A relatively large agricultural population and small farm size are characteristic of Finnish farming. Animal production - especially milk production - dominates Finnish agriculture. Milk and beef production - which are closely connected - make up about 60 per cent of the gross return. Combined with pork and egg production animal products account for approximately 85 per cent of the total value of production. Bread grain (wheat and rye) and potatoes are the most important crop products. The bias towards animal production can be understood when one knows that feed production, especially grassland (dry hay and silage), is very successful in Finnish conditions.

Almost half of all Finnish farms still produce milk. Milk production is concentrated in the central and northern parts of the country, where the average size of farms is smaller than in south Finland and where milk is one of the very few alternative production lines.

A. Price policy

1. Farm Income Acts

Since 1956, the producer prices of agricultural products or the procedures for their determination have been regulated by Farm Income Acts. The Acts also include stipulations on regional price policy and income distribution.

The present Act was passed in 1977 and is effective for the three-year period 1979-81. It provides a framework for price negotiations between the State and the farmers' organizations. It also includes certain rules for price setting, which is a two-phase process. Firstly, the rise in production costs is calculated and the farmers receive compensation in full. Secondly, the State and the farmers' organizations negotiate how much farm income should be raised to ensure that farmers get an equitable share of the rise in the general living standard.
The Farm Income Act defines "target price products", for which target producer prices are set. These are rye, wheat, feed oats, feed barley, milk, pork, eggs and mutton. The prices of oil seeds, sugar beet and potatoes are also partly related to this system. Other prices are determined by free market forces.

The target prices are reviewed twice a year, on 1 March and 1 September. In autumn, the farmers are compensated only for rises in production costs. The negotiations must, of course, be conducted before the dates set so that the government can take the necessary decisions to fulfill all terms of the agreement reached by the State and the farmers' organizations.

2. Price stabilization measures

The basic element in the price formation of milk is the target producer price, which is set in the negotiations between the State and the farmers' organizations. Its realization is achieved mainly by controlling the maximum retail prices of the main milk products. The Farm Income Act stipulates that target producer price of milk must be achieved exactly, i.e. any deviation from the target price on the average is taken into account in the price setting the following year. In practice, the actual producer price of milk has been kept within limits of ±1 per cent on the target price. At the moment, the target price of milk is Fmk 134.60/100 litres.

Due to certain policy measures, the price received by the farmers may deviate from the target price. For example, a deficiency payment system for milk is being used at the moment in order to dampen inflationary pressures in the economy and to subsidize domestic prices. This payment is Fmk 17/100 litres up to 24,000 litres per farm and Fmk 15/100 litres thereafter. The deficiency payment is an instrument of income distribution and consumer policy at one and the same time.

A production subsidy for milk is paid in the less-favoured areas of the country. This ranges from Fmk 2.50 to 36/100 litres, and the highest subsidy is paid in the northernmost parts of Finland, though the amount of milk produced there is very small.

The cost of transporting the milk from farm to dairy varies widely, depending on the region. A subsidy is paid by the State on some of the dairies' transportation costs. This subsidy is paid throughout the country, but in the less-favoured areas it is higher than in south Finland. At the moment, the transportation subsidy is Fmk 1.60/100 litres on the average.

B. Production policy

The production of some important farm products exceeds domestic consumption in Finland. This over-supply concerns milk, pork and eggs in particular. In the last few years about 20 per cent of milk production has been exported in the form of butter, cheese and milk powder. The rise in
milk production is the result of a very rapid rise in productivity. The milk yield per dairy cow rose from 2,907 litres to 4,396 litres, or by 51 per cent in 1960-78. In the same period, the number of dairy cows declined by over a third. The aim of the Finnish Government's production policy is to curb milk production and to reach a better balance between milk production and domestic consumption.

The Finnish Government has taken several measures to curb agricultural production and especially milk production. The soil bank system (with a temporary slaughtering premium system for dairy cows) was introduced in 1969. Under this system a farmer who stops all production on his farm receives compensation from the Government. The area under the soil bank system rose up to 1973, when 232,000 hectares (almost 10 per cent of the whole arable land area) were out of production. In 1979, the area under the soil bank system was 110,000 hectares, and 25,600 hectares were afforested. The compensation paid in 1979 was Fmk 200-330/ha.

In 1976 fallowing was introduced as a new method of curbing the growth in agricultural production. At least one third of the whole farm has to be fallowed to warrant compensation, which was Fmk 500-650/ha. in 1979.

