

**MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND**

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Negotiating Group on Agriculture

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COMMUNICATION FROM SWEDEN

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

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PRODUCTION POLICY MEASURES TAKEN IN SWEDENI. Sweden's Agricultural and Food Policy

The present guidelines for Sweden's agricultural and food policy which were laid down by two Parliamentary Decisions in 1984 and 1985 are based, as were the previous guidelines, on three objectives - the production objective, the income objective and the consumer objective. The production objective has been given the greatest emphasis: the main objective is to secure food supplies in peacetime as well as in emergency situations. Under the main objective there are two general objectives of equal importance. Consumers should have access to foodstuffs of good quality at reasonable prices and producers should be assured a standard of living equal to that of comparable occupational groups. In addition to these objectives regard should be taken to environmental requirements and the need for long term considerations concerning the use of natural resources.

In the field of animal products the policy aims at achieving balance between production and consumption. In a surplus situation this policy has a limiting effect on production and thus also a moderating effect on the volume of exports. The main instruments for implementing the production objective are that negotiated prices and price support only apply to quantities corresponding to domestic consumption. Costs due to surpluses (costs for storing and exports) are mainly paid by the producers themselves through the application of production fees. I.e. in this way the signals from the world market reach the domestic producer.

In addition to the above-mentioned general instruments used to implement the production objective a number of more direct measures have been taken with a view to improve the balance between production and consumption. These adjustment measures have resulted in a situation today with balance on the whole

both for dairy products and for beef and veal. A certain surplus of pigmeat still prevails. This, however, can be justified by the seasonal market variations.

For crop products the problems are somewhat different i.a. due to the fact that production is area-based. Until 1984 it was clearly recognized that surpluses arising in agriculture should be mainly in the form of grains. Consequently, in surplus situations the production brakes that were built into the price regulation system for grains have not been as strong as the brakes for animal products. Also the 1985 Food Policy Bill states that production on the surplus area for the time being should be composed of grains. Agriculture itself should at the same time, in line with the general principle, be responsible for the costs of production exceeding levels that can be justified from a general economic perspective. The Government Bill states that during a transitional period of five years the society shall take part of the responsibility (40%) for the costs of the surplus area and that agriculture itself by means of adjustment measures should work actively in order that this shared responsibility come to an end. This will mean a significant restraint on production.

The sharp fall of world market prices during the latest years combined with increased grain surpluses i.a. due to the adjustment for animal products, however, have led to great difficulties as regards the financing of the price and market regulation for grains. Therefore a direct Government involvement in the adjustment process has become necessary.

The production of oilseeds, important i.a. due to food emergency reasons, is on the whole adjusted to domestic market needs. However, due to quality reasons, a large part of the oilseed harvest as well as of the extracted vegetable oils are exported while at the same time considerable quantities of oilcakes and other feeding stuffs as well as vegetable fats are imported. High priority has been given to plant research resulting in new varieties with qualities that widen the range of utilization and increase the adjustment to the quality demands of the domestic market.

In spite of rapidly increasing productivity no surplus problems have hitherto arisen in the sugar sector. The area for sugar beet production is decided upon by the Government following negotiations between producers and consumers. In the long term an import share corresponding to on average 10-15% of consumption is aimed at.

## II. Adjustment measures for animal products

In order to satisfy the consumers' demands for regular supplies of liquid milk certain seasonal surpluses must be accepted. Milk production though has traditionally been well adjusted to domestic consumption. The surpluses that have occurred due to seasonal supply and demand variations have meant that Sweden to a certain extent traditionally has had an export need for butter and skimmed milk powder. To some extent this export need has been the effect of Sweden's import policies for cheese. Sweden has by tradition maintained relatively considerable cheese imports in order to meet special consumer demands. Due to the difficulties to export cheese (the bilateralized international cheese market) restraints have been imposed on domestic cheese production.

