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IMPACT OF THE GATT URUGUAY ROUND NEGOTIATIONS ON TURKISH AGRICULTURE

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ABSTRACT

The recent developments in the international economy show that liberalisation will prevail in the world economy for the near future. Competition and market information are expected to be the dominant factors of the coming decade.

The Uruguay Round of the GATT negotiations has been more comprehensive compared to the previous ones. The negotiations produced trade liberalisation measures not only in the industrial sector, but also in agriculture and services. Agreement on Agriculture includes rules and commitments on border measures, domestic subsidies and export subsidies.

Turkey consolidated all of the agricultural products to GATT with respect to reduction of tariffs and export subsidies. Total non-product specific support or product specific domestic support was below the "de minimis" level of support. However, Turkey reserved the right to derogate from the "de minimis" provision in accordance with developments concerning the adoption of Common Agricultural Policy of EU. The tariff reduction commitments for the commodities considered strategic are kept at low levels and are due to high import taxes as well.

In an agricultural sector model study - by ÇAKMAK and KASNAKOGLU undertaken to measure the effects of the GATT regulations on Turkish Agriculture (June 95), it was found that more liberalised trade will improve the net trade position of Turkey for agricultural products. According to the results of the same study, Turkish agricultural producers will benefit more than the consumers with the full implementation of the GATT 1994. In view of the policy changes; Turkish Agriculture is expected to continue with liberalisation and structural adjustment in the long term and try to focus on the comparative advantages of Turkish Agricultural Commodities under the developing country status in the short term.

I. INTRODUCTION

The recent developments in the international economy show that liberalisation will prevail in the world economy for the near future. Competition and market information are expected to be the dominant factors of the coming decade.

The Uruguay Round of GATT negotiations has been more comprehensive compared to the previous ones. The negotiations produced trade liberalisation measures not only in the industrial sector, but also in agriculture and services. Agreement on Agriculture includes rules and commitments on border measures, domestic subsidies and export subsidies.

With regard to the GATT, Turkey has been considered as a developing country. During the Uruguay Round negotiations, there were two main factors which played an important role. First is the trade relation with the European Union (EU) Countries which is covered with association arrangements with the EU, the largest trading partner of Turkey with a 50 % share in the trade volume. Second is Middle Eastern neighbours had large share in total export before Gulf War. These countries have not been involved in the GATT negotiations. Turkey therefore was reluctant to settle trade related disputes in the framework of the GATT.

In the previous GATT negotiations, Agricultural products had a large share in the Turkish exports. But after the mid 1980's, the share of industrial products in total exports was increased significantly.

II. OVERVIEW OF AGRICULTURAL DEVELOPMENTS FROM 1970s TO 1990s

2.1. DEVELOPMENTS IN THE AGRICULTURAL SECTOR

In the last two decades, the share of industry in the overall economy has increased and gained an important place. On the other hand agriculture has received less interest during the period. Statistics

confirm this situation. It is easily seen from the macroeconomic indicators of the country for the last 20 years.

TABLE 1 - SHARE OF AGRICULTURE IN GDP

Years	(%)
1970	26.3
1980	22.6
1990	18.1
1991	16.9
1992	15.9
1993	15.1
1994	15.6

Source: State Institute of Statistics (SIS)

As can be seen in Table 1, the share of the agricultural sector in GDP during the period has decreased progressively. This can be explained by the fact that agriculture has lost its importance in the economy during the period concerned.

The percentage of the population engaged in agriculture has been reduced both where the total population and the total working population are concerned. According to the results of the censuses carried out in 1970, 1980 and 1990, the percentages were 42.46 (67.68), 41.40 (59.96), 41.40 (49.85) respectively. This can be explained as a result of economic development. On the other hand, per capita agricultural income has not reached the level desired in comparison to other sectors.

The share of agriculture in the total exportation, is shown in Table 2. Exportation of agricultural products has increased during the period; even agricultural products have been taxed on export. However, the growth rate of total exportation has been higher than agricultural exportation.

