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FINNISH
AGRICULTURAL
SUPPORT IN
CHANGES

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Abstract: The Finnish agricultural support system underwent fundamental changes when Finland joined the European Union. Prior to the EU membership the support was mainly price support. The CAP as well as the reformed agricultural policy outlined in Agenda 2000, means that the agricultural support paid from the national funds in Finland will stay at a high level. The pressures for national support and, through this, on the state budget could be reduced if the amounts of area payments per hectare according to the common agricultural policy were the same in all member states. The financing of the common agricultural policy should also be to an increasing extent managed through the Commission funds, which would reduce the budget pressures caused by agriculture to the state of Finland. The European Union is facing major challenges at the turn of the decade, and some of these may also have significant repercussions in agriculture. The EMU will not bring along any significant direct impacts on agriculture, but the Agenda 2000 programme drawn up by the Commission is going to have important effects on the possibilities for agricultural production.

Key words: agriculture, support, CAP, Agenda 2000

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Tiivistelmä: Suomen maatalouden tukijärjestelmä muuttui varsin perusteellisesti Suomen liittyttyä Euroopan unionin jäseneksi. Kun tuki ennen jäsenyyttä oli suurelta osalta hintatukea, niin EU-jäsenyydessä tuki puolestaan maksetaan suorana tukena. Nykyinen Euroopan unionin yhteinen maatalouspolitiikka, samoin myös Agenda 2000 -ohjelmassa esitetty, merkitsee Suomelle valtion varoista kustannettavan maataloustuen määrän säilymistä korkeana. Suomen kannalta helpotusta kansalliseen tukeen ja sitä kautta valtion menoihin olisi saatavissa, jos muutettaisiin YMP:n peltoalaan perustuva tuki kaikissa jäsenmaissa samansuuriseksi hehtaaria kohti. Lisäksi EU:n yhteisen maatalouspolitiikan rahoitus tulisi voida hoitaa nykyistä enemmän komission varoin ja samalla vähentää maataloudesta Suomen valtiolle aiheutuvaa budjettirasitusta. Euroopan unionilla on ensi vuosikymmenen alussa edessään mittavia haasteita, joista osa saattaa merkitä suuria muutoksia myös maataloudelle. EMU ei tuo merkittäviä välittömiä vaikutuksia maataloudelle, mutta komission Agenda 2000 -ohjelma vaikuttaa merkittävästi maatalouden toimintaedellytyksiin.

Asiasanat: maatalous, tuki, YMP, Agenda 2000

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1. Introduction¹

Already before the entry of Finland to the EU, agriculture had been one of the sectors where integration had been taken the furthest. All member states have shared the common agricultural policy since 1964. Deviations from the common agricultural policy are either changes in the systems of aid for a certain transitional period, such as agreed on in the membership negotiations between Finland and the EU, or otherwise temporary schemes launched for a set period of time to serve a certain purpose. The liberalization of the foreign trade of agricultural products and the opening of the single market still causes significant pressures for adjustment for the agricultural sector that used to be heavily protected. The abolition of the restrictions on imports gave the competitors a free entry to the Finnish markets that before the EU membership were almost completely closed to foreign imports (Heikkilä and Myhrman 1994). An increasing number of products are competing on the small Finnish market. To counterbalance this, the EU markets also opened for the Finnish food exports. The domestic market extended to cover the whole single market of the EU, instead of Finland only. In terms of the foreign trade with the third countries the situation has not changed in an essential way.

Before Finland joined the EU, the Finnish food industry was able to purchase its raw material at about the EU prices due to the primary products scheme. In the food sector the pressures resulting from the membership are mainly directed to agriculture. European integration and the establishment of the single market brought the prices of agricultural products in Finland to the same level as they are in the EU. This means that the prices fell considerably from the prevailing producer price levels. The competition stepped up, and this will inevitably lead to structural changes in the whole sector.

The Economic and Monetary Union (EMU) and the common currency seem to have relatively small direct repercussions in agriculture. However, the indirect effects of the EMU are likely to be quite significant. The future needs for change due to the integration are mainly caused by factors other than the EMU only. These include the long-term trends in the systems of agricultural support in the EU and, of course, the reform of the common agricultural policy that is going to take place in the short term. These may, in turn, be caused by internal needs within the Union, enlargement of the Union, or relationships between the EU and the third countries. One example of the last-mentioned is the development concerning the free trade of agricultural products in the WTO (Heikkilä 1998). Agricultural support and price systems

¹ I wish to thank Jaana Kola for the translation into English.

