CAP are listed in European Commission official site (see details, http://ec.europa.eu/agriculture/cap-post-2013/) as:

-Why do we need a European Common Agricultural Policy?

-What do citizens expect from agriculture?

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[2] Farmers were required to adopt 18 specified rules and standards covering environmental, animal welfare and worker safety standards in order to receive direct payments.

[3]Malta and Slovenia have been applying the SPS since 2007.

-Why should we reform the CAP and how can we make it meet society's expectations?

- What tools do we need for tomorrow's CAP?

With these ongoing debates, European Union leaders agreed to change the support strategy by decreasing direct income supports and increasing the source for rural development policy and to abolish milk production quotas. With this decision, share in total EU budget commitments is expected to fall from 39% in 2013 to 33 % in 2020. Distributions between Pillar 1 and Pillar 2 will be held constant (76: 24) but with some reallocation of Pillar 2 issues to the Pillar 1 budget.

Table 2.2.Summary of Commission Legislative Proposals Oct 2011

Direct Payments (Pillar I)	Rural Development (Pillar II)
✓ The Single Farm Payment cancelled (payment per hectare of farmed land), New Basic Payment Scheme could provide support to new entrants.	✓ New Rural development rules to improve the competitiveness of the industry.
✓ Distribution direct payments more equitably among members	✓ Wider public goods such as environmental and social benefits
✓ Common greening measures (ensure that all farms provide some environmental benefits.)	✓ New objective to converge support distribution among members
✓ Only Active farmers will be supported with CAP direct payments are more than 5% of	✓ European Innovation Partnership
✓ total receipts from all non-agricultural activities	
✓ Cross-compliance rules reduced and changed with the rules on "active farmers" and the Green Payment	✓ Four aims of Rural Development Programme changed to six.

Source: Author's Own Compilation

The general aims of CAP reform since the Rome Treaty can be summarized as follows: market orientation and competitiveness, income support, environmental protection, the development of rural areas. Recently, sustainable food production and management of natural resources, contribution to the fight against climate change and achievement of balanced territorial development have been added as the new strategic objectives of this reform.

III. TURKEY AND EU CAP

III. 1. Reform Period and structure of the agricultural sector in Turkey

The process of integrating Turkey into the European Union (EU), which has taken some 50 years, is viewed as the anchor for the reforms that may help Turkey join the EU and also reach a combination of sound macroeconomics and marketoriented policies[4]. For these motivations, the relations of Turkey and the European Union date back to1959 with Turkey's first application to be a member of the European Economic Community (EEC). The EEC's response to this application was a proposal for the creation of an association between the EEC and Turkey which led to the Ankara Agreement in 1963. Joining the Custom Union was designed as three periods: preparatory, transitional and final. The transitional stage was established with the Additional Protocol in 1973. And the process of abolishing customs duties progressively on the European industrial goods began. The formation of a Customs Union marked the final period covering industrial and processed agricultural products, which roughly constitute more than 90% of the bilateral trade, excluding agricultural products.

After the rejections of Turkey's European Union candidate status in 1982 and 1997 periods for several political and economical instabilities, EU's candidate status of Turkey finally was agreed by the Helsinki European Council of 1999. According to the decision about Turkey's fulfillment of the Copenhagen Criteria necessary to open accession negotiations, the EU decided to open accession negotiations with Turkey in December 2002. Right after the official launching of the EU accession negotiations the screening process started which lasted until October 2006 (Togan, 2010:2). Then, a long and rigorous process for Turkey has started that it has to comply the entire acquis with 35 negotiation chapters[5].

Since The EU spent a great deal of its budget on agriculture, and one of the most critical element of its budget is Pillar I, Turkey should undergo a significant reform process to integrate into CAP.

Historically, agriculture has played an important role in the Turkish economy due to its high rate of agricultural land (Turkey covers land area of 78 million ha, about 38.2 million ha, of which 49.1 percent is farmland and 24.5 million ha of which 31.5 percent cultivated land). Although, its share of the economy has fallen consistently over the last several decades, its importance is still high compared to the present Union member countries and to the acceding countries. In 2002, the share of agricultural sector in Turkey constituted 10,3 % of Gross Domestic Product, decreased 7,9% in 2012. Similarly, agriculture share in total employment has been continuously declining from 34.9 to 24,6 (approx. 6.1 million) between 2002 and 2012. It ranks seventh in the world according to employment and tenth in the world production of agriculture.

