

TURKEY AND THE EUROPEAN COMMUNITY

On the occasion of the official visit to Brussels on 25 May 1978 of Mr Bülent ECEVIT, the Turkish Prime Minister, this information memo is intended to record the development of relations between Turkey and the Community by examining the following:

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I – EEC-TURKEY ASSOCIATION AGREEMENT

The EEC-Turkey Association Agreement,¹ which was signed in Ankara on 12 September 1963 and which entered into force on 1 December 1964, is based on Article 238 of the Treaty of Rome. The Agreement lays down different stages for the development of the association:

- a *preparatory* stage (1964-1973), during which the Community helped Turkey to strengthen its economy by means of financial aid and tariff quotas opened for tobacco, dried grapes, dried figs and hazelnuts which represent 40% of Turkish agricultural exports to the Communities;
- a *transitional* stage enabling a customs union to be established in 12-22 years according to the products;
- a *final* stage providing the possibility for Turkey to accede to the Community once the economic policies of both partners have been coordinated.

Since the agreement was in the form of a framework agreement, it was implemented by a series of additional protocols. Institutions have also been set up between the partners.

(a) Institutions

The Agreement created institutions on the basis of parity. An *Association Council*, made up of representatives of the Community and Turkey, meets in principle at least twice a year at ministerial level; it draws up recommendations and, in certain cases fixed by the Agreement, also draws up decisions. The Council's work is prepared by an *Association Committee* at senior official level and in customs matters by a *Customs Cooperation Committee*. Each year the Council presents a progress report to the *Joint Parliamentary Committee*, which is made up of 18 members of the European Parliament and 18 members of the Turkish Grand Assembly. This parliamentary body also has the authority to draw up recommendations.

(b) Financial provisions

The *first financial protocol*, signed at the same time as the Ankara Agreement, provided Turkey, between 1964 and 1969, with aid and loans under special terms totalling 175 million units of account.²

The *second financial protocol*, signed on 23 November 1970, enabled an amount of 210 million u.a. to be committed until 23 May 1976. This amount was raised to 257 million u.a. following the Community's enlargement.

These measures were strengthened by a *third financial protocol*, initialled on 3 February 1977, which represented a commitment of 310 million u.a. until 31 October 1981: 90 million were in the form of loans from the European Investment Bank, granted on its own resources, 220 million in the form of loans on special terms (2.5% interest rate per annum, over 40 years, with a 10-year grace period) granted by the EIB on a mandate from the Community. The grant element in this budget is 47%.

(c) Progress towards a customs union

Meanwhile however the opening of the transitional stage enabled the two partners to make progress along the road to customs union, after the terms and rate of progress had been defined by an *additional protocol* signed on 23 November 1970 in Brussels, which then came into force on 1 January 1973.³

In the agricultural sector, the Community applies preferential treatment to around 93% of Turkish

¹ OJ 217 of 29 December 1964.

² 1 u.a. = USD 1 before 1972,
= around USD 1.20 at present.

³ OJ L 293 of 29 December 1972. An agreement signed on the same date extends the scope of the customs union to coal and steel products coming under the ECSC. It should be noted that the trade provisions of the additional protocol were introduced in advance by an interim agreement as from 1 September 1971 (OJ L 130 of 16 June 1971). Lastly it should be pointed out that an additional protocol signed on 30 June 1973 adapted the association, taking into account the accession of the United Kingdom, Ireland and Denmark to the Community. This protocol has not yet been ratified by Turkey, but its provisions relating to trade are applicable since 1 January 1974 pursuant to an interim agreement also signed on 30 June 1973 (OJ L 348 of 18 December 1973).

agricultural exports: tobacco, grapes, figs and hazelnuts taken into account as from the transitional stage, together with citrus fruits, wines and other cereals in similar conditions to those which were offered to the other Mediterranean countries. For its part, Turkey has a period of 22 years in which to adapt its agricultural policy to that of the EEC, which at present does not enjoy any preference. It is planned that the two parties shall re-examine the situation in this sector every two years within the Association Council, which can decide on new concessions in the agricultural field.

In the industrial sector, the Community has abolished all its customs duties and quantitative restrictions since the beginning of the transitional stage save for those exceptions concerning certain petroleum and textile products for which tariff quotas have been established (these quotas were increased in 1974 following the Community's enlargement).

For its part, Turkey has a period of 12 to 22 years, depending on the products, to eliminate progressively its quantitative restrictions and its customs duties and to adopt the Community's external customs tariff.

