In spite of a rather prompt structural change, Finnish agriculture is still characterized by a relatively small farm size, 11 ha of arable land, and a large proportion of people employed in agriculture, 9% of total labour force. Mainly because of climatic conditions, which favour feed production, especially hay and silage, animal production accounts for 74% of the gross return, and milk production accounts for 40% of the gross return in agriculture.

Milk production is concentrated in the central and northern part of the country, where the number of alternative enterprises is practically nil. There were 78,000 milk suppliers in the country at 1982 and the number is declining by 6000-7000 suppliers annually. About half of the active farmers still produce milk.
A. Production

1. Support and stabilization measures

1.1. Farm Income Act

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

The present act was passed in 1982 and is effective for pricing-years 1983/84-1985/86 i.e. for three years. Like the previous laws it provides a framework for price negotiations between the state and the farmers' organizations. Price setting is a two phase process. The rise in costs, which is calculated by total accounts of returns and costs, is fully compensated twice a year. The increase in farm income is also negotiated. Usually the development in farm income has corresponded to the development of wages and salaries in other sectors of the economy.

The Farm Income Act defines "target price products", for which producer prices are set. These are rye, wheat, feed barley, feed oats, milk, bovine meat, pork, mutton and eggs.

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.

1.2. Price stabilization and support measures

The basic element in the formation of milk price, is the target producer price mentioned above. 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 total accounts and price setting of the following year. At the moment, the target price of milk is mk 197.20/100 litres. In practice, the actual producer price of milk has been kept within limits of ± 1 per cent of the target price.

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, called price supplement, which is paid by the government directly to the milk producers, is as from beginning of March 1983 mk 36.50/100 litres up to 30 000 litres per farm and mk 16.00/100 litres thereafter up to 200 000 litres per farm of annual production. The price supplement is an instrument of income distribution and consumer policy at the same time.

A production subsidy for milk is paid in the less favored areas of the country. This ranges from mk 4.00 to 57.00/100 litres. The highest subsidy is paid in northernmost part of the country whereas the southern parts of the country except Outer Archipelago is left without the subsidy. Another regionally differentiated form of support is a support based on the number of cows per farm. This ranges from mk 110 to 650 per cow annually.

The transportation cost of 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 throughout the country, but it is higher in the less favored areas than in South Finland. At the moment, the transportation subsidy is mk 1.41/100 litres on the average.

2. Production policy

One of the most difficult problem of the Finnish agricultural policy has been the overproduction of milk, pork and eggs.

In the last few years about 25-30 per cent of milk has been exported in form of butter, cheese and milk powder.
The government has taken many measures to curb the production of milk. Among the oldest and perhaps the most effective measures to curb agricultural production and especially milk production has been the soil bank system which was introduced in 1969. Under this system a farmer who stops entire production on his farm received compensation from the government. The area under the system rose to 232,000 hectares by the end of 1973. No new agreements have been made since 1974. There were 74,063 ha of land in the soil bank in 1982 and an additional 26,274 ha were afforested. The compensation was 225-380 mk/ha.

A new Act to steer and balance agricultural production was introduced as from February 1983. The law repeats many of the formerly used measures to curtail production. For the execution of this law the Government can spend annually up to 20% of the subsidies reserved for all agricultural exports. According to this law a farmer can make agreements to reduce:

a) all agricultural production  
b) animal production  
c) dairy production

or to fallow at least a third of his arable land area and get a compensation for doing so.

When reducing animal production a farmer has to agree to sell his animals, either cows, pigs or hens or all of them for slaughtering and cease to practise this particular form of production. When reducing dairy production farmer has to agree to cut production by at least one quarter, the minimum reduction being 10,000 litres.

The establishment of new large animal production units has been regulated by law for some years. According to the act which came into effect in the beginning of 1982, permission from the Board of Agriculture is required if the new production unit is going to have more than 20 dairy cows, 120 beef animals, 300 pig places, 1000 hen or 30,000 chicken places. In order to get the permission
the dairy farmer must produce at least half of the required feed quantity on the farm. In case of generation shift permission is more easily obtained.

According to the Farm Income Act producers are responsible of exporting the quantities over the production ceilings which the Act defines for milk and some other products. The production ceilings for milk are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>1982</th>
<th>1983</th>
<th>1984</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk delivered to dairies, mill.</td>
<td>2 675</td>
<td>2 790</td>
<td>2 760</td>
<td>2 730</td>
</tr>
</tbody>
</table>

If these quantities are exceeded, agriculture is itself responsible for the cost of exporting the excess. In 1982 the amount of milk delivered to dairies was 2 880 mill. litres. The share of agriculture in marketing the excess is collected in the form of marketing fees and taxes on oil seed concentrates and fertilizers.

B. Internal prices and consumption

The present retail and wholesale prices are as follows (from 1st March, 1983).

<table>
<thead>
<tr>
<th>Product</th>
<th>Retail price</th>
<th>Wholesale price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer milk mk/litre¹</td>
<td>2.96</td>
<td></td>
</tr>
<tr>
<td>Butter mk/kg²</td>
<td>32.90</td>
<td>28.96</td>
</tr>
<tr>
<td>Emmenthal cheese mk/kg³</td>
<td>34.17</td>
<td>28.71</td>
</tr>
<tr>
<td>Edam cheese mk/kg⁴</td>
<td>28.68</td>
<td>24.07</td>
</tr>
</tbody>
</table>

1. In 1 litre "Pure-Pak" or "Tetra-Pak", 0.33 mk each  
2. In 0.5 kg package  
3. 1st class  
4. Fat content 45 per cent

Many measures have been taken by the Government to increase the consumption of milk products. There is practically no sales tax on milk. The consumer price of butter is subsidized (mk 111/100 kgs). The food industry gets butter at a subsidized price, so that it approximately equals the price of margarine. 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 margarine. 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 1980 to 1982 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1981</th>
<th>1982</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fluid milk products kg/capita</td>
<td>272</td>
<td>264</td>
<td>260</td>
</tr>
<tr>
<td>Butter</td>
<td>11.3</td>
<td>11.5</td>
<td>11.0</td>
</tr>
<tr>
<td>Cheese</td>
<td>7.2</td>
<td>7.7</td>
<td>7.9</td>
</tr>
</tbody>
</table>

C. 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.
D. Bilateral, plurilateral and multilateral agreements

Within the framework of GATT Finland has concluded an agreement with the United States in the cheese 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. Finland has also concluded a three year agreement with EEC concerning cheese trade. For years 1982 to 1984 EEC has granted Finland an annual cheese quota of 7,700 metric tons. Respectively Finland has granted EEC a quota of 400-600 tons of cheese.

The five-year trade agreement 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.