Agricultural Policy

Consultation with Sweden

Reproduced below is the text of the opening statement made by the representative of Sweden.

In order to illustrate the actual agricultural policy in Sweden I think it can be useful not only to elaborate a little further some of the aspects contained in the background paper on Sweden but also to stress a few other points that seem to be important for the understanding of the questions now under study by the Committee.

1. To begin with, I think it would be appropriate to make a few remarks concerning the general natural conditions for farming in Sweden. Considering the geographic position of the country one would hardly expect to find favourable conditions for a competitive agricultural industry in Sweden. Due to the Gulf Stream, however, the climate is comparatively mild. The fertility of the soil is, in general, also satisfactory. Owing to the location and extent of the country farming conditions necessarily vary considerably: While in the northern parts, agriculture is encountering great difficulties, southernmost Sweden - Scania - and the southern part of the west coast, offer good farming conditions which are about the same as in Denmark. The main agricultural areas are situated in the southern and central parts of the country. Only about one tenth of the total land area consists of arable land and permanent pasture - the remainder is forest and mountainous country.

2. The relative importance of agriculture to the national economy has steadily declined ever since industrialization set in. With the high degree of industrialization now reached in Sweden the share of agriculture in the gross national product is comparatively small and represents only about 6 per cent. At the turn of the century, when industrialization was less advanced, the share of agriculture in the gross national product was considerably larger or about 20 per cent.

3. At that time more than 50 per cent of the entire population was engaged in agriculture, forestry and fisheries while the corresponding figure today is about 24 per cent. The proportion of those engaged in agriculture alone is now even smaller, or about 16 per cent. The agricultural population has diminished during recent decades at a rate of about 2 per cent a year and during some recent years at an increased rate of 4 per cent a year. The heavy demand for labour from the industrial sector of the economy and the higher level of wages prevailing in many non-agricultural occupations have been the main reasons for the decrease in the agricultural population.
It is generally considered by Swedish economists that this migration process could hardly have taken place more rapidly than has actually been the case without serious and undesirable repercussions to the economy as a whole. It may be mentioned, that the migration process has further worsened the already unfavourable situation on the housing market, in the urban and suburban areas. The housing shortage has, as a matter of fact, been one of the dominating social problems in Sweden during the whole post-war period. On the other hand in certain areas the drift from agriculture has now reached a point where it is threatening the normal development within the local communities and thus creating difficulties for the maintenance of normal social facilities, such as education, medical care etc. Another example: a too speedy migration of the agricultural population in the northern districts would certainly create difficulties for the recruitment of labour to forestry. It would also hamper the maintenance of local deliveries of perishable food products to urban centres in the remote parts of the country (milk). A tendency in that direction has already been obvious.

I think it necessary to insert here that, no doubt, the migration process as such is well in harmony with the general objectives of our agricultural policy. I have, however, in this context considered it appropriate to stress that the pace with which it takes place is of great importance to the balance of the social and economic structure of the society as a whole. If the migration would speed up further it may be necessary to reconsider the situation and to take special action in order to remedy any transitional difficulties.

4. To complete the picture in this field it may be noted that in spite of the considerable migration that has taken place, the agricultural production has on the whole remained unchanged during the last decades. This is due to the coinciding mechanization and rationalization process in agriculture. As an example may be mentioned that while in pre-war days the number of tractors amounted to only 15,000 it is now above 150,000. This has contributed to a considerable reduction in the number of working hours in farming, which are now about 50 per cent less than before the war. As a matter of fact, the wages seem to be higher in Sweden than in any other European country. This has, no doubt, constituted a serious drawback to the Swedish farmers - who hardly can feel any comfort in the fact that Swedish industries in general have the same disadvantage but have proved competitive nevertheless.

