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The EU's Medium-term Financial Perspective and Turkey's Potential Slice of the Cake

The issue of Turkey's membership in the EU remains controversial, and the arguments for and against are not only economic. Nevertheless, the potential economic impact of Turkish membership does play an important role. How much financial support is Turkey presently receiving under existing pre-accession programmes and what changes could be expected in the case of full membership?

When considering the financial flows incurred by a country's accession to the EU, the question seems to be simple: how much do we get out of it (applicant's perspective) or, respectively, what is the burden (perspective of the EU)? However, in the case of Turkey things are somewhat more complicated, for the following reasons. Given its size and level of economic development, Turkey's accession would undoubtedly have an important impact. Any estimate as to the budgetary impact of the country's accession is based on the current *acquis communautaire* and will be associated with numerous uncertainties, among which the likely timetable, future decisions on budgetary burden sharing and country-specific arrangements rank high. Similarly, the revenue side of the EU budget may undergo severe alterations.

In practical terms, it makes sense to distinguish between the current flows of funds (pre-accession) and longer-term payments after Turkey may become eligible for participating in member programmes (post-accession). The accuracy of forecasting the financial volumes involved differs substantially between the two phases.[1] Relatively speaking, the simplest approach would be to confine computing exercises to calculating the budgetary consequences if Turkey were to enter under the present rules. However, as further extensions of the Union can realistically only be realised under the precondition of new allocation and distribution mechanisms – still to be found, agreed upon and implemented – this approach may easily end up in a vicious circle.

Key factors determining the EU budget are the financial allotments set by the multi-annual financial outlook. The current framework will expire in 2006; it was concluded by the EU15 five years ago. The next financial perspectives cover the period 2007-2013.

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[1] It ought to be noted that the term "financial perspective" goes beyond mere budgetary transfers in favour of the recipient because the overall cost of complying with the *acquis communautaire* will draw on national financial resources not fully compensated by Brussels. On top, the financial consequences of membership also comprise political benefits (e.g. peace dividends) and economies of scale from economic integration.

The budgetary figures proposed by the Commission are highly controversial. Turkey will have very limited influence on the following financial framework, which will run until 2020. Full integration will not take place before the negotiations on the framework for 2021-2027. Under prevailing circumstances, the financial volume for the initial years of Turkey's membership will have been decided by a body consisting of the current member states and two present candidate countries plus Croatia. In this respect Turkey's situation will resemble that of Bulgaria and Romania (which may join by 2007 at the earliest) in accepting a financial framework determined by the "club members".

Given that for all present member states it took between five and ten years before they were integrated into all the support programmes, it is rather unlikely that Turkey will benefit fully from the EU's budgetary reallocation schemes significantly before 2020. By then, some of the present net recipients may have picked up considerably in terms of economic performance, enabling them to carry a higher share of the overall burden.

Budgetary Assignments in the Planning Period ending 2006

As an integral part of the accession strategy of the EU, candidate countries are invited to make use of financial resources designed to pave the way for the envisaged accession. Of course, this also applies to Turkey.[2]

Up to the end of the current planning period (2006) pre-accession financial assistance is being focussed on Turkey's efforts to meet the Copenhagen criteria. Assistance is available for enhancing the functioning of Turkey's economy and its capacity to cope with competitive pressure within the internal market. As for all candidate countries, assistance is directed towards two main objectives.

- *Institution building* will take the form of assistance to help Turkey implement the *acquis* and to prepare for participation in EU policies such as economic and social cohesion. Institution building support will mainly be deployed and implemented with EU member states through the instrument of twinning. Non-governmental organisations could also benefit from assistance with a view to supporting initiatives aimed at the consolidation and further development of democratic practices, the rule of law, human rights, equality for men and women and the protection of minorities.
- *Investment* is scheduled to take two forms. First, there may be investment to establish and/or strengthen the regulatory infrastructure needed to ensure compliance with the *acquis*. Investment in the regulatory infrastructure will only be made on the basis of a clear-cut government strategy. Second, part of the assistance programme will be directed towards investment in economic and social cohesion, taking into account the importance of regional disparities between Turkish regions as well as the gap between Turkey's national income and the EU average.

