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ISSUES ARISING FROM TURKEY'S MEMBERSHIP PERSPECTIVE

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Introduction and summary

In parallel with the preparations of the report and the recommendation requested by the European Council, the Commission services have conducted an assessment of the effects of Turkey's possible accession on the Union and its policies.

The clear position of the European Union with regard to Turkey's status as candidate country and the conditions for the possible opening of negotiations were reconfirmed by the Brussels European Council meeting in June, which concluded that:

“The Union reaffirms its commitment that if the European Council decides in December 2004, on the basis of a report and recommendation from the Commission, that Turkey fulfils the Copenhagen political criteria, the EU will open accession negotiations with Turkey without delay.”

Given the suggestion put forward by the European Parliament in March for a study on the impact of Turkey's accession, the Commission services have prepared this paper to be presented alongside the regular report and the recommendation. The purpose is to give an overview of issues arising from Turkey's membership perspective.

The assessment primarily addresses the effects of Turkey's integration in EU policies. The considerations in the present paper do not constitute additional criteria or conditions to be fulfilled in view of the December decision of the European Council. However the issues examined are relevant to the consideration expressed by the 1993 Copenhagen European Council on the capacity of the European Union to absorb new members.

The analysis illustrates the difficulty of undertaking long term projections and the need for further in-depth studies of specific issues relevant for the conduct of negotiations.

Assessing the issues raised by Turkey's possible accession is faced with a number of uncertainties:

- The future evolution of the Union's policies, the possible creation of new ones, and the degree of further deepening of integration that might occur.
- Economic and structural developments both in Turkey and in the EU during the next decade, as well as exogenous factors, such as energy prices and the international economic environment at large.
- The Union will have expanded to at least 27 members implying further evolution.
- The timing and scope of the future enlargement process - the countries in the Western Balkans have also been given the perspective of EU membership.

Against this background, four working hypotheses have been retained, which do not pre-judge the Commission's position on these issues:

- Although significant policy developments can be expected in several areas over the next 10-15 years, the assessment is based on existing policies.

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- Turkey would take over and apply the *acquis* at the latest upon accession, although possible transitional provisions and special arrangements are also considered.
- Turkey's accession negotiations will outlast the coming financial perspective.
- The implications of the possible accession of one or several of the Western Balkan countries are not considered.

The first section of the paper focuses on political aspects against the background of Turkey's strategic situation, and attempts to assess the potential implications in the areas of CFSP and ESDP, both in terms of opportunities and challenges.

The second section addresses the economic effects on both the EU and Turkey as well as the implications of Turkey's participation in economic and monetary union.

Sections 3 to 6 focus on different policy areas – internal market and related policies, agriculture, regional policy and justice and home affairs - and examine the possible effects of Turkey's accession, and the associated challenges and opportunities.

The final section looks at the possible impact on the EU institutions, as well as budgetary implications.

Summary assessment

Accession of Turkey to the Union would be challenging both for the EU and Turkey. If well managed, it would offer important opportunities for both. The necessary preparations for accession would last well into the next decade. The EU will evolve over this period, and Turkey should change even more radically. The *acquis* will develop further and respond to the needs of an EU of 27 or more. Its development may also anticipate the challenges and opportunities of Turkey's accession.

Based on current EU policies and knowledge, the Commission has identified the following main issues for the coming years:

- Turkey's accession would be different from previous enlargements because of the combined impact of Turkey's population, size, geographical location, economic, security and military potential, as well as cultural and religious characteristics. These factors give Turkey the capacity to contribute to regional and international stability. Expectations regarding EU policies towards these regions will grow as well, taking into account Turkey's existing political and economic links to its neighbours. Much will depend on how the EU itself will take on the challenge to become a fully fledged foreign policy player in the medium term in regions traditionally characterised by instability and tensions, including the Middle East and the Caucasus.
- Turkey is at present going through a process of radical change, including a rapid evolution of mentalities. It is in the interest of all that the current transformation process continues. Turkey would be an important model of a country with a majority Muslim population adhering to such fundamental principles as liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law.

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- The economic impact of Turkey's accession on the EU would be positive but relatively small, both due to the modest size of the Turkish economy and to the degree of economic integration already existing before accession. Much will depend on future economic developments in Turkey. The launch of accession negotiations should help the continued efforts of Turkey to ensure macroeconomic stability and promote investment, growth and social development. Under these conditions, Turkey's GDP is expected to grow more rapidly than the EU average.
- Accession of Turkey, a lower middle income country, would increase regional economic disparities in the enlarged EU in a way similar to the most recent enlargement, and would represent a major challenge for cohesion policy. Turkey would qualify for significant support from the structural and cohesion funds over a long period of time. A number of regions in present Member States benefiting from structural funds support could lose their eligibility on the basis of present rules.
- The integration of Turkey into the internal market would be beneficial. This depends, however, not only on the fulfilment of present obligations under the customs union but also on more horizontal reforms, such as strengthening corporate governance and regulatory frameworks, intensifying the fight against corruption, and significantly improving the functioning of the judiciary.
- With over three million, Turks constitute by far the largest group of third-country nationals legally residing in today's EU. Available studies give varying estimates of expected additional migration following Turkey's accession. Appropriate transitional provisions and a permanent safeguard clause could be considered to avoid serious disturbances on the EU labour market. However, the population dynamics of Turkey could make a contribution to offsetting the ageing of EU societies. In this context, the EU also has a strong interest in that reforms and investments should be made in education and training in Turkey over the next decade.
- Agriculture is one of the most important economic and social sectors in Turkey and would need special attention. Continuous rural development efforts and an upgrading of administrative capacity would be required from Turkey to create as favourable conditions as possible to participate successfully in the common agricultural policy. Turkey would need time to make a number of agricultural sectors more competitive. Turkey would need considerable time in order to avoid substantial income losses for Turkish farmers. Under present policies Turkey would be eligible for substantial support. In the veterinary area, major efforts would have to be made to improve the animal health situation and controls at the eastern borders in order to avoid serious problems upon accession.
- Turkey's accession would help to secure better energy supply routes for the EU. It would probably necessitate a development of EU policies for the management of water resources and the related infrastructure. Because of their sometimes considerable trans-boundary effects, good implementation by Turkey of other EU policies in the fields of environment, transport, energy and consumer protection would also have considerable positive effects for EU citizens elsewhere.
- The management of the EU's long new external borders would constitute an important policy challenge and require significant investment. Managing migration and asylum as well as fighting organised crime, terrorism, trafficking of human beings, drugs and

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arms smuggling would all be facilitated through closer cooperation both before and after accession.

- The budgetary impact of Turkish membership to the EU can only be fully assessed once the parameters for the financial negotiations with Turkey have been defined in the context of the financial perspectives from 2014 onwards. The nature and amount of transfers to Turkey would depend on a number of changing factors, such as the EU's policies and any special arrangements agreed with Turkey in the negotiations as well as the budgetary provisions in place at that time, in particular the overall budgetary ceiling. However, it is clear that the budgetary impact on the basis of present policies would be substantial.
- As to the institutions, Turkey's accession, assessed on the basis of the Constitution, would significantly affect the allocation of European Parliament seats of current Member States, in particular the medium sized and large countries. In the Council, Turkey would have an important voice in the decision making process in view of its population share which would be reflected in the Council voting system. The impact in terms of the Commission would be less important given the planned reduction of the members of the Commission from 2014 onwards.

1. GEO-POLITICAL DIMENSION

Turkey is situated at a regional crossroads of strategic importance for Europe: the Balkans, Caucasus, Central Asia, Middle East and Eastern Mediterranean; its territory is a transit route for land and air transport with Asia, and for sea transport with Russia and the Ukraine. Its neighbours provide key energy supplies for Europe, and it has substantial water resources. In economic and demographic terms, Turkey is an important actor: it is the world's 21st economy in size, and as a member of the EU would be the biggest Member State in terms of population. As a Moslem secular country with a functioning democracy, it is a factor for stability in the region. Through its integration in the western alliance, and membership of many economic and regional organisations, it contributes to the security of Europe and its neighbourhood.

1.1. Foreign Policy Implications

In assessing the impact of Turkey's membership on the EU's external policies, one needs to take account of a number of factors:

- Turkey's relations with countries in the adjoining regions;
- its membership of international organisations;
- its potential contribution to the EU's security and defence policy;
- domestic factors affecting Turkish foreign policy.

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1.2. Turkey's relations with neighbouring countries

In the field of foreign policy the interests of Turkey are primarily in its neighbourhood rather than in global foreign policy, where it has not aspired to play a major role. With Turkish accession, the Union's borders would extend to the South Caucasus, (Armenia, Georgia and Azerbaijan) and to Syria, Iran and Iraq. This will increase the Union's foreign policy involvement in issues that previously would have been considered as bilateral between Turkey and its neighbours.

Mediterranean and Middle East

Turkey's accession would extend the EU's borders to countries which are presently a source of tensions, and bring problems of the region higher onto the agenda of the EU's external relations.

Turkey is supportive of a greater EU involvement in the Mediterranean region. Turkey has a longstanding relation and commercial interest with the *Arab world* and has attempted to enhance its role in the Organization of the Islamic Conference. At the same time Turkey has a developed cooperation with Israel and close ties with other Mediterranean countries. Turkey's relations with *Greece* and involvement in *Cyprus* are particularly important. In both respects, Turkish foreign policy and its perception of security interests have evolved significantly although existing disputes need yet to be solved.

There is large convergence of views between Turkey and the EU about the need for a stable, predictable and democratic *Iraq*. In the recent period, Turkey has acted constructively, taking several diplomatic initiatives with Iraq's neighbouring countries about common concerns related to the fight against terrorism and prevention of ethnic conflict and unrest. Turkey has a longstanding interest in maintaining Iraq's territorial integrity. The presence in northern Iraq of a Kurdish organization listed on the EU list of terrorist organizations, the PKK/Kongragel, is an additional source of concern. Turkey has an important role to play in the stabilization and reconstruction of Iraq, and has a substantial economic interest as Iraq was traditionally an important commercial partner.

Relations with *Syria* have traditionally been difficult for various reasons. When Syria, under Turkish pressure, gave up support for the PKK and expelled its leader in 1998, a positive process started which accelerated owing to the developments in Iraq and mainly because of a shared interest in maintaining Iraq's territorial integrity.

Iran's nuclear programme remains a source of concern for Turkey (as it does for the EU) while Turkey's membership of NATO and its military links with the US are regarded with suspicion in Teheran. The two countries differ in their opinions on the relation between religion and government but they have a shared interest to maintain a political stable situation in Iraq, and to contain Kurdish separatism. Both share a strong orientation of trade with the EU. There is extensive energy and gas cooperation between Iran and Turkey, with potential for the EU to become a significant gas market for Iran. The two countries are members of the Economic Cooperation Organization (ECO) which is slowly gaining momentum for trade liberalization.

With Turkish EU membership, relations between the EU and Iran can be expected to intensify as a result of a common border. On the Iranian side there will be a keen interest in how the EU manages to integrate a Muslim nation. However, one cannot exclude that new

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issues could emerge between Turkey and Iran, as a result of energy flows, or overlapping interests in Southern Caucasus and Central Asia.

Over the last years, Turkey has strengthened its relations with *Israel* by entering a set of strategic agreements. The cooperation has not been affected by the lack of progress in the Middle East Peace Process. On the latter, Turkey has been maintaining close bilateral ties with the parties and expresses support, criticism or concern for their actions in the context of bilateral political dialogue.

Eastern Europe, Russia, Southern Caucasus and Central Asia

In the post-Soviet period bilateral relations between Turkey and *Russia* have led to new political rivalries as Turkey has sought to expand its influence in areas where Moscow has strong historical interests. In recent years overlapping interests have centred on Caucasus and Central Asia.

These tensions have recently been overshadowed by the strong development of business relations between the two sides, with 15-20% annual growth in bilateral trade. Russia comes second after Germany as Turkey's main trading partner, and is the largest exporter of gas to Turkey. In return Turkish construction companies are active in the Russian market. In the field of energy, Turkey's accession would increase the importance in EU-Russia relations of issues related to competing energy interests and developments in Caucasus and Central Asia.

The accession of Turkey would extend the EU's borders to *Armenia, Azerbaijan and Georgia*. Through Turkey the EU could have a stabilizing influence in Southern Caucasus, provided that Turkey is willing to try to solve conflicts with its neighbours already before its accession. In particular, its relations with Armenia will need to be improved with the establishment of diplomatic relations and the opening of the land border which is currently closed. As regards the tragic events, in particular the human suffering in the region in 1915/1916, the prospect of Turkey's accession must lead to an improvement in bilateral relations with Armenia and to reconciliation as regards these events. It is also important that Turkey should contribute to easing tensions between Azerbaijan and Armenia in the dispute concerning Nagorno-Karabakh. EU relations with Azerbaijan, Georgia and countries surrounding the oil-rich Caspian Sea could also be enhanced by Turkish membership.

As regards *Central Asia*, Turkey could provide a channel for the political influence of the EU in Central Asia. Following EU accession and building on the strong historical, cultural and economic ties, a reformed Turkey could help to stabilize Central Asia and encourage the development of democratic values in a region which, after the collapse of the Soviet Union, has been subject to political instability. In terms of foreign policy and security, Turkey's role as the leading provider of assistance in NATO's "Partnership for Peace" programme across the region will strengthen Central Asia's international defence links. However, there are possible drawbacks in the extension of the EU's frontiers closer to the region. For instance the existence of cultural and political links between Turkey and Turkic-speaking parts of Central Asia, as well as the presence in Turkey of certain Turkic groups opposing their domestic regimes, could fuel tension in relations with countries in the region.

Western Balkans

Over the last ten years, Turkey has played a positive and constructive role in the Western Balkans, (Croatia, Serbia-Montenegro, Bosnia-Herzegovina, FYROM and Albania). Turkish

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troops are now involved in peace-keeping and stabilization operations, and independently of whether Turkey becomes a member of the EU, it is expected that it will continue to support the Stabilization and Association Process in the region and remain a member of the Stability Pact. In any case, by the time that Turkey would join the EU, one or more of the Western Balkan countries may have become members. Consequently their relations with Turkey will not be a matter of foreign policy.

1.3. Trans-national issues

Turkey would be an important model of a country with a majority Muslim population adhering to such fundamental principles as liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law. This is particularly relevant given the debate and perceptions which have arisen in the aftermath of the 11 September 2001 attacks.

The EU security interests include energy, transport and border management. Turkey would have a major role to play in the *security of energy supply* of the enlarged EU, since it would have on its borders the most energy-rich regions on the planet. Turkish accession could help secure access to these resources and their safe transportation into the EU single market. It would diversify possible EU supply lines offering alternative export outlets both for Russia, the Middle East and the countries around the Caspian. Turkey is expected to develop further as a major oil transit country as, in addition to the Bosphorus and the northern Iraq-Ceyhan pipeline, the Baku-Ceyhan pipeline comes into operation. For gas, Turkey will become an increasingly important transit country between the enlarged EU and the Caspian producers as well as the Middle East.

