

RESTRICTED

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Limited Distribution

EXPANSION OF TRADE - AGRICULTURAL POLICY

Report of Committee II on the Consultation with Finland

1. In accordance with the Decision adopted by the CONTRACTING PARTIES at their fourteenth session that consultations should be held with the individual contracting parties regarding their agricultural policies, the Committee carried out the consultation with Finland. The Committee had before it:

- (i) document COM.II/2(f), dated 4 March 1959, which contained a synopsis, supplied by the Government of Finland, of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers;
- (ii) document COM.II/2(f)/Add.1, dated 23 December 1959, which contained statistics on the cost of programmes and farm net income; and
- (iii) document COM.II/36, dated 28 December 1959, which contained detailed information, also supplied by the Government of Finland, on commodities entering importantly into international trade.

In conducting the consultation the Committee followed the plan for consultation contained in Annex A to COM.II/5 and adopted by the CONTRACTING PARTIES at their fourteenth session. The consultation was completed on 26 January 1960.

A. General Agricultural Policy

2. In his opening statement the representative of Finland stressed that despite the relatively unfavourable conditions for agriculture in a northern country such as Finland, agriculture had always played an important part in the Finnish economy. Approximately one third of the Finnish population still obtained their living from agriculture. It was considered an economic and political necessity that this large sector should be assured an adequate standard of living.

3. Finland emerged from the war with 13 per cent less agricultural land and was faced with the problem of forming over 30,000 small-holdings for displaced persons from the ceded territories. In most cases this settlement could only be accomplished by the appropriation of land from existing farms. The formation of these additional holdings therefore resulted in a fall in the average size of Finnish farms to 8.8 hectares from the pre-war figure of 10.6 hectares.

4. Over the past twenty years great efforts had been made to increase technical efficiency in farming and to create other than agricultural employment. It was recognized, however, that improvements in technical efficiency led to an increase in production. In the case of dairy products, for example, Finland again reached self-sufficiency in the early 1950's. More recent improvements in efficiency had led to considerable exports of butter and cheese despite the fact that the per capita total consumption of dairy products in Finland was the highest in the world. The Finnish representative felt that, in a sense, the share of the output of dairy products which was exported could be considered low-cost marginal production. This was demonstrated by the fact that while the average yield per animal had risen the number of animals had not increased.

5. Referring to the creation of other employment for the farming population, the representative of Finland referred to the limits set by the scarcity of capital resources available in Finland. Thus, with an expanding population there had been only a minor decrease in the absolute number of the farming population, despite the remarkable increase in industrial activity. This situation was expected to be further complicated by the problem of finding employment for the 15 per cent increase expected in the total labour force during the 1960's.

6. The representative of Finland concluded his statement by stressing that the aim of Finland's agricultural policy, which was to ensure farmers an adequate standard of living, was not only a question of economic and political necessity, but also one of social justice.

7. Members of the Committee thanked the Finnish representative for his very informative statement. Particular interest was expressed by several members in the many difficulties confronting agricultural production in countries such as Finland, especially in northern regions of the country.

8. One member requested information on the value of production in the agricultural sector as compared to other sectors of the economy. The representative of Finland informed the Committee that the share of the total national income derived from agricultural production was approximately 12 per cent. He explained, however, that the Finnish agricultural population was to a great extent dependent on the forestry industry to supplement their income and that it was not unusual for farmers to work during the winter months in the forests or to possess their own forest land. The share of the national income derived from the forests by the agricultural population amounted to 6 per cent, bringing the total percentage obtained by one third of the population engaged in agriculture to 18 per cent. He explained that the average income derived from agricultural production was only slightly over 50 per cent of the average earned in other industries and that even allowing for the income derived by the agricultural population from forestry, the average income of the farmer was still only 70 per cent of the average amount earned in other industries.