Table 1
Pre-accession Financial Assistance
(€m., current prices)

2004	2005	2006	Total
250	300	500	1050

Priorities for assistance will be drawn from the Accession Partnership, the regular reports and Turkey's national programme for the adoption of the *acquis*. In these reports, attention is focussed on the political criteria. Beyond that, a number of priority areas have been identified, such as justice and home affairs including migration, maritime safety, the environment, health, agriculture and rural development. A significant increase in funding will also allow the EU to support socio-economic development in Turkey, as it relates to the goals of the accession strategy.

Turkey needs to further improve its capacity to manage and use funds effectively. In order to facilitate full implementation, Turkey will need to take further measures to ensure sound financial control. The EU Commission has indicated the level of financial assistance for Turkey until 2006. This facilitates multi-annual planning in areas where it takes more than one year to address the objectives. The amounts (to be approved annually) are as shown in Table 1.

New Policy Emphasis and Restructuring of Old Instruments

The focal point of the debate on the next EU Financial Perspective is the Commission's demand for

[2] In this section, even the wording partly follows closely the underlying EU document: Communication from the Commission to the Council: Strengthening the Accession Strategy for Turkey. Proposal for a Council Decision on the principles, priorities, intermediate objectives and conditions contained in the Accession Partnership with Turkey, COM (2003) 144 final, 26.3.2003, pp. 3-4.

Table 2
Basic Economic Indicators in the EU, Bulgaria & Romania and Turkey
(Shares in italics)

	EU25	NMS10	Bulgaria & Romania	Turkey	Turkey/ EU25
Population (2002, millions)	453.0	74.6	29.7	70.3	*15.5*
GDP (2003, €bn.)	9 738.9	437.1	68.1	212.3	*2.2*
GDP_{PPS} per capita (2003, €/year)	23 270	11 302	6 331	5 750	*24.7*
GDP of the agr. sector (2003, €bn.)	194.8	15.7	7.8	23.6	*16.1*
GDP_{Agr} / total GDP (in %)	*2.0*	*3.6*	*11.5*	*11.1*	-
Agr. production value (2001/02, €bn.)	282.8	27.1	13.9	25.6	*13.3*
Share of employment in agriculture (EU 2002, Turkey 2002/03; in %)	*5.4*	*13.4*	*32.3*	*34.4*	-

PPS = At purchasing power standards. NMS = New member states.

Source: Harald Grethe: Turkey's accession to the EU: what will the Common Agricultural Policy cost ? Der EU-Beitritt der Türkei: Wie teuer wird die Gemeinsame Agrarpolitik ? in: Agrarwirtschaft, Vol. 54, 2005, No.2, table slightly modified. Calculations on the basis of various data from national authorities (SIS 2003) and international bodies (European Commission, Eurostat and FAO, all 2004).

a financial ceiling of 1.24% of Gross National Income (GNI)[3] as the basis of member countries' commitment appropriations (corresponding, on average, to 1.14% in payment appropriations). Major net payer countries (Germany, France, the UK, the Netherlands, Austria and Sweden; the Netherlands take the lead in per capita terms) insist on a smaller EU budget: it should be capped at 1% of the EU's GNI in commitment terms (about 0.9% in payments) at the start of the next planning period in 2007.[4] Even with the outgoing Luxembourg presidency's proposal in a highly politicised fight over decimal points of percentages (1.06% instead of 1.14% or 1%), the hardliners' position did not soften at the June 2005 summit after the move of the German Chancellor in view of the EU Treaty failure in France and the Netherlands. However, all major decisions with any financial impact are being overshadowed by this dispute.

For any potential membership candidate the budgetary effects will result from both the application of the Common Agricultural Policy (CAP) and the Union's structural and cohesion policy. As regards agriculture, it is clear that Turkey would be eligible for substantial support under the (current) CAP. The size of the agricultural sector in Turkey, both in absolute terms and with respect to its economic and social role, will represent an important element in budgetary considerations.

However, due to the Commission's decision in October 2002, there will be a shift of emphasis within the CAP, affecting the funds to be provided for Turkey. Direct payments (the first pillar of the CAP) will shrink over time. Instead, a basket of rural development policies (the second pillar) will gain in importance for Turkey. "This is because payments under the second pillar can be targeted at measures which are aimed at improving productivity in Turkish agriculture. Such measures might include training farmers in order to increase their productivity in agriculture or to enable them to leave the sector, public investment in rural infrastructure, modernization of the food processing industry, and measures to improve the distribution of land among farmers (e.g. re-parcelling)."[5]

At the same time, there is a specific feature to be dealt with, i.e. substantial regional disparity within the country. With a level of GDP per capita at about 29% of the EU25 average[6] – close to the level of Bulgaria and Romania – Turkey would (under the present support regime) be eligible for significant levels of structural operations expenditure.[7] The existing rules, however, have never been applied to a large country that also has a low level of economic development and substantial disparities.