2. Agricultural support and price systems

Agricultural support

The Finnish agricultural support system underwent fundamental changes when Finland joined the European Union. Prior to the EU membership the support was mainly price support, but in the EU the support is mainly paid as direct, "decoupled" payments, in which the links to the production and quantities produced are quite insignificant compared to the earlier system. Today the excess supply is marketed by means of export subsidies paid by the EU, i.e. the EU purchases the products to intervention stocks, from which they are exported later on. Earlier it was mainly the state that carried the burden caused by the export of oversupply.

In the support system applied before the EU membership support was directed to agriculture through the taxation system, from the state budget through the agricultural price system, as well as through import controls. On the basis of the purpose, the support paid from the state budget was divided into agricultural support, market support and support to the food industry. Agricultural support consisted of the so-called price policy support, structural support and other support. The state paid marketing support as export premiums for raw materials and processed foodstuffs, compensations for price reductions, as well as by refunding the sales tax on export products.

Price policy support was agreed on in connection with the Farm Income Negotiations. In the negotiations new target price and level of price policy support were decided on the basis of the increase in the cost level, realization of the target price level agreed on in the previous negotiations, and the need to raise the farm income. The need for raise established in the price settlement could be realized by raising the target price, price policy support, or both.

Price policy support was paid, among other things, as production support for milk and meat as well as additional price for eggs. Meat production support was paid for beef, mutton and pigmeat. The support was differentiated by region and the carcass weight. The support for beef and mutton was paid in all parts of the country. Milk production support was differentiated according to the region and production quantities. The support increased towards the north, and decreased when the quantities produced became higher.

The support system in the EU is based on equal payments according to the area or number of animals to all farmers within each support area. Support that is decoupled from the production does not affect the relative prices of the products, but it provides a firm basis for agricultural production. It is up to the farmers to

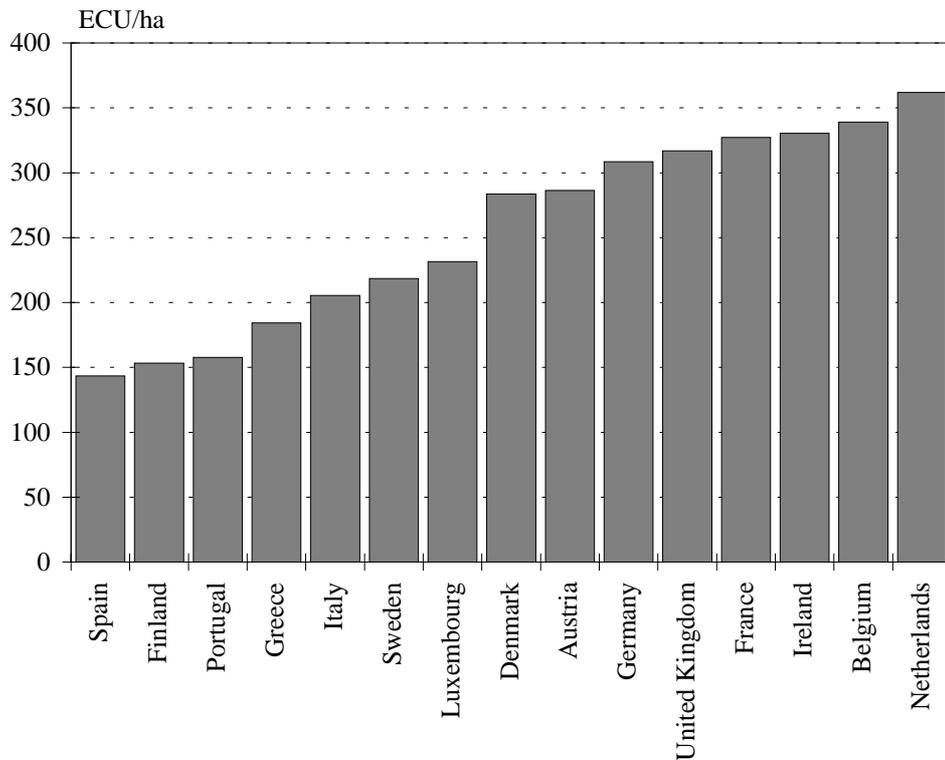
direct their activities to products for which there is demand on the market and the margin obtained from the products is sufficient to maintain the viability of agricultural production.

Price support cannot be applied in the EU, but the support should in principle be decoupled from the production quantities. In the common agricultural policy of the EU the trend is more and more towards direct payments. In addition to the agricultural support common to all member states, the aid for less-favoured areas (LFA) concerning the mountain regions and environmental aid are being applied in Finland.

In the common agricultural policy of the EU the support according to the area was originally determined on the basis of the yield levels. However, it is questionable whether this type of hectare aid based on the yield levels is equitable. The current support system favours the Central European countries, and it is particularly unfavourable for Finland. At the starting point before the EU membership the income level per hectare was quite close to that in Central Europe. Now Finland has to compensate the farmers for both the lower aid per hectare and lower yield level by means of national aid.

