

EUROPEAN UNION'S CAPACITY TO ABSORB TURKEY

The negotiations for the accession of Turkey were officially engaged on 3rd of October 2005. The negotiating framework contains conditions that are more restrictive than those imposed by the EU to former acceding countries. It specifies that “*the Union's capacity to absorb Turkey, while maintaining the momentum of European integration is an important consideration in the general interest of both the Union and Turkey. The Commission shall monitor this capacity during the negotiations, encompassing the whole range of issues set out in its October 2004 paper, in order to inform an assessment by the Council as to whether this condition of membership has been met*”. This clause reflects the fear of certain Member States (MS) that the UE is incapable of integrating Turkey.

The perspective of Turkish membership of the European Union has a variety of political implications both geopolitical and geostrategic. It also has specific potential impacts on EU institutions, policies and internal political dynamics. Turkey is larger, poorer and more populous than any previous candidate country. It lies in a strategically important but complex and sensitive geographical location. It is a secular state with a large Muslim population. The main impacts on the EU derive from these complex characteristics and the experience of previous enlargements is therefore not entirely relevant.

The possible implications for the EU of the accession of Turkey have already been the subject of various studies and reports, including the preliminary Commission impact study of October 2004¹. However the question of whether Turkey will or will not ultimately be a member of the EU is not academic in nature. It will be, in due time, a politically determined normative decision.

The focus of this study is to identify the likely future political, legal and economic implications of Turkish accession to the EU for the Union itself. It is obvious that the future economic and political development of both the Union and Turkey are highly uncertain by nature, and any prospective assessments of their respective situation in 15 years time is largely speculative. It is true that some specific political and economic impacts of Turkish accession can be assessed relatively accurately at the present time, but others depend on an unpredictable evolution. In order to avoid excessive speculation, this contribution is based on the present situation, considered as constant especially as far as regulation is concerned.

The question of Turkey's respect for fundamental human rights and compliance with the Charter is a political precondition, unrelated to the EU's absorption capacity, and is therefore not addressed here.

¹ Commission Report COM (2004) 656 final – SEC (2004) 1201. Not published in the Official Journal.

1. EUROPEAN POLICIES

The negotiation on the *acquis* is divided into 35 separate chapters corresponding to the various European policies.

1.1. INTERNAL MARKET

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 EC-Turkey Customs Union³ established in 1995, Turkey is already 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 to adopt the common external tariff. The Customs Union excludes agriculture, free movement of people and, for now, public procurement, establishment and services, for which negotiations towards concluding a bilateral agreement liberalising market access have been underway since 2000.

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 Internal Market. It depends not only on Turkey's ability and willingness to fulfil present obligations and to abide by the internal market *acquis* but also on the implementation of further structural reforms. This will be a lengthy and costly process, with a need for including a solid pre-accession strategy to be supported by significant EU contributions.

1.1.1. Free movement of goods

Free movement of goods between EU and Turkey already covers all industrial goods, except for certain steel products. Even if 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 Union⁴, there are only few potential negative impacts on the EU in this area. 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. As regards veterinary matters, major efforts such as the improvement of veterinary and food safety standards 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. Some problems could nevertheless still be expected at accession. Special restrictions should therefore be foreseen after accession for the movement of live animals and animal products from Turkey. All those measures will be very costly. As regards the Common Fisheries Policy, accession will have no particular impact on the EU in this sector.

1.1.2. Freedom to provide services

Compared to the EU, the services' sectors remain under-developed and Turkey will need to make major efforts to fully align with the *acquis*. At the present stage, Turkey does not allow economic operators from the rest of the EU to reap the full benefits of accession. There is nevertheless little negative impact to be expected on the EU side in this sector.

² Association Agreement of 1963 (Ankara Agreement), OJ L217 of 29 December 1964.

³ Decision 1/95 of the Association Council, OJ L 35 of 13 February 1996.

⁴ Such difficulties relate to divergent rules for external trade, standardisation, import licences and technical trade barriers, as well as intellectual property rights, food safety and public procurement.

