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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 12.8 hectares of arable land, and a large proportion of people employed in agriculture - 6.9 per cent of the total number of employees. Mainly because of climatic conditions which favour fodder production, especially hay and silage, animal production accounts for 70 per cent of the gross return in agriculture.

Milk production is concentrated in the central, eastern and northern part of the country, where the number of alternative production lines is practically nil. There were about 38,000 milk suppliers in the country at the end of 1991 and the number is still declining. Some 30 per cent of the active farms still produce milk.

The legislation for agricultural and rural development was reformed. The Act on Rural Activities came into force from 1 January 1991. The new Act substituted and combined certain previous laws, the most important of which was the Farm Act. The purpose of the new Act is to improve the structure and qualifications of farming and to promote and diversify rural activities. According to the Act, farm credits, interest concessions and government guarantees for bank credits can be under certain circumstances granted to enterprises considered viable in the long term.

The 1992 year budget contains a deduction of farm products' export subsidies by about FIM 870 million (from FIM 3,655 to FIM 2,785 million). Farmers' share of export costs decreases from FIM 1,370 million to FIM 1,265 million. On the other hand, farmers' percentage share increases from 37.5 to 45.4 per cent.

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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 1990 and was effective for pricing years 1990/91-1994/95. Like the previous laws, it provides the 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. Remarkable changes have later been made in the law, for instance farmers' 13 per cent upper limit in export costs was taken away in 1992.

The Farm Income Act defines the "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 1991, target prices were not achieved as regards beef (all beef 11.3 per cent below target price) and pork (8.5 per cent below target price).

The Farm Income Act is subject to review. Its aim is to decrease export costs with the effect of accelerated decrease of production level and increase the farmers' share of such 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 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 1991, the target price of milk has been FIM 282.00/100 litres. No changes were made in August 1991 or in March 1992.

The average producer price (without support) has developed during 1981-1991 in the following way (FIM/100 litres):

TABLE 1.2

Milk Producer Price Without Support (FIM/100 Litres)

1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
171.4	195.2	213.6	227.3	242.9	243.8	250.4	258.3	271.5	278.3	282.3

Administered producer prices (target prices) are based on the Farm Income Act, which came into force in 1990. In 1991, the target prices were set, as a result of the negotiations between the Government and the farmers' organizations, as follows:

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 in southern Finland presently FIM 30.00/100 litres up to 50,000 litres per farm and FIM 15.00/100 litres thereafter up to 150,000 litres of annual production per farm. For production more than 150,000 litres/farm, no supplement is paid in southern Finland. The payment is higher towards the north, and reaches in Lapland FIM 99.00/100 litres (production <50,000 litres), FIM 89.00/100 litres (production 50,000-150,000 litres) and FIM 69.00/100 litres (production >150,000 litres). The price supplement is an instrument of income distribution and consumer policy at the same time.

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. In the least favoured areas, a subsidy is paid by the State on some of the dairies' transportation costs. In 1991, the transportation subsidy was FIM 5.80/100 litres, but was only paid on the amount of 215 million litres (9 per cent of deliveries).

The additional price for milk and the regional subsidy for milk were combined as regionally differentiated production subsidy for milk from 1 April 1991. The country is divided into ten regions, and the support is highest in northern Lapland and decreases with minor exceptions towards southwest. If the supplier delivers no more than 50,000 litres yearly, the support is FIM 0.30/litre in south areas and FIM 0.99/litre in the northernmost Lapland. If the production is 50,000-150,000 litres, the support is FIM 0.15/litre lower and, if the production is over 150,000 litres, the support is FIM 0.30/litre lower than the basic support (so it is FIM 0/litre in south and FIM 0.69/litre in northern Lapland).

The marketing fee for milk is FIM 0.008/litre for each decimal of which the fat content exceeds 3.7 per cent. According to the Farm Income Act, farmers have to pay the costs for butter export of 3 million kg. This means an additional FIM 0.025/kg. decrease in dairy milk price.

In milk production, the quota fees have been risen. For milk exceeding the quota, the supplier has to pay FIM 2.05/litre; the fee is valid for suppliers delivering more than 40,000 litres.

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 the 1980s and the early 1990s have been as follows (million kg.):

TABLE 2.1

Milk Production and Exports of Dairy Products

('000 metric tonnes)

	Milk production	Exports			
		Butter	Cheese	Whole milk powder	Skimmed milk powder
1980	3,173.6	9.8	40.3	30.1	0.0
1981	3,072.9	14.7	36.8	28.0	0.4
1982	3,068.4	8.8	33.3	22.6	0.6
1983	3,135.0	26.8	31.5	25.1	14.0
1984	3,123.7	20.0	36.3	32.1	5.5
1985	2,987.5	18.6	35.9	33.0	3.3
1986	2,975.6	14.9	33.8	30.0	1.3
1987	2,846.9	20.8	34.4	26.7	5.0
1988	2,667.5	19.2	32.5	15.9	2.5
1989	2,667.6	20.3	26.3	6.1	2.0
1990	2,729.5	35.9	28.9	23.1	2.3
1991	2,477.0	22.7	27.8	10.0	6.5
1992e	2,350	18	22	4	4

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 stopped 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. Since 1989, no land was in the soil bank system.