At present the Central European countries receive area payments financed by the EU twice as much as Finland (Figure 1). Consequently, the principles of the common agricultural policy favour the more efficient farming in Central European countries, compared to Finland, due to the higher aid per hectare. At this point the national aid paid in different countries is not taken into account (Myhrman and Heikkilä 1996).

Figure 1 Area payments of the EU (without national aid) in different countries in 1995 (ECU/ha)

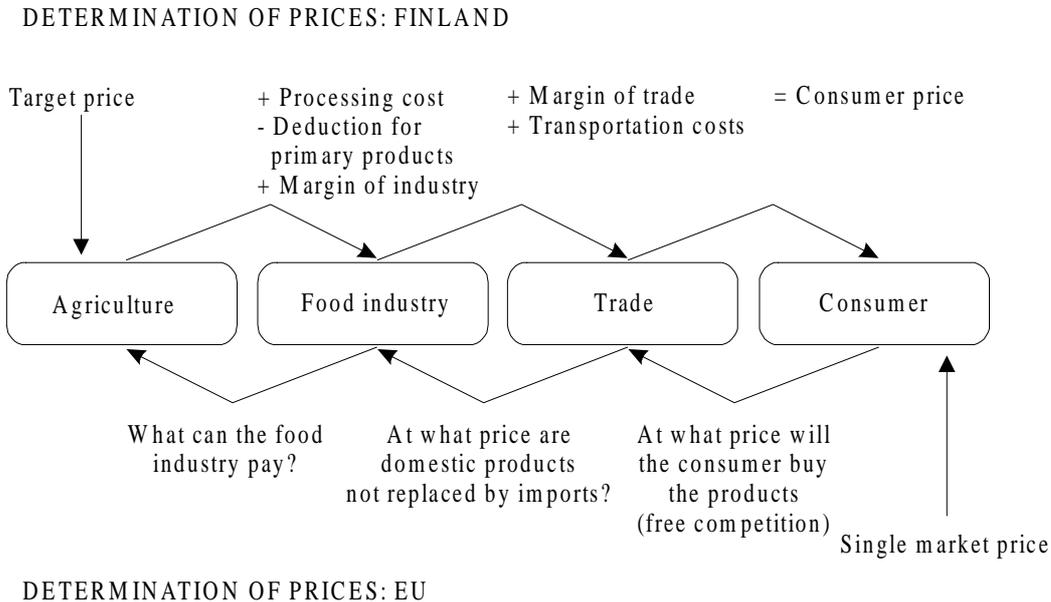


Source: Myhrman and Heikkilä 1996.

Price system of agriculture and border controls

Before Finland joined the EU the agricultural support was largely based on the same elements as in the European Union. High prices for agricultural products and border controls were applied in both. Agricultural surpluses were exported by means of state subsidies. Finland had to adjust to the new producer prices and support system involving increased bureaucracy practically overnight. One fundamental change occurred in the determination of the food prices presented in Figure 2. Prior to the EU membership the target prices agreed by the state and the producers were the starting point for the consumer prices of foodstuffs, whereas in the EU the price signals start from the other end of the food chain. Today the trade plays the most important role in the establishment of the price levels in the food chain (VATT, Government Institute for Economic Research 1994).

Figure 2 *Determination of prices in Finland before and after joining the EU*



Source: VATT (Government Institute for Economic Research) 1994.

The marginal costs of Finnish agricultural products used to be determined on the basis of a higher producer price, which resulted in higher unit costs than in Central Europe. When Finland joined the EU and the borders were opened to the single market of agricultural products, the marginal costs are determined on the basis of the price level in the EU.

There has been considerable variation in the level of agricultural support between different countries. If the level of support is evaluated on the basis of the PSEs² calculated by the OECD, it can be observed that in the past ten years the PSEs for Finland have been clearly higher than in, for example, Sweden or the European Union (Table 1). In 1993 the average PSE in the OECD countries was 42, which is close to the average in the EU. The PSE in the USA is 23, and in Australia it is as low as 9. After 1995 no separate PSE has been calculated for Finland.

² PSE - Producer Subsidy Equivalent: An indicator for measuring the costs due to agricultural support to the consumers of agricultural products and taxpayers. PSE contains market support, direct support and other support. The calculation is based on a comparison between the domestic and the world market prices.

Table 1 PSE support level of agriculture in Finland, Sweden and the European Union

Year	Finland	Sweden	EU
1979 - 86 mean	56	44	37
1987	69	58	49
1990	70	57	46
1993	67	52	48
1996			43

Source: OECD (1994) and SOU (1997b).