9. A member of the Committee expressed the view that the excess of dairy production over domestic requirements could, to a large extent, be attributed to the government support measures accorded to the dairy industry in northern Finland. He requested the representative of Finland to inform the Committee

whether an industrialization programme existed for northern Finland through which the population might be diverted from the agricultural sector. The representative of Finland explained that during recent years several important mineral deposits had been discovered in northern Finland which had led to the development of a mining industry. The Government was exploring the possibility of steel production in the area. There were also plans to increase the capacity of the paper and cellulose industries in that area. The representative of Finland felt that it was difficult to attribute any surplus of milk production to the northern parts of Finland. He explained that in the north, transportation costs were high and it was felt that the Government should absorb a part of these costs in order to enable prices in northern Finland to be comparable with those in the south. In addition to high transportation costs the representative of Finland explained that animal feed costs were also high. Only certain kinds of fodder production were possible and the quantities of feeds which were required to be imported were subject to high rates of import duty.

10. Several members of the Committee referred to the stated objectives of the Finnish Government regarding agricultural policy, which were to achieve self-sufficiency, to offer consumers foodstuffs at reasonable prices, and to stabilize and safeguard the income of the agricultural population. One member of the Committee enquired whether the main objective pursued by the Government was the maintenance of the income of the farming community by means of a rigid system of parity prices implemented primarily by higher consumer prices in Finland, backed by quantitative restrictions and current subsidies. He expressed the view that if this was the case, production could get out of line with internal consumption thereby defeating the self-sufficiency objective. He felt that there should be greater flexibilities in the system so as to exert more directional control and so to divert production into the right channels. He observed that the present level of overall self-sufficiency was already very high at 90 per cent. He enquired why the Finnish Government felt it necessary to pursue policies aimed at achieving 100 per cent self-sufficiency in all products. It was the view of the representative of Finland that total production did not depend essentially on the income level of the agricultural producer as long as there existed a considerable difference between incomes of the agricultural population and those of other sectors of the economy. Increases in production arose mainly because of improved techniques and it was felt that such improvements would have been achieved had the income of the agricultural population remained at a lower level than at present. He felt that there would be no less cultivation in Finland if incomes were lower. Selective price policies, however, were considered as an effective means in changing production diversification and the Government was pursuing a policy of changing the pattern of production by modifying prices of the main agricultural products in an effort to increase the production of cereals and to decrease the production of milk. The price relations had been changed in favour of wheat and rye. Prices of imported fodder had been considerably increased in recent years in an effort to discourage the use of fodder in order to limit animal production.

11. Members of the Committee questioned the statement of the representative of Finland that little or no relationship existed between the level of income of the agricultural population and the level of production. They wondered whether

the experience on which this observation was based took into account only Finnish experience within the existing regime of fixed prices, controlled imports and subsidized export of surpluses of agricultural products. It was felt that the Government of Finland was maintaining certain import restrictions on agricultural products not only for balance-of-payments reasons, but in an effort to raise production to achieve the objective of self-sufficiency. It was emphasized that such a policy could only hamper the expansion of international trade.

12. The representative of Finland emphasized that it was the policy of his Government to develop agricultural production "towards" self-sufficiency and explained that although domestic agricultural production as a whole covered about 90 per cent of domestic requirements it did not always go hand in hand with consumption. While dairy production exceeded domestic demand by 20 per cent and the output of other animal products was also somewhat larger than domestic needs, self-sufficiency in cereals was less than 50 per cent of domestic requirements. The main target of the present agricultural policy was therefore to achieve a better balance between domestic production and consumption. He also pointed out that Finland had suffered in the past because production of certain agricultural products fell short of domestic needs. He shared the opinion expressed in an earlier consultation that a country pursuing a policy of neutrality, as was the case with Finland, had a much greater need to achieve self-sufficiency.