A fallowing programme started in 1986, covering 60,000 hectares of arable land. The amount under the programme in 1986-1991 has been the following:

TABLE 2.2

Fallowed Area

Year	Fallowed area (hectares)
1986	59,700
1987	68,600
1988	117,400
1989	189,100
1990	175,000
1991	468,000
1992	550,000 (forecast)

An act to steer and balance agricultural production has been in effect since February 1993. 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 the subsidies reserved for all agricultural exports excluding grain exports. According to this law a farmer can make agreements to reduce:

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

or to fallow at least a certain share (in 1992, 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, 1988, 1990 and 1992. 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 FIM 90-120 per 100 litres (1991 agreements) as compensation. These agreements covered about 92,600 dairy cows and 519 million litres of milk at the end of 1991 (Table 2.3).

TABLE 2.3

Amount of Milk in Production Control Systems

Year	Contracts to reduce production (effects on milk production, million litres)
1988	185
1989	220
1990	250
1991	519

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

Some 6,000 farms yearly exceed their quotas. For excess production, 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:

TABLE 2.4

Production Ceiling

(Milk delivered to dairies, million litres)

Year	1990	1991	1992	1993	1994	1992N
Government's responsibility of export costs, per cent (x)	The amount, up to which the Government pays X% of exports costs					
100	2,300	2,280	2,260	2,240	2,220	2,150
90	2,400	2,375	2,350	2,325	2,300	
50	2,550	2,525	2,500	2,475	2,450	2,300

[N] New ceiling for 1992

If these quantities are exceeded, agriculture is itself responsible for the cost of exporting the excess. In 1991 the amount of milk delivered to dairies was 2,345 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. The marketing fee for milk in 1991 was FIM 568/100 litres.

B. INTERNAL PRICES AND CONSUMPTION

The present retail and wholesale prices are as follows (June 1991):

TABLE B.1

Retail and Wholesale Prices

	Retail price		Wholesale price
	(10/91)	1990	1990
Consumer milk FIM/litre[1]	4.11	3.99	3.459
Butter FIM/kg.[2]	33.50	39.78	36.72
Emmenthal cheese FIM/kg.[3]	50.12	46.77	39.90
Edam cheese FIM/kg.[4]			33.46

[1]In 1 litre "pure-pak" or "tetra-pak"

[2]In 0.5 kg. package

[3]First 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 food industry gets butter at a subsidized price, that is to say, 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. However, in the beginning of 1991, the food industry lowered the butter price by FIM 6 mk./kg. This time, this did not lead to the lowering of the price of margarine.

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 1985 to 1991 was as follows:

TABLE B.2

The Consumption of Milk Products

		1985	1986	1987	1988	1989	1990	1991
Fluid milk products	kg./cap	235.8	228.4	223.3	223.9	220.0	222.9	215.7
Butter	kg./cap	12.2	10.3	10.0	9.5	8.3	6.7	7.7
Cheese	kg./cap	9.8	10.5	11.4	12.3	13.1	13.6	13.8

The consumption of butter reacted on the price change by an elasticity co-efficient of approximately -1.0. Consumption of cheese has continuously risen - in spite of the economic depression.

C. MEASURES AT THE FRONTIER

Variable import levies are applied on 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 on 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 on 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 the farmers a price corresponding to the target price of milk. The level of the refund is determined by the Ministry of 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) tonnes, 8,200 tonnes of which is Emmenthal cheese. Finland has also - on a

permanent basis - concluded an agreement with the EC concerning cheese trade. The EC has granted Finland an annual cheese quota of 9,250 metric tonnes. Respectively, Finland has granted the EC a quota of 1,500 tonnes 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.

According to the five-year trade agreements between Finland and the former USSR there used to be a lot of trade of dairy products between these two countries. Today, exports to the CIS and other former USSR countries is very limited.

According to the possible European Economic Space (EES) agreement, there might be some changes in Finnish export and import volumes of cheese.

The GATT Uruguay Round, if succeeded, makes strong pressures for the Finnish agriculture. Over-production is a part of the problem. Another, and a more difficult one, is the question of agricultural prices and farm income. In milk production, however, production has declined rapidly since the early 1980s - from 3,100 million litres in 1984 to 2,350 million litres in 1992. The target price of milk was freezed in March 1991 and there are no signs of rising the price.

EC integration is the most difficult part of the problem farmers will be faced with in the future. Finnish producer prices would dramatically come down during the transition period (five to ten years?). Direct support would smoothen the change, but anyway, agricultural production would decline in many branches of production. Agricultural income is also getting smaller. The development of the amount of farmers remaining in the sector decides the income per farmer.