Agricultural support paid by the EU involves clear emphasis on certain products. Table 2 presents the support levels of certain important agricultural products in 1995 by means of the PSE indicator. The table shows that the EU support is the highest in the case of cattle products in order to resist the import pressures from the third countries. In Finland, too, milk and beef production constitute the most important production line in agriculture. On the basis of the PSE figures, the production of pigmeat and eggs receives much less support from the EU than cattle production and the cultivation of wheat. The CAP does not include in special support measures for the production of pigmeat and eggs.

Table 2 PSE values of certain agricultural products in the EU in 1995

Product	PSE support level (%)
Cereals	47 (wheat)
Dairy products	65
Beef	65
Pigmeat	20
Eggs	16

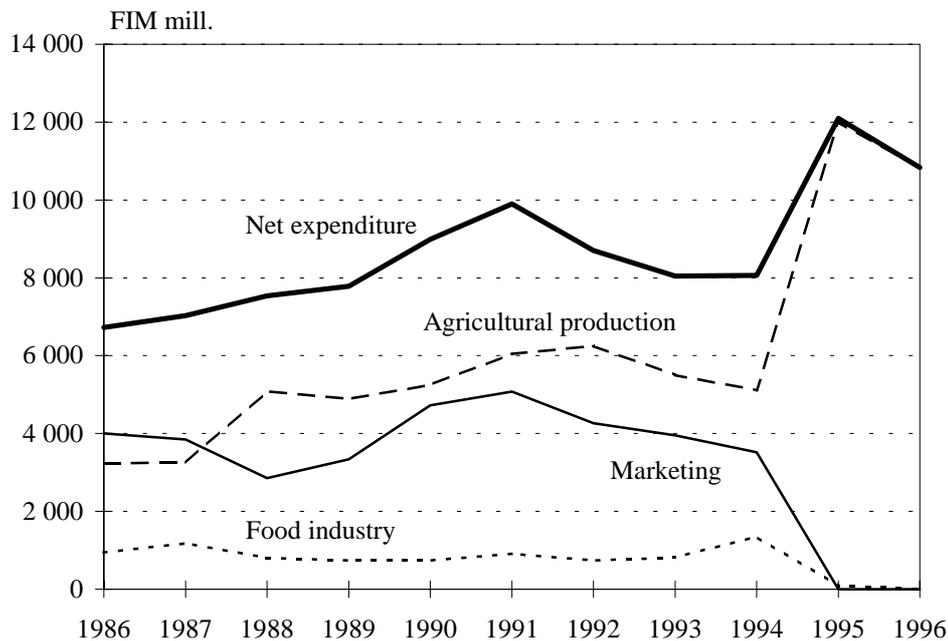
Source: SOU (1997a).

3. Money flows of agriculture in the society

Support to the food sector in Finland

Figure 3 presents the state expenditure on foodstuffs in Finland in 1986 - 1996. The figures are based on the financial statements (Ministry of Finance, from years 1987 - 1997). Prior to the EU membership, i.e. until 1994 the expenditure on the food sector has been distributed according to the beneficiary. Before 1995 the state contributed to the export of agricultural surpluses and collected taxes and levies from the food industry and farmers. The net expenditure prior to 1995 in Figure 3 is the difference between the state expenditure and revenue. Since 1995 no payments have been collected from agriculture as was done earlier, and the EU carries the responsibility for the marketing of excess supply purchased to the intervention stocks. Similarly, the collection of various kinds payments from the processing industry as well as support to this have been abolished.

Figure 3 State expenditure on the Finnish food sector in 1986 - 1996 at nominal prices



Source: Government report to the Parliament concerning the management and situation of state finances, various years.

In 1996 the support to primary production in Finland was FIM 11,261 million, which is 10 % lower than in the previous year. The share of primary production

other than agriculture was FIM 426 million, which is less than 4 % of the total support.

Agricultural support amounted to FIM 10,835 million, which is 11 % lower than in the previous year. The figure for 1995 includes the lump-sum compensations for the reduction in the value of stocks (FIM 2,282 million). There were no changes in the support system, i.e. the support consisted of aid financed in full by the EU (CAP support), aid co-financed by the EU and Finland (LFA and environmental aid) as well as aid paid from the national funds only. The share of the EU in the financing of the support was 30 %, and the national financing share was 70 %.

Agricultural expenditure in the EU

In 1996 the agricultural expenditure of the EU totalled ECU 39,080 million (Table 3). This was 38% of the total annual budget of the EU. In 1990 the agricultural expenditure amounted to ECU 26,454 million, and the share of agricultural expenditure in the budget was somewhat higher, a little more than half of the total budget.

In 1994 the value of agricultural production in Finland was a little over 1 % of the value of agricultural production in the EU. In 1994 the EU support to Finnish agriculture was 1.7 % of all support paid by the EU. The support to Swedish agriculture was about the same as that of Finland, but the EU support to Denmark was more than 10 times higher than in the case of Finland or Sweden. The value of the Danish agricultural production in 1994 was three times higher than in Finland and the value of Swedish agricultural production was 1.5 times that of Finland.

