

# GENERAL AGREEMENT ON

## TARIFFS AND TRADE

RESTRICTED

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International Dairy Arrangement

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### INTERNATIONAL DAIRY PRODUCTS COUNCIL

#### Reply to Questionnaire 5 Regarding Information on Domestic Policies and Trade Measures

#### FINLAND

In spite of a rather prompt structural change, Finnish agriculture is still characterized by a relatively small farm size, in the average 12.6 ha of arable land, and a large proportion of people employed in agriculture, 8.5 per cent of total number of employed. Mainly because of climatic conditions, which favour fodder production, especially hay and silage, animal production accounts for 60 per cent of the gross return in agriculture.

Milk production is concentrated in the central and northern part of the country, where the number of alternative production lines is practically nil. There were about 53,000 milk suppliers in the country at the end of 1988 and the number is declining by 4,000-5,000 suppliers annually. A little less than 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 acts. Many of the acts have also included stipulations on regional price policy and income distribution.

The present act was passed in 1982 and was effective for pricing-years 1983/84-1985/86. However, it has been extended with very slight modifications until the end of pricing year 1988/89. 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, is fully compensated twice a year. The change in farm income is 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.

### 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 the 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 price setting of the following year. Since March 1989, the target price of milk has been FIM 269.00/100 litres.

A deficiency payment system for milk is being used at the moment in order to discourage 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 presently FIM 30.00/100 litres up to 37,000 litres per farm and FIM 15.00/100 litres thereafter up to 150,000 litres of annual production per farm. From 1 September the lower limit will be raised to 50,000 litres. 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 favoured areas of the country. This ranges from FIM 4.00 to FIM 63.00/100 litres. The highest subsidy is paid in the northern most part of the country whereas the southern parts of the country except the outer archipelago is left without the subsidy. Adding these price supports to the target prices the actual average producer price has developed during the 1980s the following way (FIM/100):

1980	1981	1982	1983	1984	1985	1986	1987	1988
184.2	203.1	229.6	248.2	261.7	273.9	276.4	283.3	291.3

Another regionally differentiated form of support is a support based on the number of livestock per farm. This ranges from FIM 130 to FIM 1,275 per cow annually. Also the transportation cost of milk from farm to dairy varies widely, depending on the distance, size and number of suppliers. A subsidy is paid by the State on some of the dairies' transportation costs throughout the country. At the moment, the transportation subsidy is FIM 2.30/100 litres on the average for all the milk delivered to the dairies.

### 2. Production policy

One of the most difficult problems of the Finnish agricultural policy has been the surplus production of milk, pork and eggs.

The exports of milk products in 1980 have been as follows (million kg.):

	Butter	Cheese	Whole milk powder	Skimmed milk powder
1980	9.8	40.3	30.1	0.0
1981	14.7	36.8	28.0	0.4
1982	8.8	33.3	22.6	0.6
1983	26.6	31.5	25.1	14.0
1984	20.0	36.3	32.1	5.5
1985	18.6	35.9	33.0	3.3
1986	14.9	33.8	30.0	1.3
1987	20.8	34.4	26.7	5.0
1988	19.2	32.5	15.9	2.5

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 2,300 ha of land in the soil bank in 1988. The compensation was 225-380 FIM/ha.

An Act to steer and balance agricultural production has been in effect since 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 per cent of subsidies reserved for all agricultural exports excluding grain exports. According to this law a farmer can make agreements to reduce:

- (a) all agricultural production
- (b) animal production
- (c) dairy production (milk bonus system)

or to fallow at least a certain share (1988 15 per cent) 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. The milk bonus system is one of the most important measures for restricting production. These contracts were made in 1983, 1984 and 1988. A condition for the agreement was either a 15 per cent decrease in production (or 5,000 litres per year) or total reduction of milk production. The agreement was earlier made for three and in 1988 for five years, and the farmers are paid 90-120 pennies per litre in compensation. These agreements covered about 22,000 dairy cows and 110 million litres of milk at the end of 1988.

The dual price system for milk came into effect from the beginning of 1985. A quota was defined for each farm for milk production according to the level of production in either 1981/82 or 1982/83 (whichever was the higher). Each farm which produced milk in 1984 can, however, produce up to

30,000 litres without a permit. The farmers could file an appeal against their quota if, for some certain specified reason production was especially low during the base year.

About 6,000 farms are yearly exceeding their quotas, for which only the world market price is paid. In practice this is realized by collecting a quota fee of FIM 2.05/litre from the farmer for the amount exceeding the quota.

The farm income act defines so called production ceilings for milk and some other products. The production ceilings for milk are as follows:

	1984	1985	1986	1987	1988	1989
Milk delivered to dairies, 1 million	2,760	2,730	2,710	2,695	2,260	2,625

If these quantities are exceeded, agriculture is itself responsible for the cost of exporting the excess. In 1988 the amount of milk delivered to dairies was 2,530 million litres. The share of agriculture in marketing the excess is collected in the form of marketing fees and taxes on oilseed concentrates and fertilizers. Presently no marketing fee for milk is collected.

#### B. Internal prices and consumption

The present retail and wholesale prices are as follows (2/89)

	Retail price	Wholesale price
Consumer milk FIM/litre <sup>1</sup>	3.56	
Butter FIM/kg. <sup>2</sup>	38.90	35.98
Emmenthal cheese FIM/kg. <sup>3</sup>	40.99	33.58
Edam cheese FIM/kg. <sup>4</sup>	34.99	29.42

<sup>1</sup>In 1 litre "Pure-Pak" or "Tetra-Pak"

<sup>2</sup>In 0.5 kg. package

<sup>3</sup>1st class

<sup>4</sup>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 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 skimmed milk powder, which is used as feed on farms and in the feed industry, is

subsidized, as is the price of skimmed milk, which is supplied from dairies to farms for feeding.

The consumption of milk products in 1980 to 1988 was as follows:

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Fluid milk									
products kg./cap	272.0	264.0	260.0	252.1	245.7	235.8	228.4	223.3	223.9
Butter kg./cap	11.3	11.5	11.0	11.9	11.4	12.2	10.3	10.0	9.5
Cheese kg./cap	7.2	7.7	7.9	8.3	8.7	9.8	10.5	11.4	12.3

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 2.2 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 strictly to survey the obedience of the GATT-minimum price regulations.

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 Emmental cheese. Finland has also on a permanent basis, concluded an agreement with the EEC concerning cheese trade. The EEC has granted Finland an annual cheese quota of 9,250 metric tons. Respectively, Finland has granted the EEC a quota of 1,500 tons of cheese. In a framework of agricultural trade agreements with its EFTA-partners, Finland has accorded Switzerland a cheese export quota of 100,000 kg. each year.

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 framework for the years 1986-1990 comprises estimated yearly Finnish exports to the Soviet Union as follows: butter 6,000-8,000 tons, WMP 25,000-30,000 tons and cheese 3,000 tons. More exact amounts are determined in the yearly trade negotiations between Finland and the

Soviet Union. On this basis, concrete transactions are accorded between Finnish exporters and Soviet importers. Because of the diminished dairy production there has been no need to export to the Soviet Union since 1987.