Turkey's accession would have an important impact on several *transport* modes. In this respect Turkey's role as a corridor for road, rail, air, maritime and pipeline connections between Europe and its southern neighbourhood would increase. The economic and trade integration of the Mediterranean region as a whole could thus be facilitated.

In terms of *border management*, Turkey's EU accession would present a sizeable challenge. At the same time, Turkey's accession will enhance co-operation concerning organised crime, including trafficking in persons, drug trafficking and illegal migration. Turkey's relations with its neighbours and other third countries will be affected by the introduction of visas. Turkey will not accede to the Schengen-zone upon or for some time after its accession, but at a later date to be determined by the Council following a stringent evaluation of its border management practices. Accordingly, border controls *vis-à-vis* Turkey would not be lifted upon accession.

Fighting *terrorism* constitutes yet another security challenge, where Turkish accession would further enhance already existing cooperation. In recent years, Turkey has suffered several terrorist attacks from extreme-left and radical Islamic fundamentalist groupings. Since the events of 11 September 2001, Turkey has associated itself with several EU initiatives related to the fight against terrorism. Organizations regarded in Turkey as terrorist have been included in the EU list.

A key issue in the region is access to *water* for development and irrigation. Water in the Middle East will increasingly become a strategic issue in the years to come, and with Turkey's accession one could expect international management of water resources and infrastructures (dams and irrigation schemes in the Euphrates and Tigris river basins, cross-

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border water cooperation between Israel and its neighbouring countries) to become a major issue for the EU.

As a result of Turkey's accession, the presence of sizeable *Kurdish minorities* in Turkey and in other countries of the region, and the existence of Kurdish *diaspora* in the present EU, could have implications for the EU's relations with these countries.

1.4. International relations

Turkey is a member of international organizations such as the United Nations, OSCE, the Council of Europe, NATO, OECD, and the Stability Pact for South-East Europe, the Economic Cooperation Organization, and the Islamic Conference Organization. Turkey has also an observer status in the Arab League. Turkish voting patterns at the UN are, in general, in line with EU positions. However, some divergences have appeared, mainly related to issues referring to the Middle East and to Human Rights. As regards the main European organizations (OSCE and the Council of Europe), Turkey already aligns its positions on those of the EU and its accession should not bring major changes in the relations between the EU and these organizations.

Turkey has strong economic, political and military links with the United States. Both Turkey-US relations and EU-US relations have been exposed to challenges in the aftermath of the Iraq war. Turkey's relevance to the United States has changed in the last 15 years; the US was in the past dependent on Turkey's military capabilities and geo-strategic location, but now appreciates more its role as a factor for stability in a potentially unstable region.

Turkey still claims developing country status for WTO purposes and has defended some of the developing countries positions in the Doha Development Agenda negotiations, sometimes in clear contrast with EU positions. Turkey's status as a major developing country might have a significant impact on the conduct of the EU's development policies, in particular on its trade related chapter. Given the diverging interests of Turkey in these areas compared to the rest of the EU, decision making might become more complex.

1.5. European Security and Defence Policy

Political dialogue between the EU and Turkey, and cooperation on European Security and Defence Policy matters, has evolved since the mid-1990s. The dialogue has led to a considerable degree of convergence between EU and Turkish views on CFSP issues. Turkey's record of alignment with EU political declarations, Common Positions and Joint Actions, and other CFSP measures demonstrates the extent of shared views. However, despite its generally satisfactory record, Turkey aligns itself with significantly fewer EU declarations than other acceding and associated countries.

Turkey's interest in ESDP and its experience with NATO and international peace-keeping provide favourable conditions for Turkey's inclusion in CFSP/ESDP structures after accession. As of 2003 Turkey had sizeable contingents in Afghanistan (ISAF), in Bosnia (SFOR II) and in Kosovo (KFOR), and it has been entrusted with the leadership of the multinational ISAF contingents in Afghanistan. No insurmountable problems should be expected concerning its implementation capacity and institutional capabilities. With its large military expenditure and manpower, Turkey has the capacity to contribute significantly to EU security and defence: Turkish military expenditure is among the highest of all NATO

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members in relative terms, accounting for 2.59 % of its Gross Domestic Product in 2004, while its 793,000 military personnel constitute 27% of the forces of NATO's European members, and represent 3.9% of Turkey's labour force (compared with 1.7% on average in other European NATO countries).

However, it is also clear that Turkey is hesitant to align itself to EU positions on issues which it feels touch its vital foreign policy and security interests, in particular regarding its geographical neighbourhood (Iraq, Caucasus, etc.), human rights and developments in Muslim countries, where it insists on a distinct national position.

Thus, although Turkey has the capacity to make significant contributions to CSFP and ESDP, its political ability and willingness to do so will remain in doubt as long as it is unable to offer a convincing multi-annual record of alignment with the EU's foreign policy.

1.6. Domestic factors affecting Turkish foreign policy

Turkey's foreign policy will also depend on its internal development. The direction Turkey takes on key questions such as the role of the state, civil-military relations, economic reform, secular versus religious politics and a nationalist versus internationalist orientation may affect Turkey's future attitudes to external policy. The political weight of the military is still strong in Turkish society, but it is diminishing owing to the political reforms. At the same time, with the consolidation of the democratic reforms, civil society is becoming more aware of international issues, and this may lead to the development of a wider and perhaps less consensual debate about foreign policy. If Turkey can pursue a path of democracy that combines secularism with a Moslem social and cultural environment, it could offer a good example for other countries in the region.

1.7 Assessment

The assessment of the potential impact of Turkey's EU accession on the EU's external policies faces a number of variables: the uncertain timing of Turkey's possible accession, the fluidity of international developments in general and in particular in Turkey's immediate neighbourhood, the shape of the European Union over the next 10-15 years and not least the course of Turkey's evolution and internal transformation in a similar timeframe.

The EU's enlargement to include Turkey would be different from previous enlargements because of the size of Turkey's population, its economic weight and its geographical position in a region characterized by instability, international tensions, internal conflicts, minority issues and diverging economic and energy-related interests.

The following elements emerge from this analysis:

- Turkey is a strategically important country whose EU membership would have implications for foreign policy in a number of potentially unstable neighbouring regions such as the Mediterranean, Middle East, Caucasus and Central Asia.
- The present Member States of the EU and Turkey have strong interests in these regions, which in many ways converge, but in some cases differ.

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- If Turkey pursues its economic modernization, socio-economic development and regional integration, it would be able to play an important stabilizing role in its neighbourhood.
- As an EU member Turkey would have importance for a number of trans-national issues (energy, water resources, transport, border management, counter-terrorism).
- With its large military expenditure and manpower, Turkey has the material capacity to make a significant contribution to EU security and defence policy.
- On international issues, Turkey generally aligns its positions to the EU's common foreign and security policy; but on some sensitive issues (human rights, the Middle East) this is not yet the case.
- The successful inclusion of Turkey in the European integration process would give clear evidence to the Moslem world that their religious beliefs are compatible with the EU's values.
- However, in the future development of Turkish foreign policy, much will depend on internal developments within Turkey, especially as regards the future role of the military, religion, and civil society.
- While Turkey, as potentially the biggest Member State of the EU, would have an important influence in foreign policy, it would be subject to the constraints of membership and common decision-making in the European institutions.

From the point of view of the EU's role in foreign affairs, Turkey's accession brings both advantages and challenges. It could help to stabilise the conflict-prone zone of the Middle East, but it would bring the EU into more direct involvement with the difficult political and security problems of the region. Turkey being a member would give the EU greater weight in regional and world affairs, but it could also make decision-making, especially under unanimity, more complicated. Summing up, Turkey could be a factor for enhancing stability and the role of the EU in the region, but its membership would present challenges as well as opportunities in the field of foreign affairs.

2. ECONOMIC DIMENSION

This section focuses on the economic aspects of the accession of Turkey to the European Union. Some integration effects are already visible in the context of the EU-Turkey Customs Union. Accession itself can provide a further boost to economic growth and prosperity in Turkey, as well as a positive, but much smaller, impact on the present EU Member States.

The objective of this section is to provide a qualitative, and to a limited extent, a quantitative assessment of the effects, as well as of the various channels through which accession would affect the EU economy. This entails that, between the EU and Turkey, the four freedoms (goods, services, capital and labour) would be fully established, possibly with some transitional measures and special arrangements. Turkey would have to adopt the entire EU *acquis communautaire*, including EMU, and participate in the EU budget, but most of these aspects are dealt with more in detail in other parts of this paper.

2.1. Main features of the Turkish economy

Turkey is considered to be a lower middle-income economy. Its per capita income is relatively low compared to the EU. The GDP per capita in terms of Purchasing Power (PPS) was in 2003 at 28.5% of the EU-25 average, comparable to the level of Bulgaria and Romania. Measured in current prices in 2003, the Turkish GDP was equivalent to about 2% of the GDP of EU-25 or just half of the ten new Member States.

With its population of about 70 million, Turkey is broadly equivalent to the ten new Member States taken together and accounts for 15.5% of the EU-25 population. The demographic trend differs significantly from the present Member States, with an annual average population growth of 1.8%, compared to 0.2% of the EU-25. However, the declining trend in population growth rates will in the longer term turn the current demographic structure into that of an ageing society similar to what most Member States currently face.

Two thirds of the total Turkish population live in Istanbul, Ankara, Izmir and other large cities. In these cities, over 80% of total value added is generated. Istanbul and other large cities have experienced high immigration from rural areas. Turkey is characterised by large regional disparities which broadly follow a West-East pattern. The richest regions are located in the western part of the country while the poorest ones are at the eastern border. The richest region Kocaeli, an important manufacturing location, has a GDP per capita of more than 90% above the national average (46% of the EU-25 average). At the other end of the scale, the poorest regions Agri and Van have only about one third of the national GDP per capita (8% of the EU-25 average).

These income disparities are reflected in the sectoral structure of the regions. The richer regions have important shares of production and employment in manufacturing and services whereas in most of the other regions agriculture is the most important source of income and employment.

Turkey experienced significant outward migration after the early 1960s, when active recruiting by some European countries took place. Since the 1980s, the flow of net migration from Turkey to abroad amounts to some 40 000-60 000 persons per year, which is about 0.2%

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of the current labour force. In 2002, about 3 million Turkish nationals were officially registered in the EU-15.

In the past decades several macroeconomic and financial crises occurred in the country, more recently in 1994, end-1999 and early-2001. These have led to high volatility in aggregate economic activity and hampered the overall pace of growth. Since 2001, much progress has been made in stabilising the economy and addressing the root causes of these crises in past decades. This is particularly visible in the resumed growth path and the sharply declined inflation. However, this stabilisation process is not yet complete and some imbalances, such as the widening external deficit, remain to be corrected. Further implementation of structural reforms would not only contribute to avoiding stabilisation crises, but also allow Turkey to achieve or even raise its growth potential.

2.2. Effects from deeper economic integration

Although Turkey's population is relatively large, its GDP represents just over 2% of the EU-25 GDP. As a consequence, the beneficial economic effects of Turkey's membership in the EU are likely to be asymmetric, i.e. small for the EU-25 as a whole and much larger for Turkey. The effects on the EU will very much depend on the way the Turkish economy will be able to cope with its preparation for membership.

Increased trade in goods and services

Accession would come in addition to the Customs Union established in 1995¹ by a symmetrical removal of tariffs and quantitative restrictions on industrial goods. Trade integration will deepen further through the removal of tariffs in areas not currently covered (e.g. agriculture,) as well as the reduction of non-tariff barriers through the implementation of the *acquis*.

Primarily as a result of this already high degree of trade liberalization in goods, Turkey's trade links with the EU have increased significantly. However, some bilateral trade remains restricted, e.g. for agricultural goods. Merchandise trade with the EU-25 accounted in 2003 for more than half of total Turkish trade: 58% of its exports went to EU-25 and 52% of its imports came from this area. On the other hand, the role of Turkey in the EU imports and exports is still modest; in 2003, around 2.5% of EU imports from third countries came from Turkey and 3% of EU exports to third countries went to Turkey.

Turkey's exports to the EU have been reoriented to higher value-added and more technological products. In particular the exports of machinery and road vehicles to the EU have significantly risen over the past years and have accounted for 29% of total Turkish merchandise exports to the EU in 2003, up from only 19% in 1998. Yet the main part of Turkish exports still consists of textile products, with still nearly 40% of total exports to the EU in 2003, representing a share of around 13% of total EU textile imports.

The last decades have seen a remarkable shift of Turkey's geographical trade orientation from the Middle East to the EU. This was certainly supported by the trade liberalization process with the EU. It can be expected that further trade liberalization, in those areas not covered by

¹ Decision 1/95 of the Association Council, OJ L 35 of 13 February 1996

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the Customs Union, will lead to a further increase in trade flows. Also the abolition of customs controls and some other technical barriers to trade would bring about an additional, albeit small, trade creation.

Integration into the single market

Due to market size effects, the full inclusion of Turkey into the Single Market would result in an increase in demand in the present Member States. It should lead to significant productivity hikes, in particular in Turkey, and simultaneously to a fall in prices mainly in the services sector. Therefore, the productivity boost and price competition might amount to a significant increase of GDP for Turkey.

The shift in employment and value added away from the agricultural sector to the service sector can be expected to continue and generate additional productivity increases. In 2003, over one third of the Turkish labour force was employed in the agricultural sector while output only amounted to 12.2% of GDP. In the EU 25, the 5% of the labour force that is in agriculture generates 2.2% of total value added. Such shift would not only bring the structure of the Turkish economy in line with the EU economy, but would also generate some additional effects from participation in the single market, in particular in the services sector, and result in sizeable additional economic growth. Managing these structural shifts would be a major, long-term challenge for economic and social policies, particularly in rural regions.

Turkey's financial system has until recently been susceptible to crises of investor confidence in the light of severe macroeconomic and structural imbalances. The banking sector has become sounder following the extensive restructuring programme and the implementation of international standards, which followed the 2001 financial crisis. Nevertheless, this process is far from completed. Regulatory and supervisory standards have to be further strengthened and aligned with EU standards. Turkey is an important borrower on international financial markets. EU-based banks play a major role in cross-border financing of Turkey's economy.

Increased investment opportunities

Capital flows between the EU and Turkey are largely liberalized. However, some key flows, in particular foreign direct investment (FDI) from the EU to Turkey, have remained at very low levels during the past decade and give rise to expectation of some unused potential for foreign investors. As witnessed by the ten new Member States, which joined the EU in May 2004, the perspective of EU membership triggers substantial FDI by EU companies. While the situation is not fully comparable because some of the FDI flows to the new Member States were related to the privatisation of state-owned companies, the implementation of the acquis and of the institutional framework of the EU boosts investors' confidence to explore new market opportunities. Furthermore, upon accession, spending from EU Structural Funds and the Cohesion Fund on physical and human capital would also improve the conditions for private investment. Higher and growing FDI inflows into Turkey would lead to capital accumulation as well as to a renewal of the capital stock and a transfer of technology, a key component of increases in the growth potential.