[4]Sound macroeconomic policies targeted at the , allocative efficiency, macroeconomic and financial stability, social inclusion, and market economy (property rights, regulatory institutions, institutions for macroeconomic stabilization, institutions for social insurance, and institutions of conflict management), On these issues see SubideyTogan, Turkey Country Report. In: Bertelsmann Stiftung (ed.), Managing the Crisis. A Comparative Assessment of Economic Governance in 14 Economies. Gutersloh: Bertelsmann Stiftung, 2010.

[5]EU Commission screened Turkey as to their ability to meet the 35 chapters covering from the free movements of goods and workers to economic and monetary policy.

On the other hand, there are 10.459 million (full-time) working in EU's agriculture sector accounted for 5.3 % of the EU's working population and share of agriculture in the GDP was 1.2 in 2011 (European Commission, Eurostat, 2012).

Table 3.1. Basic Indicators of the Turkish Agriculture Sector (2002-2012)

	2002			2012		
Basic Indicators	**Turkey**	**Agriculture**	**Agriculture Share (%)**	**Turkey**	**Agriculture**	**Agriculture Share (%)**
Population (Million)	69.3	23.7	34.2	75.6	17.2	22.7
Employment (Million)	21.3	7.4	34.9	24.8	6.1	24.6
GDP (Billion $)	230.5	23.7	10.3	786.3	62.5	7.9
GDP per Capita ($)	3.492	1.064	28.6	10.504	3.622	34.5
Exports (Billion $)	36.0	4.0	11.2	152.5	16.0	10.5
Imports (Billion $)	51.5	3.9	7.7	236.5	16.3	6.9

Source: Republic Of Turkey, Ministry of Food Agriculture and Livestock

There appear to be major problems about agricultural sector which leads to the government's protection: fragmented size of arable lands, high costs, low productivity, small size of agricultural firms, low scale of productions.

Average farm size in Turkey is 6 hectares, the same to the EU-12[6]'s average (2010) but less than half of the EU-27's average (14 ha in 2010). A Turkish accession would add about 40 million hectares to the agricultural area of the EU, and Turkey would account for one fifth of the agricultural area of a future EU-27 (Felman, 2011:3).

Agricultural sector has been Turkey's most important trading channel with the EU. Turkey has been a major exporter of agricultural commodities (e.g. dried figs, dried apricots, sultanas, hazelnuts, sugar, tobacco, olive oil, rice).It provides about 75 % of the world hazelnut and nearly 23% of world dried export. Turkey is major supplier of vegetables and fruit to the EU (8.9% of EU's vegetables and % 12.3 of EU's fruits, in 2011).

Although the EU-Turkey Customs Union and Turkey's accession negotiations have affected trade positively; Turkey authorities should implement structural reforms in agricultural sector before the Accession which is aimed at ensuring the competitiveness of the agricultural sector and developing adaptation strategies to help candidate country for EU membership**.**

After the liberalization of economy in the 1980s, cost competition from developing countries intensified in agricultural sector. The abolition of interest rate ceilings and low credit facilities by Central Bank, open market prices of oil and tractors & farm machinery under the liberalization period have all affected negatively on agricultural producers and prevented sector use of modern inputs and technologies for their competition. The number of farm products supported by government was reduced by

[6]New Member Countries since 2004

%60 between 1980 (22) and 1990 (10). Finally, the shrinking share of agricultural contribution led to product prices lower than even its input prices. As a result, Turkish farmers lost their competitive power in the global market and their income decreased (Tunc, 2006:185). While government expenditure on output support and input subsidies were reduced, policy makers preferred to increase export subsidies (e.g., premium payment).

In 1990's, the agricultural production support policies being applied in Turkey changed mostly to the premium support to increase yields of some crops following to the liberalization programme in 1980. However, the aim to support output of some products in these years such as cotton did not succeeded at Premium support policy (Tunç, 1998:220).

