EUROPEAN ECONOMIC COMMUNITY
OFFICIAL SPOKESMAN
of the Commission

23, avenue de la Joyeuse Entrée
Brussels 4
Telephone 35.00.40

September 1963
P-34/63

INFORMATION MEMO

ASSOCIATION OF TURKEY WITH THE EUROPEAN ECONOMIC COMMUNITY

I. The Association Agreement: signing and procedure for ratification

II. The Turkish economy: present situation and problems

III. Trade between Turkey and the EEC

I. THE ASSOCIATION AGREEMENT

Signing and procedure for ratification

The Association Agreement between Turkey and the European Economic Community will be signed in Ankara on September 12, 1963 by representatives of the Turkish Government, by the President of the EEC Council of Ministers and by the representatives of the six member Governments. Signing by the President of the EEC Council will be subject to the approval of the European Parliament.

After consulting the Parliament, to which the Agreement will be referred as soon as it has been signed, the Council will make a formal declaration that the Agreement has force of law by virtue of Article 238 of the Treaty of Rome. In the meantime, the Agreement will also be tabled for ratification in accordance with their respective constitutional procedures in the Parliaments of the six Community countries. It will enter into force on the first day of the second month following the exchange of instruments of ratification and the Council's formal declaration.

Background and content

On July 31, 1959 the Turkish Government applied for the association of Turkey with the Community. On September 11, 1959 the Council took note of this request and instructed the Commission to enter immediately into exploratory talks with the Turkish Government. Meetings between the two delegations took place in September and December 1959. On May 11, 1960 the Council, taking the view that the exploratory stage was over, authorized the Commission to open the negotiations proper. But as a result of political developments in Turkey in the course of that month the negotiations were held up and did not begin until October 1960.

The delegations met again in April 1961, when they discussed the special problems of the Turkish economy. After an interval for stocktaking the talks were resumed in June 1962, and in a series of increasingly frequent meetings the two delegations worked out the Agreement and drafted it in legal form.

However much both parties desired to extend to the economic field the links already uniting them in others, they had to take account of the fact that Turkey is a developing country whose economy is in a somewhat special position. During the negotiations the country experienced a severe crisis which seriously affected its external financial situation and put a brake on its economic development. These difficulties arose from an imbalance between growing import requirements - especially of capital goods - and inadequate export earnings, derived mainly from agricultural produce. The situation was rendered more difficult because the efforts at industrialization over the past ten years were made at the cost of heavy foreign indebtedness.

/

After the monetary reform of 1958/59, carried out with the aid of OEEC and the International Monetary Fund, and after preparing the first development plan for 1963-67, Turkey made a great effort to remedy the situation and bring about steady and balanced economic development.

There are already many signs of the success which, with the help of friendly nations, Turkey has achieved in the task of recovery it has set itself. Nevertheless, the Turkish Government and people remain aware of the self-discipline they need if the advance is to continue.

It was realized at an early stage in the negotiations that it would be difficult to synchronize the entry into force of the Agreement with the setting up of a customs union, which both sides considered the best course to take in associating Turkey with the Community.

A customs union means that both sides must comply with rules which, in accordance with the ideas underlying the establishment of the Community, must govern not only trade in goods but also other important fields of economic activity. If, therefore, it had been decided to set up a customs union immediately, a conflict might have immediately arisen between the measures adopted by Turkey to speed up its economic development and the commitments involved in membership of such a union.

It was therefore agreed that whilst customs union was to be the final form of the relationship between Turkey and the Community, it was not to be introduced until both sides could give effect to it with a minimum of exceptions. The objectives of the agreement were to be attained by stages.

The first stage is described as "preparatory" because its purpose is to enable Turkey to continue its economic rehabilitation until it is in a strong enough position to accept the commitments involved in the gradual establishment of a customs union.

During this stage the Community will assist the economic development of Turkey on a substantial scale, both commercially and financially. Preferential duty rates for Turkey's main exports - tobacco, raisins, dried figs and hazel-nuts - will enable Turkey to maintain and to increase its outlets in Community markets.

Financial aid amounting to 175 million units of account over a period of five years will be provided through the European Investment Bank for investment under the Turkish development plan. In the case of certain projects, especially where benefits are likely to be indirect or delayed, the loans may be made on particularly favourable terms as regards interest and redemption dates.

These will not be the only advantages enjoyed by Turkey during the preparatory stage; the machinery of association, the centre-piece of which is the Council of Association (the joint body which will direct the implementation of the Agreement) will be set up at the outset. This Council will be composed of members of the Turkish Government on the one side and on the other of members of the Council of Ministers, the Commission and the Member States' Governments. The Council will act by unanimous vote. It will have powers of decision in the matters covered by the Agreement and may also make recommendations.