Labour migration

There is already a long established tradition of migration of Turkish workers to EU Member States. A removal of barriers to the free movement of labour in the long-term perspective would most likely lead to some additional migration from Turkey to the EU. At this stage it is

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very difficult to forecast the level as well as the structure of this additional migration after accession. Such migration could contribute to mitigating the possible reduction of the growth potential of the EU due to its ageing population. However, if substantial and uncontrolled, it could lead to disturbances in the EU labour market. Studies on the implications of enlargement for migration vary considerably and are based on very different methodologies, such as opinion polls, extrapolations from earlier south-north migrations, and analyses of past migration episodes in econometric models (see also section 3 – free movement of persons). The distribution of migration inflows into the incumbent Member States is likely to be uneven across countries and regions. The effect of migration on GDP could differ with the skill levels of the migrants and labour demand in the EU.

The size of migration from Turkey to the EU will not only depend crucially on the pace of convergence of Turkey's national income towards EU income levels, but also on the development of Turkey's growth poles such as Istanbul and Koecali. Since in the early stages of economic development, large agglomerations traditionally benefit from more investment and faster growth and could absorb a substantial part of the migrants from rural areas if this economic expansion advances sufficiently rapidly and is accompanied by adequate employment policies and job creation. Since cultural and language barriers are much higher for international migration than for national migration, these growth poles could absorb a large share of the migration pressure from Turkey's rural areas.

2.3. Participation in Economic and Monetary Union

As a new Member State, Turkey would participate in the Economic and Monetary Union (EMU) from the date of accession, even though it would not adopt the euro immediately. It must endorse the objectives of EMU and should prepare for an eventual full participation in the euro area. Turkey would be obliged to treat its exchange rate policy as a matter of common concern. Turkey should be able to pursue disciplined and responsible macroeconomic policies, both monetary and fiscal, to ensure the stability of the economy. In turn, a smooth functioning of Turkey's product, labour and capital markets would enhance the efficiency of those macroeconomic policies. Therefore, Turkey should continue in consolidating macroeconomic stability and advancing structural reforms.

2.4. Assessment

The accession of Turkey would present economic challenges, and implicitly opportunities to all parties involved. The main effects of a possible accession of Turkey to the EU may be summarised as described below.

- Overall, EU Member States' economies would benefit from the accession of Turkey, albeit only slightly. An acceleration of growth in Turkey should give a positive impulse to EU25 exports. Investment opportunities for EU companies are expected to increase as a result of an improved investment climate due to Turkey's accession perspective. A possible increase in labour supply, stemming from migration from Turkey, could contribute to some additional growth. Taking into account the low income levels of Turkish regions as compared to the EU average, Turkey's accession would statistically increase regional disparities in the EU.
- Turkey would benefit substantially from its accession to the EU. Accession should boost Turkey's growth essentially via increased trade, higher investment due to higher

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FDI inflows, and higher productivity growth due to a shift in the sectoral composition of output and the implementation of structural reforms in line with the more competitive EU internal market environment. In spite of the significant stimulus which this growth acceleration would give to Turkish economic development, the catching-up process of Turkey's income levels with the EU is expected to last several decades.

- In order for Turkey to fully benefit from accession, macroeconomic and financial stability must be ensured and its productive capacity enhanced by appropriate increases in physical and human capital. Structural reforms should be pursued in order to ensure efficient management of public finances, continued stabilisation and development of the financial sector, increased efforts and expenditure to improve the overall level of education and training as well as to increasingly attract foreign direct investment.

3. INTERNAL MARKET AND RELATED POLICIES

The existence of the EC-Turkey Customs Union, in the framework of the Association Agreement of 1963² (Ankara Agreement), anticipates to some extent the participation of Turkey in the internal market, particularly with regard to industrial products. Under the Customs Union, Turkey is committed to align with part of the internal market acquis, including free circulation of industrial goods, intellectual and industrial property rights, competition policy (state aid control and anti-trust) and to adopt the common external tariff. Public procurement, services and establishment are currently not covered by the Customs Union, but negotiations towards concluding a bilateral agreement liberalising market access have been underway since 2000. Free movement of workers, freedom of establishment and freedom to provide services were declared goals of the Ankara Agreement, but only the free movement of workers was partly implemented.

Free movement of capital and a broad range of other policies related to the internal market are also included in this section.

3.1. Free movement of goods

Free movement of goods between the EU and Turkey is foreseen in the Customs Union, covering all industrial goods, except for certain steel products. The latter are covered by a treaty concluded by the ECSC³. The EU is the main trading partner for Turkey, and following the latest enlargement, Turkey is now the EU's 6th largest customer and its 7th biggest supplier. On average, trade with the EU provided for more than half of Turkish imports and exports.

In practice there are still a number of barriers to trade, some of which are caused by Turkey's non-compliance with its obligations under the Customs Union. Such difficulties relate to divergent rules for external trade, standardisation, import licences and technical trade

² OJ L217 of 29 December 1964

³ OJ L227 of 7 September 1996

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barriers, as well as intellectual property rights, food safety and public procurement. As regards public procurement, it should be borne in mind that alignment with the *acquis* is a condition for the inclusion of this sector in the Customs Union and in any event a requirement to ensure access to structural funds. In the area of food safety, big efforts will be necessary to continue the progressive alignment with the *acquis*, to adapt to EU principles and to set up appropriate institutional structures.

Turkey must comply with existing obligations under the Customs Union, which would facilitate its integration into the internal market.

3.2. Freedom to provide services

The financial sector remains under-developed and further efforts are needed to fully align Turkey's legislation with the *acquis*. At the same time, it must be recalled that sustainable integration of Turkey's financial sector will to a large extent depend on achieving macro-economic stability, as well as on strengthening the legal and supervisory framework in this sector. Major efforts are required to prepare Turkey's financial sector for the impact of the internal market. Provided that ambitious reforms can be sustained over the medium-term, Turkey's accession could have a positive impact on the internal market, by enhancing access to a potentially large and fast growing banking, insurance and investment market.

With regard to non-financial services, Turkey will need to make major efforts to fully align with the *acquis*, including in relation to the freedom of establishment, and thus to allow economic operators from the rest of the EU to reap the full benefits of accession. This area could have implications for the labour market, although such services would have to be provided under the same conditions as those set by Member States for their own nationals. Turkey is also a major service provider in the rapidly expanding tourism sector whose share in GDP is expected to grow until accession. Turkey's accession would therefore contribute to increased competition in this sector also at EU level.

3.3. Free movement of persons

Turkey experienced significant outward migration after the early 1960s, when some European countries actively recruited workers. Net outward migration reached its peak in the first half of the 1960s, with about 80 000 net-migrants per year, or about 0.5 % of the Turkish labour force. With declining labour demand in Europe in the second half of the 1970s and the closing of channels for legal migration for employment, this first wave of migration came to an end. Since the 1980s, the flow of net-migration leaving Turkey amounts to some 40 000-60 000 persons per year, which is about 0.2% of the current labour force; almost all of this migration takes the form of family reunification. In 2002, about 3 million Turkish nationals were officially registered in the EU-15. The main recipient countries were Germany (77.8% of those migrant workers, or 2.3 million persons), France (7.9%, or 230 000 persons), Austria (4.7%, 135 000 persons) and the Netherlands (4.4%, or 128 000 persons).

Turkish nationals constitute by far the largest group of third-country nationals in the EU (about 25 % of all third-country nationals). Migration of workers from Turkey has thus become a well-established phenomenon, and in many cases Turkish nationals live in their host countries already in their second or third generation, although some difficulties with integration still need to be addressed.

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The status which Turkish workers at present enjoy under Community law lies between that of European Union citizens and third-country nationals. Their status is determined for a large part by the decisions taken by the EC-Turkey Association Council following the 1963 Association Agreement between the EC and Turkey, and their interpretation given by the European Court of Justice. The Agreement provides for the parties to progressively establish free movement of workers; the relevant provisions of the Agreement do not, however, have direct effect. So far, the Association Council has not yet adopted all necessary measures for free movement. As a result, Turkish nationals do not have the right to move to an EU Member State or between the EU Member States in order to take up employment⁴. However, once duly registered as belonging to the labour force of a particular Member State, Turkish workers enjoy a considerable number of individual rights in that host Member State under Decision No. 1/80.⁵

There are perceptions that a possible substantial and uncontrolled increase in migration to the EU could lead to serious disturbances in the labour markets of some of the present Member States. Some recent studies have proposed estimates of the potential future migration from Turkey to the EU. Most estimates concern in fact the forthcoming decade (until 2013) and are based on the continuation of existing trends and factors in the pre-accession period. Estimates for the long term impact, i.e. by 2025/2030, based primarily on expected income differences, tend to give very varying figures (ranging from broadly 0.5 to 4 million potential Turkish immigrants to EU Member States).⁶ Other studies emphasise the relative stability of overall migratory pressures independently of accession or recall the developments observed over time in Spain and Portugal, where initial emigration was subsequently reversed. Based on the

⁴ Migration between Member States will however be possible on the basis of Directive 2003/109 concerning the status of third-country nationals who are long-term residents; by 23 January 2006 at the latest Turkish workers of this category will be able to obtain, under strict conditions, the guarantee to move to another EU Member State for the purpose of taking up employment.

⁵ Taking into account the abundant case-law, these can be summarised as follows: (a) equal treatment as regards working conditions and remuneration; (b) a right to extension of work permit for the same employer if a job is available and corresponding residence permit in the host Member State after one year of lawful employment; (c) after three years of employment, under certain conditions, the right to respond to another offer of employment for the same occupation; (d) after four years of employment free access to all employment and a residence right in that host State while looking for other employment; (e) access to employment and education for the second generation in the host State; (f) a general non-discrimination clause and limitations to the right of expulsion. A standstill clause ensures that existing treatment cannot be withdrawn or reduced.

⁶ A more detailed overview of available studies indicates that the potential long term (i.e. 2030) numbers of migrants have been estimated to reach between 0.5 - 4.4 million persons. Econometric models, based on wage differentials, arrive at estimates of about additional 1¼ million persons until 2030 (Togan, 2002). Calculations of the Dutch Planning Office (Lejour 2004) arrive at a long-term potential of Turkish migration to the EU of 2.7 million persons, compared to an estimated mobility of 2.9 million persons from the 10 Central and Eastern European Countries (CEEC). By far the highest figure is mentioned by the Osteuropa-Institut in Munich (Quaisser), which forecasts (in the absence of transition periods and with full application of free movement as from 2013) the long-term potential for migration from Turkey to Germany at 4.4 million on the basis of the existing number of Turkish migrant workers as well as economic differentials at that date. The figure is considered a maximum estimate by the authors themselves, who emphasise that using for Turkey the DIW methodology, which has been used for forecasting the migration impact of the 2004 enlargement, would bring the estimate for the additional long-term migration potential from Turkey down to 0.5 million. This is in line with results from a Eurobarometer survey (European Foundation) reporting migration intentions of Turkish people. The figures for Turkey are: general inclination (6.3%), basic intention (0.8%) and firm intention (0.3%).

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experience that Turkish workers tend to migrate alongside networks of already established relatives, the biggest share of additional migrants to the EU would most likely go to Germany, France, Netherlands and Austria.

In addition to the general conditions for economic growth and employment, the actual migration flows are influenced by pull factors such as wage differentials between Turkey and the recipient countries but also by push factors, such as the labour market situation in Turkey itself. In this respect, if appropriate labour market policies are put in place to integrate the young population into the labour market, the migration potential in Turkey will probably decrease. In particular, sustained progress by Turkey in areas such as social policy, employment, health and education could reduce the pressure for migration. As regards demographic developments, it can be noted that population growth and fertility rates are in decline and estimated to fall to 1.05 % and 2.0 children per woman in the period 2010-2015 (UN World Population Prospects 2002 Revision).

3.4. Free movement of capital

The EU does not impose restrictions on capital movements with Turkey, since the Treaty has extended the abolition of such restrictions to third countries. Some of the remaining restrictions concern capital inflow into Turkey in the form of foreign direct investment. The process of accession of Turkey to the European Union would remove these last obstacles and increase the confidence of investors. The accession process itself should lead to a significant increase of foreign direct investment originating from other EU Member States, to an improvement of the free circulation of capital and to a reinforcement of the Turkish economy.

Regarding capital outflow, full liberalisation of capital movements requires the existence of a solid financial system, a stable economy and a sustainable external financial position. Considerable reforms have been initiated in Turkey, partly under the guidance of the IMF, and the increased structural strength of the Turkish economy should ensure more stability. If a crisis were to occur in the future, the Treaty itself allows for preventive mechanisms (e.g. balance of payment assistance), as well as for provisional safeguard measures, which should provide sufficient protection without affecting the overall functioning of the internal market. In any case, given the limited relative size of financial sectors in Turkey, spill-over effects on the rest of the Union would probably be manageable.

Turkey remains generally vulnerable to money laundering and full liberalisation of capital movements could entail risks for the rest of the EU. The level of corruption prevailing in Turkey and the low level of effectiveness of the anti-money laundering regime (in terms of prosecutions and convictions) means that major efforts are required to ensure that Turkey's accession does not negatively impact the fight against financial crime across the EU. The pre-accession period should therefore be used to develop the administrative capacity of the Turkish law enforcement authorities; to stimulate more effective joint action between agencies fighting money laundering within Turkey; and to improve co-operation with their counterparts in the EU, thus enhancing both parties' ability to work together to meet common threats.

3.5. Common Commercial Policy

Turkey is partially aligned to the Common external tariff measures concerning industrial goods. Its customs law provisions are largely in line with the Community Customs Code.

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Turkey has also suppressed all duties and quantitative restrictions to EC imports on industrial goods. Upon accession, Turkey will need to align fully with the Common Commercial Policy.

The incomplete alignment with the EU's Common Commercial Policy is due partly to the difficulties that Turkey meets to negotiate free trade agreements with certain EC partner countries. Moreover, despite recent progress, the full adoption of the Community GSP system is still to be achieved.

Trade defence instruments can currently be imposed between the parties of the Customs Union. Turkey's accession would have two main consequences. Firstly, no trade measures could be imposed within the single market. Secondly, Turkish trade measures against third countries would cease to apply while Turkish industry would benefit from the application of the EU trade defence legislation, which would apply to the territory of the enlarged community.

Turkey still claims developing country status for WTO purposes and has defended some of the developing countries positions in the Doha Development Agenda negotiations, sometimes in clear contrast with EU positions. Turkey's status as a major developing country might have a significant impact on the conduct of the EU's development policies, in particular on its trade related chapter. Given the diverging interests of Turkey in these areas compared to the rest of the EU, decision making might become more complex.

3.6. Competition policy

EC competition policy is one of the corner stones for the functioning of the internal market. The competition rules are subject to direct and uniform implementation over a wider economic area through a single framework, and it is important that Turkish accession does not disrupt the level playing field of the internal market. It is equally important to ensure that economic actors in Turkey will be able to withstand the competitive pressures of the full and direct application of these rules. Turkey should give priority to early alignment of the competition regime, i.e. setting up the legal framework and administrative capacity as well as ensuring a credible record of enforcement of the rules well in advance of accession.