1.1.3. 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. 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.

If a crisis were to occur in the future, the Treaty itself allows for preventive mechanisms⁵ (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. Considering the risk of corruption prevailing in Turkey and the low effectiveness of the anti-money laundering regime (in terms of prosecutions and convictions), full liberalisation of capital movements could however entail risks for the rest of the EU. Moreover, major efforts are required to ensure that Turkey's accession does not negatively impact the fight against financial crime across the EU.

1.1.4. Free movement of workers and free movement of persons

Migration of Turkish workers to EU Member States is already a long established tradition. With over three million, Turks constitute by far the largest group of third-country nationals legally residing in today's EU. 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. The main recipient countries were Germany, France, Austria and the Netherlands.

The 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. It is very difficult at this stage to forecast its level as well as the structure of this additional migration after accession. Available studies give varying estimates of this expected migration. If migration flows from Turkey are similar to those anticipated from the new EU MS from Central and Eastern Europe, then flows of around 225 000 a year could be anticipated, with a long run eventual stock of about 2.9 million migrants. This would be at a time when the EU is beginning to feel the negative impact of its aging demographic profile. Furthermore, the distribution of migration inflows into the incumbent MS is likely to be uneven across countries and regions. The direction of migration flows will be influenced by the location of existing Turkish communities in EU. The effect of migration on GDP could differ with the skill levels of the migrants and labour demand in the EU. Furthermore, 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. If substantial and uncontrolled, it could lead to disturbances in the EU labour market.

As a preventive measure, the Commission is considering transitional provisions. In order to avoid serious disturbances on the EU labour market, it could also consider a permanent safeguard clause providing for the possibility of suspending, if required, the full application of the provisions on the free movement of workers. Nonetheless, the experience with the ten new MS shows that such a mechanism is not always as efficient as expected, given that such limitation or restriction can be circumvented where no safeguard clause is foreseen for services.

⁵ See Article 56 EC to Article 60 EC.

1.2. AGRICULTURE

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, indicate that agriculture will be one of the most important issues in term of absorption capacity.

A comparison of the main agricultural sectors in both EU and Turkey is made difficult by differences in statistical method and product quality. Indeed, 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 pre-accession, the development on the world market and the outcome of WTO negotiations. Some broad qualitative conclusions can however be drawn based on existing information sources. Under present policies Turkey would be eligible for substantial support.

The competitiveness of Turkish agriculture and food industries as well as the economic revival of rural areas, the number of different interdependent markets involved, the future changes in production, consumption, prices, trade, etc, will be major political and economic challenges for Turkey. In order to prevent shock effects at accession, it is important that trade restrictions on EU exports be gradually removed before accession and that the Turkish agri-food sector be helped to restructure and modernise.

1.3. REGIONAL AND STRUCTURAL POLICIES

Tackling widespread poverty and regional inequalities is probably Turkey's largest economic challenge. Once more it is however extremely difficult at this stage to concretely evaluate these implications. The structural problems in Turkey represent a major challenge for cohesion policy, similar in scale to that of 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. If Turkey were to join the EU-27 today, it would add 15% to EU-27 population as well as 18% to its size, but only 2.2 % to GDP. Average GDP per head of the EU-27 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 challenge for cohesion policy will be to integrate Turkey gradually into the structural aid system. Moreover, a number of regions of EU-27 benefiting from Structural Funds support would lose their eligibility upon Turkey's accession because of the lowering of the EU average GDP level. For such regions that have not completed their process of convergence by the time of accession, phasing-out arrangements might need to be considered in the light of economic development in coming years.