Since January 1976, the elimination of quantitative restrictions affects 40% of Turkish imports from the Community. This percentage should be increased to 45% in 1981, 60% in 1986 and 80% in 1991.

In the field of customs duties, where reductions have been planned to come into effect on 1 January 1973, 1 January 1976, 1 January 1978 and subsequently each year on a regular basis, Turkey has carried out two reductions and duties have been decreased by 20% for products which must be completely liberalized in 12 years and by 10% for products to be liberalized in 22 years.

Turkey has, however, not yet applied the third reduction of 10% which should have come into effect on 1 January 1978. The EEC-Turkey Association Committee agreed in February 1978 to this postponement. On 1 January 1977, the Turkish Government had not been able to put into operation the first planned alignment of its external tariff with that of the Community in relation to non-member States.

(d) Social provisions

In the social field, the Association Agreement and the additional protocol provide for the gradual introduction of the free movement of workers between 1 December 1976 and 1 December 1986. At the end of 1976, the two partners agreed on an initial four-year stage during which the measures taken by the Community Member States concerned in favour of migrant workers would be consolidated, with the Turkish worker having priority as regards opportunities for employment, i.e. second in line to Community workers but before those of non-member States. The Association Council will also be able to adopt provisions in the field of social security in favour of Turkish workers who move around within the Community and their families residing within the Community. A Community offer was made on the subject on 10 June 1974, but discussions have not yet been concluded.

II — RECENT TRENDS IN RELATIONS BETWEEN TURKEY AND THE COMMUNITY

In recent years, the association between Turkey and the Community has not been without its problems. The origin of some of them can be traced to the international economic crisis, whereas others have arisen from the fears which Turkey feels in the context of its relations with Greece.

First of all, the *economic crisis* has reduced each partner's room for manoeuvre. Turkey has been more and more preoccupied by its trade deficit with the Community¹ and this question has appeared regularly on the agenda of the Association Council.

For its part, the Community has not been in a position to satisfy all Turkish requests relating to financial cooperation, the re-examination of agricultural concessions and the development of the free movement of workers. As mentioned earlier, however, at the Association Council of 20 December 1976, the two partners were able to reach a series of partial agreements, to sign the third financial protocol and to adopt preliminary measures in the field of free movement. The Community also showed its willingness to develop its cooperation with Turkey, while accepting that there could be a certain amount of flexibility in

¹ See annex.

the timetable of customs union, in keeping with the specific problems of Turkey. It is in this context that Turkey, as was specified earlier, postponed the tariff adaptations initially planned for the beginning of 1977 and the beginning of 1978.

For its part, the Community, in a memorandum addressed to the Turkish Government, expressed its fears concerning Turkish exports of cotton yarn. The rapid volume increase at low selling prices of these exports was creating difficulties for undertakings in the Nine. During the Association Committee meeting on 15 March 1977, the Turkish Government was able to provide assurances in this respect.

The programme of the new Turkish Government (12 January 1978) states that the present terms of the Association create 'obstacles to our efforts for development and industrialization' and proposes a readjustment or, in the words of the Minister for Commerce, Mr Köprülüler, a revival of its relations with the Community. In an interview given to the BBC on 10 April 1978, the Turkish Prime Minister, Mr Ecevit, added that Turkey had to restructure its economy in such a way as to enable the Turkish economy to adapt itself more easily to possible full accession to the Community.

On several occasions, Turkey has expressed the fear that what Common Market advantages it now enjoys might be eroded due to the development of the Community's trade policy, in particular in the Mediterranean region. Turkey is moreover worried about the stance which could be adopted towards it by the Community in the context of its disputes with Greece over Cyprus and the Aegean, once Greece has acceded.

It is in particular in this context that on 24 June, 1974 Mr Ecevit pointed out on a visit to Brussels that Turkey wanted to be associated with the political consultations between the Member States of the Community. The Joint Parliamentary Committee, which met in Nice from 25 to 28 April 1976, also drew up a recommendation in favour of increased political cooperation in the framework of the special problems of the eastern Mediterranean.