Generally, Turkey's *anti-trust legislation* appears to be largely modelled on the main principles of Community anti-trust rules, as required by the EC-Turkey Customs Union, and Turkey has created a functionally independent body with the administrative structures to allow for the implementation of the rules. The capacity of this authority as well as its enforcement record would have to be carefully assessed in the course of negotiations.

Concerning *state aid control*, the degree of alignment is very limited, and there is no state aid monitoring authority. In the absence of a legal framework and administrative capacity, no enforcement record has yet been established. The implementation of the *acquis* in this area, to which Turkey is committed under the Customs Union but does not yet apply, could present a very important challenge to the Turkish economy. One such important issue related to approval and monitoring of state aid is the restructuring of the *steel sector*.

3.7. Customs and taxation

The adoption, implementation and enforcement of the *acquis* on customs and taxation is of crucial importance for the correct functioning of the internal market, in that it ensures the free

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circulation of goods and the effective management of external borders, and allows the correct implementation of other Community policies (such as commercial and agricultural ones). Candidate countries need not only to transpose EU legislation in these areas, but also to put in place adequate administrative capacity to implement and enforce such legislation upon accession.

Turkey has already to a large extent aligned its customs legislation with that of the EC, and applies in the context of its preferential arrangement rules of origin identical to those of the EU. Turkey's accession would ensure full compliance also in those areas of the *acquis* for which the Customs Union does not oblige Turkey to alignment (counterfeiting, precursors and dual use goods).

As regards taxation, Turkey has in place a VAT and excise duty system based on the same structure as the EU *acquis*. Although alignment is still needed in a number of areas, the full adoption of the EU tax *acquis* does not appear to present major challenges for Turkey. Taking into account the likely timetable for possible accession, Turkey should commit itself to gradual alignment of legislation during the pre-accession period.

Bearing in mind that effective revenue collection is a crucial element for the proper functioning of the internal market and for the EU own resources, significant efforts will be needed to ensure that Turkey will have in place adequate administrative capacity, including appropriate IT networks and applications, upon accession. Achievement of these goals would require substantial EU technical assistance.

3.8. Social policy and Employment

The EU model of development as highlighted in the Lisbon Strategy promotes competitiveness, employment and social cohesion as mutually reinforcing objectives and policies. In this framework, social progress, aiming at high levels of employment and social protection, the raising of the standard of living and quality of life and economic and social cohesion, is a key factor of economic performance as well as social justice. Adoption of the social *acquis* will be a major challenge for Turkey due to the large number of citizens with living standards well below the EU average, acute social problems and limited administrative capacity.

Alignment with the social *acquis* will be a key element in promoting Turkey's convergence with EU standards and practices, raising living standards, promoting competitiveness and job creation and improving social cohesion.

Certain elements of the *acquis* for ***labour law, gender equality and health and safety at work*** have already been introduced into Turkish legislation but effective implementation and enforcement is difficult. Intensified efforts will be needed for full alignment with EU standards in these fields, in particular as regards the full respect of women's rights and improving the role of women in political, economic and social life. Particular attention must also be given to the issue of child labour.

Anti-discrimination policy concerns legislation as well as actual practices. Efforts will be needed to combat discrimination on the grounds of racial or ethnic origin, religion or belief, sexual orientation, age and disability. The situation of the Kurdish and other minorities in particular will have to be addressed comprehensively.

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Major efforts must be made to strengthen *social dialogue* in line with EU policies and practices. In particular, the existing restrictions on the exercise of trade union rights should be removed.

EU co-operation in the areas of *employment, social protection and social exclusion* has become part of the Community *acquis*. The *open method of co-ordination* is a key instrument for implementing the Lisbon agenda in these areas. Preparation for Turkish participation in these processes through the Joint Assessment of Employment Policy Priorities or the Joint Inclusion Memorandum will enhance the efforts for improvements regarding youth unemployment, education and training, gender equality, as well as the fight against poverty and social exclusion. Strong emphasis has to be put on building adequate administrative capacity and ensuring the effective implementation and enforcement of legislation and policies.

3.9. Public Health

Turkey needs more trained human resources and economic capacity to build an effective public health system which would be able to improve the health status of the population. The key health indicators lag significantly behind EU average. Regarding the transposition of the *acquis* in the field of public health Turkey has to sustain progress towards transposing the tobacco products directive. Given that Turkey faces the increasing threat of tobacco-related cancers and other health risks related to tobacco consumption continued efforts in transposing and implementing the Community *acquis* and activities aiming at controlling tobacco consumption are essential. Continued efforts are also necessary in the field of communicable diseases control, i.e. setting up a network for the epidemiological surveillance and control of communicable diseases as well as safety of water for human consumption. Another *acquis* related task for Turkey will be to align to EU standards as regards blood, tissues and cells.

3.10. Consumer policy

Consumer policy is a core component of the strategy objective of improving the quality of life of all EU citizens. Implementation of this policy at EU level involves the development of legislative and other actions to promote the interests, health and safety of consumers in the internal market, to ensure the proper integration of consumer concerns in all EU policies and to empower consumers by actively supporting EU consumer organisations. It complements the consumer policy conducted by Member States. Given that Turkey is a large country, where consumer law and policy lack roots in the original legal culture, the government needs to give due priority to this policy area, including the role of consumer organisations and the establishment of adequate administrative capacity, during the pre-accession period.

Special attention should be paid in the area of market surveillance and general product safety. Turkey needs to establish functioning market surveillance authorities and to ensure the implementation of the general product safety directive. This is important in ensuring the functioning of the internal market and securing consumer safety. As regards health risks related to animals and agricultural goods, they are dealt with under veterinary and phytosanitary issues (c.f. section 4).

3.11. Environment

Turkey's main challenges in the environmental field are apart from further transposition of the Community *acquis*, implementation related matters such as, administrative capacity, monitoring and enforcement of environmental legislation. Based on earlier cost estimates for other candidate countries, the overall costs of public and private investment related to Turkey's full compliance with the environmental *acquis* is likely to reach several tens of billions of euro. The main costs for the public sector occur in the area of investment in water supply, waste water collection, and treatment and collection and proper disposal of waste. Imaginative solutions need to be found in order to mobilize necessary funds both from the public and the private sector.

Major investment would need to be undertaken by Turkish industry in order to be able to meet EU requirements in all areas. In particular, the rules for integrated pollution prevention and control would represent a costly challenge. As in present Member States, certain plants which can not be upgraded at reasonable costs would have to be phased out. Specific efforts will also be needed as regards waste treatment and air quality.

Similarly, nature protection might be a difficult task for Turkey to implement due to conflicting economic and environmental interests.

The administrative capacity to deal with environmental issues - at national and regional levels - is less developed than those of the new Member States at a similar stage of the pre-accession process. It could take up to a decade to establish an effective administrative framework. In addition to strengthened administrative capacity, clear prioritisation and completion of a financial strategy for the environment field will be needed in order to help Turkey meet the requirements of the EU *acquis*. As regards EU financial assistance, it must be well targeted and measures relating to Environmental Impact Assessment and nature protection need to be a clear condition for such assistance during the pre-accession period.

Among expected positive effects resulting from possible Turkish accession one could, in addition to reduction of cross-border air pollution, foresee further improvement of the Black Sea water quality (to become an EU Coastal area already with the accession of Bulgaria and Romania) and the increased natural richness of the EU resulting from species, flora and fauna that are not currently present. On the EU side the revision of the Birds and Habitats Directive annexes to take into account Turkey's richness under nature protection will be a major task.

The ratification and implementation of the Kyoto Protocol by Turkey would constitute an important contribution to the European Climate Change policies.

Management of water resources and development of related infrastructure would become increasingly important in the context of Turkish accession.

3.12. Transport

Turkey's location gives the country a strategic position as a gateway from Europe to the Middle East. Extension of EC transport rules was envisaged in the Ankara Agreement but not implemented. If Turkey accedes to the EU, its role as a corridor for road, rail, air, maritime and pipeline connections between Europe and its south-eastern neighbourhood would increase. The economic development and integration of the region as a whole could thus be

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enhanced. A TEN-T network would need to be developed for Turkey as soon as possible as well as transport corridors.

Turkey currently does not have national infrastructure plans that are more recent than 1980, but a new plan is under preparation. Also, there is not one single Ministry or organisation that is responsible for country-wide planning of the national infrastructure. This could potentially cause problems for the future implementation of the TEN-T network and the management and programming of future Community financial aid. Turkey will have to comply and update its legislation on the transport of dangerous goods and to respect fully the EU rules which rely on the ADR and RID Conventions (on international carriage of dangerous goods by road and by rail).

Although the basic requirements of the *road transport* acquis are incorporated in legislation for international road transport activities, but not yet for domestic road transport operations, effective implementation and enforcement of social, safety, technical and environmental standards are not ensured.

As regards *railways*, alignment to the acquis is very limited until now. First steps to bring the railway sector in line with the acquis should focus on the restructuring of the State railway company, in particular on the financial side, unbundling of ports and railways and opening of the railway market to competition for freight. Recent accidents have highlighted the need for increased railway safety.

With respect to *aviation*, over 30 million international, domestic and transit passengers were recorded in 2003. Community-Turkey air traffic is significant both with regard to scheduled and non-scheduled services. Turkey is a prime tourism destination in the Mediterranean basin and almost three-quarters of tourists visiting Turkey arrive by air.

Turkey is a long-standing member of the European aviation family, and as such a full member of all intergovernmental aviation cooperation structures in Europe (ECAC, JAA, Eurocontrol). Turkey is also keen to join the EASA.

As in other transport sectors, transposition of the aviation acquis has been limited. Turkey's possible participation in a European Common Aviation Area (ECAA), also including Bulgaria, Romania and the Western Balkan countries, would help to accelerate the process, since it would be based on full harmonisation with the aviation acquis in the countries concerned.

Maritime transport, and in particular *maritime safety*, is a sector where major efforts are required in order to implement the *acquis* by accession. There are still a number of Turkish flagged ships on the Commission's list of ships that are currently banned under the new European maritime safety rules. There is also a need for up-grading administrative capacity and to ensure effective controls of ports. The Turkish merchant fleet is medium sized in European terms. The flag is consistently listed in the Paris MOU Black List, in the category "very high risk", which renders its ships eligible for refusal of access under the amended Port State Control directive if detained more than once in 36 months.

In line with international Conventions, Turkey must ensure free passage through important maritime gateways, notably the Strait of Bosphorus. Turkey must also lift the current restrictions applied to Cyprus-flagged vessels and vessels serving the Cyprus trade.

3.13. Energy

The completion and functioning of the internal energy market is essential to provide for stable energy flows at affordable costs, for increasing the competitiveness of European industry and for meeting challenges such as the environmental requirements resulting from the commitments entered into at the Kyoto Conference.

Turkey has only limited reserves of oil and natural gas, but substantial reserves of coal, particularly lignite. Energy demand has grown at 4-5 % per annum over the past three decades and will continue to grow rapidly, which will require enormous investments in coming years. Imports of solid fuels and hydrocarbons are expected to nearly double between 2000 and 2020, with the most significant increase being that of natural gas.

As pointed out in the geopolitical part, Turkey will have a major role to play in the security of energy supply of the enlarged EU and is expected to develop further as a major oil and gas transit country. Accession of Turkey would extend the EU to the borders of the world's most energy-rich regions in the Middle East and the Caspian Basin. In particular, a gas interconnector will start being constructed in 2004 and Turkey is supporting the planned "Nabucco" gas pipeline project (Turkey-Bulgaria-Romania-Hungary-Austria) for which the Caspian Basin, including Iran, could also be a supplier. It is also collaborating with the Mashreq countries in the project to bring natural gas from Egypt and eventually Iraq and Iran to the EU. This should help to secure access to these resources and their safe transportation into the EU single market. Implementing investments on gas infrastructures identified in the trans-European Energy Networks' Guidelines is of paramount importance for the diversification of gas routes to the European Union. Oil pipelines crossing Turkey will contribute to reduce environmental risks of shipping on the Mediterranean Sea and in the Strait of Bosphorus.

Turkey's strategic position and its role as key country for energy transit would necessitate a correct implementation of the internal market *acquis* on gas and electricity. Turkey's participation in the Regional Energy Market for South-East Europe (REMSEE), covering also Western Balkans, Romania and Bulgaria, should ensure that its legislation will be in line with the relevant *acquis* well in advance of its accession. The aim is to achieve an operational regional wholesale market by the end of 2007. This should bring Turkey very close to EU standards for gas and electricity.

For energy efficiency and renewable energy sources, Turkey is only starting to develop a coherent and comprehensive policy, and more efforts are needed. Turkey should ensure that the relevant *acquis* on renewable energies and energy efficiency should be fully implemented. Being a member of the International Energy Agency, Turkey is already under the obligation to hold oil stocks equivalent to 90 days of imports.

Pre-accession assistance in this strategic sector should focus on building up the administrative capacity to ensure a proper implementation and enforcement of the *acquis*.

Turkey has at present no nuclear power generation but may reconsider the matter in the future.

Consequent to the increasing awareness in the EU on the need to protect energy infrastructures from malicious acts, Turkey will be expected to actively participate in all initiatives that the EU may take in view of a stronger security in the energy sector.

3.14. Industry and SMEs

Given the size and demographic characteristics of Turkey, the long term impact of its accession is expected to be considerable in the industrial area with increasing business and investment opportunities for EU companies. Turkey represents an unsaturated market in almost every consumption goods category, from the more basic goods to the high technology products.

The implications of Turkish accession for EU industrial policy as well as the impact in different sectors, such as textile, automotive, pharmaceutical and ship-building will have to be further analysed.

Turkey's steel industry is the most significant producer among the new Member States and Candidate Countries. It already has obligations to the EU which it needs to comply with. The restructuring of the steel sector will become a major challenge for Turkey.

SMEs have an increasingly important role to play in the Turkish economy, in particular for overall employment. Further improvement is needed for their access to finance as well as in the overall business environment. The development of the SMEs sector will have a potential impact on growth and employment and should be followed closely in coming years.

3.15. Telecommunications and information technology

The *acquis* in this area is aimed at the elimination of obstacles to the effective operation of the single market in electronic communication services and networks, and the achievement of universally available modern services.

Given the likely timetable for possible Turkish accession, problems of implementation of the *acquis* should not arise in this area. Furthermore, whether or not it joins the EU, Turkey needs to improve its telecommunications sector substantially, and this improvement can be expected to create opportunities for EU investors in Turkey itself and, through Turkey, in other neighbouring countries.

3.16. Science, Research and Development

Turkey's capacity in the area of science and research remains limited. In order to ensure the successful implementation of the *acquis* in this domain, notably the implementation of the Research and Technological Development Framework Programmes, Turkey should make efforts to further reinforce the research related capacity and infrastructure. The available statistics continue to indicate that the Turkish level of gross domestic expenditure in research and development as a percentage of GDP is still only around one third of the EU average.

Turkey needs to increase its level of investment in science and research to lay the foundation for the future competitiveness of its economy and to contribute rapidly to job creation.

3.17. Culture, education, training, youth

Progress in the areas of education, training and human resources development will be crucial for Turkey, if it is to take advantage of the opportunities of accession. It will be a decisive

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factor for developments in the labour market in Turkey and for possibilities to ensure progress in the convergence process with the present Member States.