Table 3 Value of agricultural production and amounts of EU support in certain countries (ECU billion)

	Agricultural production 1994	EMOTR support 1996
EU15	207 397	39 080
Sweden	3 165	624
Denmark	6 908	6 050
Finland	2 219	649

Source: European Commission 1997.

In the Agenda 2000 report published in 1997 the European Commission outlined its new financing frameworks for 2000 - 2006. In the report it was estimated that agriculture would need ECU 44,100 million in 2000 and ECU 50,000 million in

2006. The figures include an estimate of the costs of the possible eastward enlargement.

4. Is Finnish agriculture going to adjust?

Adjustment process began before the membership

In fact, the adjustment of Finnish agriculture to the EU membership began when the discussion on the possibility to apply for the EU membership started. The adjustment before the actual membership coincided with the economic crisis in the early 1990s (Hjerppe et al. 1997).

In spite of the decrease in the number of farms, there has been no significant reduction in agricultural production due to the EU membership, and more than half of the transitional period has already gone. The changes in the prices of agricultural products have been close to the estimates. The producer price index fell by 39 % between 1990 and 1996. Before the membership the producer prices were estimated to fall to about half of the level prior to joining the EU. Instead, the prices of production inputs have decreased during the same period of time less than was expected, only 12 %. The consumers have benefitted from the EU membership, as was expected, because the consumer prices of foodstuffs have so far decreased by a little over 10 %.

Agricultural investments were expected to fall to about half of the level in the beginning of the decade during the transitional period. In practice, however, the investments in machinery and implements fell to less than third and building investments to a little over half of the level in the beginning of the 1990s due to the economic depression. Investments started to pick up during the first years in the EU, and the so-called aid for serious difficulties will increase agricultural investments in 1998.

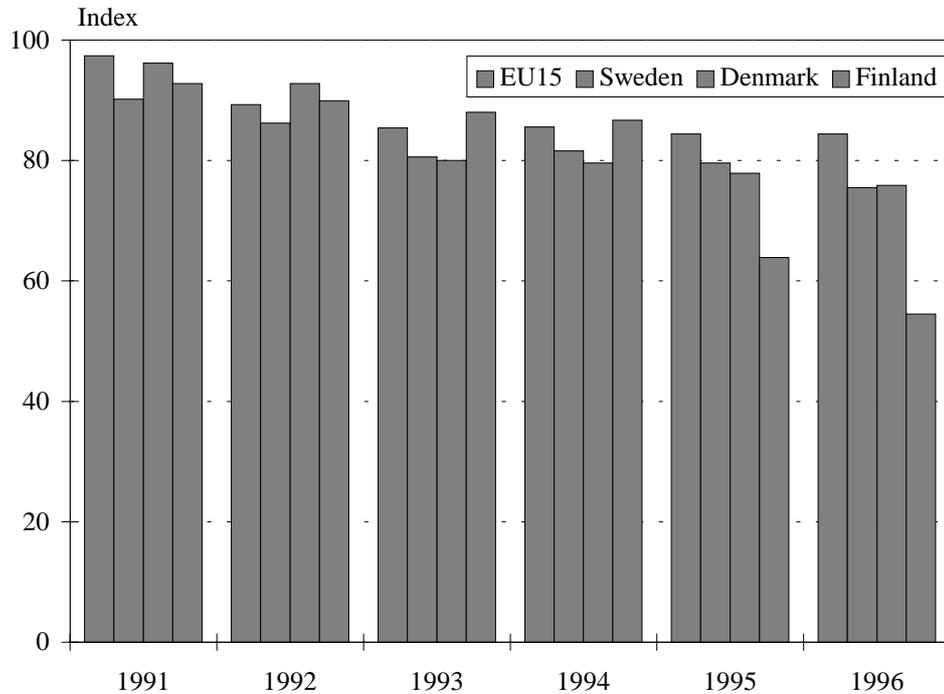
The price of agricultural land was assumed to fall to about half of the earlier level. However, this fall in the price of arable land occurred already before joining the EU. By 1993 the land prices had fallen considerably from the peak levels at the turn of the decade, and in real terms they were close to the level of the early 1980s. According to the sale price statistics, the price of arable land seems to have stabilized at about this level. The price of forest land has fallen by more than 20 % during the same period of time. Land leasing has not increased after joining the EU as was expected (Hjerppe et al. 1997).

Farm income in Finland during first years in the EU

In the European Union the deflated producer price index of agricultural products fell by 15 % from 1990 until 1996 (Figure 4). In Finland the decrease was 45 %, and in Sweden and Denmark it was 25 %. In Austria, which is one of the three

most recent member states in the EU, the producer price index fell by 37 % from the beginning of the decade (European Commission 1997).