1.4. ASYLUM AND IMMIGRATION

The question of immigration of third-country nationals to the EU through Turkey and the prospects of Turkey being part of the Schengen border free area are problematic. Turkey's eastern borders are porous and difficult to protect. Turkey is a transit country to the EU for problematic areas like managing migration and asylum as well as terrorism, human trafficking, drugs, illegal immigration, arms smuggling and other aspects of organised crime. Developing an

asylum system would be costly and could raise the issue of burden sharing by the current MS in order to ensure solidarity with Turkey. So, it is clear that the EU would demand long transition periods in the Schengen area and would be extremely strict on judging when Turkey met the full criteria. At the same time, once Turkey is a member of the Union, the EU will have more influence over issues in justice and home affairs. This will clearly be a difficult area for negotiations. Additionally, it will require also significant investment and a close cooperation both before and after accession.

1.5. FOREIGN POLICY

1.5.1. Common Commercial Policy

The integration of Turkey's current position as a major developing country might have an impact on the conduct of the EU's trade policy. At the present stage, Turkey is sometimes defending positions in clear contrast with those of the EU. The divergences in these areas compared to the rest of the EU are based on important economic interests for Turkey and could weigh on decision making on trade policy even after accession. No insurmountable problems of absorption capacity should however be expected in this area.

1.5.2. CFSP & ESDP

From the point of view of the EU's role in foreign affairs, Turkey's accession brings both advantages and challenges. Regarding its borders with the Middle East, Caucasus and the Black Sea, this location will shift the Union's borders to the South East and increase the Union's range of interests in these difficult regions. Turkey would give the EU greater weight in regional and world affairs. Nevertheless, this could also make decision-making, especially under the unanimity rule, more complicated. Indeed, 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, Turkey's political ability and willingness to make significant contributions to CFSP 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.

Turkey's interest in ESDP, its experience with NATO and international peace-keeping and its large military expenditure and manpower provide favourable conditions for Turkey's inclusion in and significant contribution to ESDP structures after accession. No insurmountable problems should be expected concerning its implementation capacity and institutional capabilities.

1.5.3. Greece , Cyprus & Armenia

Turkey's relations with Greece and involvement in Cyprus are significant for the EU's absorption capacity of Turkey. In both respects, Turkish foreign policy and its perception of security interests have evolved significantly although existing disputes need yet to be solved. Turkish-Greek relations have long been a source of tension in the eastern Mediterranean and caused difficulties within NATO. The recent rapprochement between the two countries has been widely welcomed, and Greece is a supporter of Turkey's EU membership bid. However, both ongoing border disputes with Greece in the Aegean and full normalization of Turkish-Cyprus relationship

(mainly the full recognition by the Turkish government of the existence of the Republic of Cyprus as a member of the EU) will have to be resolved prior to actual accession. Concerning maritime transport, Turkey must also lift the current restrictions applied to Cyprus-flagged vessels and those serving the Cyprus trade. Finally, normalization of relations with Armenia, as a neighbouring country, is likely to be seen by the EU as one essential pre-condition of accession.

2. EU BUDGET

2.1. GENERAL IMPLICATIONS FOR THE EU BUDGET

Given its size and level of economic development, Turkey's accession would undoubtedly have an important impact on the EU budget. As stipulated in the negotiation framework, 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 and numerous uncertainties, such as the future evolution of the EU's policies and any special arrangements agreed with Turkey in the negotiations (as has been the case in previous enlargements) as well as the budgetary provisions in place at that time, in particular the overall budgetary ceiling and the developments in Turkey itself. 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 MS. Most expenditure areas would be affected significantly were Turkey a MS.

Concerning the EU's internal policies, the related amounts would probably have to be adjusted to take the accession of Turkey into account. According to the Commission⁶, on the basis of the method applied in the case of the ten new MS, Turkey accession would result in an additional expenditure of €2.6 billion per year (2004 prices – CAP and structural policies excluded). On the revenue side of the EU budget, assuming annual GNI growth in Turkey of 4-5%, 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).

As a point of comparison, a CEPS' study⁷ shows different budget flows. In the first three years of Turkish membership, the expenditures are estimated at a total of 45 billion euros i.e. around 15 billion a year. Turkey's own contributions to the budget will mean the net figure could be 30-35 billion. In per capita terms, this is almost identical to the budget deal for the ten new MS.