TABLE 2 - SHARE OF AGRICULTURE IN TOTAL EXPORTATION

Years	Share (%)
1970	74.70
1980	53.02
1990	18.97
1991	20.10
1992	15.40
1993	15.51
1994	13.60

Source: State Planning Organisation (SPO)

2.2. AGRICULTURAL POLICIES

Several objectives of agricultural policies have been set out in the Five Year Development Plans. However, the implementation of policies indicates that two objectives, closely allied, have been kept consistently in the minds of policy makers. These are:

- *The increasing of yields and production levels:* The increase in production volume was achieved mainly by expansion of the cultivable area until the 1960s. Afterwards, the Government target was to promote greater use of the inputs such as fertilisers, hybrid seeds and pesticides to increase the yields. Input price subsidies and credit at a substantially subsidised rate are the major policy tools for expansion in the use of modern inputs. On the other hand, heavy public investment in irrigation has been made, to increase both the yields and volume of production.
- *Increasing agricultural incomes and achieving income stability:* Combined with input price subsidies and public involvement in irrigation, the Government used output price support policies and trade measures to prevent at least the decrease in agricultural income and bring the per capita agricultural income to a compatible level with the rest of economy.

Apart from these objectives, with a large resource base provided by agriculture, the Government has, over the last decades, tried to achieve the targets of self - sufficiency and increase exports through first objective mentioned above.

2.2.1. INSTRUMENTS OF AGRICULTURAL POLICIES

The Government has introduced various measures to realise the objectives. In the crop sector, measures have been primarily domestic input price subsidy and output support price (for strategic products), augmented by quantitative restrictions on imports and high duties recently. In the livestock sector, trade measures have been the main protection mechanism for putting a barrier between domestic and import prices.

Output Price Support

This is the most widely used instrument of agricultural policy in Turkey. It has always been at the centre of policy discussions and has gained relative popularity among other instruments, beyond its relative significance. The number of products covered declined in the 1980s, but there was a sharp increase in 1991 and in 1992 it reached 26 commodities (Table 3). During the last decade, total support purchases were around \$1 billion, in 1991 and 1992 reached \$3.0 billion, with a share of 5% and 10% in the total value of agricultural production in the respective years. Because of budgetary pressures, coverage of support purchases has been reduced to 8 commodities in 1994, and 3 commodities in 1995.

Support prices are announced by Government decree each year. State economic enterprises and agricultural sales co-operatives are in charge of buying, at determined prices. In August 1993, a new system was introduced for the commodities covered by Agricultural Sales Co-operatives Union (ASCU). Instead of a floor price, a target price and a relatively lower intervention price (close to the world price) were announced. Farmers sell their crop to the ASCU or the commodity exchange and receive the difference between the price received and target price as the deficiency payment from the Agricultural Bank, which is reimbursed by the Treasury. This system has been applied to cotton.

Livestock products are seldom covered by the support purchases. Domestic prices for the livestock prices rely mainly on border measures.

TABLE 3 - SUPPORT PURCHASES

Year	Number of Commodities	Total Purchases (Mil.\$)
1979	22	2355
1980	22	1618
1985	13	905
1988	10	861
1990	10	2079
1991	24	3004
1992	26	3093
1993	24	2226
1994	8	1149
1995	3	n.a.

Source: State Planning Organisation (SPO)

Input Subsidies in Agriculture

Input subsidies are the most important component of agricultural support policies in Turkey. The most important category is that of credit to farmers with negative real interest rates well below commercial rates and the subsidy on inputs directly used in the production forms. The second important category is that of the input subsidies. These are the price subsidies on fertilisers, seeds, pesticides, feeds and the subsidy on operation and maintenance costs of irrigation.

Within input subsidies, the subsidy on fertiliser has a special position, at 90% of total input subsidies. But throughout the period this subsidy has diminished. Additionally, part of this subsidy has been paid to domestic fertiliser producers as they produce at a cost higher than the c.i.f. price of fertiliser.