The main aim of price support instrument was to transfer income for agricultural producers. But this source of income did not succeed in changing the subsistence wage level of farmers. This caused the prices for agricultural products and income to decline in real term which means that rise in the price in agricultural product was lower than the rise in the general price level. Therefore, price support was criticized for the negative effect on the wealth of agricultural enterprises. The Turkish Grain Board (TMO) changed the price support in 1993 in place of floor prices by announcing an intervention and a target price simultaneously (Ozdemir, 1999:275).

However, after 1990, the coverage of price support considerably widened once again. While supported agricultural products were 10 in 1990, the number increased to 27 in 1993. The currency crisis in 1994 which was another important macroeconomic event affected agricultural support policies in Turkey. Public expenditure on agriculture decreased by fixing the number of supported agricultural products with IMF backed economic stabilization program. The number of supported crops decreased from 27 in 1993 to 3 in 1995. The government also decided to change the system of price support determination that prices agreed upon were based on both world and domestic market conditions.

The role of Central Union of Turkish Agriculture Cooperatives in support purchases policy was phased out and performed only by agricultural State Economic Enterprises such as Turkish Grain Board (TMO), the General Directorate of the Tobacco, Tobacco Products, Salt and Alcohol (Tekel) Central Union of Turkish Agriculture Cooperatives.

Figure 3. 2.Evaluation of Support Policy in Turkey

Commodity	**Past Policy**	**Current Policy**
Wheat	Intervention buying (1938-2002)	Deficiency Payment (2005-)
Sugar	Area restriction	Quota (2002-)
Olive Oil	Intervention buying (1966-1994)	Deficiency payment (1998-)
Milk	Premium Payment (1987-)	Premium payment (1987-)

Source: Yılmaz, 2012: 19

After the banking crisis, the number of supported commodities increased to 24 in 1998 (Doğruel, 2001:7). A gradual change in the support system of Turkish agriculture began in the 1999s starting with pressure from World Trade Organization (WTO) to reduce agricultural support in the Uruguay Round and the heavy burdens of market price supports on the budget. Beginning in the late 1999, with support from the International Monetary Fund (IMF) and the World Bank, the government developed the Agricultural Reform Implementation Project (ARIP) to phase out current production- input-oriented support- and replace it with area based income support payments during the 2001–04 periods (Togan, et al., 2005:48). According to the WTO (2008), Turkish institutional prices were removed in 2002, but in the years that followed buy-in prices of state trading enterprises (such as the TMO) and the Agricultural Sales Cooperatives Unions (ASCUs) became the major price forming institutions in Turkey (Fellmann, 2011:11).

Turkey changed its strategy towards direct income support to bring Turkey more in line with the EU between 2001 and 2005.While direct income support payments were abolished again in 2009, border measures (tariffs, tariff rate quotas, and other non-tariff barriers) and budgetary payments (deficiency payments, compensatory premium payments) were still the two main policy instruments to support agriculture. According to OECD Estimates (2011), the level of market price support holds 84% of total support which leads to overproduction on both domestic and world markets and pressure on market prices. Support to producers (% PSE) decreased by six percentage points to 20% in 2011, compared to 2010. It increased from 20% in 1986-88 to 25% in 2009-11, which is higher than the OECD average (Vojtech, 2012:97). The Agricultural Policy Review of Turkey (OECD, 2011) recommended measures to spur market outcomes and competition, in particular to: i) reduce the high degree of price support (which is the biggest distortion in this sector, and (ii) cut total public transfers to the agricultural sector; and (iii) liberalize import competition.

Despite high tariffs, Turkey’s simple average MFN tariff rate in 2008 was 9.7% for agricultural products, (the simple average MFN tariff rate was 42.2%) and 4.8% for non-agricultural products. The liberalization policy performed in conjunction with the EU Custom Union, IMF and World Bank based on adjustment packages and resulted in important economic effects in the agricultural sector.

Turkey shifted from an inward-looking economy to a more open one, followed by an increase in export opportunities among the EU. But, the adverse effects of liberalization on the agriculture sector have been criticized by many economists. Major arguments against Custom Union include its polarization effects.