With regard to structural funds, there is an ongoing discussion (between old and new member states) about how to deal with the traditional maximum limit (of 4% of GDP) which a country can get from the structural funds in future.

Above all, there is a move to reorganise the institutional set-up as regards the tools of the EU's

[3] The recording of national account figures differs between countries. The World Bank has adopted a new terminology in line with the 1993 System of National Accounts. The GNI concept is gradually gaining ground.

[4] On top, a Committee of the European Parliament (for details see fn. 9) suggested in mid-May that for the sake of flexibility the next financial perspective should be cut to a five-year period, running from 2007-2011. (EurActiv.com, Agenda 2004-09, 17 May 2005).

[5] Harald Grethe: Turkey's accession to the EU: what will the Common Agricultural Policy cost ? Der EU-Beitritt der Türkei: Wie teuer wird die Gemeinsame Agrarpolitik ? in: Agrarwirtschaft, Vol. 54, 2005, No. 2, p. 135.

[6] At purchasing power standards.

[7] Some basic indicators for Turkey and its neighbours vis-à-vis the country group which acceded in May 2004 are presented in Table 2.

cooperation with external partners. According to a Commission proposal, the current situation is considered to be highly complex because a wide variety of instruments, with vastly different geographic and thematic scope and financial envelopes, have developed in an ad hoc manner. The basic new differentiation will be between geographic and thematic instruments (three each) – a semantic distinction which may be misleading since the geographical part will definitely be dominant while the rest is intended for use in exceptional circumstances only. These are crises and threats to security (incl. nuclear safety), humanitarian aid and a "macro-financial" instrument that leaves, as before, room for ad hoc decisions. Thus the governing aspect of the re-shuffling of the box of instruments is to provide separate instruments for different regions closer to, or further from, the EU. The new labels for the next Financial Perspectives and beyond are:

- Instrument for Pre-Accession Assistance (IPA)
  (will finally replace current pre-accession programmes intended to cover allocations to recognised candidate countries and also to potential candidate countries, in brief: "pre-candidates")

- European Neighbourhood and Partnership Instrument (ENPI)[8]
  (a new instrument, intended to enable the Community to make commitments to bordering countries and others in the vicinity; extension of the benefits of the internal market, no promise of membership)

- Development and Economic Cooperation Instrument
  (a new instrument, intended for allocations to the "rest of the world"; it is intended also to cover the European Development Fund, to be integrated into the budget as of 2008 – an unlikely event as unanimity is required in the Council).

Over the period 2007-2013 and beyond, Turkey – although it is also a neighbouring country – is clearly going to be treated under the IPA heading. With a view to absorption capacity, the budgetary preview allows for a gradual increase of funding during this period. On a per capita basis, Turkey is scheduled to finally reach the same level as the western Balkans.

To conclude, the budgetary proposal for the IPA provides "no visibility for levels of funding"[9] per country, region, objective or component. It ought to be noted that standard European pre-accession support programmes such as PHARE,[10] originally assisting preparatory reforms in central and eastern European accession countries, SAPARD[11] and ISPA[12] (in future under the roof of IPA) will ultimately be replaced. The same applies to MEDA[13] and TACIS[14] (under ENPI). When and how these old programmes are going to be affected is not fully transparent yet since these regulations – as well as the special one on Turkey – have no financial reference amounts and no specific end-dates.

Areas of Conflict within the EU Affecting Budgetary Allocations

Keeping in mind the clearly diverging views of member countries with respect to future financial regulations, four areas of conflict can be identified.[15]

- *"Top down" or "bottom up"*? The Commission is in favour of compiling the tasks to be performed and subsequently computing the amount of financial resources most likely necessary to meet these requirements ("bottom up"). Quite in contrast, the group of net contributors to the EU budget prefers the opposite approach, i.e. defining the upper limit of fiscal obligations first and then setting priorities within this framework ("top down"). In a way, this methodological dispute is beside the point because, as a rule, any limitation of resources vis-à-vis competing targets calls for political decision.