⁶ Commission Report COM (2004) 656 final – SEC (2004) 1201. Not published in the Official Journal.

⁷ CEPS-Turkey in *Europe Monitor*.

2.2. BUDGETARY IMPACT IN AGRICULTURAL SECTOR

It is difficult at this stage to calculate possible expenditure in the agricultural sector due to the statistical difficulties described previously. Considering the size of the agricultural sector in Turkey in absolute terms, it is nevertheless clear that Turkey would be eligible for significant support under the CAP in its current form including the rural development policy. However, two elements will limit this budgetary impact; Firstly, 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 MS and Bulgaria and Romania, the full impact of agricultural expenditure would not be reached until 2025. Secondly, Turkish agricultural products are mainly cereals and others arable crops, fruits and vegetables, nuts, cotton and tobacco. Under the CAP, many of these products are not the most costly in terms of subsidies.

According to the Commission⁸ and based on current acquis, the cost of extending the existing CAP including rural development to Turkey would amount to €8.2 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, €5.3 billion direct payments and €660 million market expenditure (2004 prices).

2.3. BUDGETARY IMPACT IN STRUCTURAL FUNDS

Given the size and the economic features of the country, 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.

As regards regional policy, with a level of GDP per capita at about 28.5 % of the EU-25 average at purchasing power standards, Turkey would (based on current rules and were it already a MS) be eligible for significant levels of structural operations expenditure⁹. 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. This may first justify the introduction of specific mechanisms which take into account the specificities of Turkey. Moreover, 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.

⁸ Commission Report COM (2004) 656 final – SEC (2004) 1201. Not published in the Official Journal.

⁹ 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.

3. EUROPEAN INSTITUTIONS

3.1. ADAPTATIONS WITHIN THE INSTITUTIONS

3.1.1. The Council

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. Assuming a double majority system of voting (of countries and population) operates in the Council, in an EU of 28 Turkey and Germany would have around 14.5% of the vote each. They would be unable to block proposals even acting together, but they would be strong players, able to block proposals with a third large country. The five largest countries in an EU of 28 would account for 60.3% of the vote by population. This is only 3.4 percentage points higher than the share of the 'big 4' countries in an EU of 25 (56.9%). So Turkey will be an important powerful player and will add to the already complex set of alliances and blocking combinations that are possible. But in an EU of 28, despite its size, it does not add strongly to the dominance of the larger countries

3.1.2. The European Parliament

As to the European Parliament, Turkey's accession would significantly affect the current allocation of seats of current MS, in particular the medium sized and large countries that will have to give up seats. In terms of seats in the EP in a EU of 28, Turkey and Germany would both have 82 seats i.e. 11.2% each of the total number.

3.1.3. Others

The impact in terms of the Commission would be less important. Turkey will either have one Commissioner, like all other countries, or, if the Union agrees to establish a smaller Commission with equal rotation of members across countries, then Turkey like all others will sometimes have a Commissioner and sometimes not.

3.2. CONCEIVABLE COALITIONS

It is impossible to assess with any certainty how the presence of Turkey would affect the political dynamics of the Union and the interplay of coalitions in different areas. It would presumably aim at establishing strong relations with the other large countries. Turkey would probably try to play a significant role in the foreign policy and defence areas but be less active on economic issues. On question of economic policy it is expected to be neither strongly liberal nor interventionist, but rather in the EU middle ground. On budgetary matters and cohesion policy it would have interests similar to that of the new Member States. On agricultural policy it would presumably side with other Mediterranean states, such as Spain, Italy and Greece.

