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# The EU's Medium-Term Financial Perspective and the Potential Slice of Turkey

When considering the financial flows incurred by EU accession, the questions a country is likely to ask seem simple: How much will we get out of it (applicant's perspective), or, what is the burden likely to be (EU perspective)? However, in the case of Turkey things are more complicated, for a number of reasons.

Given its size and level of economic development, Turkey's accession would undoubtedly have an important impact. Any estimate of the budgetary impact of the country's accession is based on the current *acquis* and will be attended by 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 current flows of funds (pre-accession) and longer-term payments after Turkey becomes eligible for member programmes (post-accession). Accuracy of financial forecasting 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 EU can realistically be realised only on the precondition of new allocation and distribution mechanisms – still to be determined, agreed upon and implemented – this approach may easily end up in an vicious circle.

Key factors determining the EU budget are the financial allocations laid down by the multi-annual financial outlook. The current framework will expire in 2006, having been concluded by the EU-15 five years ago. The next financial perspectives cover the period 2007-2013. The budgetary figures proposed by the Commission are highly controversial. Turkey will have very limited influence over the upcoming financial framework, running until 2020. Full integration will not take place before negotiating the framework for 2021-2027. Under prevailing circumstances, the volume of financial transfers for the initial years of Turkey's membership will have been decided by a body consisting of current member states, two present candidate countries plus Croatia. In this respect the situation of Turkey will resemble that of Bulgaria and Romania (which are likely to join by 2007) in accepting a financial framework determined by the existing 'club members'.

Given that for all current member states it took between five and ten years before they were integrated into all support programmes, it is unlikely that Turkey will benefit fully from the EU's budgetary re-allocation schemes much before 2020. By then, however, 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 EU's accession strategy, candidate countries are invited to make use of financial resources designed to pave the way to 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

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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* will draw on national financial resources not fully compensated by Brussels. On top, financial consequences of membership comprise also political benefits (e.g., peace dividend) and economies of scale by economic integration.

2 In this section, even the wording to some extent closely follows 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.

Turkey's efforts to meet the Copenhagen criteria. Assistance is available for improving Turkey's economy and its capacity to cope with competitive pressures within the internal market. As for all candidate countries, assistance is directed towards two main objectives:

*1. 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 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, gender equality and the protection of minorities.

*2. 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 be made only 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 in Turkey, as well as the gap between Turkey's national income and the EU average.

Assistance priorities will be drawn from the Accession Partnership, the regular reports and Turkey's national programme for 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 in which it will take more than one year to address the objectives. The amounts (to be approved annually) are as follows:

**Table 1:**
**The EU's pre-accession assistance for Turkey**

| | 2004 | 2005 | 2006 | **total** |
|---|---|---|---|---|
| amount (€ million) | 250 | 300 | 500 | 1050 |

## Overlap of alterations: new policy emphasis and re-structuring of old instruments

The focal point of the debate on the next EU Financial Perspective is the Commission's demand for 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, Austria, the Netherlands, Sweden and the UK) are insisting 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] With the Luxembourg presidency's proposal in a highly politicised fight over miniscule percentages (1.06% instead of 1.14% or 1%), the hardliners' position might be softened after the German Chancellor's move in view of the EU Constitutional Treaty's failure to win acceptance in France and the Netherlands. However, all major decisions with financial impact have been overshadowed by this dispute.

For any potential candidate country the budgetary effects will result from both application of the Common Agricultural Policy (CAP) and the EU'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 in respect of 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 what will be available to Turkey. Direct payments (first pillar of the CAP) will shrink over time. Instead, a basket of rural development policies (second

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 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 to 2011. (EurActiv.com, Agenda 2004-09, 17 May 2005).

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. reparcelling).“*[5]

At the same time, a feature which is specific to Turkey is the substantial regional disparities within the country. With a per capita GDP of about 29% of the EU-25 average[6] – close to Bulgaria and Romania – Turkey would (under the current 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.