It should be noted that in the field of financial planning an important decision was already taken in

[8] ENPI is addressed to the belt of countries south and east of the present EU territory. In detail, ENPI is supposed to cover Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, the Palestinian Authority of the West Bank and Gaza Strip, the Russian Federation, Syria, Tunisia and the Ukraine.

[9] European Parliament 2004-2009, Temporary Committee on Policy Challenges and Budgetary Means of the enlarged Union, Financial Perspectives 2007-2013, Working Document No. 13 on Pre-Accession and the European Neighbourhood, 28.1.2005, p.6.

[10] Poland and Hungary: Aid for Restructuring of the Economies.

[11] Special Accession Programme for Agriculture and Rural Development.

[12] Instrument for Structural Policies for Pre-Accession.

[13] Euro-Mediterranean Partnership.

[14] Technical Assistance to the successor states of the Soviet Union (Commonwealth of Independent States).

[15] For a fairly comprehensive discussion of different options cf. Peter Becker: Die Agenda 2007, Die erste Etappe der europäischen Finanzverhandlungen 2007-2013, in: SWP-aktuell 34, August 2004. With kind permission of the author, this section draws extensively on his paper.

Table 3
Overview of the Financial Framework 2007-2013
(€m., 2004 prices)

Commitment Appropriations	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth	59,675	62,795	65,800	68,235	70,660	73,715	76,785
1a. Competitiveness for growth and employment	12,105	14,390	16,680	18,965	21,250	23,540	25,825
1b. Cohesion for growth and employment	47,570	48,405	49,120	49,270	49,410	50,175	50,960
2. Preservation and management of natural resources	57,180	57,900	58,115	57,980	57,850	57,825	57,805
of which: Agriculture - Market related expenditure and direct payments	43,500	43,673	43,354	43,034	42,714	42,506	42,293
3. Citizenship, freedom, security and justice	1,630	2,015	2,330	2,645	2,970	3,295	3,620
4. The EU as a global partner[1]	11,400	12,175	12,945	13,720	14,495	15,115	15,740
5. Administration[2]	3,675	3,815	3,950	4,090	4,225	4,365	4,500
Total appropriations for commitments	133,560	138,700	143,140	146,670	150,200	154,315	158,450
Total appropriations for payments[1]	124,600	136,500	127,700	126,000	132,400	138,400	143,100
Appropriations for payments (in % of GNI)	1.15%	1.23%	1.12%	1.08%	1.11%	1.14%	1.15%
Margin	0.09%	0.01%	0.12%	0.16%	0.13%	0.10%	0.09%
Own resources ceiling (in % of GNI)	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%

[1] The integration of the Development Fund in the EU budget is assumed to take effect in 2008. Payments on commitments before 2008 are not taken into account.
[2] Includes administrative expenditure for institutions other than the Commission, pensions and European schools. Commission administrative expenditure is integrated in the first four expenditure headings.

October 2002 when future agricultural policies were outlined up to 2013. Thus, even more intensive efforts to save, and discussions on how to adjust European support programmes, will have to be confined to the second major tier of EU finance, i.e. structural and cohesion policy.

- *Reorientation of future structural and cohesion policy*. Undoubtedly, last year's accession of eight less-wealthy member states has increased heterogeneity within the Union. For this reason, a rising demand for intra-European aid to overcome socio-economic disparities (or, at least, to minimise them) has been created. At the same time the Commission is trying to enforce efforts to increase international competitiveness, contain unemployment and push innovation and development. In this context, growth and cohesion are considered to be non-conflicting targets and thus can successfully be promoted simultaneously in the framework of the Lisbon Strategy. This notion contrasts starkly with the position of the net contributors. They maintain that structural and cohesion funds are not supposed to be affected by the Lisbon approach; rather, differences in the stage of development of different regions should be the governing principle of the allocation of funds.
- *Budgetary scope*. As is customary in the budgetary planning of any other public body, the EU financial perspective is characterised by a gap between the allocation of funds to programmes/projects and actual payments. In the case of the EU this gap is widening; it affects the quality of forecasting the likely budgetary volume and thus causes concern for member states. In particular the net contributors are afraid of commitments being made for 2007 to 2013 that will be an extra burden for the subsequent planning period commencing in 2014 – a scenario which most likely will materialise in the case of Turkey.
- *Net fiscal balances and the British budget rebate*. In view of increasing budgetary bottlenecks, the EU Commission now seems to favour the suggestion (originally tabled in 1998) of capping national contributions by applying a correction mechanism which would give some relief to the majority of net contributors and would mobilise funds, for example for the Lisbon objectives. This move would be at the expense of the UK, which has benefited from the rebate since Margaret Thatcher, in her second term as Prime Minister in 1984 – in view of the small agrarian sector in the UK – threatened to veto any expansion of EU spending.[16]