Within a Customs Union, industries tend to cluster in the relatively more developed member states because these states offer substantial internal and external economies of scale. This phenomenon is known as polarization and is even more probable when huge discrepancies in the levels of economic development between member states already prevail. This has been the root cause of the limited success of integration efforts in developing countries. For example, in Customs Unions, Western Europe is the most advanced economy and thus attracts more investment than the other member countries. The higher purchasing power in Europe, comparably lower transport costs within its market and the perception of higher risks in Turkey also contribute to the tendency of industries to cluster more predominantly in Europe.

The first criticism of the authors who support protection is that even during the market or liberal-led integration period or during open regionalism, Turkey should follow the regulating mechanism within the agricultural sector, lest international competition further weaken the agricultural sector of Turkey. For example, lowering the level of protection by reducing support measures has resulted in domestic price instability accompanied by excess supply of some products (rice, tobacco, hazelnut and tea). The reason for lowering support prices may be to explain the convergence of domestic prices into international prices. But if farmers do not support the price lowering, their income may decrease and unemployment may increase. An unpredictable government support system and extreme price fluctuations also led to low yields and rising red meat prices in late 2009 and the first half of 2010. Turkey maintains a very restrictive livestock product import policy, allowing only imports of dairy and beef breeding stock. But this has not changed price instability.

The criticizes analyzing the political economy of agricultural policy in Turkey based on the production, distribution of income for consumers and producers do not actually against to reforms of the agricultural sector. But, they favor these policies that should be implemented by sequencing of priorities. For example, governments might choose to reduce the price supports or subsidies for fertilizer only after other policy instruments (such as public investments) started to show an income-generating effect. The following policy steps should be taken to ensure more successful agricultural transformation process in Turkey (Tunc, 2013) :

1. A stable supply of agricultural products should be determined in accordance with the development plan, especially for livestock products. Structural and social policies that curb overproduction and protect farmers from price instability should be adopted.

2. To protect farmers against the international compete, price floors instrument should continue to be used in agriculture. Institutional and financial supports also are needed for farmers.

3. Sector protection such as preventing price volatility of inputs such as fertilizer, seed, and energy cost in agricultural sector should be used as a temporary measure until industry develops and is ready to face international competition.

III. 2. The Impact of Turkish integration to the EU on Agriculture Sector

The Customs Union represents an important step for Turkey to adjust its policy in such a way as the common agricultural policy measures. The customs union signed in 1996 has also affected the relations between the EU and Turkey and so it should be given emphasis for the further development of the agricultural sector in Turkey. While Lipsey analyzed the statistic effects of the Custom Union and pointed out that custom union can improve welfare, Viner (1950) stated that the welfare effect of the Custom Union depended on the degree of trade creation and trade diversion (Küçükahmetoğlu, 2001). Balassa (1961) examined these effects in dynamic and identified dynamic effects of Customs Union such as increased competition, the spread of technology, external economies of scale, and the terms of foreign trade.

With about 23 % of population in rural, 6.1 million employee (25 %) and 11% of all export share ($ 16 Billion), agricultural sector play an important economic role in Turkey. For this reason, the cohesion policies of Turkey regarding the adaptation of the CAP will cause both some challenges and economic benefits and also has substantial impacts on the EU.

On the EU side, Turkey has recently becoming more competitive and dynamic emerging with a young labor force in comparison to EU, leads to great market opportunities for business. It is also one of the EU's most important agricultural trading partners and exports more than half of its fruit and vegetable volume to the EU. And Turkey's prospective membership in the EU will strengthen this partnership. Since agricultural sector of Turkey has comparative advantages, Turkish accession process will open up new markets for foreign direct investment in these sectors. The process of approaching the EU generally has brought benefits to Turkish agriculture since it directed numerous reforms opened up new markets and introduced rationalization in that sector.

On the other hand, highly agricultural population, small and fragrant agricultural land, low productivity, low income in rural areas, lack of efficient support system, small size of firms are main challenges that Turkey will struggle to transform agricultural sector into CAP. Also, nearly one third of female labour has occupied as unpaid family workers in the agricultural sector.

Alongside these challenges, agricultural sector remains highly protected in Turkey due to the customs union agreement do not cover agricultural goods. Therefore, Turkey membership in EU will reduce currently higher Turkish tariff rates which mean that more competitive prices for EU. Moreover, EU will probably benefit from the tariff revenue. Since, import tariffs typically represent a lion share of agricultural support.