The developments during the 1980's with staggering consumption and steadily increasing production of dairy products in many countries mainly due to continuous productivity improvements and as a consequence growing international surpluses and drastically worsened export prices have led to sharply increased export costs and thus decreased profitability.

The need for adjustment within the dairy sector led to the introduction of a two-price system for milk on 1 July 1985. The objective with the two-price system was to allow, more directly than earlier, the signals of the world market to reach the dairy producers. For milk going to domestic consumption in any form producers receive negotiated prices. For milk in any form exported world market prices are received. Mainly due to the two-price system the milk production has decreased by around 7% (250,000 tons) between the years 1984 and 1987. The dairy cow number has due to the system decreased substantially (minus 10% = 60,000 cows).

Other measures have also been taken to decrease the milk surpluses. In 1983 special grants were introduced for certain dairy producers wishing to retire (so called milk pensioning scheme). Until November 1986 2,065 producers had joined the scheme with the result that 121,000 tons were taken out of production. Furthermore, price rebates for cheese have been given to public institutions. Since 1983 sales of liquid milk are being stimulated by premiums (at present 1.57 SEK/kg) to dairies with increased sales compared to a certain reference period.

Since 1982 the production of cheese is limited through a quota system initiated and run by the producers themselves. This system was introduced in order to prevent a threatening excess production of cheese. The outlook for net imports of cheese therefore still is bright.

One adjustment measure in the beef sector with effects also in the dairy sector is the system of premiums for slaughtering of female heifer calves which has been applied since 1983.

The investment ban for animal products which came into force in 1983 and, due to yearly prolongations, has been in force since then, has facilitated the adjustment within the dairy sector.

The domestic beef and pigmeat market became unbalanced at the end of the 1970's. Surplus costs have mainly been borne by the producers themselves in the form of production (slaughter fees. Along with the increasing surplus problems and the decreasing international prices these fees became a heavy burden for the producers. The production fees have been supplemented by more directly working measures in order to achieve a better balance for beef and pigmeat. The above-mentioned investment ban for animal products has functioned as a ceiling for the production. Measures with a view primarily to decrease the milk surplus have also had adjustment effects in the beef sector. One measure that directly concerns beef is the system of grants to beef producers who quit production based on breeder calves. This measure was introduced in 1986.

Also the above-mentioned premiums for slaughter of female heifer calves, introduced in 1983, have had a decreasing effect on production. Measures to stimulate consumption have also been taken. Accordingly, e.g. beef sales at reduced prices and rebated school lunches have been regular features during the 1980's, especially in the beef sector but also for pigmeat.

In addition to production (slaughter) fees a number of direct adjustment measures have been taken for pigmeat. Differentiated price supplements with an aim to reduce large-scale production are applied since 1 January 1981 for slaughter pigs. An early retirement scheme with premiums to elderly producers who quit production of piglets was introduced in 1986.

In 1985 slaughter of sows and young sows was stimulated through a temporary suspension of the slaughter fees. Special premiums were granted for the slaughter of sucking pigs. The consumption promotion activities in 1987 for red meats will be concentrated to the pigmeat sector.

The adjustment measures taken have resulted in a situation with practically no surplus for beef. During January-February 1987 the beef imports were somewhat larger than the exports.

As concerns pigmeat domestic production has traditionally exceeded consumption due to the considerable seasonal demand variations. However, also in the pigmeat sector a sizeable decrease of the surpluses has resulted from the adjustment measures taken.

Also in the egg sector a system is applied which hampers large-scale production through fees on large holdings of laying hens. At present other adjustment measures in this sector are under debate. The overall objective is to create a regulation as simple as possible with few detailed rules and with a high degree of market orientation.

### III. Adjustment measures for crop products

The present agricultural area is too large in relation to the production objective. In order to solve the surplus problem for grains it is considered important to reduce the cultivated area and/or find alternative uses for grains.

An expert group appointed by the Government has been commissioned to study the practical implementation of this production adjustment and to suggest possible measures to be taken in the short and longer terms respectively.