Summing up, it must be recognised that the European heads of state and government have repeatedly re-affirmed their intention of reaching an agreement on the financial perspectives of the Union in order to lay

[16] The rebate presently amounts to €4.6 bn. annually; it will rise to €7-8 bn. during 2007-2013, if unaltered.

Table 4
Distribution of Funds for External Activities (Heading 4)
(€m.; excl. administrative expenditure)

	2007	2010	2013	2007-2013, Total
IPA	1 400	1 828	2 235	12 919
ENPI	1 350	1 850	2 513	13 139
Development Cooperation	5 170	6 124	6 490	38 956
Stability Instrument	325	591	750	3 915
Total	8 245	10 393	11 988	71 779

Source: Technical sheet of Working Document No.13 on establishing an Instrument for Pre-Accession Assistance, Proposal for a Council Regulation, COM(2004) 627 final, 29.9.2004.

Table 5
EU Enlargement: Pre-Accession Assistance
Multi-annual Expenditure for the Instrument of Pre-Accession (IPA)
Schedule of appropriations, € million (current prices)

	2007	2008	2009	2010	2011	2012	2013[1]	Total[2]
Commitments	1 426	1 631	1 734	1 977	2 294	2 441	2 564	14 067
Payments	285	754	1 264	1 690	1 898	2 116	6 060	14 067

[1] And following years (applies to payment appropriations only).

[2] Total allocation: 14 653 minus staff (286) and support expenditure (300) = 14 067.

Source: Proposal for a Council Regulation establishing an Instrument for Pre-Accession Assistance (IPA), COM(2004) 627 final, 29.9.2004 [2004/0222(CNS)], pp. 31 ff.

the ground for solid programme planning of the structural funds for the next fiscal period. However, to be realistic, in the EU25 elections or referendums are being held almost constantly, which hardly allows for any window of opportunity to get involved in debates on general principles ending up in something worth calling a new alignment. Rather, it is quite likely that at the end of the day both the British Prime Minister and the French President will, successfully, insist once again on their special national interest.

Survey of Estimates

To make the process of discussion more transparent, present and future deliberations ought to distinguish clearly between the period of communication, talks and negotiations *before* accession and the period *thereafter*. For both periods the sources of information are different and so is the outcome of the delineations.

One important reservation, however, applies to all these approaches: what will determine Turkey's future benefits as well as its contribution to the EU budget are the rules that will by then be in effect for every party and the level of development reached by the EU and Turkey itself. The discussion about the financial burden which Turkey's membership would represent for the EU budget or, vice versa, the outcome for Turkey as a recipient, widely lacks clarity on the extent to which today's rules will also apply tomorrow. Because no one can know with certainty what these rules will be precisely, even mid-term projections are highly speculative.

Pre-accession

The Commission's proposal for the financial perspective 2007-2013 has triggered a heated debate among member countries about who is bearing how much of the burden. The controversy may have repercussions on the envisaged targets. While the overall frame of the EU's future external relations (budget line heading 4) is being set by the appropriations for commitment, no country-specific details are spelled out, not even under sub-headings for individual instruments. Thus, no meaningful quantitative assessment of Turkey's share can be derived from this tableau of figures today.

What can be deduced instead from the 2007-2013 framework of commitment appropriations for the EU's external activities (cf. Table 3) is the relative weight the Commission is attaching to the budgetary instruments to organise relations with foreign countries (Heading 4). The bulk (54%) is earmarked for development cooperation. For the preparation of current accession candidates (Croatia, Turkey) and those who may obtain this status later on (the western Balkans), an amount of about €13 billion (= 18%) is planned to be put aside within these seven years.