Referring to structural funds, there is the ongoing discussion (between old and new member states) about how to deal with the traditional limit (4% of GDP) on what a country can get from the structural funds.

Above all, there is a move to re-organise the institutional set-up as regards the tools of the EU's co-operation with external partners. According to a Commission proposal, the current situation is 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 new basic differentiation will be between geographic and thematic instruments (three of each) – a semantic distinction which may be misleading since the geographical part will definitely dominate while the rest are intended for use only in exceptional circumstances: these are crises and threats to security (including nuclear safety), humanitarian aid and a 'macro-financial' instrument that leaves, as before, room for *ad hoc* decisions. Thus the main purpose of this reshuffling of the toolkit is to provide separate instruments for different regions closer to or further from the EU. The new titles for the next Financial Perspectives and beyond are:

- Instrument for Pre-Accession Assistance (IPA) (will ultimately replace current pre-accession programmes intended to cover allocations for recognised candidate countries and also for potential candidate countries, in brief: 'pre-candidates')
- European Neighborhood 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 benefits of the internal market, no promise of membership)
- Development and Economic Co-operation Instrument (a new instrument intended for allocations to the 'rest of the world'; allegedly, it is supposed to cover also the European Development Fund, to be integrated into the budget as of 2008 – unlikely, as unanimity is required in the Council)

During the period 2007-2013 and beyond – although it is also a neighboring country - Turkey will clearly 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 ultimately to reach the same level as the Western Balkans.

To conclude, the budgetary proposal for 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.

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 54, no.2 (2005), p. 135.
6 At Purchasing Power Standards.
7 For some basic indicators pertaining to Turkey and its neighbors vis-à-vis the country group which acceded to the EU in May 2004, see Table A-1 in the Appendix.

8 ENPI is addressed to the belt of countries South and East of the present EU. 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 Neighborhood, 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).

## 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 the approach which involves compiling the tasks to be performed and, subsequently, computing the amount of financial resources likely to be necessary to meet these requirements ('bottom up'). In contrast, the group of net contributors to the EU budget prefers the opposite, 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 a political decision.

It should be noted that in the field of financial planning an important decision was taken as early as in October 2002 when future agricultural policies were outlined up to 2013. Thus, even more intensive efforts to make savings 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 EU. For this reason, to overcome socio-economic disparities (or, at least, to minimize them) demand has increased for intra-European aid. At the same time, the Commission is trying 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 within 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, the development differences of different regions should be the governing principle in fund allocation.

*Budgetary scope*

As is customary in the budgetary planning of public bodies, the EU financial perspective is characterised by a gap between fund allocation to programmes/projects and actual payments. In the EU this gap is widening, affecting the quality of forecasting the likely budgetary volume and thus a cause for concern for member states. In particular, the net contributors are afraid of commitments being made between 2007 and 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 UK's budget rebate*

In view of increasing budgetary bottlenecks, the EU Commission now seems to favour a proposal (originally tabled in 1998) to cap national contributions by applying a correction mechanism which would give some relief to the majority of net contributors and mobilise funds, e.g., for the Lisbon objectives. This move would be at the expense of the UK which has been benefitting from the rebate since in 1984 Margaret Thatcher, in her second term as Prime Minister, pointing to 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 or government have repeatedly reaffirmed their intention to reach an agreement on EU financial perspectives by June 2005 in order to lay the ground for the solid programme planning of structural funds for the upcoming fiscal period. However, being realistic, in the EU-25 elections or referendums are being held almost constantly, which hardly allows for any window of opportunity for debates on general principles which might eventually materialise in something worth calling a new alignment. Rather, it is likely that at the end of the day both the British Prime Minister and the French President will once again succeed in imposing their special national interest.

## Survey of estimates

To make discussion process more transparent, present and future deliberations ought to distinguish clearly between the period of communications, talks, and ne-

15 For a fairly comprehensive discussion of different options see Peter Becker (2004), Die Agenda 2007, Die erste Etappe der europäischen Finanzverhandlungen 2007–2013, SWP-aktuell 34, August 2004 (8 p.). – With kind permission of the author, this section draws extensively on his paper.