Fallow has been found to be a suitable short term measure in view of its instant effect on production. On 1 July 1986 a fallow program was introduced regarding the 1987 crop season according to which farmers receive grants from regulatory means to fallow grain fields. The fallow program (covering about 120,000 hectares) may result in a 0.4 million ton decrease of grain production in 1987 corresponding to about 7% of total production.

When it comes to measures during 1988 a number of different alternatives are being discussed at present which aim at reducing the grain production to an extent corresponding to 200,000 hectares of arable land. The discussions include i.a. voluntary fallow along the same lines as in 1987, compulsory fallow, fallow combined with a co-responsibility fee, price reductions for grains and a two-price system for grains.

In a report from the expert group presented at the end of 1986 a survey was made of a large number of measures which one by one or in combinations are intended to solve the surplus problem in the longer term. The following alternatives were analysed:

- cultivation of energy forests,
- production of ethanol and engine fuel from grains and oilseeds
- cultivation of peas,
- intensity decrease (decreased use of nitrogen fertilizers and growth regulators),
- soil bank,
- afforestation,
- development of new activities.

The expert group has suggested that the surplus area preferably should be used to increase the cultivation of peas, energy forests, afforestation and "special" crops, since these alternatives have been considered to have the best prospects to reduce the grain surplus in the long term.

In addition to the measures mentioned to reduce in the short and longer terms the area used for grain production a number of measures have been taken contributing to an adjustment of production to domestic demand. On 1 July 1986 a 20% fee was introduced for plant protective agents. At the same time the fertilizer fee was raised from 15% to 20%. Furthermore, an extra 5% "environmental" fee is charged on sales of both fertilizers and plant protection agents. These fees lead to decreased use of the inputs concerned. These measures therefore indirectly have an adjustment effect on production.

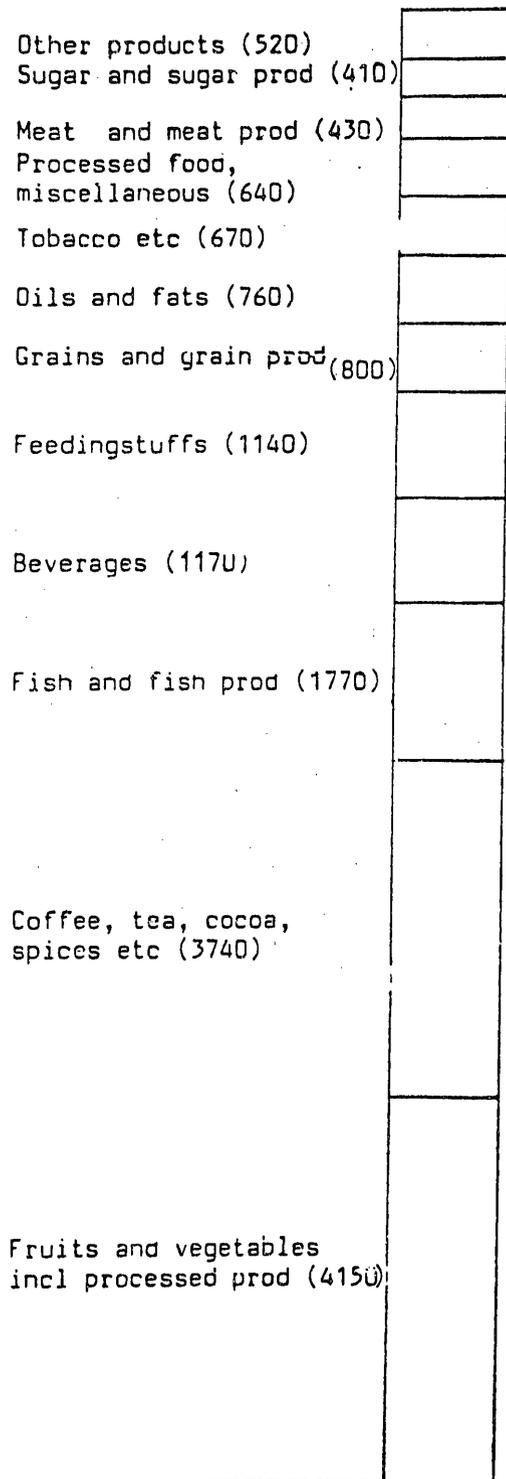
ANNEXES

1. Sweden's foreign trade of primary agricultural products and food.
2. Graphs illustrating the development of production and consumption for beef and pigmeat.