Education, training and youth are primarily the competence of the Member States. The *acquis* in these fields consists in a contribution by the Community, mainly through its programmes, to the development of quality education and the implementation of a vocational training policy by encouraging cooperation between Member States and supporting and supplementing their action. Member States need to have the necessary implementing capacity in place to effectively participate in the Community programmes related to this chapter.

Turkey has put in place the necessary structures with a view to its participation in the Community programmes, and started to fully participate in them (Leonardo da Vinci, Socrates and Youth) in April 2004. This participation will allow Turkish institutions, establishments, youth organisations and enterprises to join European networks before accession, share good practice, have a direct and specific European experience and build long-term and sustainable partnerships with European counterparts. It will also help to develop European citizenship and promote the empowerment of young people in the decision-making process.

As Turkey participates already in the Community programmes in the field of education, training and youth, Turkey's accession to the EU would not induce any new effect.

3.18. Assessment

The existence of the EC-Turkey Customs Union anticipates to some extent the participation of Turkey in the internal market, particularly with regard to industrial goods. Under the Customs Union, Turkey is committed to align with part of the internal market *acquis*, including free circulation of goods, intellectual and industrial property rights, competition policy (state aid control and anti-trust) and with common commercial policy. However, Turkey has not fully respected its obligations under the Customs Union and there remain many areas in which Turkey's alignment to the Internal Market *acquis* and trade policy is incomplete.

The full adoption of the internal market rules by an emerging economy of the size of Turkey is in the overall strategic interest of the EU and could generate considerable positive effects in the longer term, especially for Turkey (expansion of economic activity, broader choice for consumers, increased competition, and more efficient allocation of factors of production). A prosperous Turkey fully integrated in the internal market will not only be a source of political stability but represents a strategically located large and growing consumer market as well as a dynamic procurement market with increasing investment opportunities in industry, infrastructure and energy. However, sectoral and regional tensions are likely to result from the country's adjustment process. There are a number of key challenges which must be met to ensure that Turkey's accession does not have an adverse impact on the implementation of Community policies related to the Internal Market. In particular, whether Turkey can fully integrate into the Internal Market and withstand its competitive pressures depends not only on its ability and willingness to fulfil present obligations under the Customs Union and, more generally, to abide by the internal market *acquis* but also on the implementation of further structural reforms, strengthened corporate governance and regulatory framework, progress in the fight against corruption and significant improvements to the functioning of the judiciary. Turkey will also have to make important efforts to ensure that its administration is able to effectively manage and enforce the Community *acquis* upon its accession to the EU.

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Turkey must fully comply with its Customs Union obligations, for example as regards the removal of the technical barriers to trade. This would have a positive impact on the free movement of goods, and facilitate integration in the internal market. Moreover, in order to ensure a level playing field in the internal market, Turkey would need to start complying with its State aid control obligations, which will present an important challenge to the Turkish economy. In the area of financial services, the degree of real and sustainable integration depends on continued macro-economic stability, further structural reforms and the strengthening of the legal and supervisory framework. Provided an ambitious reform agenda is sustained over the medium-term, Turkey's accession could have a positive impact on the EU, by giving better access to a potentially large and fast growing banking, insurance and investment market. Turkey is also a major service provider in the rapidly growing tourism sector and would therefore contribute to reinforcement and increased competition in this sector also at EU level. The accession process itself is likely to contribute to a significant increase of foreign direct investment originating from other EU Member States, to an improvement of the free circulation of capital and to a reinforcement of the Turkish economy.

The impact of accession in the field of free movement of workers is particularly difficult to predict. From available studies it seems likely that accession will imply some additional migration flows between Turkey and the present Member States. The magnitude of such flows will depend upon the numerous factors having an impact on the behaviour of potential migrants. In addition to increased productivity and income, sustained progress by Turkey in areas such as social policy, employment, health and education could reduce the pressure for migration. On the other hand, with its young and still growing population, Turkey could contribute to the available work force in a situation of overall demographic stagnation or decline elsewhere in Europe. To the extent that progress is achieved in the area of education and training, this would have a positive impact on overall economic growth in Europe. As in the last enlargement, the Commission would produce a thorough analysis in view of defining an EU common position in this area.

If Turkey's accession would generate significant migratory flows, this could lead to serious disturbances in some Member States. Should further analysis indicate that such flows are likely, the EU should prepare itself to take appropriate measures. In order to deal with potential difficulties on the labour market an accession treaty could provide for transitional provisions. Additionally, in order to deal with extreme difficulties, a safeguard clause providing for the possibility of suspending, if required, the full application of the provisions on the free movement of workers could be considered.

Employment, social policy and public health are key factors in promoting economic growth, employment and social cohesion. An active and ambitious approach by the Turkish authorities in these areas would facilitate positive results of structural reforms, in particular in human resources development, and thereby contribute to faster economic convergence. In this respect, progress will in particular be required as regards trade union rights, women's rights, anti-discrimination, child labour and other core labour standards.

Environment is also of crucial importance to the objective of promoting sustainable production and consumption in an enlarged internal market. Potential positive effects of Turkish accession relate to reduced cross-border pollution, improved water quality in the Black Sea, enhanced EU climate change policy through ratification of the Kyoto Protocol and increased natural richness. Implementation of the environmental acquis will induce heavy costs over a long period of time and requires not only strengthened administrative capacity at all levels but also the early elaboration of a financial strategy.

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From the point of view of energy supply and transport networks, Turkey is of strategic importance to the European Union. Both its growing energy demand and its role as a transit country will also generate significant investment opportunities. However, meeting the requirement of the transport acquis in terms of technical and safety standards will present a sizeable challenge.

Full adaptation of Turkey to the acquis will be a lengthy and costly process. In a number of areas major financial and investment needs, in particular in the field of infrastructure, have been highlighted. This will require the definition of clear priorities by Turkish authorities, including a solid pre-accession strategy to be supported by significant EU contributions. Many of these heavy investment needs are crucial to the Turkish economy and the welfare of the citizens and relate to such areas as the management of the external borders, veterinary provisions and food safety, health and safety at work, safety in the transport sector, enhanced security of energy supplies, as well as alignment and implementation of EU environmental standards. On the other hand, the long term impact of Turkish accession is expected to be considerable in the industrial area with increasing business and investment opportunities for EU companies.

4. AGRICULTURE, VETERINARY AND PHYTOSANITARY ISSUES, FISHERIES

4.1. Size and structure

Agriculture is of key importance to Turkey, both in social and economic terms. About half of Turkey's area of some 79 million hectares is devoted to agriculture, which is roughly in line with the EU27 average (48%). Turkish accession would therefore add about 39 million hectares to the EU's agricultural area. This would represent 23% of the EU-25 agricultural area. In 2003 roughly one third of the workforce was employed in agriculture, and in the same year the sector represented 12.2% of GDP.

The climatic and geographical conditions across the country permit a wide range of different farming activities, and Turkey is a major world producer of (in no particular order) cereals, cotton, tobacco, fruit and vegetables, nuts, sugar beet and sheep and goat meat. Roughly 50% of Turkey's agricultural area is devoted to arable crops (of which about 20% is fallow land and 20% irrigated), 25% to permanent meadows and pastures and 2.5% to permanent crops. There are significant regional differences in production patterns.

The farm structure in Turkey shows similarities with some of the new member states and with Bulgaria and Romania. According to the 2001 census there are approximately 3 million agricultural holdings in Turkey (compared to nearly 13 million in the EU-25), most of which are family farms employing family labour. This is down from about 4 million holdings in 1991. Figures for the average size of holdings suggest that holdings are small by EU standards (6 hectares on average compared to an EU-25 average of 13 hectares). These figures on numbers of holdings and average size are however not in line with the total area. The reasons for this discrepancy are not clear, but they may stem from the exclusion of communal or unused land or deficiencies in the statistical methodology.

Subsistence and semi-subsistence farming is an important characteristic of Turkish agriculture, as is the case in certain regions of the current EU and in Bulgaria and Romania. These farms are typically characterised by productivity being low and only a small fraction of production being marketed. They are difficult to reach with traditional market and price

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policies, but are crucial for the income security and livelihood of the majority of the rural population in Turkey.

Turkish accession would add over 80 million additional consumers to the EU25 total of 452 million, although with a per capita purchasing power substantially lower than the EU25 average.

Compared to previous acceding countries Turkey is larger, more populated and poorer. It is also more protected in market terms than most. The competitiveness of its agriculture and agri-food enterprises is, on the whole, less on average than in the EU.

A proper assessment as to what extent the present CAP system could cope with an accession by Turkey and its implications for financial resources would require a deeper analysis, at least as thorough as the one that was made in the case of the new Member States.

4.2. Turkish agricultural policies

Historically, Turkey has had a highly protected agricultural market in tariff terms. While import protection remains high, since 2000 Turkey has been implementing an agricultural reform programme aiming at re-orienting agricultural support, achieving a balance of supply and demand, creating a more competitive agricultural sector and reducing state involvement. The main elements in the agricultural reform programme are: (i) cutting domestic prices (ii) decoupled direct income payments (to the roughly 90% of farmers having between 0.5 and 20 hectares), (iii) one-off payments to encourage farmers to switch from tobacco and hazelnuts to alternative crops, (iv) replacement of State economic enterprises and agricultural sales cooperatives with self-financing private cooperatives and (v) public awareness campaigns to encourage consumption.

The reform process is still not complete, but it has had some positive impact, for example on the levels of the most trade distorting types of support. It is clear however that Turkey's agricultural policy still differs substantially from that of the EU, notably as regards the share of direct support and the lack of any effective rural development policy. Various budget-financed market policies still exist such as intervention buying, input subsidies and production related subsidies. Import tariffs for most agricultural products are higher than in the EU, and for many sensitive products prohibitive. Export subsidies play a role, although they are less significant than in the EU. Privatisation of state agricultural enterprises is lagging behind.

According to recent OECD figures, the Producer Support Estimate (PSE) in Turkey in 2003 was 26% (compared to 37% in the EU15), and the Total Support Estimate (TSE) represented 4.41% of GDP (compared with 1.32% in the EU15). The combined share in the PSE of market price support, input and output payments in Turkey in 2001-2003 was 85%, compared to 69% in the EU15 (the difference being due primarily to the greater emphasis in the EU15 on direct payments).

4.3. Main agricultural sectors

A comparison of the main agricultural sectors in the EU and in Turkey is made difficult by differences in statistical method and product quality. The extent of differences at the time of accession will also depend on developments in Turkey's agricultural policy and markets

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during the long pre-accession period. Some general conclusions can however be drawn based on existing information sources.

In the *arable crops* sector Turkey would be a major producer in EU terms. In 2001 for example the area devoted to cereals in Turkey (not including rice) was 13.8 million hectares, which represents 26% of the EU-25 total for the same year. Cereal yields on the other hand (with the exception of rice) are generally low (around 2 tonnes per hectare for wheat, which represents two-thirds of total cereal production). Although price levels are difficult to compare, prices for wheat, barley and certain cereals appear to be substantially higher than EU prices.

For *fruit and vegetables*, Turkey is a major world producer and net exporter, and would be a big player in the EU. Its levels of production currently amount to around 40% and 20% of EU-25 production of fruit and vegetables respectively. Turkey would be the largest EU producer of vegetables by far, and number three for fruit (after Italy and Spain). Turkish fruit and vegetable prices appear to be somewhat lower than EU prices, with the exception of apples and citrus fruit for which prices are similar to the EU level.

As regards *nuts*, Turkey is a major world player, in particular for hazelnuts where Turkey is the largest world exporter. Hazelnut production in 1999 was 500,000 tonnes – more than three times the EU15 total of 140,000 tonnes. In general, Turkey is a very competitive nut producer in terms of quality / price ratio thanks to its climate and low labour costs.

For *other crops*, Turkey appears to be a competitive producer (in EU and world terms) of certain grain legumes such as chickpeas and lentils, of cotton, and of some qualities of tobacco and olive oil. For sugar, Turkey is not competitive in world terms, but the significance of this can only be assessed when the outcome of the EU sugar reform is clear.

In the *live animals and animal products* sector the Turkish market is highly protected. Turkish meat consumption per head is only about one fifth of the EU average although for sheep meat it is higher than in the EU. Consumption figures for cow milk and eggs are at about half the EU level and three quarters the EU level respectively. Livestock farming is generally a small-scale family farm activity. Only 2% of farms are specialised in animal husbandry. Market prices for most livestock, meat and dairy products appear to be higher than in the EU, except for sheep meat where prices seem somewhat lower than the EU level.

4.4. Trade

Turkey is a significant agricultural exporter. Agricultural exports from Turkey in 2003 totalled 4.24 billion EUR (8% of total Turkish exports), and agricultural imports 3.88 billion EUR (5% of total imports). Turkey's main exports are fresh fruit and vegetables, which accounted for 46.5% of all Turkey's agricultural exports in 2003.

Turkey's main trade partner is the EU, but it also has important trade relations (and a trade surplus) with other countries in the Mediterranean basin and the Gulf region. Turkey has a substantial agricultural trade deficit with the US of almost 600 million EUR, partly due to the use by the US of over 400 million dollars in trade distorting export credits. Main US agricultural exports to Turkey include cotton, cigarettes and tobacco, wheat, barley, soybeans and corn.

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In recent years Turkey has had a significant trade surplus in agricultural products with both the EU15 (Turkey's exports in 2003 €2,036 million; imports €1,027 million) and the 10 New Member States (NMS) as a group (exports €126 million; imports €29 million), mainly due to exports of fruits, nuts and preparations of fruit and vegetables, although tobacco and tobacco products are also important. Turkey's imports from the EU have traditionally been spread over a much wider range of sectors, with hides and skins, essential oils and cotton (despite high domestic production of the latter) being the most important in value terms. Imports from the 10 NMS have been limited to cereals and some dairy products.

Agriculture is explicitly excluded from the customs union with the EU. Trade liberalisation in agriculture is highly asymmetrical: the EU has granted Turkey very preferential treatment on market access while Turkey has granted relatively little in return. In addition Turkey maintains an import ban on most live animals and animal products. The only important concessions granted by Turkey to the EU (on meat and live animals) have never been accessible due to Turkey's import ban (Turkey claims to have imposed the ban for public/animal health reasons, but it is not in line with international norms for such measures and it primarily serves market protection objectives). As regards Turkish exports to the EU, the situation is very different. Roughly 70% of Turkish agricultural exports to the EU enter duty free, while fruits, vegetables and tobacco enter the EU practically free of charge.

4.5. Effects of Turkey's accession

A clear assessment of the effects in the field of agriculture is not possible at this distance from the possible accession of Turkey. Any assessment must necessarily be based on a solid economic analysis of the impact on the existing acquis, but the real effects will also be determined by developments in Turkey's agricultural policy during the long pre-accession period. The problem is compounded by the number of different interdependent markets involved, by future changes in production, consumption, prices, trade etc. The development on the world market and the outcome of WTO negotiations will also be of substantial importance. That said, some broad qualitative conclusions can however be drawn.