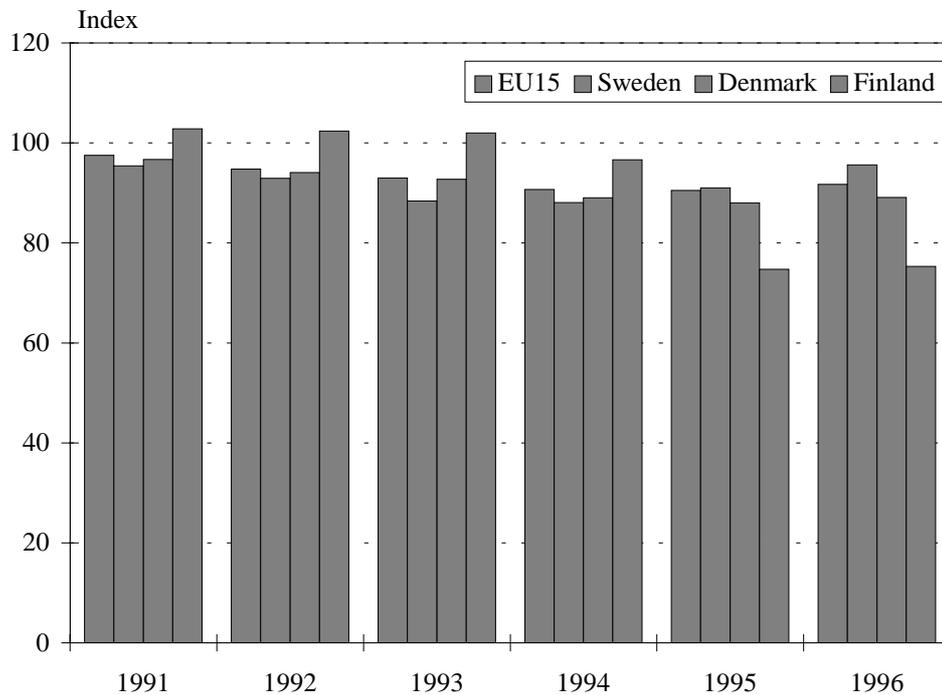
Figure 4 Deflated price index of producer prices in agriculture in the EU and certain EU countries in 1991 - 1996, (1990) = 100



Source: European Commission (1997).

The deflated price index of agricultural inputs in the European Union fell by about 8 % from 1990 until 1996. (Figure 5). The corresponding index in Finland fell by 25 %. In Denmark the price index for agricultural inputs fell a little more than the EU average, and in Sweden the decrease was a little below the average (European Commission 1997).

Figure 5 Deflated development of the prices of agricultural inputs in the EU and certain EU countries in 1991 - 1996, (1990) = 100



Source: European Commission (1997).

In nominal terms farm income in Finland fell by about 25 % between 1990 and 1996 (Table 4). If the prices of agricultural inputs had fallen at the same pace with the prices of agricultural products (index 61), according to a theoretical calculation there could have been a little over 4 billion of farm income left to agriculture at the earlier returns and the realized production volumes (Heikkilä 1998). According to preliminary calculations at the Agricultural Economics Research Institute, in 1997 farm income fell by about 1 % from the previous year.

According to the income and tax statistics of agriculture and forestry (Maatilatalouden tulo- ja verotilasto, 1996 and 1997), the income from farming per farm fell by 27% between 1990 and 1995 and 14% from 1991. The stock compensations paid for agricultural products produced before joining the EU have been deducted from the figures for 1995 (Heikkilä 1998). In 1995 93 % of incomes of farms owned by natural persons came as sales income from agricultural products (60 %) and agricultural support (33 %). The other income of farm families accounted for 7 % of the incomes of farm families (Maatilatalouden tulo- ja verotilasto).

Table 4 Farm income data from 1990 - 1996, Agricultural Economics Research Institute (MTTL) and Central Statistical Office (TK), nominal price level

