CHAPTER XV
COMMON AGRICULTURAL POLICY (CAP)

A- TREATY PROVISIONS (ARTS. 38-47)

Agriculture has been singled out not only for its strategic importance comparable with industry but also for political reasons bearing in mind that in post-war years there was a question whether western Europe would be able to feed itself and that the economies of France and Germany - the main partners in the Community - were complementary, France being predominantly an agricultural country and Germany an industrial country. Agriculture, therefore, became a self-contained policy governed by its own rules and financed from the Community budget.

According to art. 39 the objectives of the Common Agricultural Policy (CAP) are:

(1) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of all factors of production, in particular labour;

(2) thus 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 provide certainty of supplies; and

(5) to ensure supplies to consumers at reasonable prices.

In devising the CAP and the methods for its implementation account should be taken of:

(1) the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions;

(2) the need of appropriate gradual adjustments;

(3) the fact that in the member states agriculture constitutes a sector closely linked with the economy as a whole.

The objective so succinctly stated, reveal not only the political and economic but also social aspects of the sector. It is certainly sensitive in countries which have a large rural community, i.e. an electroal force to be reckoned with and a traditional (as opposed to industrial) farming. Developments of other policies have also accentuated the importance of the CAP for regional developments, protection of the environment and of the consumer. An ideal policy would balance all the relevant factors but, in reality, the CAP favoured the producer and thus became a victim of its own success.

The special agricultural regime rests on two principles, i.e. that the rules governing it derogate from the general rules of the common market (art. 38 (2)) and that the operation of the market in agricultural produce is carried out in the context of a common policy (art. 38 (4)). Consequently, the rules of competition do not apply except as defined by the Council Regulation 26, art.2[1] which exempted the agricultural sector from the application of art. 85 and art. 86 of the Treaty. Moreover state aids prohibited by art. 92 are not ruled out but, in practice. specific regulations[2] provide that Treaty provisions regulating state aids shall not be derogated from unless stipulated to the contrary.

B- COMMON ORGANIZATION OF MARKETS

Although there is no definition of the Common Agricultural Policy article 40(2) of the Treaty provides that it shall be based on the common organization of agricultural markets which, depending upon the product concerned, may take one of the following forms:

(a) common rules of competition;

(b) compulsory co-ordination of the various national market organizations;

(c) a European market organization.

The third model has been accepted in practice which means that there is no question of co-ordinating national market rules but the one policy for the Community has to be followed. Indeed the regulation on cereals following that model[3] provided a prototype for the market organization of other essential sectors, i.e. pigmeat, eggs, poultrymeat, fruit and vegetables, wine and vines, milk and dairy products, beef and veal, rice, vegetable oils and fats, oil seeds and olives, sugar, other vegetable oils and fats, raw tobacco, sheepmeat and goatmeat, flax and hemp, flowers, live plants, hops, seeds, dehydrated fodder, cotton seed,silkworms and fishery products.

The market organization regulates, in particular, prices, aid to production and marketing, storage and carry over arrangements, measures for stabilizing imports and exports and, where appropriate, the inward processing traffic.

There are four characteristics of market organizations which form a protection system, i.e.:

(a) support prices and intervention mechanisms;

(b) external protection;

(c) flat-rate aids.

The first (a) covers about 70 % of the Community production. Producers are encouraged to produce by means of mandatory intervention measures applied on a permanent basis for certain products or by temporary intervention measures determined according to certain criteria, for other products. This means price regulation resulting in a system of uniform or common prices for the product concerned. The mechanism comprises three prices: a target price, an intervention price and a threshold price. A target price is determined for the beginning of each marketing year and is intended to enable producers to plan their production for the coming year. This is the price they should expect. However if the internal supply exceeds demand, the price received by the producers will generally be below the target price. If it falls below a certain limit the Community shall intervene to stabilize the market by offering to buy the product at a price fixed in advance. This is known as the intervention price, which the national authorities must pay to producers who are unable to sell the product on the market. This provides a guarantee to farmers. While, however, the target price is uniform throughout the Community, the intervention price varies from area to area according to the conditions of the area. The intervention price is lower than the target price. If the Community prices are above the prices charged by non-Community producers, regulatory measures are taken in order to prevent the Community market being flooded by cheaper imports. These regulatory measures consist of a threshold price for imports on which the lowest import price is set. The threshold price is calculated to comprise transport and trading costs to the major consumption areas and roughly corresponds to the target price. The difference between the threshold price and the price paid by the importer is known as a "levy" which has to be remitted to the Community budget constituting one of the Community's own resources. The prices are set by the Council on a proposal from the Commission after consulting the European Parliament.