To give a rough overview, the future distribution of EU funds under the heading "relations with external partners" in the legislative proposals is shown in the Table 4.[17] To pinpoint the main characteristics: after slight increases in the financial allotments earmarked for both IPA and ENPI, gradually more importance is assigned to the latter at the end of the period. With over 50% of the entire financial volume, development cooperation will dominate throughout. The amounts to

[17] Technical note: There are (partly substantial) differences in the presentation of data in Commission documents (e.g., between this table and Table 3). The most prominent reasons for these deviations are: a) valuation in current or, respectively, in (2004) constant prices, b) differing treatment of administrative cost.

Table 6
Budgetary Cost of Turkey as an EU Member, 2015

	Cost in % of EU GDP
Receipts	
Structural Funds	0.16
Common Agricultural Policy	0.08
Total	0.25
Contributions to the EU budget	0.05
Net receipts for Turkey (maximum)	0.20

Source: CEPS (for details see footnote 18). Calculations based on current budgetary rules and regulations.

Table 7
Financial Impact of Turkish EU Membership

Authorship	Status quo	Reform scenario	Method employed	Estimated net transfers p.a. (€ bn., rounded)
ZfT (2002/03)	x		Status quo projection	8
Flam (2004)	x		Regression analysis	12
Togan (2004)	x		Regression analysis	14
Derviş et al. (2004)	x		Status quo projection	9 —> 20
Quaisser/ Wood (2004)	x	(x)	Projection (basis: Commission estimate)	9 —> 21
Grethe (2005)	x	X	Model simulation	7 – 31

Note: In the last estimate, the wide spectrum of potential money flows reflects alternative scenarios of political decision having an impact on the transfer volume.

Sources: W. Quaisser, S. Wood: EU Member Turkey ? Preconditions, Consequences and Integration Alternatives; forost Arbeitspapier No. 25, October 2004, modified and supplemented. The data of the estimates by the ZfT (Zentrum für Türkeistudien: Türkei-Jahrbuch des Zentrums für Türkeistudien 2002/2003, Münster), Flam (Turkey and the EU: Politics and Economics of Accession. CESifo Economic Studies, Vol. 50, 2004, No.1, pp.171-210) and Togan (Turkey: Toward EU Accession, in: The World Economy, Vol. 27, No.7) are taken from Quaisser/Wood.

be put aside for the IPA are scheduled to rise somewhat more slowly (10% annually) than those for the ENPI (14%), while both will increase faster than the total (7.5%).

Actual payments are scheduled to begin gradually – with a shrinking time-lag compared with commitments. This is because the absorptive capacity of the recipient country increases only gradually over time. Conversely, at the end of the period payment authorisations will extend well into the next financial planning period (cf. Table 5).

At present, the data in Table 5 represent the most detailed presentation available with regard to the targeted group. As for all the proposed instruments falling under “external relations” in the budget, an indicative financial envelope has been allocated for the IPA as a whole. The precise figures depend on the result of the negotiations on the Financial Perspectives. For the time being, there will be no “ringfencing” as to individual measures. The specifications will follow in the framework of the “Multi-annual Indicative Financial Framework” – still to be presented to the Council and the Parliament – which will spell out details as to the allocation of funds by component and by country. This scheme will be established for 3 years (representing the limits of political predictability) and revised each year by adding a new year on a rolling basis.

As outlined, no country-specific figures can be deduced from this payments scheme. Of course, educated guesses are feasible. Given these overall figures, the average annual total will amount to something like approximately €2 billion. Grossly assessing about two thirds for Turkey in line with the size of its population, under the prevailing circumstances the country’s slice of the cake may be around €1.3 - 1.4 billion annually.

Post-accession

In the case of ultimate membership, the best approximation of the costs involved or, respectively, transfers to be expected may be found in the outcome of a number of studies on the costs of Turkey’s potential accession. These reports are not fully comparable. Still, they give an indication of the wide spectrum of estimates.

In a way, rough overall calculations are fairly simple since the budget of the EU is dominated by two items: Structural Funds (destined for regions with a GDP per capita below 75% of the EU average) and the Common Agricultural Policy. This is how the gross receipts of any member country will, to a large extent, be determined. How much is Turkey likely to receive by a likely accession date, e.g. 2015?