5. After having somewhat dealt with these geographic, demographic and like aspects of Swedish agriculture it seems appropriate now to pass to the question of the main objectives of our policy. As already mentioned in the background papers, the Swedish policy does not - unlike the policies of many other countries - aim at an increase in production but rather at a step-by-step decrease. According to the originators of the 1947 programme a production of about 90 per cent of domestic requirements of indigenous products should be most appropriate in the Swedish case. Such level (as an average) would facilitate the disposal of any surpluses in years with especially good harvests. On the other hand would such a level of production correspond to what was estimated as a minimum support for the population in emergency cases? Thus, the agricultural policy in Sweden, as in many other countries, has taken into consideration the special needs arising from defence considerations, a fact that ought now to be neglected in this context.
The long-term target indicated for the production (90 per cent) has so far not been realized. The level of the total production as regards the products in question corresponds roughly to the domestic requirements. It may be of interest to mention in this context that the domestic consumption of such products has continuously declined to the benefit of certain other products not subject to price regulations in Sweden, such as vegetables, processed food etc. On one hand the percentage mentioned has never been considered as an absolute or definite goal, on the other hand it has been officially stated at various occasions that the Government policy is aiming at a decreased production, especially as regards commodities for which uneconomical surpluses occur. There are, however, no reasons to conceal the fact that the surplus question, at least periodically, has caused much concern also in Sweden, even if the proportions have by no means been so big here as in certain other countries. The Government has therefore taken special action in order to tackle the problems, for instance during the international butter crisis in 1958. Furthermore, one of the main reasons for the introduction of the new pricing system in 1956 was to make the domestic market more dependent of the price movements abroad, and in that way to "guide" the production in an appropriate direction. The system also provides for special measures to be taken in order to influence the production, such as variable import levies on feeding stuffs and production fees (for instance slaughter fees and milling fees). Because of the special methods applied in order to cover export losses, namely through the imposition of production fees, the farmers themselves have to bear the burden caused by a surplus development. Finally it ought to be stressed that the farmers organizations are fully aware of the need of a decrease in the production and namely by an intensive propanganda also endeavour to reach this goal.

6. The main objectives of the agricultural policy have, as defined in the documents before us, a social character. For the implementation of the policy we may distinguish between three different groups of measures:

(i) The price support measures for obtaining income parity for farmers in the size group 10-20 hectares;

(ii) a complementary programme for the support of small farmers;

(iii) measures regarding rationalization.

7. The first group of measures, the general price support scheme, was initiated in Sweden, as in so many other countries, during the depression years of the thirties. The war-time and post-war emergencies which followed made Sweden almost entirely dependent on domestic agricultural production for the support of the population. During those years it was a necessity both to stimulate production and to prevent domestic prices from being influenced by the excessive world market prices. This double objective was achieved through a pricing system which tried to give the agricultural industry as a whole full compensation for increased production costs and
through tight Government control of foreign trade in agricultural products. When these emergencies faded out towards the end of the fourties the income parity concept was adopted as the essential future objective of the agricultural policy. There was, however, between 1947 and 1956 no precise definition of how to measure the income parity, and in many respects the system retained elements which stimulated production. When in the early fifties it was estimated that income parity was almost realized and agricultural production at the same time had risen well above the pre-war level and even resulted in surpluses for certain commodities, the necessity for a revision of the price regulating system became increasingly apparent. As from 1 September 1956 a new system was introduced and the income parity objective was then for the first time tightly defined. The objective still relevant is to establish income parity between, on the one hand, owners of well-located so-called basic farms of 10-20 hectares of arable land in the plain districts of southern and middle Sweden, and, on the other hand, industrial workers in the two of the lowest cost of living sectors comprising about 70 per cent of all industrial workers. At the same time a new deal was introduced for the price-regulating system. The basic thought behind this change that still has full relevance was that the development on world markets should be allowed to influence more freely the domestic production. As long as domestic prices lie between a lower and an upper price limit, the price movements on world markets should be free to influence the domestic market. Fixed import levies were to make up the protection between the price limits. The domestic prices would therefore in general follow the trend on the international market, though on a higher level, corresponding to the size of the import levy. The so-called "middle" prices, from which the price range deviated up and down respectively, were originally set in a way to give the farmers - for all products together - the income parity aimed at. The previous system of guaranteed prices was abandoned. At the same time the import régime was substantially liberalized, as monopoly trading and quantitative restrictions were in principle abolished.

