

Open Border with Turkey

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The agricultural sector plays an important role in Turkey's economy which comprises about 9-10% of Gross Domestic Product (GDP) of the country.

At first glance when we compare the prices, the Turkish market is obviously attractive for most of agricultural products of Armenia. However, this is not the final conclusion as most of these products have high import duties.

The point is that the government of Turkey provides extensive support to agricultural sector which contributes to increasing the competitiveness of Turkish products in local and international markets.

In 2003, when Armenia's and Azerbaijan's membership to World Trade Organization was discussed, Turkey voted for Armenia, probably not to prevent Azerbaijan from joining WTO. However, at the same time, Turkey announced that it will not follow the WTO requirements towards Armenian trade. This means, there is no single accepted norm of international trade regulation between Armenia and Turkey which impedes further development of trade between this two countries.

Thus, urgent solution to this current problem has to be found in order to ensure establishing diplomatic relations and re-opening Armenian-Turkish border as a relevant pre-condition of civilized trade (1).

First of all, unlike Armenia, which imposes up to 15% customs-tax for imported products based on WTO requirements, Turkey puts limits on only half of the imported products, and for the second half, the tax reaches up to 225%. For the agricultural products, the average import duties in Turkey are 46.7% (in the Republic of Armenia 6.9%). For the cattle and elite seeds the tax is 0%, for some of the dairy products 170%, and for the meat it is 225%. Moreover, for the beer the imposed tax is 300%, and for wine it is 400%.

There is no export subsidization for Armenian agricultural products, whereas large group of agricultural products in Turkey impose export subsidies. In Turkey, farmers receive 90 US Dollar subsidies per hectare from the government. More than 89% of farmers benefit from these subsidies. One-off grants are provided to those farmers who quit production of the highly demanded products and embark on new products .

Table 1. WTO obligations related to agriculture (2).

WTO obligations	Armenia	Turkey
Domestic support of agricultural production	5%	10%
Agricultural export subsidization	None	44 products

Unlike the Republic of Armenia, where the provision of export subsidy is zero under conditions of WTO membership, Turkey's WTO obligations include export subsidy for 44 agricultural product groups.

Low interest loans are accessible for farmers. The circulated capital of the established credit fund provides loans of up to 13.0 % interest. In Armenia, agricultural loan interest rate varies mainly between 18-22% and only very limited funds are available below 13% and this is through donor organizations such as MCC, IFAD etc. Farmers in Turkey registered in the Revenue Support Payment Register also receive "petrol payment" per hectare (max for 50 hectare) in order to compensate 35% of the average petrol expense (80 liter per hectare) of the farmers. They also receive subsidy for fertilizers.

Turkey possesses a rather huge potential for agro-products export. As mentioned earlier, export of the following products play a significant role: hazelnut and walnut (140.1 and 88.0 thousands of tons respectively); tobacco (111.1 thousands of tons); wheat flour (1205.0 thousands of tons); tomato (372.0ths. tons); sugar (90.8ths. tons); dried apricot (105.0ths. tons); lemon (40ths. tons); vegetable (174.0ths. tons), dried fig (40ths. tons) and grape (170ths. tons).

Apricot production and export dynamics in Turkey is quite impressive. According to 2007 statistics, the apricot orchards comprised 61.5 thousand hectares. And 528.9 thousand tons of the yield was harvested in conditions of 8.6 tons per ha. The calculations prove that 24.5% of apricot production and 79.9% of dried apricot in the world goes to Turkey. Annually, on average 9.5 thousand tons of apricot is exported. Turkey gives preference to dried apricot export, the production of which grows quite significantly every year. In 2007 it increased up to 105 thousand tons equivalent to 236mln US dollar. The main export markets of dried apricot are: United States of America (15%), Russian Federation (20%), Germany, Great Britain, France, Australia (altogether 27.6%) and Ukraine (5.4%) (2). Turkey is producing 24,5% of annual average of fresh and about 80% of dried apricots of the world market.

More than half of the exported products of Turkey are sold in the markets of 27 EU countries. At the same time, 40% of products imported to Turkey come from these countries. The latter states that Turkish products correspond to international standards and that advanced technologies are applied in production. Meantime, the absence of proper support can cause serious threat for Armenian producers in importing vegetables, particularly tomato, dried fruits and nuts.

The export subsidy aims at developing the export potential of the processed agricultural foods.

Considering the opening of Armenian-Turkish border as an important step for activating the Armenian economy, it is necessary to take a range of important studies and steps based on the peculiarities of the agricultural sector in Armenia.

To estimate the possible change in the export and import of goods and services between Turkey and Armenia, it would be interesting to look at the similar structure of Georgia-Turkey trade taking into consideration the following (3):

This assumption is quite realistic considering the following facts:

1. Armenian and Georgian people have similar ethno-historical and religious background, they went through similar historical path and are identical in many respects: customs, tastes and preferences.
2. During the soviet period, both republics used to have the similar structure of economy. Both Armenia and Georgia are going through the same transformation process from the planned to the market economy.
3. Geographically, both Armenia and Georgia have the same geographic and climatic conditions and common borders with Turkey and potentially can benefit from the trade to the same extent.

Proximity and open boarder with Iran for Armenia and Turkey for Georgia in the past 20 years have not registered any significant shift in exporting goods, especially agricultural products and services to these countries (3). In spite of closeness and almost 20 years of trade history, Georgia as trading partner for Turkey for and Armenia for Iran are still far behind compared to CIS, EU and USA.

Neither Georgia nor Armenia export agricultural products to Turkey and Iran. Though in general, Turkey is importing about 6,0 billion worth agricultural and food product, which makes about 6% of total import (4). Looks like for Georgia it has been difficult to enter Turkish market because of low efficiency of agricultural production, problems with product quality and safety standards, difficulties in product marketing, etc. Armenia is going to face the same problems in exporting agricultural products to Turkey, if timely targeted support is not provided.

According to the given data agricultural and food products comprise about 35% of total import from Turkey to Georgia, and about 9% to Armenia. According to the same sources total import of agricultural and food products to Armenia may increase up to 450-500%. Other sources indicate about 10 times.

In order to avoid possible negative impacts, the government and donor organizations must also activate their support for Armenian food sector.

One of the main obstacles for the development of Armenian agricultural sector, which can be solved, after opening of the boarder, is the reduction of high transportation costs related to exports of food products from Armenia and also import of agricultural input supplies and equipment to Armenia.

The transportation costs for Armenia today are among the highest in the world, shown via cross border comparisons. This is quite a serious problem for the economic development of Armenia, in particular for growth of the trade. According to the studies conducted by AEPLAC (4), it comprises 20-25% of the nominal goods value. For instance, having a similar container of wine shipped from South African Republic to Moscow costs about \$4000; from Armenia to Moscow it comprises \$5000-\$6000, for fresh apricot \$8000-\$12000.

So far, the negative impact of Turkish food and agricultural product penetration into Armenian agriculture has been well described in various publications. But it should be

mentioned that vast opportunities might be opened for Armenian food producers **if targeted assistance is provided**, (a) to supply niche products for niche markets in Turkey, (b) to improve production quality and export Armenian products through Turkey to other EU and non EU countries, (c) to link Turkish exporters to Armenian food producers for buying and exporting also Armenian products via well established channels, exploring seasonality advantages (good example is when Georgian exporters buy apricot, peaches and table grapes from Armenia and sell in Russia), (d) to open Turkish farm input supply and equipment markets for Armenian farmers and agribusinesses and as a result lower the cost of production of domestic food products in Armenia.

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