Following the reasoning in recent CEPS papers,[18] to delineate the upper limit of the costs of Turkish accession would mean starting from the assumption that Turkish farmers will obtain the same 20% of value added from the EU’s CAP as their western European colleagues in the EU15 did. While the Turkish

[18] Kemal Derviş, Daniel Gros, Faik Östrak, Yusuf Işik and F. Bayar: Turkey and the EU Budget, Prospects and Issues, EU-Turkey Working papers, No. 6/August 2004, pp. 3-4; and Daniel Gros: Economic Aspects of Turkey’s Quest for EU Membership, CEPS Policy Brief, No. 69, April 2005, p. 3.

economy may account for 4% of the EU's GDP (and Turkish agriculture in the medium term will contribute 10% to the national GDP), the gross cost (Structural Funds plus CAP) might amount to around a quarter of 1% of EU28 GDP. On the other hand, Turkish transfers to Brussels – this share being equal to the percentage of the EU budget in overall GDP – will be in the order of magnitude of 1.2% of its own GDP.

Consequently, the ceiling of net cost would be around 0.2% of EU GDP. Table 6 spells out the findings in relative terms, i.e. as a percentage of the Community's GDP. Putting EU GDP before last year's round of accession, grossly, at about €10 000 billion, Turkish net receipts would be equivalent to €20 billion.

To complement this brief survey of quantitative approaches – although with differing emphases and not fully comparable results – there are several other studies worth mentioning. Referring to Grethe, a widely cited study by Quaisser and Reppegather[19] puts EU expenditure for applying the current CAP to Turkey at between €4.4 and €5.4 billion. This approach, however, does not consider the country's specific production structure, nor does it allow for additional variables which matter in the allocation of rural development funds. In addition, it seems unlikely, as Grethe points out,[20] that the current scheme of direct payments to agricultural producers (accounting for more than 60% of CAP outlays) will be in existence by 2013, which Quaisser and Reppegather pick as the year of accession.

Grethe makes a good point in defending the idea of assessing the magnitude of payments well in advance because unforeseen budgetary outlays may jeopardise Turkish accession altogether and/or, given the envisaged accession, long-term pressure must be maintained within the EU to lay the ground for successful integration of the country into Community structures by organising and implementing the necessary internal reforms first. The main characteristics of the most widely traded estimates are portrayed in Table 7.

At this point, a word of caution may be appropriate. Without questioning their arithmetical correctness, the wide range of projections and estimates reflects different reference years, diverging assumptions or/and methods of calculation. In some cases the outcome of the computations seems, at first sight, to produce absurd results. This is due to higher transfers under the EU structural policies on the basis of sustained high growth rates in the recipient country (indicating a substantial increase in absorptive capacity) while own contributions lag behind. However, such calculations do not account for the fact that good performance in regional development might result in lower transfer payments because more prosperous regions lose their eligibility for external support.[21] At any rate, there will be no reliable automatic mechanism. Rather, political interventions to cap substantial flows are quite likely.

Outlook

The time schedule of the Commission's road map to get the Financial Perspective 2007-2013 approved is extremely tight. Should the suggested structural changes end up in tough political haggling in the Council or lengthy debates in Parliament, the implementation beginning in early 2006 is at risk. However, any major disturbance will also affect the allocation of funds to partner countries. Yet, with Germany and France unwilling to re-discuss the 2002 Berlin agreement on financing the CAP, the UK's obvious reluctance to see its rebate eroded and the not exactly harmonious relations between the EU15 and the latest accession group of countries over structural funds, this process could stretch well into 2006.

With regard to the agrarian sector, newly acceding countries cannot expect to receive direct payments for their agricultural producers under the rules of the old system. At the Community level direct payments will be reduced, and probably fully de-coupled from agricultural production, before Turkey comes anywhere near membership.

The precise conditions of potential accession are hard to predict as the budgetary side of membership is generally left to the very end of the negotiations. In money terms, it clearly is a zero sum game: what the recipient gains, others must pay for. Besides referring to established rules or suitable precedent cases, in this situation the only real option of any applicant country is to put the club members in a predicament by getting its own house in order by good performance in the area of political, economic and social progress and thus complying with the entry conditions agreed upon at the outset.

[19] Wolfgang Quaisser, A. Reppegather: EU-Beitrittsreife der Türkei und Konsequenzen einer EU-Mitgliedschaft, Working Paper No. 252, Osteuropa-Institut Munich, 2004.

[20] Cf. Harald Grethe, op. cit., p. 129.

[21] Ibid., p. 136.