13. While expressing understanding of the special problems faced by Finland, a member of the Committee stressed that these did not in his opinion justify so restrictive an agricultural regime as that at present employed in Finland. It appeared to be the Government's policy to bring about a balance between domestic production and consumption. He enquired whether a reduction in support measures was contemplated and, if so, whether this would take the form of an overall reduction in support measures or merely a shift in support from one agricultural product to another. He also requested information on consumption subsidies and on the value of agricultural exports. The representative of Finland stated that in 1958 total exports amounted to \$775 million. Of this amount agricultural exports amounted to \$33 million, or 4.3 per cent. The share of agricultural exports for 1959 was approximately the same as for 1958. The representative of Finland emphasized that, although agricultural exports did not appear to be large, in terms of total currency reserves of \$230 million they represented ~~a p p r o x i m a t e l y~~ 15 per cent and were thus significant for the Finnish balance of payments. The Finnish representative also informed the Committee that the cost of agricultural support borne by the tax-payer accounted for approximately 5 per cent of total Government expenditure. He added that consumer subsidies were only granted on butter and confirmed that when this subsidy had been increased, consumption had also increased.

14. In response to a question on the actual effects of the selective price policy on production, the representative of Finland explained that from 1955 to 1959 acreage under wheat and rye had shown an increase of 15 per cent and 25 per cent respectively.

15. A member of the Committee felt that it was most important for the Finnish Government to ensure that Finland's resources as a whole were used in the most economic way. He pointed out that some of the agricultural products which were of great concern in international trade were the very products which the

Government of Finland had to subsidize in order to export. He enquired whether the regulation of prices by the Government took sufficient account of increases in productivity. He felt that if guaranteed prices were not reduced when increases in productivity were achieved, they would merely act as incentives for higher production which in turn would increase subsidized exports as well as increase prices to the internal consumer. He noted that meat production was not included in the support price system. He expressed surprise that more stress had not been placed on beef production as the most obvious alternative to which milk producers should turn.

16. The representative of Finland explained that his Government had attempted to assist the agricultural sector in ways other than by direct subsidies. He cited as examples the development of natural resources which had been undertaken to provide other employment, and the forestry improvements which have been implemented. He agreed, however, that in 1958 when prices in export markets were much below the domestic prices in Finland, the Government of Finland, like many other governments, had had to contribute large sums to make the export of agricultural products possible. Referring to the question raised regarding the meat industry, the representative of Finland explained that meat production was merely a by-product of the important dairy industry. No price controls existed for beef, mutton and poultry meat and any exports took place without a subsidy. He added that all imports of meat were subject to licence.

17. Another member of the Committee enquired why subsidies were not curtailed or at least reduced when efficiency was increased since increased efficiency meant lower costs per unit of output. The representative of Finland questioned the advisability of lowering the price to farmers as productivity increased thus depriving the farmers of the benefit of their increased efforts. He explained that the annual increase of productivity in agriculture had been estimated at about one per cent as compared to 3 per cent in other industries. He felt that in these circumstances, given the need to improve the income level in agriculture, the whole of the benefit of increased efficiency should be retained by the producer.

18. In response to a question on the price equalization fund which was created in 1944 to stabilize the price of certain important foodstuffs and raw materials, the representative of Finland informed the Committee that the system was abolished as from 1 April 1959 and in its place his Government had instituted normal import duties. For certain products, such as vegetable oils, internal excise taxes had been introduced. He pointed out that the excise taxes on vegetable oils were applied on the domestically produced, as well as on the imported product, with the exception of rapeseed oil on which a high import duty had been placed.

19. Referring to a question about the variation in export subsidies during 1958, the representative of Finland explained that Finnish exporters were confronted with different prices in different markets. He explained that there was less variation for pork, exports of which were very small and took place for a very short time only.