Turkey’s EU accession affects significantly Turkey’s exports to the EU of primary agricultural goods. And it will not lead to change in protection of Turkish sector agricultural and food sectors for imports coming from third countries because Turkey already member of Custom Union.

CAP will affect also income of farmers, consumers’ welfare and government revenue due to the price effect, change of support system and the loss of tariff revenue in Turkey. Moreover, the financial package on agriculture, granted in the accession negotiations, provide significant gains for Turkey.

Turkey is the only candidate country which has been also an associate member of the EU in Custom Union. This dual legal status of Turkey leads to discriminatory and disadvantage in the development and integration of agricultural sector in CAP. First of all, Turkey cannot benefit subsidies and free movements of agricultural goods to the EU, as the CU agreement includes only free movements of industrial goods and processed agricultural except agricultural products. For example, the traders wish to trade processed goods has to trade raw goods with high tariff rates (cotton import for textile, wheat for pasta).

Another problem is related to the agreements signed by EU and third countries. Concessions given by the third parties to the EU do not apply for Turkey because it is not a member state. Therefore, these countries are able to maintain high tariff rates when they are importing from Turkey.

Even as basic agricultural products have been excluded from the agreement and replaced by a preferential trade regime, the agricultural trade volume between Turkey and the EU has significantly increased after the Custom Union. The amount of agricultural exports to the EU increased slightly from 4.807 billion dollars in 1996 to 16.0 billion dollar in 2012. But the share of exports to the EU dropped by half from 21 % in 1996 to 10 % in 2012. In 1996, imports of Turkish agricultural goods totaled only was 4.807 billion dollars by 2012, it had increased to 16.3 billion dollars. They accounted for 10 % of total imports in 1996 and decreased 6.9 % of total imports by 2012.

Togan (2004)'s study of the trade effects came to the conclusion that the GDP growth of 1.5% would be maintained with the possible full integration of Europe. The liberalization period had also changed the sectoral share of Turkish exports since 1980. While the share of agriculture fell, the share of manufactured products increased. Labor-intensive goods of textiles and clothing and agriculture have lost their importance against capital and skill-intensive sectors since 1996. This may be an indication of the changing production structure of Turkey toward the European Union industrial base. Küçükahmetoğlu (2002) studied the intra-industry trade of Turkey during the 1989 to 1998 and found low levels of intra-industry trade as compared to that found in developed countries. He also concluded that the level of intra-industry trade in standard technology goods was greater than in intermediate and high technology goods. So it is difficult to say that the integration period led to the development of new technology, which would have made inputs for the agricultural sector more effective and the yield more voluminous. Therefore, techniques and technologies should be developed in the agricultural sector.

The agricultural share of foreign direct investment was low in Turkey. Its share was % 0.5 in total FDI in 2004 and 0.8 percent of the total direct foreign investment flow in 2009. The reasons behind the low FDI performance in the agriculture, forestry, hunting and fishery sectors were related to structural problems, risks and uncertainties in these sectors and rapid growth rates in the service sector.

There are a few technical estimations of Turkey's benefits under possible accession. Under a hypothetical Turkish EU member today, Turkey will receive approximately € 16 billion annually (Dervis et al., 2004). Another calculation performed by Togan et al. (2005), net revenue from EU budget is approx. € 18 billion. Flam (2003) estimated Turkey net beneficiary from agricultural and regional supports in an amount equal to 14 % of EU budget. On the other hand, if Turkey benefits in full from CAP subsidies, her farmers will be able to raise their income above the level existing before the present reforms, given that total support per hectare is much higher in the EU, or $845 annually on average in 1997-99 (Togan, 2004:1025). Turkey's contribution to the EU budget can be estimated under current rules at 1 % of Gross National Income (Scott ,2007:69).

Hughes (2004) estimated € 9.43 billion for agriculture and totally €45.5 billion CAP fund for Turkish budget which was very close to the € 40.8 billion received by the ten new member states assuming the agricultural deal with Turkey will be similar to that of Bulgaria and Romania (Romania being the only country with a larger proportion of employment in agriculture than Turkey).

Çakmak (2008) assessed impact of EU on Turkey and found three following results: Customs Union without CAP supports can be more problematic for some producers. Overall welfare effect is small. Consumers will definitely benefit from EU integration due to declining prices.