The most important subsidy component both in real terms and also in its share in total subsidy is the interest concession through concessional loans to the farmers and Agricultural Sales and Credit Co-operatives by the Agricultural Bank.

The third subsidy item is transfer to the State agencies to compensate for the losses that they have incurred during their support purchases.

III. ANALYSIS OF THE COMMITMENTS OF TURKEY

The commitments of Turkey on major items of the agreement can be summarised as follows:

- 1) All of the agricultural products are consolidated to the GATT. Commodity - based tariffs will be decreased by a minimum of 10%. The average decline in agricultural commodities will be 24% by year 2004 and the reduction in tariffs will be implemented in equal instalments starting from 1995. The tariff rates in September 1986 are taken as the basis of reduction.
- 2) Turkey will reduce the outlays for the export subsidies and quantities benefitting from such subsidies by 24% and 14% respectively over a ten-year implementation period. The base period for reduction commitment was 1986-1990 for most commodity groups, for a few the base period was 1991-1992 marketing year.
- 3) Turkey benefitted from the exemptions and special and differential treatment of developing countries in domestic support reduction commitments. Total non-product specific support or product specific support was below the "de minimis" level of support which is 10% of the value for individual products, or 10% of the total value of agricultural production for non-product specific support. Turkey was not required to make any reduction commitment in domestic support. According to the schedule XXXVII of the Uruguay Round Protocol, Turkey reserved the right to derogate from the "de minimis" provision in accordance with developments concerning the adoption of Common Agricultural Policy of the EU.

More detailed analysis of the tariff reduction commitments of Turkey reveals that for commodities which are considered to be important for domestic producers, the tariff reduction commitments are at the minimum level and there are high import taxes on these commodities such as livestock products, tea, cereals, wheat flour, sugar, tomatoes and manufactured tobacco. The achievement of self-sufficiency for some products especially in wheat, seems to be the major reason for this structure of tariffs and reductions. The base rate of tariff reduction commitments for some products is shown in Table 4.

TABLE 4 - TARIFFS OF SELECTED PRODUCTS: REDUCTION COMMITMENTS

Code	Product	Base Rate of Duty	Bound Rate of Duty	Tariff Average	
				Average	Range
01	Live Animals	43.5	37.6	12.9	10 - 33
01.01	Live Bovine Animals	45.0	39.6	12.0	10 - 22
02	Meat & edible meat offals	195.1	175.3	10.8	10 - 22
02.01	Bovine Meat	250.0	225.0	10.0	10
04	Dairy Product	131.5	117.2	10.8	10 - 23
04.01	Milk & Cream	200.0	180.0	10.0	10
07	Edible Vegetables	35.6	30.0	15.8	10 - 23
07.02	Tomatoes	54.0	48.6	10.0	10
10	Cereals	161.1	145.0	10	10
10.01	Wheat & Barley	200.0	180.0	10.0	10

Source: GATT Schedule XXXVII - Turkey

The other extreme applies to products for which Turkey is usually a net importer and for intermediate inputs of export oriented industries. Vegetable oils, silk and cotton have relatively low level tariffs and high rates of reduction. The tendency in tariff reductions is that high tariffs are matched with low reductions. The opposite is true for products with low levels of import duty.

According to schedule XXXVII for Turkey, annexed to the Uruguay Round Protocol, Turkey retained the right to take steps for the formation of a customs union during the reduction period in compliance with the Association Agreement between Turkey and EU.

Therefore, Turkey reserves the right to maintain the Common Customs Tariff of EU as the lowest level of any commitment at any time consistent with its rights and obligations under the article XXIV of GATT.

Budgetary outlay and quantity reduction commitments of export subsidies are given in Table 5. The total export subsidy for agricultural products amounted to \$ 140 million in the base period. The only important feature in export subsidy commitments is related to wheat, barley and wheat flour.

Turkey used rather high levels of outlay commitments for these products in the year in which reduction began. The Government is involved in support purchases in wheat and barley and hence this situation will give the Turkish Grain Board (TGB) the opportunity to export the surplus at subsidised prices for at least the next five years.