20. The Committee examined closely the quantitative restrictions applied by Finland on agricultural products. One member of the Committee was of the opinion that the Finnish agricultural system depended upon the extensive use of quantitative restrictions and pointed out that with the disappearance of balance-of-payments difficulties Finland would be suddenly faced with the difficult problem of modifying its agricultural support system. He expressed the fear that due to the considerable importance attached to the support measures by the Finnish authorities there would be great reluctance on their part to institute changes since he felt that certain of the restrictions now in force were not entirely for balance-of-payments reasons, but were part of and necessary to the agricultural support regime. The representative of Finland emphasized that all quantitative restrictions maintained by his Government were maintained for balance-of-payments reasons. He explained that it was usual to apply such restrictions selectively. As to the general balance-of-payments position he stressed that the propensity to import was very high. He explained that during the past year when economic activity increased by 4 per cent, imports increased by 15 per cent.

21. In response to other questions about quantitative restrictions, the representative of Finland drew attention to the recent changes introduced in its import licensing system. Effective 1 January 1960 his Government had removed discrimination against dollar imports and had increased global quotas maintained for certain products by more than 10 per cent. He referred the Committee to pages 6, 7 and 8 of document SOM.II/2(f) and explained that column A now was applicable to dollar imports. He also explained that licence-free treatment of imports was applied to countries which were signatories to or associated with the multilateral agreement establishing the "Helsinki Club".

22. Considerable interest was expressed by the Committee in the parity price system. The representative of Finland explained that annual price reviews were undertaken to establish weighted (quantities of 1954-56 as weights) indices for prices received and paid by producers. On the basis of these indices, fixed prices were established for cereals, and target prices for milk, eggs and pork for the following crop year. Most other products were unaffected by the system. If, however, the average price received by the producer differed from the target price by more than 10 per cent, steps would be taken to adjust the prices to the target level. While it was not the policy of the Government to further the production of milk by increasing prices paid to farmers, the representative of Finland explained that the Government could not leave the price of milk untouched when the farmers were confronted with large increases in costs. He confirmed that subsidies were included in the index as income to the farmer; the 1957 decrease in milk prices resulted from an increase in subsidies.

23. A member of the Committee said that while the system operating in his country bore certain superficial resemblances to the Finnish system, it looked more to the trend of net income than to comparisons between gross costs and gross income. Net income would reflect any reduction in unit costs due to increased efficiency. He also felt that while some degree of flexibility existed in the Finnish system for individual products, the Government was committed to bring the system as a whole into line with the indices. The representative of

Finland stated that the differences between systems in various countries were inevitable, pointing out that the agricultural population in the country of the Committee member represented approximately 5 per cent of the total population who obtained some 5 per cent of the national income. He reminded the Committee that in Finland, the farming population, which represented one third of the total population, obtained only 18 per cent of the national income. He stressed that it was socially and politically important to ensure this population an adequate standard of living. To reach this end methods to improve efficiency as well as the price policies applied had been necessary.

24. One member of the Committee expressed the opinion that the available statistics indicated that the Finnish agricultural programme was both costly and restrictive. The total cost of support measures to the Treasury was Fmk.28 billion, which represented about 33 per cent of the estimated farm net income of Fmk.80-90 billion. He also observed that the landed cost of imported wheat was little more than one half of the 1958 price to domestic producers. The representative of Finland explained that when subsidies were taken into account, there was a very slight difference in the price which the Finnish producer obtained for agricultural products in general compared with producers in other principal producing countries in Europe.

25. He also explained that the system was not as rigid as it might first appear. Average prices for pork and eggs had frequently been even below the floor of the target prices; the price of eggs dropping as low as 15-20 per cent below the average target price.

26. A member of the Committee informed the Committee that exports of Finnish eggs, which amounted to 200 tons in 1954, had increased to 6,646 tons in 1958. He pointed out that the considerable subsidy granted by Finland (Fmk.98-130), enabled these eggs to be marketed at from 50 per cent to 70 per cent of his country's export price. The representative of Finland explained that the increased egg production in Finland was due to the increased average yield of 15 per cent over the past five years. The Government was doing everything possible to keep production down, including changing the product/feed price ratio to make the production of eggs less profitable. He informed the Committee that in 1958 hens numbered 4.6 million; this figure had now been reduced to 4 million.