Since 1977, agreements on changes in production line have been introduced to encourage milk producers to change over to other products. This is possible for a farmer over the age of fifty-five. Changing one's production line means stopping all milk production on the farm. The compensation is determined according to the farm's earlier income. In 1980, the scope of the system was expanded, e.g. agreements can be made by all farmers seizing the production of milk, pork or eggs.

The Farm Income Act of 1977 includes a production ceiling for milk, and also for some other products.

The production ceiling for milk is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Milk delivered to dairies, million l.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>2,710</td>
</tr>
<tr>
<td>1980</td>
<td>2,675</td>
</tr>
<tr>
<td>1981</td>
<td>2,660</td>
</tr>
</tbody>
</table>

If these quantities are exceeded, agriculture itself is responsible for the cost of exporting the excess. In 1979 the amount of milk delivered to dairies was 2,891 million litres and the estimate for 1980 is 2,870-2,890 million litres. A special marketing fee is levied on milk.

Permission from the authorities is needed to establish a dairy enterprise of over thirty dairy cows.

The Government has also applied a very restrictive feed policy in order to curb the increase in milk production. An excise tax is levied on oil seed concentrates in order to lower the use of concentrates in milk production. Imports of protein feed are limited to the minimum and their use in milk production is very slight.
C. Internal prices and consumption

The present retail and wholesale prices are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Retail price</th>
<th>Wholesale price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer milk Fmk/litre</td>
<td>2.05</td>
<td></td>
</tr>
<tr>
<td>Butter Fmk/kg.</td>
<td>21.56</td>
<td>18.98</td>
</tr>
<tr>
<td>Emmenthal cheese Fmk/kg.</td>
<td>21.16</td>
<td>17.77</td>
</tr>
<tr>
<td>Edam Cheese Fmk/kg.</td>
<td>18.37</td>
<td>15.43</td>
</tr>
</tbody>
</table>

1First class
2Fat content 45 per cent

Many steps have been taken by the Government to increase the consumption of milk products. Milk products are in a more favourable position as far as sales tax is concerned. The consumer price of butter is subsidized (Fmk 111/100 kgs.). Both industry and farmers get butter at a subsidized price. The deficiency payment on milk mentioned earlier also lowers the retail prices of all milk products.

Since margarine is a close substitute for butter an excise tax is levied on the price. The ratio of butter and margarine prices has been kept constant in recent years, i.e. if the price of butter is raised the price of margarine is raised accordingly.

The price of skim milk powder, which is used as feed on farms and in the feed industry, is subsidized, as is the price of skim milk, which is supplied from dairies to farms for feeding.

The consumption of milk products in 1978 and 1979 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>1978</th>
<th>1979</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fluid milk products kg/capita</td>
<td>279</td>
<td>276</td>
</tr>
<tr>
<td>Butter</td>
<td>11.9</td>
<td>12.2</td>
</tr>
<tr>
<td>Cheese</td>
<td>6.5</td>
<td>6.8</td>
</tr>
</tbody>
</table>

It is forecast that butter consumption will decrease slightly and cheese consumption increase a little in the future, and thus the total consumption of milk will remain fairly constant.
The per capita consumption of milk products is one of the highest in the world, and it is the policy of the Government to try to keep it at the present level. If milk production were reduced and consumption kept stable, exports of milk products could be lowered. Of course, this target may be difficult to achieve, but the number of policy steps taken should indicate clearly that the Government has paid a great deal of attention to the problem of the oversupply of milk.

D. Measures at the frontier

Variable import levies are applied to all dairy products except casein, the import of which is free of import levy or duty.

An import equalization tax of 4.1 per cent is applied to the import of casein.

Quantitative import restrictions are applied to all dairy products with the exception of casein. Restrictions take the form of a global quota (ex. 04.02 milk and cream in solid form) or discretionary licensing.

A system of export refunds is applied to the export of major dairy products if the domestic price exceeds the world market price. The export refund paid by the Government enables the export dairies to pay farmers a price corresponding to the target price of milk. The level of the refund is determined by the Ministry for Trade and Industry separately for each transaction. This enables the Finnish administration to control the level of export prices.

E. Bilateral, plurilateral and multilateral agreements

Within the framework of GATT Finland has concluded two agreements in the dairy sector. The United States has granted Finland an annual GATT-bound cheese quota of 10,500 metric tons, 8,200 tons of which is Emmenthal cheese. The EEC has bound a lower import levy for Emmenthaler cheese imported from Finland above an agreed price level.

The five-year trade agreements between Finland and the USSR provide the rough quantitative guidelines for dairy exports over the next five-year period. The exact amounts and prices are determined in the yearly trade negotiations between the Finnish exporters and the Soviet importers.