Domestic subsidies in agriculture have shown cyclical fluctuations during last 15 years. The total budgetary transfer range was between 1.3 - 5.3 billion dollars per year in 1979 - 1994 period.

The base period for the calculation of AMS in the GATT (1986-1988) coincided with one of the low periods of agricultural support in Turkey.

TABLE 5 - EXPORT SUBSIDY COMMITMENTS, VOLUMES AND VALUES

Code	Product	Outlay	Commitment	(\$ 1000)	Quantity	Commitment	(1000 ton)
		Base	1995	2004	Base	1995	2004
02.01	Bovine Meat	107	104.4	51.3	0.63	0.62	0.54
02.07	Poultry	510.2	498	307.8	2.42	2.38	2.08
04.06	Cheese	462.5	451.4	351.5	3.06	3.02	2.83
07.01.90	Potatoes	718	700.8	545.7	32.8	32.2	28.1
07.02.00	Tomatoes	2271.3	2216.8	1726.2	119.5	117.9	102.8
10.01	Wheat	36077	640424.3	27418.5	574.2	2126.8	493.8
11.01.00	Wheat Flour	1894.4	9542.7	1438.7	65.3	475.4	56.2
15.09	Olive oil	2340.5	2284.3	1778.8	23.4	23.1	20.1
15.12	Sunflower seed oil	3126.3	2866.5	2377.5	72.2	94.5	62.1

Source: GATT Schedule XXXVII - Turkey

IV. ANALYSIS OF THE IMPACT OF THE GATT URUGUAY ROUND ON THE TURKISH AGRICULTURE

By the Agreement on Agriculture of the GATT 1994, the world trade volume for agricultural or other commodities is generally expected to be greater than the present volume. And it is also expected that at retail level prices will be high. With regard to this aspect, the possible effects on Turkish agriculture can be generalised for the next 10 - year period as follows:

- a) Turkey would be faced with some problems by its reduction commitments, because there is not any difference in export subsidies for agricultural products between the period 1986-1990 and Turkey's commitments to the GATT 1994. In addition to this, any agricultural commodity which was shifted from the subsidy list or not subsidised for the period 1986-1990 will never be subsidised again.
- b) According to the GATT commitments of Turkey, within the next 10 years, Turkey will have problems in sectors which have very high production cost.
- c) It is expected that Turkey would benefit from the GATT 1994 when there is full implementation of the GATT by all countries.

Possible effects on particular Turkish agricultural commodities or commodity groups can be summarised from the study undertaken by CAKMAK and KASNAKOGLU 1995.

In the study, using the World Trade Model (WTM), 2 different GATT scenarios and 1 base scenario have been employed for the evaluation of the possible effect of the GATT 1994 on Turkish Agriculture. These have been called 'Full Liberalisation' and 'Partial Liberalisation' of GATT 1994. The base scenario refers to the situation in 1987 and without taking into account the GATT regulations, it is supposed that the same situation will continue to 2010. This is called Base Projection.

The results of the scenarios for Turkey are reported in Table 6. The expected developments for cereals are different on the market for wheat, barley, maize and other cereals. Turkish wheat supply is still of importance in relation to other countries and country groups. Net export in wheat will not reach significant levels and almost all of the increase in production will be consumed domestically. The future concerning barley is quite different. The world market share of Turkish barley production was around 3.8% and production is expected to increase to 5%. Following North America, Australia New Zealand and EU, Turkey will remain the fourth largest exporter of barley in 2010. Compared to the Base projection, barley exports increase by 33% in the GATT Full Scenario.