27. A member of the Committee expressed concern that, in the establishment of prices, little regard was given to the supply situation. This, he stressed, must lead to continued accumulations of surpluses. He noted that there was a guaranteed price to producers of domestic wool, based on the difference in the price of domestic and foreign wool. He enquired about the effect that such a guaranteed price had on the wool industry. He also enquired whether there were import restrictions on lamb and mutton. The representative of Finland explained that it was difficult to take into account quantities of production when determining prices for a coming year; to do so would require an accurate production forecast. He felt that the frequent changes in the base period contributed to a more accurate index and he was of the opinion that, in the future, production changes would be more directly taken into account than at present. With regard to wool production he explained that the existing system was somewhat similar to a deficiency payment, but that domestic production was very small, amounting to only approximately one per cent of domestic consumption. Imports of wool were liberalized and duty free. He informed the Committee that mutton and lamb were free of internal controls, but there were import restrictions.

B. Commodities

Dairy Products

28. A member of the Committee drew attention to the high producer price of butter in Finland. He noted that the retail price of Fmk.444 per kg. was the result of a subsidy to the producer of Fmk.209 per kg. By taking into consideration distribution costs of approximately 8 per cent (3 per cent wholesale and 5 per cent retail) he arrived at a cost at creamery of approximately Fmk.600 per kg.

29. Another member of the Committee referred to the policy adopted by the Government of Finland with regard to milk production as an example of the rigidity in the Finnish agricultural support system. He stated that the high level of the guaranteed prices encouraged excess production, forced the Government to introduce a consumer subsidy (as, in part, a means of avoiding subsidized exports) and made it necessary to resort to heavy duty on imports of concentrated feed. He asked whether the Government of Finland had considered restricting the guaranteed price to milk for liquid consumption in Finland, or less drastically to milk and milk products consumed domestically. While the former would be preferable, the latter would at least ensure that a return on production in excess of domestic requirements reflected no more than the open market value. The member of the Committee suggested that, if this were too great a change to make all at once, an intermediate step might be to place a limit on the amount of subsidy to be paid in money terms. He acknowledged that this and other alternatives would require a pooling system which would create certain administrative difficulties but explained that a number of countries were already successfully operating such two-price systems. The representative of Finland informed the Committee that the alternative suggested had already been discussed by the Finnish authorities but that it was felt that such an alternative would be administratively difficult. Another member of the Committee declared that it would be of great merit if the Finnish Government could find it possible to establish a two-price system that effectively could limit production which eventually found its way, highly subsidized, into the market. The same member expressed his view that such a system had not been administratively possible by other countries consulting.

30. A member of the Committee pointed out that in his opinion all exports of dairy products were subsidized. The representative of Finland informed the Committee that the State intervened only insofar as State subsidies were concerned; exports were mainly in the hands of farmers' co-operatives. He confirmed that in certain cases export subsidies were higher than consumer subsidies, any butter which could not be marketed domestically was exported and, if the amount of the consumer subsidy did not permit the butter to compete on the export market, an additional subsidy was paid.

31. Another member sought clarification of the relationship between dairy and wheat prices. He also felt that with improvements in efficiency there should be some reduction in prices to the producers of dairy products whereas milk prices had actually been increased. The representative of Finland pointed out that, while wheat prices were much higher in 1958 than in 1956, milk prices were only slightly higher. He again drew the attention of the Committee to the increased use of arable land for wheat and rye production, which he explained was the direct result of the selective price system.

32. It was noted that the importation of milk and cream, concentrated or in powder form, was subject to a quota which was apparently limited to certain countries of western Europe and Canada and the United States. The representative of Finland explained that the countries participating in the quota were members associated with the multilateral agreement known as the "Helsinki Club".