For emergency purposes - in order to protect the lower price limit - quantitative restrictions and like measures could, however, be applied.
This system was in force for an initial period of three years, ending on 1 September 1959. It represented in our opinion an important step forward towards a liberalization of foreign trade in agricultural products and had, even in many other respects, obvious advantages. It did, however, not succeed in attaining the income parity objective. Declining world market prices for agricultural products, combined with domestic inflation and rising costs for the agricultural production, brought forward a widening of the income gap between owners of basic farms and industrial workers. According to calculations the basic farmers' income in 1958 was Sw.Crs.7,900 compared with Sw.Crs.10,500 for the industrial worker - leaving an income gap of Sw.Crs.2,600.

When the initial three year period ended in 1959, this gap had risen to Sw.Crs.3,600. The question of this income gap became a major concern, when the new agreement was negotiated. In order to find a solution acceptable to all parties the problem was approached along two lines. Firstly, new rules designed to prevent the income gap from further widening were adopted. This refers to the "3 per cent" rule and the "income" rule of the new agreement. Secondly, measures were taken with a view to narrow the income gap and eventually to even it out during the lifetime of the agreement. A minor part of the income gap was covered immediately at the beginning of the new period by the fixing of higher price limits and import levies for certain products. The principal part of the income gap, or 2/3 of it, was left to be successively eliminated by the farmers themselves through rationalizing farming operation during the period.

It is obvious that a system based on the principle of income parity involves certain risks that the level of protection, at least under certain conditions, will have a tendency to rise. It is evident that much depends on how the income parity is defined and by which means any income gap is to be levelled. When the new six years agreement came into force the disparity between the income of the farmers and those of industrial workers was, as mentioned before, only to a minor part covered by strengthening protective measures (increased import levies). The major part was left to be remedied by further rationalization. Still more important in this connexion is, however, the decision to change one of the basic principles for income comparison: Thus, in 1965 we shall, for the purpose of measuring income parity, switch over from "basic farms" of 10-20 hectares to "norm farms" of 20-30 hectares. In view of the fact that the calculated average net income of an owner of a norm farm is about 20 per cent higher than that of a basic farm, this change will carry wide consequences. The future problems will probably to an increasing extent concentrate on that sector of agricultural industry which will be outside the income parity concept - that is the small farm problem.

8. The special support measures for small farmers are complementary to the general price support scheme. Such measures are considered necessary in order to compensate, at least to some extent, the farms in the size group below 10 hectares for their handicap due to unsatisfactory structural and other conditions. In general, the structure of those farms does not permit them to benefit from mechanization and technological progress has often largely by-passed them. About one third of the total arable land is still divided into small holdings and farms in this category account for one fourth of total agricultural production. Roughly half a million people are for their livelihood dependent mainly on income from small farms. A great majority
of the small farmers, or about 60 per cent, are aged over fifty years, which
is a circumstance that in many cases makes it impossible for them to shift
over to other occupations. Without Government support, in addition to the
general price support scheme, the income of the majority of those farmers
would decline below what is tolerable from a social point of view.

The Government subsidies for the support of small farm income are now,
as indicated in the background paper, of three kinds: Acreage subsidy,
delivery supplement for milk and extra price supplement for the Northern
regions. The total cost, for this programme is estimated at roughly
Sw. Crs. 100 million a year, or 2 per cent of the gross income of farming.
Even if the number of small farmers in the size group below 10 hectares are
decreasing continuously, the scope of the problem will certainly widen
considerably after 1965, when the category of small farms will include units
up to 20 hectares. This is a consequence of the aforementioned decision to
base the income comparison in the future on bigger farms. Therefore the small
farmers will probably constitute a social and transitional problem of major
importance also for years to come. In principle the support measures
mentioned are regarded as temporary. We place great hopes in our rationalization
programme for the long-term solution of any difficulties in this field.

9. This leads us to the third component of the agricultural policy -
measures designed to further the rationalization of agriculture. These
measures may be grouped under three headings: external rationalization,
internal rationalization and rationalization of farm management.