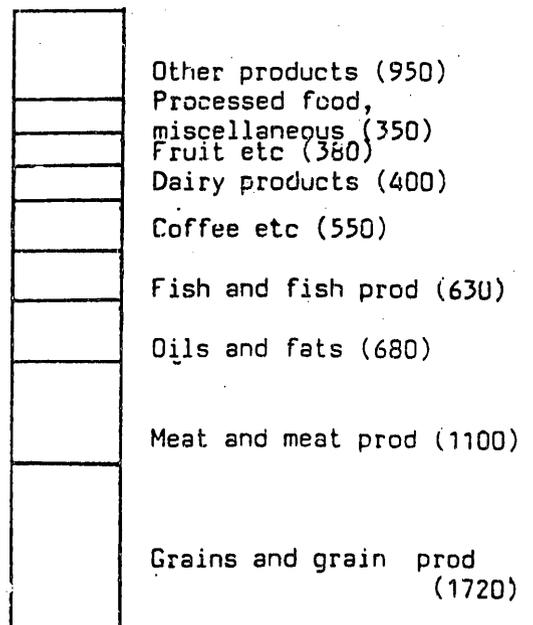
March 1987

SWEDEN'S FOREIGN TRADE OF PRIMARY AGRICULTURAL PRODUCTS AND FOOD (INCL BEVERAGES)  
AVERAGE FOR THE YEARS 1984-1986, MILLION SEK

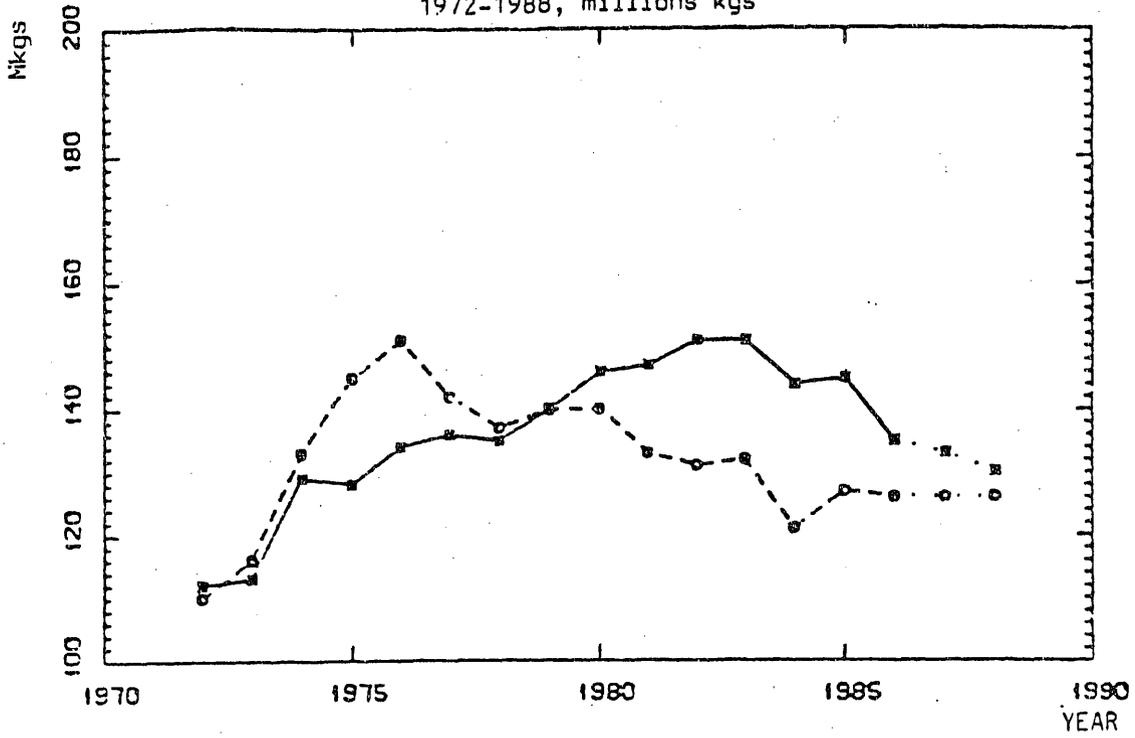
IMPORTS (16,240 million SEK)