To encourage exports exporters receive a "refund" of the diference between the market price in the Community and the sales price obtainable on the world markets. The refunds are chargeable to the agricultural part of the Community budget. These refunds are a form of subsidy which is the same for the whole Community but they vary according to the destination of the product and the use to which it is put.

The second protection (b) covers about 25 % of production and takes the form of Community preference achieved by levies or import duties (external tariff) on imports from non-Community countries or by a combination of both.

The third protection (c) covers about 2.5 % of production and is applicable to areas of low degree of self-sufficiency. Such "additional aid" helps to maintain relatively low prices for consumers whilst securing a certain income to producers. It is usually combined either with (a) or (b) above.

The fourth support (d) takes the form of flat rate aid per hectare of production or 100 kilogrammes for flax, hemp, hops, seeds, dried fodder and silkworms.

C- STRUCTURAL REFORM

To make the policy work the traditional, outmoded farming system had to be modernized. Back in 1968 the Commission submitted to the Council a Memorandum on the Reform of Agriculture ("Agriculture 1980", Second General Report 1968) and in 1971 the Council adopted a resolution calling for action on the basis of the Memorandum. The main concern of the Commission was the problem of the manpower engaged in agriculture, the size of farms and production methods.

Looking to the future the Commission thought that, in view of high productivity and overmanning, fewer people would be needed in the farming industry. This creates a social problem which the Community must alleviate by helping those who wish to leave the land, by assisting farmers over fifty-five years of age to retire and by providing schemes for re-training and placement of those who wish to find an alternative occupation. The study revealed that the average farm in the Community was too small to engage in profitable industrial farming and recommended a policy for the increase in the size of farms in accordance with the type of production. The Commission felt that the existing production methods were antiquated and that, coupled with the lack of flexibility, this contributed to the relatively low income of farmers. It proposed the modernization of the production methods, greater adaptability to market needs and better marketing.

These proposals resulted in directives on the modernization of the farming industry[4] assistance to farmers leaving the land[5] and professional training and advice[6]. A further directive[7] endeavoured to deal with special problems of farming in geographically less favoured areas.

As a further means of advancing the economic aims of the CAP steps have been taken to co-ordinate national and regional programmes for the processing and marketing of agricultural products[8]. As implementation proved to be ineffective (and these included the funding of the Mediterranean area) a major new initiative, to coincide with the completion of the internal market, was taken by means of a regulation[9] to replace existing provisions and to broaden the scope of the CAP in the direction of a rural social policy. This enables the member states, with Community funds, to grant investment aids to full-time skilled farmers who submit a technically and economically viable improvement plan.

D- IMPLEMENTATION AND FINANCE

The implementation of the CAP requires a uniform body of Community law since, as contended by the Commission[10], the institution of a European market organization has deprived the member states of their original legislative power. However the member states administer the rules on the ground and to that end they must not only change their law and adopt the CAP rules but also to institute machinery forthe administration, policing and enforcement of the CAP.

In particular they assume responsibility for the purchase of the product at the intervention price determined by the Council and administer the system of import and export certificate, collect levies and pay out refunds. Their financial liability to the Community arising from the administration of the CAP forms part of their contribution to the Community budget.

The financing of the CAP has been a matter of controversy between the agricultural (receiving) and non-agricultural (paying) countries. Eating about 60 % of the whole Community budget the CAP is financed at the expense of other perhaps equally deserving policies. However, the underlying philosophy of the financing of the CAP is the principle that,since there is a common policy and a common pricing system, the financial responsibility must be discharged by the Community. Accoringly, on the basis of article 40(4) of the Treaty, the European Guidance and Guarantee Fund was set up and an elaborate system of Community agricultural finance was established. The Fund consists of a guidance section and a guarantee section. The former is concerned with the price-fixing for market support purporses; the latter provides grants for the improvement of the agricultural structures.