CONCLUSIONS

1. Turkey's compliance to the **internal market** acquis will be a lengthy and costly process, with a need for including a solid pre-accession strategy to be supported by significant EU contributions. Regarding 'free movement of goods' and 'freedom to provide services', the present EC-Turkey Customs Union means that Turkish accession would bring little change. Concerning 'free movement of capital', given the limited relative size of the financial sector in Turkey and the existence of preventive mechanisms in the Treaty as well as provisional safeguard measures, sufficient protection for the overall functioning of the internal market is insured. However, the risk of corruption prevailing in Turkey and the low effectiveness of the anti-money laundering regime could negatively impact the fight against financial crime across the EU. A removal of barriers to the free movement of labour in the long-term perspective would most likely lead to some additional migration. If substantial and uncontrolled, it could lead to disturbances in the EU labour market. As a preventive measure, the Commission is considering transitional provisions. In order to avoid serious disturbances on the EU labour market, it could also consider a permanent safeguard clause providing for the possibility of suspending, if required, the full application of the provisions on the free movement of workers. Nonetheless, the experience with the ten new MS showed that such a mechanism is not always as efficient as expected, given that such limitation or restriction can be circumvented where no safeguard clause is foreseen for services. **Relating to the internal market as a whole, it seems reasonable to conclude that there is no insurmountable problem of absorption capacity.**

2. The question of immigration and the prospects of Turkey becoming part of the Schengen border free area are more problematic. Turkey is a transit country and this has an impact on areas such as managing migration and asylum as well as terrorism, human trafficking, drugs, illegal immigration and other aspects of organised crime. So, there will be likely a long transition period before it becomes a full part of the **Schengen** border free area and EU should be extremely strict on judging when Turkey meets the full criteria. Additionally, it will require also significant investment and a close cooperation both before and after accession.

3. 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 indicate that agriculture will be one of the most important issues in term of absorption's capacity. **Given uncertainty on the future of CAP and on the development of agriculture in Turkey, it is impossible to assess in detail the impact of Turkish accession on the EU. On the basis of the present situation, it would be a major problem.**

4. The implications of Turkish accession for EU **regional and structural** policies are likely to be substantial and would significantly increase regional and socio-economic disparities across the EU. Accession would require significant support from the Structural and Cohesion Funds over a long period of time. The entire territory of Turkey would be eligible for assistance under Objective 1. A number of regions of EU-27 benefiting from Structural Funds support would lose their eligibility. **This could constitute a major political problem for the EU.**

5. Turkey will have a strong impact in **CFSP** and **ESDP** policies areas. Accession would bring the EU into more direct involvement with the difficult political and security problems of this region. The EU would gain greater weight in regional and world affairs, but it could also make decision-making, especially under unanimity, even more difficult. Indeed, the question arises whether Turkey would accept to align itself on EU positions on issues on which today it insists on a distinct national position. Finally, many elements provide favourable conditions for Turkey's inclusion in and significant contribution to ESDP structures after accession. **No insurmountable problems should be expected concerning its implementation capacity and institutional capabilities.**

6. In particular full normalization of Turkey's relations with the Republic of **Cyprus**, and settlement of potential border disputes with Greece in the Aegean, will have to be resolved prior to actual accession, otherwise the accession of Turkey would be disruptive.

7. Turkey's accession would inevitably have an important impact on the **EU budget**. 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. It will be a matter for the negotiations and decided upon on the basis of what the EU's MS are prepared to accept. Considering the size of the **agricultural sector** in Turkey in absolute terms, it is nevertheless clear that **Turkey would be eligible for significant support under the CAP in its current form** including the rural development policy. As regards **regional policy**, Turkey would be **eligible for significant levels of structural operations expenditure.**

8. As in previous enlargements, the accession of Turkey would have an impact on various **EU Institutions**, in particular as regards the European Parliament (EP) and the Council. 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. Assuming a double majority system of voting (of countries and population) operates in the Council, in an EU of 28 Turkey will have around 14.5% of the vote, able to block proposals with two others large countries. So Turkey would be an important and powerful player. It will add to the already complex set of alliances and blocking combinations that are possible. As to the **European Parliament**, Turkey's accession would significantly affect the current allocation of seats: some medium sized and large countries would have to give up seats. In a EU of 28, Turkey would have 82 seats i.e. 11.2% each of the total number. The impact on the **Commission** would presumably be less important although it may further imbalance the current relationship between big and small Member States.