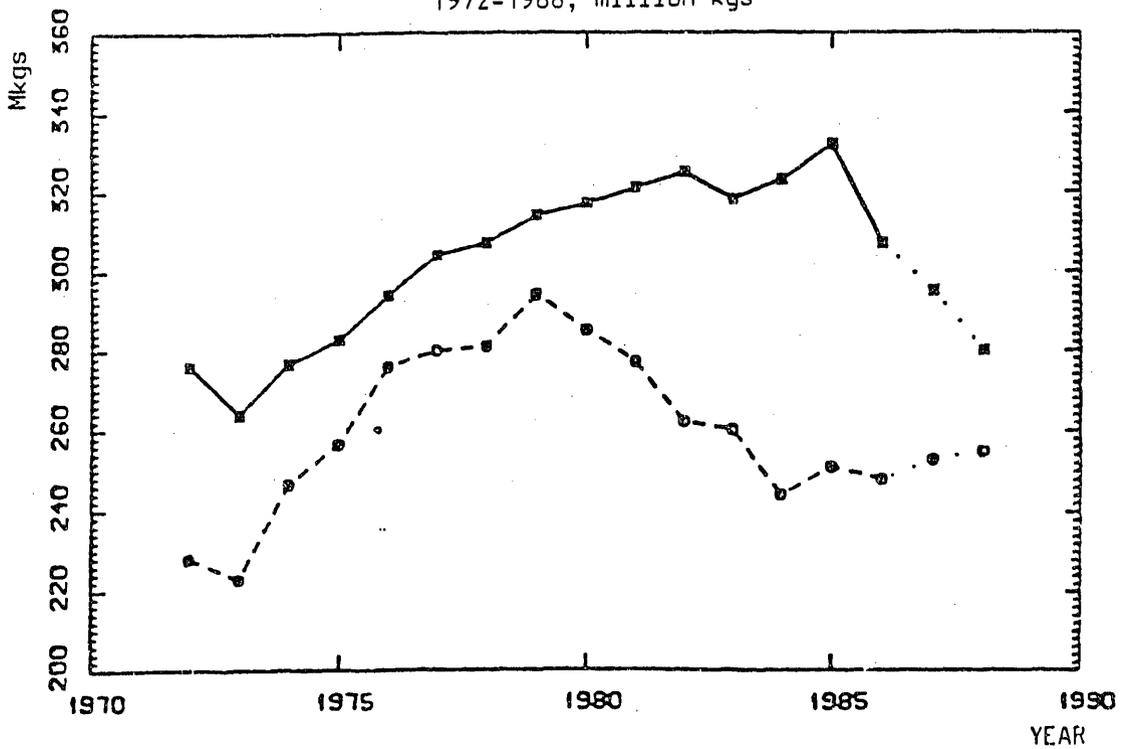
EXPORTS (6,760 million SEK)



PRODUCTION AND CONSUMPTION OF BEEF EXCL VEAL  
1972-1988, millions kgs



PRODUCTION AND CONSUMPTION OF PIGMEAT  
1972-1988, million kgs



- PRODUCTION
- ...■... FORECAST
- ▲- CONSUMPTION
- ...●... FORECAST