The competitiveness of Turkish agriculture and food industries as well as the economic revival of rural areas will be major political and economic challenges in the future. In this respect, an essential element of the pre-accession process must be further trade liberalisation, similar to what took place between the EU and the ten new Member States. Gradual liberalisation will be needed if shocks are not to be experienced at accession. Further trade liberalisation will however be dependent on progress being made with implementing existing concessions, notably on beef.

Turkey has the potential of becoming a major player in several agricultural sectors. As noted above, Turkey is already competitive in some sectors such as fruits and vegetables, nuts, chickpeas, lentils, certain other crops and possibly sheepmeat. Turkey has significant production of cereals and animal products but in general in these sectors trade liberalisation between Turkey and the EU will have to be accompanied by measures to support restructuring and modernisation, in order to improve the competitiveness of Turkish agriculture. A crucial element in this as regards animal products will be the improvement of veterinary and food safety standards.

As Turkish agricultural products already benefit from substantial preferential treatment in the EU, the immediate effect of accession on Turkish exports to the EU will most likely be rather limited for Turkey's main export items. On the other side, it is likely that EU exports to

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Turkey will expand when the existing restrictions are removed. This should preferably take place gradually during the pre-accession period. In the longer term, Turkish accession can be expected to lead to an increase of trade in both directions.

A large fraction of the rural population in Turkey is employed on subsistence and semi-subsistence farms. Therefore, besides measures directly targeted at improving competitiveness, there is a need for economic development and diversification in rural areas as well as for creation of alternative sources of income. Efforts in that direction would be resource demanding as Turkish agriculture currently employs much of the rural work force.

In the event of negotiations with Turkey being opened, the EU should also give priority to the creation for Turkey of a pre-accession rural development instrument, presumably as part of the new combined Pre-accession Instrument (IPA), which should replace the SAPARD, PHARE and ISPA programmes for the period 2007-2013. The rural development component could certainly include some of the same measures as SAPARD (e.g. support for producer groups, investments in marketing and processing etc), but given the differences between Turkey and the CEECs, and the scale of adjustment required in Turkey before accession, existing rural development measures may need to be supplemented and or replaced with new ones.

Decentralised management would presumably imply, as for SAPARD, the setting up of a national competent authority and of an EU-style Paying Agency. This would in turn assist Turkey in its administrative preparations for the management of CAP measures after accession.

It is difficult at this stage to calculate possible expenditure in the agricultural sector upon Turkish accession to the Union, due to the statistical difficulties described previously. A rough estimate is made here using FAO and EUROSTAT average figures for 1999-2001, including some adjustment to take into account the time horizon (for example slightly higher milk production and cereal yields have been used than the historic averages). The calculation has been based on the per unit amounts decided in the Reform from June 2003 as well as Reform II this year.

The calculation suggests that, based on the current acquis, direct payments (after any transitional period) could cost in the order of €8 billion and market measures €1 billion (both in current prices), excluding expenditure for veterinary measures.⁷ For the 10 new Member States direct payments (after expiry of the agreed 10-year transitional period) and market measures (both expressed in current prices) are expected to cost about €7 billion, of which €6 billion direct payments.

For rural development currently funded by EAGGF Guarantee⁸, the annual allocation for Turkey after a phasing-in period based on the approach taken with Bulgaria and Romania would be around €2.3 billion (2004 prices) whilst for the 10 new Member States the

⁷ As most CAP payment amounts are fixed in nominal terms in EU Regulations, these estimates are the amounts in current prices. If one assumes that any transitional period would be over by 2025, the cost in that year in today's money (2004 prices) of full direct payments and market expenditure would be €5,3 billion and €60 million respectively (see also section 7 on budgetary aspects).

⁸ From 2007 it is foreseen that a single rural development fund will replace EAGGF Guarantee funded and EAGGF Guidance funded rural development

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comparable allocation is about €2 billion (2004 prices). For the EAGGF Guidance component of rural development no estimate can be made at this stage as the share allocated to Guidance from the total structural fund envelope is decided by the member state. Taking into account the importance of the agricultural sector in Turkey, as well as the level of overall economic development, a significant share could be foreseen for Turkey.

4.6. Veterinary issues

Nearly all major contagious and transmissible terrestrial animal diseases are endemic in Turkey and special measures will therefore be necessary in the field of *animal health* with the aim of eradicating these diseases in Turkey. Enhanced efforts should be made in the pre-accession period, which may include actions in the Eastern neighbouring countries. It must be expected that they will need to be continued for a long period. This might continue after accession, depending on the date of accession. Such measures will be very costly. The actions against Foot and Mouth Disease (FMD) could be a model for such a strategy and should include the setting up of competent authorities in charge of animal disease eradication and strict controls of internal movements of animals. Other specific actions have to be foreseen for the eradication of rabies. The need for action in the areas of fish (aquaculture) and poultry has to be explored further.

As regards the rules for *intra-community trade in live animals and animal products*, Turkish dispatches must be submitted to specific restrictive conditions (safeguard measures) as long as the animal health situation is not satisfactory. This could be done on the basis of existing *acquis*. The measures could be adapted over time and tailored to the progress registered on animal disease eradication (request for meat de-boning, heat treated meat and milk products, etc.).

The regime of *veterinary controls in the internal market* requires that veterinary checks at the production site are carried out properly and comprehensively and sufficient administrative and laboratory capacity must therefore be established. In particular, control of prohibited substances and residue monitoring in live animals and animal products, as well as monitoring of TSE have to be in place. In view of the problems with animal health, special rules for the dispatch of live animals and animal products from Turkey to other EU Member States are likely to be necessary. This would not exclude to be effected in the form of specially tailored veterinary controls at the border between Turkey and the other Member States.

EU veterinary *controls at the external borders* are based on a limited number of well equipped Border Inspection Posts. Implementation and enforcement of current EU rules will require substantial efforts. As regards Turkey's eastern borders, it must be explored whether the existing *acquis* takes all aspects of this situation sufficiently into account (traditional local trans-border movement of animals). EU rules for imports from third countries will in any case mean that trade flows from the east into Turkey of animal products, and in particular live animals, will be very limited.

As regards *food safety* and the *hygiene* of products of animal origin and food establishments, no measures could be accepted that would lower the high hygiene standards in the EU. Substantial efforts will be needed during the pre-accession period to upgrade food establishments. Any establishment not meeting EU requirements at the day of accession would have to be closed unless subject to a transitional measure, that would exclude its products from sale to other EU Member States, similar to what was agreed for the ten new Member States.

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Substantial improvements will be necessary in the field of *animal welfare* as has also been the case for the ten new Member States. Special conditions for halal slaughter are already laid down in the *acquis* but the need for adaptation of these rules will need to be explored.

4.7. Phytosanitary issues

Provided that Turkey undertakes major efforts as regards administrative capacity, including laboratory facilities and analytical capacity, the accession of Turkey should not raise significant problems as regards adoption and implementation of the phytosanitary *acquis*.

The *acquis* regarding *harmful organisms* requires surveillance of the domestic production and controls of imports from third countries. Substantial efforts must be made in the pre-accession period for Turkey to take over these obligations, including the registration of operators with a view to the implementation of the plant passport system. As regards Border Inspection Posts, especially those at the eastern external borders, measures will have to be taken to ensure full control of all trade flows in relevant plants and plant products. As regards *plant protection products*, Turkey will need to establish the EU system, which sets very demanding preconditions for the authorisation to place products on the market. No fundamental difficulties are expected in the adoption of the Maximum Residue Levels. Substantial resources will have to go into the establishment of a residue monitoring system in line with EU provisions.

The *acquis* regarding the marketing of *seeds and propagating material* aims to cover those plant species that are important to the Community. An accession of Turkey would lead to the need to include additional species. However, the necessary procedure is already provided for in EU legislation. As regards *plant variety rights*, the community system for the protection of intellectual property rights in the field of plant breeding would automatically extend to Turkey in case of an accession. The system is already open to breeders or other property right holders from non-member states.

4.8. Fisheries

For Turkey to comply with the requirements of the Common Fisheries Policy the administrative capacity must be strengthened, in particular as regards controls and inspections. An EU compatible fishing vessel register will need to be established as well as a vessel monitoring system for larger vessels. The various administrative bodies should be better co-ordinated. Large parts of the Common Fisheries Policy do not concern Turkey directly as it is not fishing outside the Black Sea and the Mediterranean.

As regards the Black Sea, the Community does not presently have any fishing activity, and thus the Community *acquis* would have to be completed. Given that pollution is one of the main problems for the rebuilding of stocks in the Black Sea, policies other than the CFP would also be involved in this area.

4.9. Assessment

In the event of negotiations being opened, the important economic and social role of agriculture in Turkey, as well as the substantial size of Turkish agriculture in absolute terms and the impact it will have on the budget, indicates that agriculture will be one of the most important issues in the preparations for accession. The relatively high level of protection

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raises the issue of the competitiveness of Turkish agriculture products within the EU. In order to prevent shock effects at accession, it is important that trade restrictions on EU exports are gradually removed during the pre-accession period and that the Turkish agri-food sector be helped to restructure and modernise. Turkey has the capacity to become a major player in EU agriculture as its production potential for some sectors is significant, but as Turkey already benefits from substantial preferential treatment of its exports to the EU the immediate direct effect of accession on the EU market is likely to be limited for Turkey's main export items.

The social impact of accession in Turkey could be significant owing to the large subsistence and semi-subsistence farming sector, employing the majority of the rural population. Much will depend on the capacity of other economic sectors - notably in rural areas - to absorb the shifts of labour from subsistence and semi-subsistence farms.

As regards agricultural policies, the agricultural reform programme in Turkey is a step in the right direction but the reform is not yet complete. During the pre-accession period the reform will need to be targeted directly towards the requirements of the CAP, as in most cases implementation of the agricultural *acquis* has not yet started. The main emphasis in this regard, and the main focus of the accession preparations, should be the creation of a rural development strategy aimed at the restructuring and modernisation of agriculture (in particular with regard to subsistence and semi-subsistence farming) and the economic revival of rural areas.

As regards specific transition periods or derogations, it is very difficult to speculate so far in advance of an accession, and without having conducted screening process, on exactly what may be negotiated. Much would depend on how much harmonisation / approximation to the *acquis* could be achieved during the pre-accession period. The basic principle is clear however: Turkey would essentially have to adopt the *acquis* in the form in which it then applies. This would presumably require transitional arrangements, which could be particularly long, possibly involving the maintenance of borders for a transitional period after accession. This would likely prove necessary, given the scale of adjustments required by Turkey, in order to avoid any shocks on accession, and indeed facilitate it, in the event of there having been insufficient progress by that time. It could also go some way to allay any fears in existing EU member states as regards specific sectors.

In the veterinary field, major efforts must be made to improve the animal health situation already in the pre-accession period, but serious problems can nevertheless still be expected at accession. Special restrictions must therefore be foreseen after accession for the movement of live animals and animal products from Turkey. This may imply a need for special controls at the border between Turkey and other Member States. The controls at Turkey's eastern borders must also be given particular attention. Major efforts will be necessary in the fields of food safety and public health as well as animal welfare. With the proper use of the veterinary control system of the EU no negative effects from Turkish accession on the rest of the EU should be expected.

If the necessary preparations are made in the phytosanitary field no significant problems should be expected. The controls at Turkey's eastern borders must however be given attention. Major efforts will be necessary, in particular to build up administrative and laboratory capacity.

As regards the Common Fisheries Policy, it should be possible for Turkey to make the necessary preparations during the pre-accession period. Accession will have no particular impact on the rest of the EU in this sector.

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5. REGIONAL AND STRUCTURAL POLICY

The implications of Turkish accession for EU structural policies are likely to be substantial, given the size and the economic features of the country. It is however extremely difficult at this stage to evaluate these implications, as economic developments in the meantime are uncertain, and any quantitative assessments would be highly speculative. This section is therefore essentially limited to a description of challenges both to the EU and to Turkey in the context of accession.

The analysis of the effects of Turkey's accession on cohesion policy is based on the following assumptions:

- The tentative calculations of disparities given below are based on current GDP levels of EU-25, Bulgaria, Romania and Turkey. However, by the time Turkey would enter the Union, the levels of disparities could be significantly different, depending on the relative economic performance in the meantime;
- the *acquis* remains unchanged, even though a major reform of cohesion policy has been proposed by the Commission and may be implemented by the end of 2006.

While these static assumptions represent methodological limitations, it should be borne in mind that Turkey's low income levels and wide regional disparities are such that the analysis is not likely to be fundamentally modified by different growth scenarios and/or amended eligibility criteria. It should also be recalled that, under the current *acquis*, the level of transfers from the structural funds is limited to a maximum of 4% of a beneficiary country's GDP (see also section 7 - budgetary aspects).

5.1. Turkey's accession would increase regional disparities in the EU in statistical terms

The inclusion of Turkey would significantly increase the socio-economic disparities across the EU. The scale of the statistical effect in terms of reduced average per capita GDP is comparable to the effect of the accession of the 10 new Member States. The changes brought about by the recent enlargement as well as those implied by the inclusion of Bulgaria, Romania and Turkey are illustrated in *Table 1*.

Table 1: Impact of previous and potential upcoming enlargements of the EU

| | <i>INCREASE IN SURFACE AREA</i> | <i>INCREASE IN POPULATION</i> | <i>INCREASE IN TOTAL GDP(*)</i> | <i>CHANGE IN PER CAPITA GDP(**)</i> | <i>AVERAGE PER CAPITA GDP(**)</i> <i>(EU15 = 100)</i> |
|--|---------------------------------|-------------------------------|---------------------------------|-------------------------------------|--|
| | | | | | |

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| | | | | | |
|---------------------------|-----|-----|-------|-------|------|
| EU15/EU25 | 23% | 20% | 4,7% | -8,8% | 91,2 |
| EU25/EU27 | 9% | 6% | 0, 7% | -4,3% | 87,4 |
| EU27/EU27+TR ⁹ | 18% | 15% | 2,2% | -9,1% | 79,4 |

(*) in Euros

(**) in PPS, 2003 GDP data

Source: Eurostat, NSI, calculations DG REGIO

The 10 new Member States have added much more to the EU population (+20%) and to EU surface area (+23%) than to its GDP (around 5% in terms of Euros). As a result, average GDP per head in the EU of 25 Member States is around 9% less than the average in the EU15. Bulgaria and Romania would add together a further 6% to EU population as well as 9% to its size, but less than 1% to GDP.

While Turkey's population and size is comparable to those of the 10 new Member States taken together, Turkey's GDP per head in PPS terms is much lower than the average GDP of the 10 new Member States (28,5% of the EU25 average as compared to 52%). If Turkey were to join the EU27 today, it would add 15% to EU27 population as well as 18% to its size, but only 2,2 % to GDP. Average GDP per head of the EU27 would fall by 9%.

On the basis of the current data and eligibility criteria, the entire territory of Turkey would be eligible for assistance under Objective 1 of the Structural Funds as well as for assistance under the Cohesion Fund.