The first group is dealing with measures designed to increase the size
of the farm units or to improve farm lay-out. The aim is now - after some
modifications in 1959 - to promote the formation of "two-family farms" in
the size group of 25-45 hectares of arable land instead of the previous one-
family farms. This is an important change which is well in line with the
decision to switch over to "norm farms" of 20-30 hectares for the purpose
of measuring the income parity in the future. The implementation of the
policy rests as before with the local Agricultural Boards, one in each county.
These boards purchase land for resale to individual farmers and try hereby
to create more economic units. Increased emphasis is now also laid on the
re-afforestation of uneconomic and less fertile farms. According to the
latest available figures only about 14 per cent of all farms have a size of
20 hectares or more. This represents certainly an indication of the dimensions
of the task before us in the field of external rationalization.

The second group of measures, the internal rationalization deals with
the more permanent improvement of agricultural land and buildings on individual
farms. The promotion of measures of this kind is pursued by the Agricultural
Boards partly through State guaranteed credits and partly through State
subsidies which are limited to farms which under normal conditions can employ
a maximum of two men and members of their families. The subsidies are subject
to certain income limits.

Finally, the group of measures aiming at rationalizing farm management
is handled by Agricultural Councils in each county. For this purpose research
and education funds are at their disposal and advisory services are being
maintained.
10. When I previously have been talking about agriculture and agricultural products this, has had bearing only upon agriculture in a more restricted sense. The agricultural policy in Sweden does not cover such products as fruits and vegetables. Protection in this field is given instead by means of customs duties and no pricing system exists. Although, on one side, we still have export surpluses in some of the main agricultural products, we have, on the other side, a considerable import surplus in our foreign trade in food and food products as a whole. As a matter of fact, the annual value of the imports is in general three times as big as the corresponding value of exports (or 500 against Sw.Crs.1,500 million). I think this total picture should be kept in mind when the role of Sweden in the international trade in agricultural products is to be appraised. For many of our trade partners the free access to the Swedish market for their products has a far greater importance than the fact that some products of major concern to Swedish farmers are subject to special arrangements.

11. As has been indicated under the different items in the background papers giving commodity information, protection to Swedish agriculture is given by means of import levies (which are equal to tariff measures). In principle no quantitative restrictions are applied, except in emergency cases in order to protect certain price limits. This free-listing has, so far, applied mainly to imports from the OEEC countries and in most cases also from the dollar area. Our endeavour, however, has always been to widen the liberalization as far as possible and to contribute in that way to the expansion of trade in agricultural products. For reasons well known, the liberalization measures have had to be taken not too abruptly but rather step by step. I am now in the position to inform the Committee that the Swedish Government has recently taken some further action in order to liberalize further. These measures which have entered into force as from 1 April apply not only to industrial goods but also to the whole food sector. In the future the free-listing will, as a rule, in addition to the OEEC and the dollar areas, be extended to most other countries. (Exception will be made in the case of some countries with which our trade relations are subject to special bilateral arrangements). I may come back to the precise scope of the new free-listing when we later examine the different commodities.

12. I have now, come to the end of my statement. In the foregoing I have tried to illustrate the background of our agricultural policy and the methods for the implementation hereof. It has, no doubt, been obvious to you that we on the Swedish side in many respects consider our system to have certain advantages. May I also recall in this context that the OEEC once in its appraisal of the Swedish system called it "an interesting experiment to show how certain political objectives (equalization of income) can be reconciled with the objective of the further liberalization of international trade by the abolition of import quotas and State trading". However, I am anxious to stress that we by no means think that our system is the ideal one. As a matter of fact we don't know any agricultural system that may deserve this remark. We still regard our scheme as an experiment and we are always prepared to reconsider its function in order to improve it. With this in mind a special commission, according to an earlier decision by Parliament will, be
set up in the near future to review both the objectives and the methods of Swedish agricultural policy. There is no doubt that the Commission will have before it some heavy work. I assume, that when different methods will be considered, among other things the deficiency payments system will come up for discussion. However, before this latter question has been thoroughly examined, I think it is not worthwhile to make any judgment concerning the possibility or feasibility to introduce such a system in our country. The six year agreement now running expires in the autumn of 1965. If a change in principle is to be made before that date this must be subject to special negotiations with the farmers. On the other hand, the existence of the agreement means that the Committee and the Government will have some time before them to work and think. And that seems to be indispensable when dealing with such burning questions as agriculture!