E-PRODUCTION DISINCENTIVES

The CAP has been both a success and a failure. It has been instrumental in the modernization of farming, raised the standard of living of farmers but increased the price of food. It has resulted in an unprecedented rise of production but caused surpluses and costly storage problems. It has made the Community not only self-sufficient but also a major factor in the world market but has not been able to relieve the third world countries from famine and starvation. Great quantities of products had to be rendered unfit for human consumption or changed into something different (e.g. wine into industrial spirit). Within the GATT the CAP has become a stumbling block to the completion of the Uruguay Round. Through overintensive cultivation of land especially the use of chemical fertilizers, the ecological and environmental problems have been created.

Since, however, drastic reforms are for political reasons impossible at present certain measures have been adopted in order to restrict overproduction. Within the organization of markets so-called "guarantee thresholds" have been adopted which means that farmers have a guranteed net price for their products up to a certain limit but have to finance some or all the extra costs of production when the limit has been exceeded.

Milk quotas to limit the overproduction of milk and milk products have been in operation but since 1977 they have been supplemented by "co-responsibility levies" which are a kind of tax on excess production and are used to help finance the disposal of the surplus. Under the "set aside" scheme farmers are indemnified for leaving their land uncultivated and encouraged to plant hedgerows which they have previously uprooted in order to extend the area of arable land. They are also encouraged to produce "organically grown" products in order to reduce the harm caused by chemical fertilizers.

F- IMPLICATION FOR TURKEY[10a]

The impact of the CAP on Turkey both in economic and social sense would be enormous. Turkey would benefit, no doubt, as other Mediterranean countries have but would have to embark on considerable adjustmens. It would have to create in the first place the appropriate administrative mechanism and very likely would be subject to a lengthy transitional period.

a-The legal basis of Turkish agricultural policy

Turkish agricultural policy takes its legal basis from the five year development plans decided by the parliament and annual programmes decided by the cabinet. The main objectives of this policy are as follows:

-to ensure the development of agriculture at a rate which will not decelerate the pace of development and not lead to bottle-necks and inflation,

-by increasing the agricultural production to improve the level of nutrition of the population and to satisfy the raw material input requirement of the industry and to increase exports,

-to become self-sufficient in agricultural products,

-to decrease the income disparity between the agricultural sector and the other sectors of the economy, to contribute to the effort made to solve the unemployment problem, and prevent internal migration at a rate that causes unsatisfactory urbanisation,

-to decrease the dependence of agricultural production on natural conditions by promoting the technological progress and to ensure the optimum utilisation of agricultural areas and all other factors of production,

-to increase agricultural productivity by encouraging the use of modern inputs and, by irrigation and other agricultural projects, to improve the product composition and accelerate the development of agricultural production,

-to ensure an increased share of agricultural products other than traditional ones in agricultural exports,

-to use agricultural support policy more efficiently

-to improve agricultural structures in a manner that, in the long term, will ensure more rapid and balanced development in the agriculture sector.

b- Instruments of the Turkish agricultural policy

a-Price support in Turkish agricultural policy

In order to realise these objectives the government supports the agricultural sector by guaranteed prices for output, subsidised prices for input, as well as funded research, extension and training services and subsidised credits. Also to assist regions with natural handicaps, preferential assistance programs are implemented.

In Turkey state economic enterprises and agricultural sales cooperatives fulfil the guarantee function. The soil products office is the most important agency and is responsible for the market and price policy of cereals. There are similar organizations for tea, tobacco and sugar. Perishable products have not been subject to price intervention in Turkey[11].

b-Price support for outputs

Price support for agricultural products dates back to the 1930's. In 1987 the number of agricultural products that benefit from price support programme had reached 23. From 1987, as a part of the liberalisation policy which began in the 1980s, the coverage has been reduced to 9 products[12].

In 1991, however, coverage of the price support program expanded again to 23 products. Agricultural products subject to price support are, wheat, barley, rye, maize, opium popy, sugar beet, tobacco, cotton, sunflower, dried figs, sultanas, soyabean, hazelnut, mohair, oat, olive oil, pistachio, rica in husk, green lentils, chick peas, peanut, raw silk and paprika.

Sugar beet and opium popy are products for which the government is the sole purchaser. Other products are subject to intervention price. Intervention prices of wheat, barley, rye, maize, opium popy, sugar beet, tobacco and mohair are announced by the government every year. When the market prices fall below the intervention price the government buys the products through intervention agencies at this guaranteed price level.