16 Presently the rebate amounts to € 4.6 bill. annually; it will rise to € 7-8 bill. during 2007-2013, if unaltered.

gotiations *before* accession and the period *thereafter*. For both periods the sources of information are different and so is the outcome of the estimates.

One important reservation, however, applies to all these approaches: What will determine Turkey's future benefits and contributions are the rules that will by then apply to all, as well as the level of development reached by both the EU and Turkey. The discussion about the financial burden entailed by Turkey's membership for the EU budget or, vice versa, the outcome for Turkey as a recipient, lacks clarity, particularly as regards the extent to which today's rules will apply tomorrow. 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 will bear how much of the burden. The controversy may have repercussions for the envisaged targets. While the overall frame of the EU's future external relations (budget line "Heading 4") is being set by the commitment appropriations, no country-specific details have been spelled out, not even under sub-headings for individual instruments. Thus, no meaningful quantitative assessment of Turkey's share can be derived from this table of figures at present.

What can be deduced instead from the 2007–2013 framework of commitment appropriations for the EU's external activities (see Table A-2 in the Appendix) is the relative weight the Commission is attaching to the budgetary instruments for organising relations with foreign countries.("Heading 4") The bulk (54%) is earmarked for development co-operation. During these seven years, it is planned to put aside about € 13 billion (=18%) for preparing current accession candidates (Croatia, Turkey) and those which may obtain this status later on (the Western Balkans).

To give a rough indication, future distribution of EU funds under the heading 'relations with external partners' in the legislative proposals is reflected in the following table:‡

**Table 2:**
**Distribution of funds for External Activities "Heading 4"** (€ million; excl. admin. 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** |
| Dev't 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.

To pinpoint the main characteristics: After slight increases in the financial allocations earmarked for both IPA and ENPI, gradually more importance will be assigned to the latter at the end of the period. With over 50% of the entire financial volume, development co-operation will dominate throughout. The amounts to be put aside for IPA are scheduled to rise somewhat more slowly (10% annually) than those for ENPI (14%), while both will increase faster than the total (7.5%).

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

‡ Technical note: There are (partly substantial) differences in the presentation of data in Commission documents (e.g. between this table and Table A-2 in the Appendix). The most prominent reasons for these deviations are: i) valuation in current or, respectively, in (2004) constant prices, ii) differing treatment of administrative costs.

**Table 3:**
**Multi-annual expenditure for the Instrument of Pre-Accession (IPA); Schedule of appropriations**

| | Commitments | Payments |
|---|---|---|
| | € million (current prices) | |
| 2007 | 1 426 | 285 |
| 2008 | 1 631 | 754 |
| 2009 | 1 734 | 1 264 |
| 2010 | 1 977 | 1 690 |
| 2011 | 2 294 | 1 898 |
| 2012 | 2 441 | 2 116 |
| 2013 * | 2 564 | 6 060 |
| **Total** ** | 14 067 | 14 067 |

* and following years (applies to payment appropriations only).
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 et seq.
** Total allocation amounts to 14.653 million €. The table gives the appropriation excluding staff (286 mio) and support expenditure (300 mio) thus remaining 14.067.

At present, this is 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 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 so-called '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 deducted from this payments scheme. Of course, educated guesses are feasible. Given these overall figures, the average annual will amount to something like € 2 billion. Grossly assessing about two thirds for Turkey according to the size of its population, under prevailing circumstances the country's slice may be around € 1.3 – 1.4 billion annually.

*Post-accession*

In case of membership, the best approximation of the costs involved or the 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 EU budget 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 supposed to receive by a likely accession date, e.g. 2015?

Following the reasoning in recent Centre for European Policy Studies papers,[17] to delineate an 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 CAP as their Western European colleagues in the EU-15. While the Turkish economy may account for 4% of the EU's GDP (with Turkish agriculture in the medium term contributing 10% to national GDP), the gross cost (Structural Funds plus CAP) might amount to around a quarter of 1% of EU-28 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 1.2% of its own GDP.

