The following communication has been received from the delegation of Finland with the request that it be circulated to members of the Negotiating Group on Agriculture.

FINNISH AGRICULTURAL POLICY

Measures to Limit Agricultural Production

Introduction

A relatively large agricultural population compared with other Western and Northern European countries together with a small farm size are characteristic to Finnish agriculture. Due to the climatic and geographical conditions animal production, especially dairy production, dominates. Milk and beef production, which in Finland are closely connected, make up about 52 per cent of the gross return of agriculture. Combined with pork and eggs, animal products account for approximately 70 per cent of total production value added in agriculture.

The development has been very rapid in the last years, however. In 1960, Finland had still 29.5 per cent of its labour force working in agriculture and in 1985 only 9.4 per cent. The very rapid structural change has resulted in some social problems in urban and semi-urban areas as well as in rural areas.

Agriculture is the main source of livelihood for rural population in nearly all parts of the country. There have been attempts to increase the volume of non-agricultural production in rural areas, notably a recent law on the promotion of small-scale non-agricultural activities on farms.

Traditionally, Finnish agriculture has been closely connected with forestry. The forest is still mostly owned by individuals and private firms, but in the last years the situation has changed as far as the relationship with agriculture is concerned. High prices of agricultural land has meant heavy burden for new young farmers who traditionally have had to buy their farm from their co-heirs. In many cases this has meant
that the entering farmer buys the fields and other children get part of the forests. As a result of this, today 40 per cent of individuals owning forests are non-farmers.

1. Production policy

Since the 1960s, many measures have been used to lower the production. At present the following measures are used to restrict production:

- production ceilings
- marketing fees
- dual price systems for milk and eggs
- restrictions on new animal production units
- contracts to reduce production
- restrictions on hatcheries
- fallowing contracts
- soil bank
- self-reliant beef production

State loan policy

In order to regulate and restrict production, the Farm Income Act (1982) includes production ceilings. The revised Act determines the proportion of the export of over-production which is to be paid by agriculture up to 1989. Agriculture pays its share of the export costs in the form of export charges for milk and pork, excise taxes for fertilizer and purchased feed and raw protein feed. In addition to that, the biggest pork and egg production units pay extra marketing fees, which vary according to gross revenue. Altogether, agriculture paid export costs of about FIM 550 million in 1986 exceeding the figure of previous years by about FIM 70 million. In 1986, the share of agriculture of total export cost totalled to about 22 per cent.

The dual price system for milk came into effect from the beginning of 1985. A quota was levied on each farm for milk production according to the level of production in either 1981/82 or 1982/83 (whichever was the higher). Every farm, however, producing milk in 1984 may produce as much as 30,000 litres without a permit. The farmers were able to lodge an appeal against their quota if, for some reason, production was low during the base year.
The Government annually decides on possible changes in quotas and issues guidelines on how quotas will be granted to new dairy farms. Quotas are not transferable.

In 1985 about 7,400 farms and in 1986 about 7,100 farms exceeded their quotas, for the excess of which only the world market price was paid. In practice the farms are collected a marketing fee of FIM 2.05/litre (in 1987). Since 1 March 1987 the target price for milk is FIM 2.345/litre.

At the beginning of 1986, a dual price system for eggs came into effect. The quota was determined according to the quantity sold in 1982, 1983 or 1984. For special reasons the quota could be modified.

The most important element of the egg quota system is the additional price, which is paid as follows:

<table>
<thead>
<tr>
<th>Production quantity</th>
<th>Oulu and Lapland provinces</th>
<th>The rest of the country</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10,000 kg. for all producers</td>
<td>2.20 mk/kg.</td>
<td>1.95 mk/kg.</td>
</tr>
<tr>
<td>The part exceeding 10,000 kg.</td>
<td>1.50</td>
<td>1.50</td>
</tr>
</tbody>
</table>

To prevent the additional prices from causing a rise in the production price, the target price was reduced by FIM 1.50/kg. at the beginning of 1986. If the quota is below 10,000 kg., the producer receives the additional price in full for the whole quota. If the quota is over 10,000 kg., the additional price is paid for only 90 per cent of the part exceeding 10,000 kg., after which only the target price is paid.

In 1986, the egg production fell by 4.4 per cent and the decrease is expected to continue in 1987. At the same time, the consumer price was reduced by about 8 per cent and the consumption increased by 6 per cent.

The establishment of new animal production units has been regulated since the 1970s. The system is now an important means of supply control. A permit from the National Board of Agriculture or local authorities is required if a production unit is to accommodate more than 25 pigs, 100 hens, 15,000 chickens or 60 beef animals.
There are several voluntary systems to reduce agricultural production, evolved over a period of years:

- contracts to reduce agricultural production
- contracts to reduce animal production
- contracts to reduce milk production
- contracts to reduce pork production
- contracts to reduce egg production
- fallowing contracts

Record number, about 1,400, of contracts to reduce agricultural production were made in 1986. Contracts were made with older farmers, whereby the farmer had to stop agricultural production for five years for a compensation amounting to about 20-35 per cent of his previous income. Similar types of contracts were made in 1983 and 1984, of which few are still in force.