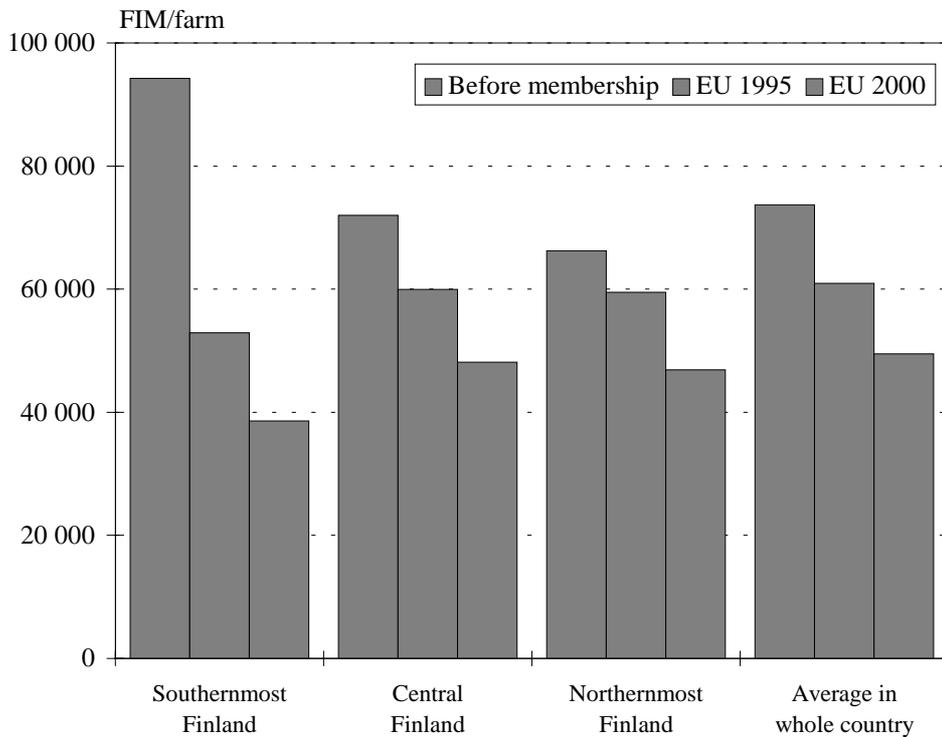
Year	Farm income (MTTL), FIM million	Income from farming (TK), FIM/farm
1990	9 357	78 810
1991	7 971	72 441
1992	7 529	67 551
1993	5 965	63 217
1994	7 794	73 011
1995	7 040	62 031 ¹
1996	6 725	

¹ Without stock compensations.

Source: Heikkilä (1998).

In the first year of adjustment to the EU membership the national aid and aid from the EU was supposed to compensate the farmers for the income losses due to the decrease in the producer prices. However, the decisions concerning budget savings made in connection with the formation of the new Government in spring 1995 lowered the average income level of farmers by 12 %. In calculations made by Heikkilä and Myhrman (1996) the average income level of farmers was estimated to fall by 17 % compared with the situation before the EU membership at the prices of 1995. The decrease was estimated to be the greatest in Southern Finland, where the income level was assumed to fall below the average in Finland. Before the EU membership the income level in Southern Finland was clearly above the average. In the support areas located in Central and Northern Finland the income levels were not expected to fall very much compared to the situation before the EU membership (Figure 6). In the following figures the situation in 2000 refers to the current agricultural policy of the EU. The possible changes resulting from the Agenda 2000 report published in July 1997 and revised in March 1998 are not reflected in the figures.

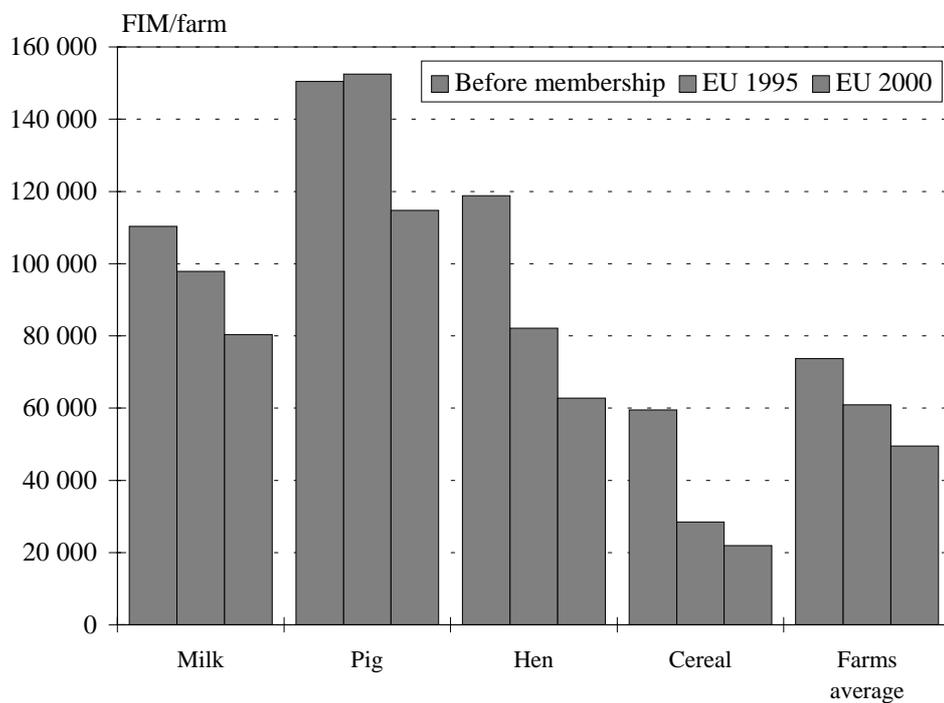
Figure 6 *Farm income (FIM/farm) in different support areas before the EU membership as well as in 1995 and 2000*