Consequently, the ceiling of net costs would be around 0.2% of EU GDP. The table below spells out the findings in relative terms, i.e. as a percentage of the Community's GDP.

**Table 4:**
**Budgetary Cost of Turkey Becoming 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 |

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

17 Kemal Dervi / 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, p. 3/4 and (identical) Daniel Gros, 'Economic Aspects of Turkey's Quest for EU Membership'; CEPS Policy Brief, No. 69 April 2005, p.3.

Putting EU's GDP before last year's accession round, 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 a few other studies worth mentioning. Referring to Grethe, a widely cited study by Quaisser and Reppegather[18] puts EU expenditure in applying the current CAP to Turkey at a margin 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 (p. 129), 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 presented for rapid overview in the following table:

**Table 5:**
**Different Estimates of Net Transfers EU-Turkey**

| Authorship | Status quo | Reform Scenario | Method Employed | Amount p.a. (billion €, rounded) |
|---|---|---|---|---|
| ZfT (2002/03) | x | | Status quo projection | 8 |
| Flam (2004) | x | | Regression analysis | 12 |
| Togan (2004) | x | | Regression analysis | 14 |
| Dervi 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 |

Source: W. Quaisser and S. Wood, '*EU Member Turkey? Preconditions, Consequences and Integration Alternatives*'; forost Working Paper No. 25, (October 2004), modified and supplemented. The data for the estimates of 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, no.1 (2004), pp.171-210) and Togan ('Turkey: Toward EU Accession', in: The World Economy, vol.27, no.7) are taken from Quaisser and Wood.

At this point, a word of caution may be appropriate. Without questioning arithmetical correctness, the wide range of projections and estimates reflects different reference years, diverging assumptions and/or 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 effect of good performance in regional development which might result in lower transfer payments because more prosperous regions lose their eligibility for external support[19]. At any rate, there will be no reliable automatic mechanism. Rather, political interventions to cap substantial flows are quite likely.

18 W. Quaisser and A. Reppegather, 'EU-Beitrittsreife der Türkei und Konsequenzen einer EU-Mitgliedschaft', Working Paper No. 252, Osteuropa-Institut München 2004.
19 See Grethe, op.cit., p. 136.

## Outlook

The time schedule of the Commission's road map for the approval of the Financial Perspective 2007–2013 is extremely tight. Should the suggested structural changes end up in tough political haggling in the Council or lengthy debates in Parliament, implementation beginning in early 2006 is at risk. However, any major disturbance will also affect fund allocation 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 EU-15 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 old rules. On the Community level direct payments will be reduced, 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 precedents, in this situation the only real option for any applicant country is to put the club members in a predicament by getting its own house in order by performing well in terms of political, economic and social progress, so complying with the entry conditions agreed upon at the outset.

## Appendix

### Table A-1: Basic Economic Indicators in the EU, Bulgaria & Romania and Turkey

| | EU(25) | NMS(10) | Bulgaria & Romania | Turkey | Turkey/EU(25) |
|---|---|---|---|---|---|
| Population (2002,mill.) | 453.0 | 74.6 | 29.7 | 70.3 | 15.5 |
| GDP (2003, bill. €) | 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, bill. €) | 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, bill. €) | 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*: GRETHE (2005), slightly modified. Calculations on the basis of various data from national authorities (SIS 2003) and international bodies (European Commission, EUROSTAT, and FAO – 2004 each).

### Table A-2: Overview of the Financial Framework 2007 – 2013 (€ million, 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 (a) | 11.400 | 12.175 | 12.945 | 13.720 | 14.495 | 15.115 | 15.740 |
| 5. Administration (b) | 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 (a) | 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% |

(a) 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. - (b) Includes administrative expenditure for institutions other than the Commission, pensions and European schools. Commission administrative expenditure is integrated in the first four expenditure headings.