TABLE 6 - WORLD TRADE MODEL RESULTS, TURKEY (MILLION TONS)

Product	1987			2010								
	Base			Base Projection			GATT Full Libe.			GATT Par. Libe.		
	Sup.	Dem.	Net Trade	Sup.	Dem.	Net Trade	Sup.	Dem.	Net Trade	Sup.	Dem.	Net Trade
Wheat	18.9	19.3	0.14	28.46	28.09	0.38	29.2	27.36	1.84	28.82	27.71	1.12
Barley	6.9	6.43	0.07	11.39	9.51	1.88	11.85	9.34	2.51	11.69	9.39	2.29
Maize	2.4	2.48	-0.08	4.74	4.14	0.6	4.93	4.04	0.89	4.85	4.08	0.77
Cotton	0.54	0.64	-0.1	0.7	0.89	-0.19	0.71	0.88	-0.17	n.a.	n.a.	n.a.
Potato	4.3	4.26	0.04	7.47	7.3	0.17	7.56	7.24	0.32	n.a.	n.a.	n.a.
Sugar	1.78	1.66	-0.16	2.26	2.31	-0.04	2.3	2.24	0.06	n.a.	n.a.	n.a.
Mutton	0.31	0.29	0.02	0.43	0.36	0.07	0.45	0.35	0.1	0.44	0.35	0.09
	Export	Import	Net Trade	Export	Import	Net Trade	Export	Import	Net Trade	Export	Import	Net Trade
Fr.Veg.	0.98	0.01	0.97	2.23	0.03	2.2	2.31	0.03	2.88	2.28	0.03	2.25
Pr.Veg.	0.12	0.01	0.11	0.26	0.02	0.23	0.27	0.02	0.25	0.27	0.02	0.24
Fr.Fru.	0.61	0.01	0.6	1.37	0.04	1.32	1.4	0.04	1.36	1.39	0.04	1.35
Pr.Fru.	0.05	0	0.05	0.11	0	0.11	0.12	0	0.12	0.12	0	0.12

Source: CAKMAK & KASNAKOGLU 1995

Turkey is expected stay as the major producer and exporter in lentils and chickpeas. Other important products are cotton, sugar and mutton. Turkey may become a net exporter of sugar under the GATT full liberalisation scenario.

In the case of oilseeds and oilseeds products, Turkish production, demand and net trade quantities after liberalisation are almost identical to the base scenario. Turkey which is an important net exporter of fresh and processed vegetables will strengthen its position in the liberalisation scenario. Trade of milk and milk products is only of minor importance for Turkey. As in the base scenario, Turkey remains at the self-sufficiency level with small export quantities of milk and butter and small import quantities of milk powder and cheese. The tobacco market is again a market with no major changes relative to base scenario. Turkey will keep the same export level as in the base scenario.

V. CONCLUSION

The main aim of the Uruguay Round Agreement was to achieve more open and fair trading in agricultural commodities by reducing export subsidies, tariffs and non-tariff barriers and domestic supports. The agreement is definitely successful in setting up the rules for domestic support to agriculture, banning the new export subsidies and binding the existing export subsidies.

The policy makers in Turkey have to take into account the rules of the Agreement in the determination of the extent and the magnitude of output price supports and input price subsidies, if the structure of support to the sector is to remain intact.

The impact on export subsidies will be relatively more important. As a developing country, Turkey was exempt from making any commitments related to processing, marketing and transportation subsidies for agricultural products, but the total outlays for export subsidies and product coverage are bound by agreement.

The exemptions for domestic support in the agreement and the distortions which are not covered by the agreement such as domestic policies that implicitly tax agriculture, provide all the necessary clues for more effective Government intervention in agriculture.

Although the GATT simulation of sector models takes into account the world price impact of the GATT, they indicate the likely positive impact of the GATT on Turkish Agriculture. Total welfare is expected to improve in relation to the scenarios without GATT, producers will benefit more than consumers with the implementation of the GATT 1994. Despite a significant increase in population, GATT simulations show that more liberalised trade will improved the net trade position of Turkey for agricultural products. The GATT Agreement combined with the efforts of structural adjustment made by Turkey, which should lead to better allocation of resources and especially more effective use of restricted Government outlays for agriculture, will necessitate changes in agricultural development policies for Turkey.

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