The process of CAP integration appears to offer some opportunities and some challenges for the EU and Turkey. The first challenge facing the EU is the increasing expectation that EU's budget will integrate into the Common Agricultural Policy (CAP).

EU funds for Turkey were € 50 million in 1996, rose to € 782 million in 2011 (it will become € 936 million in 2013 and Turkey has been allocated a total of almost € 6.9 billion in total to provide support under the Cohesion Policy programmes).

Besides its financial side, the possible accession of Turkey will also increased the proportion of the European Union's agricultural population that lives in rural areas. This increase will maximize the share of support they provide from CAP budget and also leads to the major disagreements among member states and between the EU and the rest of the world. Because, the additional cost introduced by the new membership will increase burden of net contributors (old members) for agricultural support payments.

The next challenge about the possible accession of Turkey is its high protection rate. While several commodities have been highly protected, Togan and his colleagues estimate that about 70 % of imports from Turkey enter the EU duty-free and are not subject to any other import barriers. As a result, most of the adjustment after integration of Turkish agriculture into the CAP will fall on Turkey (Togan, et al., 2005:xxi). In trade with the EU, the highest NPRs were in the sectors of 'fruits and vegetables' (68%), 'fishery' (47.8%) and 'agriculture' (41.3%) (Togan, 2012: 3). Therefore, Turkey will take some measurements to reduce agricultural protection in terms of the possible accession of Turkey . Support to producers is also dominated by market price support, which accounted for 82% of the producer support in 2007-09 (OECD, 2011). This will probably lead to reduce tariff revenue inflows to the EU. But increase import trade from EU. Moreover, at the end of this process, price will probably reduce in Turkey due to increasing competition. This means less income for the farmers but welfare gains for the consumers in the Turkey. While livestock and cereal sectors may face strong competition from EU farmers, in the fruit and vegetables sector, Turkey would be more competitive (Huges, 2004:19). Radical reforms are made to improve productivity and quality, to bring about overall stability, to ensure that prices are internationally competitive.

IV.CONCLUDING REMARKS

The main aim of this article has been two-fold.The first is to contribute to the literature by giving its latest and core reforms in the context of the Common Agricultural Policy (CAP). The second is to evaluate the effects of CAP policies on Turkish agricultural sector during the negations and possible accession.

In the European Union (EU), the Common Agricultural Policy (CAP) provides financial support to farmers, while it protects them from competition by common import barriers, such as tariffs and quotas. The stated objective of the common agricultural policy (CAP) is to provide farmers with a reasonable standard of living, consumers with quality food at fair prices and to preserve rural heritage. However, there have been considerable criticisms of CAP and these criticisms have also been a major driver for evolving of CAP system in support mechanism and also allocation of fund sources. The CAP reform in 2003 changed from coupled support to decoupled direct income supports. CAP represents approx. 34% of the EU's budget in the period 2007-2013, with a big reduction from 70% in the 1970s. The system's proposed share in EU budget for 2014-2020 is total € 371 billion. The 2014-2020 CAP reform targets also raising the financial source for the two-pillar structure of the CAP. The aim of the following CAP policy is to supply "greening" of direct payment, convergence of payments; capping the level of direct payments.

Turkey government has recently introduced some reforms for agriculture including several laws about structure and transformation of agricultural sector (old approach and horizontal issues), the agricultural credit with free of interest rates, law on agricultural producer unions, agricultural insurance pool (under the administration of TARSIM), Agricultural Basin Model, Rural development Programme (IPARD Programme),the Farm Accountancy Data Network (FADN). But still, the agriculture sector in Turkey will need upcoming reforms to improve the sector competiveness, modernization of agricultural sector, structure of support system and rural development elements of agricultural policy to comply with EU internal market rules. 2013 progress report unveiled by the EU Commission stated that imports of live cattle, beef meat and derivative products from certain EU Member States have been restricted. The Comission has also forced Turkey to make efforts to fully implement its bilateral obligations under the trade agreement for agricultural products. Turkey should also further perform some reforms to adapt its rules as concerns common market organisation. There has been limited progress on alignment in the area of agriculture and rural development.

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