The enlargement to EU25 brought about an increase in the population living in regions eligible for Objective 1 support (where GDP per head is below 75% of the EU average) of 51 million. Some 69 million people living in the 10 new Member States became eligible for Objective 1 support, but 18 million people predominantly located in EU15 are no longer eligible as a result of the lowering of the EU average income level.

While upon accession Turkey's whole population would be covered by the Objective 1 criterion, some regions in EU27 would lose their eligibility because of the lowering of the EU average GDP level. Tentative estimates on the basis of current income levels suggest that this effect would be similar to that in the enlargement to EU25, so that the net overall increase in population eligible for Objective 1 support would also be on a comparable scale.

In the regions that would lose their eligibility for structural assistance, the level of GDP per head will be the same after enlargement as before, as will the structural problems which underlie their relatively low level and which prompted the structural assistance initially. For

⁹ Without prejudice to the accession of any other country in the meantime, e.g. Croatia.

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such regions that have not completed their process of convergence by the time of accession, phasing-out arrangements might need to be considered.

5.2. Regional disparities within Turkey

As already highlighted in the economic section, Turkey's GDP per head in terms of PPS is 28,5 % of the EU25 average. There are significant disparities between the 26 level-2 regions in Turkey, which are associated with substantial differences in geographical features, climatic conditions as well as migration flows.

In particular, there is a pronounced east-west divide with the main centres of economic activity located in the western part of Turkey. These are benefiting from trade with the rest of the world, tourism, a higher level of investment as well as better infrastructure endowment. 63% of the Turkish population are living in roughly half the land area, accounting for 78% of national GDP and with GDP per head 23% above the national average (*see Table 2*).

Table 2: East vs. West Turkey

| | share of population | share of GDP | GDP/head (TR = 100) |
|------|---------------------|--------------|---------------------|
| East | 37% | 22% | 60 |
| West | 63% | 78% | 123 |

The most disadvantaged regions, on the other hand, are located in the remote and mountainous eastern periphery of Turkey. GDP per head in the eastern half of the country was only 60% of the national average, or only 9% to 20% of the EU25 average. In fact, the 10 poorest regions of an enlarged EU would be located in the eastern part of Turkey.

5.3. Turkey's needs and implications for its development strategy

Turkey faces two major challenges, namely a very low national level of GDP per capita, and strong regional disparities.

The Structural and Cohesion Funds could contribute significantly to Turkey's process of catching-up with the EU. However, the impact of Structural Funds can vary considerably depending on both the general economic conditions and the specific institutional set-up of Structural Funds spending. The experience of the cohesion countries underlines the necessity of macroeconomic stability and a proper functioning of goods, capital and labour markets for the process of income convergence. Structural Funds alone are not sufficient for catching-up if the economic policy framework is inadequate.

Turkey has a wide range of financing needs, including upgrading physical and human capital, but also meeting EU technical rules and standards and restructuring the agricultural sector. The major needs are in the transport, telecommunications, energy and environmental

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sectors, as well as education, training and R&D. The efficiency of public investment also depends on management reform and regulatory restructuring.

5.4. Assessment

The structural problems in Turkey represent a major challenge for cohesion policy, of a similar scale to the most recent enlargement. Turkey's low level of GDP per head and wide regional disparities would require significant support from the Structural and Cohesion Funds over a long period of time. On the basis of the current data and eligibility criteria, the entire territory of Turkey would be eligible for assistance under Objective 1 of the Structural Funds as well as for assistance under the Cohesion Fund.

The challenge for cohesion policy will be to integrate Turkey gradually into the structural aid system. In order to sustain the high rates of growth required to achieve convergence with EU levels of employment and income, Turkey will need to bring its infrastructure up to date, modernise its education and training system and create a business environment favourable to investment. This will be a long-term process.

In order to prepare for accession, Turkey should set up a regional development policy that would enable it to participate in EU programmes for strengthening economic and social cohesion. EU pre-accession assistance must prepare Turkey to implement the *acquis* by the time of accession, including the reinforcement of administrative capacity at the national and regional level.

Finally, it should be noted that Turkey would be eligible for a substantial amount of structural policy expenditure. A number of EU regions benefiting from Structural Funds support would lose their eligibility upon Turkey's accession as a result of the significant lowering of the EU average GDP per head. The difficulties confronting these regions would not be reduced by Turkey's accession, so that phasing-out arrangements might need to be considered in the light of economic development in coming years.

6. JUSTICE AND HOME AFFAIRS

From its beginning, European integration has been firmly rooted in a shared commitment to freedom based on human rights, democratic institutions and the rule of law and the Copenhagen political criteria are a demonstration of such commitment. The area of freedom, security and justice is founded upon these values and upon mutual confidence. Mutual confidence supposes that those common values are indeed respected and promoted. Freedom can only be enjoyed in conditions of security and justice accessible to all citizens. Given the trans-national dimension of threats to security, national governments can no longer act in isolation but need to work collectively to counter such threats. A joint mobilisation of the police, other law enforcement agencies and the judiciary is essential. The accession of Turkey would provide an opportunity for an increased cooperation within the EU on border management, illegal migration and organised crime, including corruption, trafficking in human beings and drug trafficking. An effective joint action, for which mutual confidence is essential, would certainly contribute to addressing trans-national problems and thus strengthening the security and freedom of citizens in the current MS and across the Union.

6.1. Border management

Border management is a particularly important area. As was the case with the countries which acceded to the EU on 1 May 2004, Turkey would not accede to the Schengen-zone upon its accession to the European Union but at a later date to be determined by the Council, following a stringent evaluation of Turkey's capacity and practise in terms of border control and surveillance. In consequence, internal border controls *vis-à-vis* Turkey would not be lifted upon Turkey's accession to the Union. Thus, Turkish citizens and other EU citizens who wish to travel from Turkey to other EU Member States would still be subject to border checks and would have to present their passport or identity card upon entering another EU Member State; third country nationals leaving Turkey and entering another EU Member State would still be subject to full immigration controls.

Turkey's accession to the European Union would lengthen the external border. As the borders with Bulgaria and Greece will be internal, the external land border would be extended to Georgia (276 km), Armenia (328 km), Azerbaijan (18 km), Iraq (384 km), Iran (560 km) and Syria (911 km). To this new external land border of 2,477 km should be added the Black Sea blue border which runs for 1,762 km and the Aegean and Mediterranean blue border which runs for 4,768 km. Much of the border in the east and south-east crosses mountainous terrain.

In order to ensure its own security, Turkey already devotes considerable resources to border management; some 64 000 personnel are deployed on border management tasks. Turkey would through accession, and in particular after the possible lifting of internal borders to be decided at a later stage, become responsible for ensuring an efficient protection of the new external border and hence have to play a key role in ensuring the security of the Union itself. However, many aspects of border management are not in line with EU practices; for example, border management is currently split between the army, gendarmerie, police and coastguard, although Schengen best practices require a single professional authority to be responsible for border management.

Turkey has already taken the first steps towards aligning its border management legislation and practices with the *acquis*. In 2003, Turkey adopted a Strategy for alignment with the *acquis*, including a commitment to create a professional corps of non-military border guards, and is currently developing a National Action Plan, setting out the details and schedule of legislative and institutional alignment. The Plan will identify needs for staffing and training and what further equipment and infrastructure should be deployed in order to ensure a high level of protection at the border. The Turkish Government will have to make provisions in order to secure necessary financing, since only minor parts can be financed by EU funds. Clear targets with intermediate steps should be defined in the Plan in order to enable the EU fully to assess progress.

As was the case with the new Member States, regular EU assessment missions would be conducted to ensure that management of the Turkish border reaches EU standards.

Following Turkey's possible accession to the Union, the proposed European Borders Agency would be able to undertake activities in Turkey, such as the organisation of joint operations and pilot projects, as well as operations to tackle critical situations, should they arise.

6.2. Visas and asylum

Turkish citizens currently require a *visa* to enter the European Union. Opening accession negotiations would not automatically lead to the lifting of the visa requirement. It would, however, be open to the Member States, acting upon a proposal from the Commission, to lift the visa requirement for Turkey at any point during the accession negotiations. For its part, before accession Turkey would have to complete its alignment with the visa Regulation concerning third-country nationals, which would help to combat *illegal immigration* into the current Member States. Turkey has already taken steps concerning illegal migration which have diverted migratory flows away from Turkey. The conclusion of an EC readmission agreement would help to address these problems in the pre-accession period. Moreover, during the pre-accession process, the use of instruments such as “twinning” will bring about closer operational co-operation between the Turkish law enforcement authorities and the current Member States concerning illegal migration. Furthermore, during the pre-accession period the fight against illegal migration should be strengthened by improved exchange of information, statistics and risk assessments on migratory flows and organised crime networks between the current Member States and Turkey, the development of public information campaigns, liaison concerning the repatriation of illegal migrants to their countries of origin and co-operation on dismantling networks of migrants’ smugglers and traffickers.

Turkey is currently a *country of origin of applicants for asylum* within the European Union. In 2003, 21,890 Turkish citizens submitted claims for asylum in the EU 25, while 2,127 were accepted. (By way of comparison, in 2003 3,041 Romanian citizens submitted claims for asylum and 61 were accepted, while 2,427 Bulgarian citizens submitted claims for asylum in the EU 25 and 8 were accepted.) So far as successful asylum applications are concerned, the ongoing implementation of political reforms, especially in the south-east of Turkey where the population is predominantly Kurdish, is likely to reduce significantly the number of applications for asylum. It can be inferred that the applications which were not accepted were in general submitted by persons leaving Turkey for economic reasons. As noted elsewhere, the opening of accession negotiations is likely to stimulate economic development and to reduce poverty, thereby reducing the numbers of applications of this kind. After accession to the EU, Turkey would be regarded as a safe country of origin in relation to asylum matters in accordance with the Protocol on Asylum for Nationals of Member States of the European Union.

At the moment, substantial numbers of *asylum applicants from third countries* travel through Turkey on their way to submit asylum applications in the Member States. Turkey currently applies the geographic limitation to the Refugee Convention, which means that it does not accept asylum applications unless the applicant originated from Europe. Turkey must lift this limitation during the pre-accession period and put in place a system to deal with asylum applications which will respect the standards and procedures provided by the 1951 UN Geneva Convention and the *acquis* concerning asylum. Consequently, after accession to the Union, many applicants for asylum from third countries would no longer travel through Turkey en route to the current Member States but would instead submit their application in Turkey. Developing an asylum system would be costly and could raise the issue of burden sharing by the current Member States in order to ensure solidarity with Turkey. Furthermore, after accession, the Dublin Regulation would apply to Turkey. Thus, in many cases, asylum applicants who have travelled through Turkey illegally but who have chosen to submit their application in another Member State would be returned to Turkey for their application to be heard there. The accession of Turkey would thus be likely to reduce the number of asylum applications dealt with by the current EU Member States.

6.3. Judicial cooperation

Turkey's accession would result in an intensification of *judicial cooperation on civil and criminal matters* between Turkey and the EU. The cornerstone of judicial cooperation is mutual recognition and this is founded on mutual confidence on each other's judicial systems. The way towards that is therefore by building up an independent and efficiency judiciary, respecting fundamental rights and the rule of law. The courts of the current Member States would start to apply *vis-à-vis* Turkey the rapidly growing *acquis* on civil and commercial judicial cooperation, which includes instruments laying down rules on jurisdiction, recognition and enforcement of judicial decisions, as well as instruments aimed at facilitating access to justice. New methods of judicial cooperation, based on direct court-to-court contact would be applicable for the cross-border service of documents and taking of evidence. Turkey would as well be applying the rapidly evolving *acquis* in this area, including minimum standards legislation and harmonised legislation. For instance, if common procedural safeguards in criminal procedures are to be adopted at European level this would have to be applied by Turkey. Common procedural guarantees will play a key role, not only by promoting the human rights dimension of justice, but also by creating the necessary conditions for mutual confidence and hence for mutual recognition. On criminal matters, the European Arrest Warrant would enable the surrender of persons apprehended in the current Member states to the Turkish courts for trial and vice-versa.

Co-operation between the court systems of the Member States is based upon the principle of mutual recognition of decisions, which depends upon the establishment of mutual trust and confidence between the judiciaries of the Member States. In order to develop this mutual trust and confidence, it will be essential during the pre-accession period for Turkey to continue its process of reform of the judiciary and of civil and criminal law. Regular EU missions will continue to be conducted to examine the ongoing process of the reform of the judiciary.

6.4. Corruption and fraud

Corruption is currently a significant problem in Turkey. Turkey has recently joined GRECO, the anti-corruption peer review mechanism under the auspices of the Council of Europe. Turkey was also one of the first countries to sign the first global anti-corruption instrument, the UN Convention against Corruption, which contains binding preventive measures for both the public and the private sector. During the pre-accession period, co-operation with GRECO, full implementation of its recommendations and support through twinings for the implementation of the National Action Plan against corruption should strengthen significantly Turkey's capacity to fight corruption. Substantial administrative reforms will be needed to ensure a successful outcome (see also the Regular Report).

In the field of *fraud*, Turkey has to align itself with relevant *acquis*, in particular the Convention on the Protection of the European Communities' Financial Interests. The alignment process is ongoing, but it is too early to evaluate the effect of Turkey's efforts in this field.

6.5. Drugs

Turkey is situated on the Balkan route, a major *drug trafficking* route. The Turkish law enforcement authorities already co-operate with their EU counterparts concerning organised

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crime, including drug trafficking. However, for both drug trafficking and organised crime in general, the pre-accession process should be used to develop the administrative capacity of the Turkish law enforcement agencies, and to strengthen significantly their links with EU counterparts. It should thus stimulate more effective joint action between agencies in Turkey and in the EU and enhance their ability to work together to meet common threats. Accession to the Union itself, and membership of bodies such as Europol and Eurojust, would strengthen still further such co-operation.

In general, the amount of drugs passing through Turkey is largely dependent upon the demand from the current Member States, which would not be affected by Turkey's accession. Turkish participation as an observer in the European Monitoring Centre for Drugs and Drug Addiction during the pre-accession period, and its full membership upon accession, would strengthen substantially Turkey's capacity to collect data concerning domestic demand, which would assist in the development of a National Drugs Strategy fully aligned with the EU Drugs Strategy.

6.6. Assessment

Extending the area of freedom, security and justice to Turkey would strengthen co-operation against common trans-national threats, such as organised crime, trafficking and terrorism, to the benefit of the European Union as a whole. Nevertheless, given the importance of the challenges in this field, the accession process concerning Justice and Home Affairs, including the judiciary, would be complex.

The first steps to develop a National Action Plan on border management are already underway; clear targets with intermediate steps should be defined in the Plan in order to enable the EU fully to assess progress. Ensuring a high level of border management is important not only for the area of freedom, security and justice, but also for other areas such as trade, veterinary and phytosanitary controls and customs.

Turkey faces an important challenge in developing an asylum system and taking over responsibility for determining claims for asylum; EU support could be necessary in this regard.

Moreover, Turkish accession to the EU would enhance co-operation with EU law enforcement authorities concerning threats such as drug trafficking and illegal migration.