33. A member of the Committee sought clarification of the statement appearing in the basic paper that the subsidy on eggs was "fixed on a more permanent basis". The representative of Finland explained that it was effected on a per unit basis which made the internal price fluctuate parallel with the world market price.

34. The representative of Finland informed the Committee that for 1959 the milk price to producers had remained approximately the same as for 1958, but that the prices of wheat and rye were considerably higher.

Meat

35. The representative of Finland explained that Finland's beef production had increased from 53,400 tons in 1954 to 58,700 in 1958. The price to producers had increased from Fmk.170 in 1954 to Fmk.210 in 1958. It was very unusual for any exports of meat to take place and imports were also very rare. When meat was exported only pork qualified for a subsidy. Such a subsidy was granted on a fixed per unit basis to cover defreezing, storing, transportation and certain other costs. There were no exports of bacon. He also informed the Committee that there were no bilateral agreements affecting meat and that all imports were subject to import restrictions. He added that although the price of Finnish meat was fairly competitive he did not consider that Finland would ever become an important meat exporter. A member of the Committee expressed the hope that when balance-of-payments difficulties disappeared the favourable competitive position of Finland's meat industry would permit the immediate removal of all restrictions on importations.

Grains

36. A member of the Committee was of the opinion that mixing regulations were applied to bread grains in Finland with a protective effect similar to that provided by quantitative restrictions. He enquired whether it was the intention of the Government of Finland to dismantle these regulations when balance-of-payments difficulties were overcome or whether these regulations were considered an integral part of the marketing system for grains. The representative of Finland stated that this system originated in the 1930's for the purpose of ensuring quality. It was felt that these regulations were in conformity with the General Agreement; there was no indication that his Government expected their removal.

37. A member of the Committee noted that in the Finnish documents the function of the State Granary was stated to be that of assuring the supply of grain to Finland. With wheat in more than ample supply in the world it seemed to him that the present function of the State Granary must be exclusively to administer the price support system for home-produced grain. He requested information on the State Granary's disposal operations, including its methods of equalizing the higher price paid for domestic grain with the lower price paid for the imported product. The representative of Finland confirmed that it was the purpose of the State Granary to maintain the supply of grain by purchase and storing, while at the same time maintaining stability and prices of domestic grain. Imported wheat was sold at the higher domestic price and the profit realized went to consolidated revenue. For rye the selling price was at present the true average.

38. In response to other questions the representative of Finland explained that approximately 80 per cent of imports of wheat came under bilateral arrangements and that imports from other sources were concentrated on high quality wheat.

Vegetable Oils.

39. Noting that the regulations covering bread grains dated from the 1930's a member of the Committee enquired whether a similar situation also applied for rapeseed oil since margarine factories were pledged to use a percentage of domestic oil. The representative of Finland informed the Committee that the agreement of the margarine factories to use domestic rapeseed oil up to 20 per cent of their need for margarine fats, was based on the principle contained in a law introduced in 1944, but was entirely voluntary.

40. In response to a request for information on the internal tax applied on vegetable oils, the representative of Finland explained that the maximum tax on lard and vegetable oils was Fmk.51 per kg., and on margarine Fmk.43 per kg. The Cabinet held the right to increase or lower the tax by not more than Fmk.20 according to changes in world market prices.

Fish

41. A member of the Committee stated that exporters of canned fish had experienced difficulties in establishing normal trade with Finland because of the severe restrictions imposed by Finland on canned fish. While there were a number of canning factories in Finland which were protected by these restrictions these factories could not supply the entire domestic market. The representative of Finland explained that the most important fish consumed in Finland was herring, which was free of import restriction. He felt, however, that where restrictions were necessary for balance-of-payments reasons it was a general feature that processed products such as canned fish would be amongst the last to be liberalized. He informed the Committee that the standard of living of the fishing population was amongst the lowest in Finland and agreed that while products such as canned fish were subject to import control for balance-of-payments reasons, there was in these restrictions a protective element.