All other agricultural products such as beef and veal, fresh fruit and vegetables, dairy products., oil seeds, pulses, animal feedingstuffs, tuber crops and certain industrial crops are subject to the market mechanism.

c-Authorised price fixing bodies

Under the intervention system the bodies that have the authority to fix prices and the conditions of payment are as follows:

-Government,

-Planning Board,

Certain ministries that are authorised by the government,

-Monetary and Credit Board

The major intervention agencies

-The Turkish Sugar Factories Company,

-The General Directorate of State Monopolies,

-The Soil Products Office,

-TARİŞ.

d-Subsidised prices for inputs

Agricultural input price subsidies, although diminished during the last few years, were widely used as an important device of Turkish agricultural policy for many years. These mainly include fertilisers, feedingstuff, agricultural chemicals and seeds. As a producer the government has 2 undertakings in fertilizer production and marketing out of 7 throughout Turkey and 3 joint ventures with the private sector. Until 1986 the government had exercised control over price, production, distribution or importation of the fertilisers, but from that year by the decree of the monetary and credit board, this control has been transfered to the producers themselves and the distribution firms established by these producers.

Subsidies have been made on the basis of each variety of fertilezers for the first and second priority development regions there is also extra transportation premium aimed at reducing further the cost to the farmer of the consumption of fertilizers.

Another major input subsidised by the government is seed. As in the case of fertilisers the government announce the amount of subsidy on the basis of the selling price. The seeds which benefit from price support program are hybrid maize seed, hybrid oil seed, soya seed, clover seed, cotton seed, sunflower seed, sugar beet seed, red lentil seed and chick pea seed.

e- Turkish agricultural structure policy

The farm structure is very fragmented in Turkey. It resembles Greece and Italy. According to the results of the general farm census of 1980 (the results of the latest census will be issued during 1992)

-Over 30 percent of all farm enterprises have farms smaller than 2 hectares but share of this group in total land is only 4.1 percent. In this, the share of farm households which are smaller than half hectare is 61.2 percent.

-80.2 percent of the enterprises are equal or smaller than 10 hectares and cultivate 41.3 percent of the total land.

-Only 0.8 percent of enterprises are larger than 50 hectares and these enterprises hold 12 percent of the total cultivated land.

On the other hand, only 30 percent of the cultivated land can be irrigated in Turkey, that is 8.5 million hectares. And today, only 37.5 percent of this land is being irrigated. 20 percent of the total cultivated land is located within underdeveloped regions and only 27 percent of this land is being irrigated.

There are 697.877 tractors used in farms in Turkey. Most of them are locally produced. Only 21.5 percent of these tractors are used in the underdeveloped regions. The average rate of use agricultural insecticides in Turkey, as a whole, is 74 percent. This rate is 57 percent in underdeveloped regions. While, on the other hand, the average rate of chemical fertilizers use is 94 percent in Turkey as whole, the same rate is 87.5 percent in underdeveloped regions falling, however, in some areas below 70 percent.

In order to overcome the regional disparities and increase the quality of structure of the agriculture sector as a whole, five rural development projects have been put into operation other than the South-East Anatolia Project (GAP), aiming to increase agricultural production and to develop agricultural infrastructure. These projects are co-financed through resources of the World Bank and the International Fund for Agricultural Development. When the GAP project, along with 21 dams of various sizes is completed, 1.8 million hectares of land will be available to irrigated farming.

In addition to agricultural infrastructure development projects subsidised credits are supplied to farmers as a part of the agricultural structure policy. The major credit supplier for the agricultural sector is the Agriculture Bank of Turkey. About 75 % of the funds of the Bank go to this sector. The Credits given by the Bank are of two types: operation credits and investment credits. The duration of the credits are mainly short term. Of total agricultural credits given by the bank about 78 percent go to short term operation and export credits. The medium and long term credits, which are the major instruments of the policy to improve the agricultural structures, take only a 22 percent share in total agricultural credits of the bank. An important portion of the Bank's credits (% 13 - % 15) are distributed through agricultural credit cooperatives.

3-Adaptation of Turkish agriculture to the common agricultural policy

Joining the Community Turkey will undertake, as a part of the Community's acquis communautaire, the obligation to adapt the basic regulations and related application regulations of the common market organizations in agriculture.