7. INSTITUTIONAL AND BUDGETARY ASPECTS

7.1. Institutions

As in previous enlargements, the accession of Turkey would have an impact on various EU institutions. It is assumed that the Constitution will be adopted and in force by the time of possible Turkish accession. The Constitution aims to make institutions and procedures more efficient in order to ensure their smooth and effective functioning in a Union of more than 25 Member States.

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The size of the population will be an important determinant of the impact of Turkey's accession, given that by 2015 Turkey could be expected to have about the same population as Germany.

Under the Constitution the seats in the *European Parliament* shall after 2009 not exceed 750 with a minimum threshold of 6 seats and a maximum ceiling of 96 seats per Member State. The increase from currently 732 to 750 seats is intended to accommodate further enlargements of the Union. Turkey's accession would significantly affect the allocation of seats to current Member States. In particular the medium and large countries will have to give up seats to accommodate Turkey's accession.

As far as the *Council* voting system is concerned, the Constitution introduces as from 1 November 2009 and with regard to qualified majority voting (QMV) the principle of double majority. It shall be defined as at least 55% of the members of the Council comprising at least fifteen of them and representing Member States comprising at least 65% of the population of the European Union. In addition, a blocking minority must include at least four Council members, failing which the qualified majority shall be deemed attained. With the accession of Turkey a blocking minority could be more easily achieved from the population side by a small number of larger states.

As a consequence, in an EU-27 plus Turkey the latter would have a weight in decision-making more or less equivalent to its above-mentioned share of population in the EU, giving it an important voice in the decision-making process.

Turkey's accession will have less institutional impact as regards the *Commission*. Under the Constitution the Commission to be appointed as from the term starting in 2014 shall consist of a number of Members, including its President and the Union Minister for Foreign Affairs, corresponding to two thirds of the number of Member States, unless the European Council, acting unanimously, decides to alter this figure. The members shall be selected on the basis of a system of equal rotation between the Member States.

7.2. Budget

Given its size and level of economic development, Turkey's accession would undoubtedly have an important impact on the EU budget. Whilst it would be mechanically possible to quantify the hypothetical budgetary impact of Turkey's accession based on the current *acquis*, any such estimates would need to be treated with extreme caution taking into account the likely timetable and the numerous uncertainties, not least as regards the future evolution of those EU policies with an important budgetary dimension as well as the outcome of negotiations and any special arrangements which may be called for in the case of Turkey. Developments in Turkey itself which are of direct relevance to the EU's main spending policies such as future prospects for national and regional economic development and for the agricultural sector are also difficult to predict with accuracy, as are variables such as population growth and inflation. Just as the EU's spending policies may undergo important changes prior to Turkey's accession, the revenue side of the EU budget will also be affected as current arrangements for the funding of EU expenditure are unlikely to remain the same in the future either.

Notwithstanding the above, it is worth noting some of the key elements of the EU budget as things currently stand and highlighting how some of the parameters might be affected by Turkey as a Member State. The ceiling for payments in the current financial perspective for

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the EU budget in 2004 is 1.11% of EU25 GNI, equivalent to just above €11 billion. Most expenditure areas would be affected significantly were Turkey a Member State. As regards *agriculture*, it is clear that Turkey would be eligible for significant support under the CAP in its current form including the rural development policy. The size of the agricultural sector in Turkey both in absolute terms as well as with respect to its economic and social role will represent an important element in budgetary considerations in the future. Agricultural employment in Turkey currently amounts to 7 million people or 33 % of the active population compared to 10.4 million in the EU as a whole (5.4% of active population), of which almost four million in the ten new Member States. Utilised agricultural area in Turkey comprises of 39 million hectares versus 167 million hectares in the EU25, of which 36 million hectares in the new member States. If Turkey were to accede in 2015 and a ten year phasing-in of direct payments were to be decided, as was the case for the ten new Member States and for Bulgaria and Romania, the full impact of agricultural expenditure would not be reached until 2025. Based on current *acquis*, the cost of extending the existing Common Agricultural Policy including rural development to Turkey based on the estimates provided in the section on agriculture would amount to €3.2 billion (2004 prices) by 2025, the first year it is assumed 100% of direct payments would be due. Of this figure, €2.3 billion would be rural development funding, €3.3 billion direct payments and €660 million market expenditure (all 2004 prices).¹⁰

As regards *regional policy*, with a level of GDP per capita at about 28.5 % of the EU25 average at purchasing power standards, close to the level of Bulgaria and Romania (29% and 30% respectively), Turkey would - based on current rules and were it already a Member State - be eligible for significant levels of structural operations expenditure. The existing rules, however, have never been applied to a country of similar size, similar level of economic development and similar intensity of regional disparities as Turkey. On the one hand, this may justify the introduction of specific mechanisms which take into account the specificities of Turkey. On the other hand, as economic development in the coming twenty years is uncertain, it is not self-evident that the existing upper limit of 4% of GDP on the level of total annual structural and cohesion funds transfers would be reached by Turkey or any other country. On the basis of these considerations, it is difficult to provide a meaningful estimate of the impact, both on Turkey and on other Member States or candidate countries, of extending the EU's cohesion and regional policy to Turkey.

For illustrative purposes, one can calculate that based on continued real annual GDP growth of 4-5%, by 2025 annual transfers would amount to just over €5.6 billion (2004 prices) for each one percentage point of Turkey's GDP granted in regional aid.

As concerns the EU's *internal policies*, while there are no country specific envelopes reserved under this heading of EU expenditure, the related amounts would probably have to be adjusted to take the accession of Turkey into account. Based on a theoretical overall internal policies envelope equivalent to that proposed by the Commission on 10 February 2004 for the final year of the 2007-2013 financial perspective, an upwards adjustment to take into account Turkey's membership using the same method as applied in the case of the ten new member states would result in an additional €2.6 billion of expenditure per year (2004 prices). Turkey's accession will also bring with it its own particular challenges which will

¹⁰ As most CAP payment amounts are fixed in nominal terms in EU Regulations, the estimated actual budgetary cost of full direct payments and market expenditure would be €3 billion and €1 billion respectively in current prices, regardless of the year in question.

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need to be addressed in the context of the Union's internal policies, not least in respect of expenditure on citizenship freedom, security and justice given the extent and nature of the EU's future external border in Turkey. As regards the Union's *external actions*, Turkey's accession may lead to new priorities for action given the geo-political effects it will engender. However, the extent of any budgetary changes that will eventually become necessary as a result is impossible to predict. Concerning *administrative* expenditure, the budgetary impact of Turkey's accession is expected to be limited. In case of Turkey's accession, it should be noted that it will no longer be eligible for pre-accession aid.

As regards the *revenue side* of the EU budget, this is largely funded on the basis of contributions from the Member States based on gross national income (GNI) or national wealth.. Assuming annual GNI growth in Turkey of 4-5% and, for illustrative purposes, a contribution rate (not including traditional own resources) to the EU budget of 1% of GNI, in 2025 Turkey's contribution to the EU budget would be just over €5.6 billion (2004 prices).

7.3. Assessment

Given its size of population, Turkey as a member would have an important impact on EU institutions, in particular as regards the European Parliament and the Council, similar in scale to the present larger Member States.

While predictions of the financial impact of Turkey's accession on the EU budget are highly uncertain, it is clear that the impact will be substantial. It is important to underline that the cost of Turkey's accession will be a matter for the negotiations and will be decided upon on the basis of what the EU's Member States are prepared to accept, as has been the case in previous enlargements.

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STATISTICAL ANNEX

| Table 1 | | | |
|------------------------------------|-----------------------|----------------|---------------|
| BASIC INDICATORS | | | |
| (2003, if not otherwise indicated) | | | |
| | | EU - 25 | Turkey |
| Surface | 1000 km2 | 3892 | 770 |
| Population | Millions | 453.0 | 70.7 |
| Employment | Millions | 199.6 | 21.3 |
| Employment rate % | | 62.9 | 45.5 |
| Agricultural sector | % of total employment | 5 | 33.9 |
| GDP | Billion EU | 9716 | 212.3 |
| GDP per head | PPP | 22300 | 6300 |
| | Euro | 21300 | 3000 |
| Sectoral structure | | | |
| Agriculture | % of total | 2.1 | 11.5 |
| Industry, Construction | GDP | 27.0 | 27.6 |
| Services | | 71.0 | 60.9 |
| Regional variation of GDP* | (NUTS 2 level) | 1.1 | 4.0 |
| Labour productivity | 1000 PPS | 43.75 | 17.63 |
| | 1000 EUR | 41.29 | 7.71 |
| Compensation per employee | EUR | 7505 | 740 |
| Exports of goods and services | Billion EUR | 3169 | 41.8 |

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| | | | |
|--------------------|-------------|-------|------|
| | % of GDP | 32.6 | 28.6 |
| FDI inflows | Mio EUR | 2276 | 68 P |
| | % of GDP | 0.02 | 0.06 |
| Total credit to | Billion EUR | 10688 | 29 |
| Domestic sector ** | | | |
| | % of GDP | 110.0 | 13.6 |
| Stock market | Billion EUR | 6260 | 54 |
| Capitalisation ** | | | |
| | % of GDP | 66.7 | 25.7 |

* Coefficient of variation (2001); ** year end – Source Eurostat. Turkish national sources

P: provisional

Table 2

POPULATION DYNAMICS (MIO PERSONS)

| | 1950 | 2000 | 2015 | 2025 |
|-------------|-------|-------|-------|-------|
| EU-15 | 292.4 | 377.3 | 384.2 | 383.9 |
| EU-27 | 370.4 | 482.7 | 485.7 | 481.8 |
| Turkey | 21.5 | 68.3 | 82.2 | 89.0 |
| p.i. : in % | | | | |
| - of EU-27 | 5.8 | 14.2 | 16.9 | 18.5 |
| - of EU-15 | 7.3 | 18.1 | 21.4 | 23.2 |

Source : UNI 2003: World Population Prospects :

The 2002 Revision. UN Population Division

Table 3

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| TURKEY – ASSUMED MEDIUM-TERM GROWTH SCENARIO ¹¹ | | |
|--|-------|-------|
| | 2004 | 2014 |
| GDP per head | | |
| - EUR PPS | 5512 | 7592 |
| - % of EU-25 | 28.5 | 32.3 |
| GDP (current market prices) | | |
| - Billion EUR | 224.8 | 420.3 |
| - % of EU-25 | 2.2 | 2.7 |

Table 4

TURKEY – MERCHANDISE TRADE – PARTNER STRUCTURE (PERCENT OF TOTAL)

| | EXPORT | | IMPORT | |
|---------------------------|--------|------|--------|------|
| | 1983 | 2003 | 1983 | 2003 |
| EU-15 | 38.2 | 55.4 | 32.6 | 50.2 |
| New Member States (AC 10) | 1.0 | 2.2 | 1.6 | 1.9 |
| CIS | | 5.2 | | 10.6 |
| Other Europe | 8.5 | 3.5 | 10.3 | 5.7 |
| Near and Middle East | 38.3 | 8.7 | 29.0 | 5.7 |
| Other Asia | 2.1 | 4.4 | 4.9 | 11.9 |
| NAFTA | 4.2 | 9.0 | 8.4 | 5.1 |

Source : IMF. own calculations

¹¹ Commission-internal estimates, based on the so-called production function methodology. They show a growth, in real terms, of Turkey's potential output of around 4 ½ % annually in the 2004-2014 period, while the EU economy is assumed to grow at 2% annually. Turkey's growth rate could be expected to be higher in view of the prospect of its accession.

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Table 5

TURKEY-EU MERCHANDISE TRADE – PRODUCT STRUCTURE

| | EU EXPORTS TO TURKEY | | | | EU IMPORTS FROM TURKEY | | | |
|--|-----------------------|------|---------------------------------|------|------------------------|------|-----------------------------------|------|
| | % of total EU exports | | % of total EU exports to Turkey | | % of total EU imports | | % of total EU imports from Turkey | |
| | 1998 | 2003 | 1998 | 2003 | 1998 | 2003 | 1998 | 2003 |
| Food, beverages, tobacco | 2.4 | 1.8 | 2.3 | 1.6 | 6.5 | 5.8 | 12.7 | 7.7 |
| Crude materials | 11.5 | 11.1 | 5.1 | 6.3 | 2.4 | 4.2 | 4.3 | 3.4 |
| Chemicals | 3.3 | 3.4 | 15.0 | 19.0 | 0.5 | 0.6 | 2.0 | 2.0 |
| Basic manufactures | 3.0 | 3.1 | 15.7 | 16.4 | 3.4 | 4.5 | 23.9 | 21.6 |
| <i>of which</i> | | | | | | | | |
| Textile yarn, fabrics and related articles | 1.8 | 4.9 | 4.4 | 4.2 | 10.1 | 12.6 | 12.2 | 9.3 |
| Machines, transport equipment | 3.3 | 3.0 | 52.4 | 48.4 | 1.0 | 1.9 | 19.2 | 29.1 |
| <i>of which</i> | | | | | | | | |
| Electrical machinery | 3.0 | 2.5 | 7.5 | 6.6 | 1.1 | 1.7 | 4.5 | 5.0 |
| Road vehicles | 4.0 | 3.9 | 12.6 | 15.3 | 1.0 | 5.2 | 2.8 | 12.3 |
| Misc. manufactured goods | 1.8 | 1.7 | 7.5 | 7.1 | 4.4 | 5.4 | 37.4 | 35.9 |
| <i>of which</i> | | | | | | | | |
| Articles of apparel and clothing accessories | 1.4 | 1.5 | 1.0 | 0.9 | 11.3 | 13.8 | 34.1 | 30.8 |
| Other | 2.5 | 1.8 | 2.0 | 1.2 | 0.3 | 0.3 | 0.5 | 0.3 |
| Total | 2.9 | 2.8 | 100 | 100 | 1.9 | 2.4 | 100 | 100 |

EU : EU-15, without intra-EU trade; Source: Eurostat, own calculations

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| Table 6 | | |
|-----------------------------|-------------|-------------|
| TURKEY – SECTORAL STRUCTURE | | |
| (value added in % of total) | | |
| | 1983 | 2003 |
| Agriculture | 21.4 | 12.2 |
| - Farming | 19.9 | 11.4 |
| Industry | 27.9 | 29.3 |
| -Manufacturing | 19.5 | 20.8 |
| Services | 50.7 | 58.5 |
| -Trade | 16.6 | 16.9 |
| -Transport, communication | 13.6 | 15.6 |

Source : Turkish Central Bank

| Table 7 | | | |
|-----------------------------|-----------------------------|--------|-------|
| LABOUR MARKET (2003) | | | |
| | | TURKEY | EU-25 |
| Population | Million | 71 | 454 |
| Employment rate | % of working-age population | 45.5 | 62.9 |
| Unemployment rate | % of workforce (LFS) | 10.7 | 9.0 |
| Long-term unemployment rate | % of active population | 2.5 | 4.0 |
| Employment rate for women | % of working-age population | 25.2 | 55.1 |
| Unemployment rate women | % of female workforce (LFS) | 7.3 | 10.0 |
| Employed part-time | % of total | n.a. | 17.0 |
| Employment growth | Annual % change | - 1.0 | 0.2 |

Source : Eurostat, Turkish Statistical Institute