In the preparatory stage the Council of Association will in particular deal with any disputes arising over the interpretation of the Agreement or may refer them to an existing court; it will facilitate liaison between the European Parliament and the Turkish Parliament; if difficulties arise in relations between Turkey and the Community in the fields of competition, transport, establishment or services, it can make recommendations to deal with them; it will be the forum for a periodical exchange of views on the working of the association.

In this way, contact on matters of interest to both sides will be established from the outset; Turkey will become familiar with Community discipline and be able to prevent its economy from evolving on lines divergent from those laid down in the Treaty of Rome.

The preparatory stage will be followed by a transitional one during which the customs union between Turkey and the Community will be gradually built up.

The negotiators found it difficult to settle in advance the details of this second stage (e.g. to fix time-limits, safeguard clauses, etc.) since the precise wording of such provisions would depend on the economic and legal situation of either side at the time they moved from one stage to the next.

None the less it was considered essential to establish the framework for this stage now, as regards both trade and other economic matters.

a) For trade the principles laid down in Article XXIV of GATT were applied. The customs union will extend to all trade, which means that Turkey will adopt the common external tariff of the Community; it will be established over a period of twelve years; exceptions may be made, but they must not stand in the way of completion within a reasonable time. Special arrangements taking into account the Community's common agricultural policy are envisaged for agricultural produce.

b) In the other fields of economic activity covered by the Treaty of Rome Turkey will align its policies with those of the Community. This applies in particular to the free movement of workers, liberalization of establishment and services, transport policy,

.../...

rules governing competition, and economic policy. Special procedure will be instituted to co-ordinate the parties' commercial policies in their relations with third countries.

The machinery will be strengthened. The Council of Association will be empowered to decide on joint action by the contracting parties in cases where no appropriate procedure is laid down in the Agreement. A procedure for settling disputes, possibly by arbitration, will be introduced in addition to the powers conferred on the Council of Association for this purpose during the preparatory stage. The Council of Association will establish liaison between the Economic and Social Committee and the other organs of the Community on the one hand and the corresponding bodies in Turkey on the other.

The details of the transitional stage must be laid down by the Council of Association five years from the entry into force of the Agreement or, if this time-limit cannot be adhered to, after a further four years at most. This will be done by a further Protocol which, when ratified, will supersede the Provisional Protocol and the Financial Protocol which are at present annexed to the Agreement and relate to the preparatory stage.

The negotiators felt that they should consider the situation that would arise if the additional Protocol could not be drawn up within this ultimate time-limit of nine years. They agreed that the Council of Association should in that case be free to decide on arrangements for the preparatory stage from the tenth year onwards.

The final stage will be a customs union established through the implementation of the additional Protocol during the preceding stage and will also entail an increasing degree of co-ordination between the economies of the contracting parties.

This will terminate the process of association. Provision has however already been made for Turkey to take the further step, when it is in a position to do so, of applying for full membership of the Community and accepting all the obligations of the Treaty of Rome.

II. THE TURKISH ECONOMY: PRESENT SITUATION AND PROBLEMS

Turkey will be a valuable economic partner for EEC. It is much larger than Greece, but its level of economic development is lower. Here are some essential statistics (see also Table I) on the present situation of the Turkish economy[1].

.../...

(1) Most of these figures are derived from a survey of the Turkish economy published by OECD in May of this year.

Area: 781 000 sq. km.; larger than France (552 000 sq. km.) and five times larger than Greece (131 000 sq. km.).

Population: about 30 million (Greece: 8.4 million) increasing at the rate of 3% per year - an annual addition of 800 000. No slowdown in this increase is expected in the near future. The rate of infant mortality is 165 per thousand (as against 44 in Greece and 50 in Italy) and may well decline in the future.

National product: Gross national product is $5 475 million per year and national income per inhabitant is only $180, comparing with $917 per head on average in the Community and $364 in Greece. The distribution of national income is very uneven: average farming income is 950 T.L.(1) per head per year as against 2 740 T.L. for town workers (figures given by the Turkish State Planning Organization). There are also wide differences in living standards between the various agricultural areas. 77% of the working population is engaged in farming, contributing, however, only 39% to the gross national product. Only 10% of the active population is employed in industry (mining, manufacturing, public utilities and construction), which accounts for 22% of the gross national product. The industrial sector is typical of a less developed economy: small and medium-sized businesses predominate. Of 850 000 persons employed in this sector, 550 000 work in firms employing less than ten persons.

One feature of the Turkish economy is the large part played by the State in production; roughly 40% of industrial production comes from national concerns engaged in mining and manufacturing, which number more than 100.

Development problems

Turkey is faced with many problems, both in the field of internal economic development and in respect of its balance of payments, for which no short-term solution is available. As a member country of OECD, Turkey has accepted the target of a 50% increase in its gross national product in the sixties: in view of its very high demographic growth rate (3% per year), this can only be done if an economic growth rate of at least 6% per year is achieved.