Contracts to reduce animal production are more limited than the aforementioned contracts, which concern overall production. These contracts were made in 1984. To join the system a farmer had to give up all animals causing over-production for five years. In compensation he received 20-35 per cent of his previous income paid by the State.

Contracts to reduce milk production (the milk bonus system) require a decrease in production of at least 15 per cent of 5,000 litres a year. The contract is made for three years, and in 1985 the compensation to farmers was 75-90 pennies per litre. At the end of 1986, these contracts covered 30,000 cows and 145 million litres of milk.

Contracts to reduce pork production were only made in 1983 for four years and they applied only to large units, which had paid extra marketing fees. The contracts covered the production of 7.6 million kg. The compensations were paid in relation to previous income.

Contracts to reduce egg production, made in 1984, covered about 300,000 hens with a production of almost 5 million kg. a year. The contracts were made for four years, and farmers committed themselves to stopping production completely.

Since 1978, egg production has been regulated by restricting hatchings. Since then, the expansion of hatcheries producing over 300,000 chicks and the establishment of new ones have been prohibited. In 1986, hatchings were allowed to remain at the same level as the year before.
Fallowing contracts have been made from 1977 to 1980 and again since 1984. In 1987 the compensation varies according to the location of the farm. The average compensation is FIM 1,700 per ha. and the contract is made for one year. The falling contracts over a total of 70,000 ha. arable land.

The soil bank system was launched in 1969. The farmer had to give up all agricultural production against a compensation paid according to area of arable land. The contract was made for three years but it could be renewed. At the peak in 1973, 205,000 ha. were taken out of production. Last June the system still covered 19,100 ha. The maximum compensation was FIM 380/ha., which had not been changed since 1981. The remaining area presumably is of no potential use for production purposes. The system will cease in 1989.

A special means for reducing milk production is self-reliant beef production. Beef production is mainly tied to milk production. There are still only a few hundred beef cows. A special fee is paid to farmers who shift from milk to beef by keeping at least two cows for the milk-feeding of slaughter calves and by not selling calves or cows for milk production. Milk-beef cross-breeding is widely applied to foster beef production. At the moment there is some need for beef exports but, in the long run, production may fall below demand since the decline in the number of dairy cows also reduces the number of animals for slaughter.

One of the methods mainly used to regulate animal production is the State-subsidized loan system. The loans for investments in animal shelters have been strongly limited in the last years. Practically no loans have been granted for hen and pig shelters. Some loans have been given out for cow houses in the Eastern and Northern regions, but most of them for renovation purposes.

2. Total effect of measures

In 1986, voluntary contracts in force, excluding the soil bank system, totalled 21,660. The contracts covered a total of 90,000 ha., 56,000 cows, 63,000 pigs and 415,000 hens. Table 1 shows some figures of the estimated effects of the measures.
Table 1 - Summary of the Effects of the Restrictions in Agricultural Production in 1986

<table>
<thead>
<tr>
<th></th>
<th>Contracts</th>
<th>Arable land ('000 ha.)</th>
<th>Cows ('000)</th>
<th>Hens ('000)</th>
<th>Pigs ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soil bank</td>
<td>4,248</td>
<td>19.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction of production</td>
<td>4,100</td>
<td>30.0</td>
<td>15.0</td>
<td>18.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Milk bonus¹</td>
<td>7,700</td>
<td>30.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction of animal production²</td>
<td>3,750</td>
<td>14.2</td>
<td>94.0</td>
<td>30.0</td>
<td></td>
</tr>
<tr>
<td>Pig bonus¹</td>
<td>360</td>
<td></td>
<td></td>
<td></td>
<td>28.0</td>
</tr>
<tr>
<td>Reduction of production</td>
<td>500</td>
<td></td>
<td></td>
<td></td>
<td>296.0</td>
</tr>
<tr>
<td>Fallowing</td>
<td>8,890</td>
<td>59.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>29,548</td>
<td>108.8</td>
<td>59.2</td>
<td>408.0</td>
<td>63.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Grain million kg.</th>
<th>Milk million l.</th>
<th>Eggs million kg.</th>
<th>Pork million kg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corresponding production</td>
<td>270</td>
<td>290</td>
<td>6</td>
<td>10</td>
</tr>
</tbody>
</table>

¹ Plus 8,800 cows
² Plus 4,900 beef cows, which produce about one million kg. beef a year

Source: The National Board of Agriculture.

3. Government measures to expand domestic consumption

The Finnish Government has taken several measures to expand domestic consumption of agricultural products, especially dairy products. The most important of these measures are: general consumer subsidy for butter; the
price ratio between margarine and butter is kept constant; sales of butter to food industry at a reduced price; school lunch programmes; subsidies for skimmed-milk powder and liquid skimmed milk for animal feed and the deficiency payment for milk.

As a result of this policy e.g. the per capita consumption of butter in Finland is one of the highest in the world.