However, as in previous enlargements this adaptation will take place within a transition period. The conditions of the adaptation including the duration of the transition period will be determined by the accession agreement. The likely conditions of the adaptation in relation to the agriculture sector can be listed as follows:

4-Adaptation to the price policy of the CAP

The Turkish support prices which are at lower levels than the Community intervention prices will be increased progressively to the level of Community prices according to the conditions and durations that would be provided in the accession agreement. In parallel to the achievement of the stages in price adaptation, the support provided for the Turkish agriculture from the Guarantee Section of the Agricultural Guarantee and Guidance Fund (FEOGA) will be increased. Therefore, in determining the agricultural support prices, the agricultural price levels in the Community should be taken into account.

5-Adaptation to the rules of free circulation of goods

According to the Community rules on customs union customs duties and all charges having equivalent effect and quantitative restrictions and measures having equivalent effect wil be abolished between Turkey and the Community on imports and exports of agricultural goods governed under the common market organizations. Given the fact that community abolished the customs duties on agricultural exports from Turkey by 1987 the remaining barriers on the community side that exists are minimum import prices / prelevements and seasonal restrictions. Turkey, on the other hand, decreased its general protection level considerably as a consequence of a liberal policies pursued from 1984.

Furthermore, Turkey will be obliged to harmonise her food law to the Community standard. In this respect it is necessary to develope further the Turkish food law and to follow the harmonization efforts made in the Community within the framework of the internal market programme.

Turkish standards on processed agricultural products, on the other hand, were fully harmonized to the community standards since Turkey has made her application for full membership and quality certification is carried out as in the Community in conformity with ISO 9000 standard series.

6-Adaptation to the commercial policy of the Community

Turkey will have to adopt the common customs tariff in relation to third countries. The certificates of import and export will be harmonised and Community's prelevement and restitution system will be adopted at the end of the transition period.

During the period between 1985 and 1989 Turkey encouraged exports by various incentive measures, including tax reliefs and tax exemptions. This policy based on direct incentives has been revised and more indirect incentives in recent years like export credits, export insurance have been added. The tax relief on exports was abolished. In the Community, however, the incentive on agricultural exports is automatic and its level is much higher than the level of export incentives in Turkey.

7-Adaptation to the competition policy of the Community

The Turkish Agricultural Policy is much more liberal than the CAP. Turkey will have no problem in adapting the competition policy in relation to the agricultural sector.

8-Free movement of agricultural services, professions and workers

Current practice, under the Act on Services and Professions Reserved to Turkish Citizens, does not provide any limitation for foreigners to work in agriculture sector. There is also a decision given by the High Court wich reafirms this provision. The only exception is veterinary. The act does not allow foreigner veterinary to work in Turkey. Therefore it will have to be amended in accordance with the directives harmonizing the profession.

On the other hand,since under Article 87 of Village Act, real and legal persons are prohibited to purchase immovables in Turkey, foreigners cannot buy agricultural land in Turkey within the legal boundaries of villages. But if the land is outside the boundries of a village, a foreigner may purchase it provided that the conditions provided under Article 35 of Real Estate Law and the "rule of reciprocity" is respected.

All such restrictions will have to be eliminated following the principle of non-discrimination on the ground of nationality. However restrictions affecting non-Community nationals may be maintained.

NOTES :

1 O.J. 993/62, Sp.Ed. (1959-62)

2 E.g. Reg.2759/75, art. 21 (OJ.1975, L.282) on the organization of the market in pigmeat.

3 Reg. 19, OJ 933/62, consolidated by reg. 2727/75, OJ. 1975, L.281

4 Dir. 72/159 OJ. 1972, L.96, sp.Ed. 1972 II

5 Dir. 72/160, ibid

6 Dir. 72/171, ibid

7 Dir. 75/268 (OJ 1975, L.128)

8 Regs. 355/77, OJ 1977, L.51 and 1932/84, OJ 1984, L.180

9 Reg. 797/85 (OJ. 1985, L.93)

10 Case 131/73: Re Grosoli (1973) ECR 1555

10a Sevgi İneci

11 SPO, Turkish agriculture and European Community Policies, Issues, Strategies and Institutional Adaptation, December, 1990, p.16

12 Serpil Yılmaz, İbrahim Yılmaz, The Effects Of Inflation on Economy and Agricultural Sector, Quarterly Journal of National Productivity Centre, 1991/2. p.166