To maintain the present level of farm output per inhabitant, let alone improve present living standards or increase exports of farm produce, higher productivity in agriculture is indispensable. This will require an immense effort in investment and training of farmers. Moreover, the gradual drift from the land towards industry, and the rapid increase in the active population, mean that 400 000 new jobs a year must be created in industry. The figure in recent years has been only 100 000. It follows that very heavy investment will be needed in industry as well.

.../...

(1) Turkish lira. 9 T.L. = 1 US dollar.

Balance of payments: Turkey's balance of payments shows a chronic deficit of roughly $150 million per year.

Imports have steadily increased at much the same rate as has the national product; in contrast, exports have improved only slightly, for these are mainly farm produce (tobacco, dried fruit, etc.) for which international demand is very inelastic.

In addition to its trade gap, Turkey also has a deficit of some $15 to 20 million per year on invisible transactions.

Five-year development plan: The Turkish Government has recently put through the Grand National Assembly a five-year development plan worked out with an eye to development prospects for the next fifteen years. The target set is to increase gross national product by 7% per year, so that between now and 1977 income per head will reach $350. The plan emphasizes the need for foreign financial assistance to start the process of self-sustaining economic growth.

A 40% increase in Turkish exports over five years - from 1962 to 1967 - will involve, among other things, the establishment of new export industries.

o

o o

III. TURKISH TRADE WITH EEC

The countries of EEC, notably Italy and Western Germany, are important trading partners of Turkey. In 1962 EEC supplied 30.2% of all Turkey's imports and bought 40.5% of its exports. Turkey's imports from the Community in 1962 were worth $180 million ($106 million from Western Germany as compared with $181 million from the US and $70.1 million from the UK). As regards exports, the Community is even more predominant. In 1962 Turkish exports to the Community were worth $154.2 million ($67.4 million to Western Germany and $51.5 million to Italy); exports to the US were worth $74 million and those to the UK $35 million. Table II shows the development of trade between the Community and Turkey from 1958 to 1962.

o

o o

Table I

Basic economic statistics for Turkey, Greece and the EEC countries in 1961

	Unit	Turkey	Greece	Germany (FR)	France	Italy	The Netherlands	Belgium	Luxembourg	E E C
Area	1000 km^2	781	131	248	552	301	33.6	30.5	2.6	1 168
Total population (middle 1961)	1000	28 602(a)	8 402	54 016	46 160	49 732	11 637	9 184	317	171 046
Gross national product at market prices	$'000 000	6 003	3 656	76 936	64 749	35 235	12 267	12 024	488 b)	201 699
Gross domestic product at factor cost	$'000 000	5 475	3 127	66 593	55 138	30 738	10 928	10 566	456 b)	174 419
of which										
Agriculture	%	39	30	7	10	17	10	8	8 b)	10
Industry	%	22	27	52	44	43	42	44	55 b)	47
Services	%	39	43	41	46	40	48	48	37 b)	43
Total national income	$'000 000	5 159	3 059	59 673	49 450	27 562	10 019	9 694	376 b)	156 774
Average national income per head	$	180	364	1 105	1 071	554	861	1 056	1 198 b)	917

(a) on 20 October, 1961.

(b) 1960.

Note = All figures in dollars have been obtained by converting figures in national currencies at official exchange rates.

TABLE II

TURKEY'S TRADE WITH EEC

General data

($ million)

	1958	1959	1960	1961	1962
Imports from:					
France	9.0	17.2	16.3	17.6	28.8
Belgium-Luxembourg	3.8	8.3	10.1	8.0	7.5
Netherlands	5.2	14.2	12.0	12.0	12.0
Western Germany	48.9	83.6	97.9	85.0	106.4
Italy	35.1	33.4	30.0	42.8	33.4
EEC	101.9	156.7	166.3	165.5	188.0
United Kingdom	22.6	51.4	52.8	67.0	70.1
United States	87.8	96.0	120.4	140.1	181.2
Exports to:					
France	18.8	16.6	16.2	23.8	14.0
Belgium-Luxembourg	4.2	7.4	9.8	13.5	13.9
Netherlands	3.1	6.7	5.9	5.8	7.3
Western Germany	45.2	79.4	47.4	51.0	67.4
Italy	14.5	29.3	27.6	34.2	51.5
EEC	85.8	139.2	106.9	128.3	154.2
United Kingdom	16.4	34.0	31.0	29.7	35.8
United States	48.1	63.2	58.4	65.1	74.9
TOTAL IMPORTS	315.1	442.0	467.6	509.4	622.1
TOTAL EXPORTS	247.2	354.5	320.4	347.1	381.1
BALANCE	- 67.9	- 87.5	- 147.2	- 162.3	- 241.0