The Community has always tried to adopt a balanced position. Over the Cyprus affair, the Commission restated in 1974 that the association between the Community and the Republic of Cyprus was based on the independence and territorial integrity of the island, and on the principle that the advantages of association should benefit the entire population of Cyprus. The declaration of the Council of Ministers on 24 June 1975, following the Greek request for accession of 12 June, stipulated that the examination of the request would not affect relations between the Community and Turkey, nor the rights of Turkey within the framework of the Association Agreement. The Commission's opinion on the Greek request of 28 January 1976 specifies that the Community is not and should not be a party to the dispute between Greece and Turkey, an associated country whose Agreement with the Community also implies full membership as its final objective. Lastly, in its communication to the Council on 19 April 1978, 'General reflections on the problems of enlargement', the Commission pointed out that the future enlargement of the Community implied that a new balance would have to be found with the Mediterranean countries. More particularly in the case of Turkey, it said: 'The Community must make sure that enlargement does not constitute an obstacle to the course mapped out by its Association Agreement with Turkey: on the contrary, the occasion must be taken to devise with this associate country arrangements giving practical expression to the political will which underlies the Agreement, the aim being to strengthen the Community's existing ties with Turkey and extend and intensify cooperation between them.'

ANNEX

ECONOMIC PROFILE OF TURKEY

Turkey has 41 million inhabitants, living on an area of 780 000 km² (53 inhabitants per km²). The annual growth rate of the population is particularly high: 2.4%. Gross national product in 1975 was USD 41 050 million, or USD 1 000 *per capita* (one fifth of the Community average). Agriculture, which employs 63% of the working population, contributes 26% to gross domestic product. The corresponding figures are 15.5% and 21% for industry, 21.4% and 44.3% for services.

Turkey is undergoing a process of development and industrialization, in the framework of five-year growth plans which were launched in 1963, but it has been burdened by a series of internal and external constraints which account for the delicate financial situation of the country. From 1964 to 1974, the average annual *growth* of gross domestic product was 6.4% (as against 4.1% in the Community), but the *per capita* population pressure reduced this rate to 3.8%. On the other hand, average overall growth was brought down to 5.2% in 1977, particularly because of climatic factors which weighed on agricultural productivity, with industry continuing to register progress of 7%.

In 1976, the country had 7.4% unemployment. In 1975, the movement of *Turkish workers* to the Community was virtually suspended because of the international economic crisis. In that year, there were already 750 000 Turkish workers in the EEC, of which 650 000 were in Germany.

The decrease in remittances from Turkish workers abroad (around USD 900 million in 1976 and 1977 as against USD 1 400 million in 1974), but more especially, the quadrupling of the prices of petroleum products and the rise in the cost of imported equipment and machines from industrialized countries, created a further deficit in the *balance of payments* which had been positive between 1972 and 1974. These deficits reached USD 2 300 million in 1976 and 1 706 million for the first six months of 1977. During 1977, the consumer price index recorded an increase of 36%, whereas the average annual inflation rate had been restricted to 14% between 1972 and 1976. Faced with a short-term external debt reaching USD 6 000 million, the new government which came into power at the beginning of 1978 adopted a stabilization programme and called on a consortium of international aid.

The Community is *Turkey's most important trade partner*. The Community's share in Turkish exports has fluctuated between 53% and 42% since 1963, the year in which the Association Agreement was signed, with the highest level being reached once again in 1976. The Community's share in Turkish imports rose from 40% to 45%, having topped 50% between 1972 and 1974.

There has been a marked *growth in trade* since 1963, but it has not been even. In 1976, exports from Turkey to the Community represented 870 million EUC, an increase of 257% since 1963. Imports to Turkey from the Community reached 2 290 million EUC, which is an increase of 742% since 1963.

This negative trade balance for Turkey (1 420 million EUC) represented almost 40% of its trade deficit with the world.

There was certain stabilizing in trends in 1976, when imports from the Community increased by only 20%, whereas Turkish exports picked up conspicuously, increasing by more than 50%.

	Turkish imports from the Community (million EUC)	Turkish exports to the Community (million EUC)	Deficit in Turkish trade balance with the Community
1973	949	578	371
1974	1 541	649	892
1975	1 904	566	1 338
1976	2 290	870	1 420
1977 (3 first quarters)	1 681	597	1 084

Source: Statistical Office of the European Communities.

With regard to the *structure of trade*, agricultural products accounted for 61.2% of the total value of Turkish exports to the Community in 1976 and industrial products for 38.8%; these, however, accounted for only 31.2% of Turkish exports towards the world as a whole.

According to another classification, Turkish exports to the Community can be divided equally between food products, raw materials and manufactures, whereas 60% of total Turkish imports concern transport machinery and equipment, other manufactures and chemical products each accounting for around 15% of the total.

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