Source: MATURE

Farms practising animal production will be able to maintain their income level better than crop producing farms. Cereal farms, which according to the classification used (more than 60 % of the gross sales income from cereals) account for about 15 % of the Finnish farms, would be affected the most, i.e. the income from agriculture falls the most. Production lines the least affected by the new situation would seem to be pig and dairy production (Figure 7).

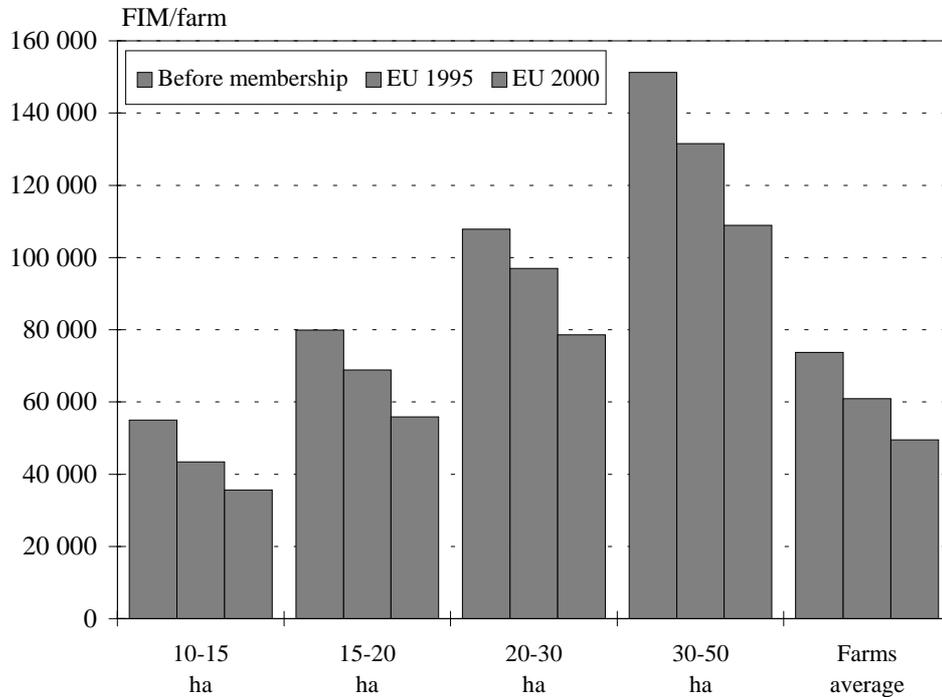
Figure 7 Farm income (FIM/farm) in certain production lines before the EU membership as well as in 1995 and 2000



Source: MATURE

When the arable land area increases, farm income seems to decrease the most on large farms in both absolute and relative terms (Figure 8). The decrease was significant already on farms with over 30 hectares. In this respect the most viable part of the Finnish agriculture in terms of the farm size would seem to be the most seriously affected by the shift from the Finnish to the EU support system.

Figure 8 Farm income (FIM/farm) according to the arable land area in certain arable area classes before the EU membership as well as in 1995 and 2000



Source: MATURE

In the first years in the EU the incomes of farms have been clearly lower than before joining the EU, and the economic situation of many farms is deteriorating rapidly. Proportionally, full-time farms seem to be suffering the most from the new situation. Economic results can be improved by means of rationalization measures on farms, but there are also limits to how far this can help. The profitability of farms is going to remain weaker than before the EU membership. If the prices of agricultural inputs had fallen at the same pace with the prices of agricultural products, according to a theoretical calculation there could have been a little over 4 billion of farm income left to agriculture at the earlier returns and the realized production volumes (Heikkilä 1998).

The profitability of farms could be considerably improved by increasing the farms size. This is, however, not an easy way, because the growth in the average farm size has been very slow despite the rapid decrease in the number of farms. At present the farm size in Finland is considerably smaller than in Denmark and Sweden. In fact, the introduction of the EU support system has slowed down the growth in the farm size in Finland (Myhrman and Heikkilä 1996).

According to the results, agriculture located in Southern Finland and, in terms of the production lines, farms specialized in crop production have suffered the most from the membership of Finland in the EU. Farms that are above the average in size seem to have lost more than small farms, and full-time farms seem to have been affected the most. Consequently, the price level and support system of the EU seem to have the most negative impacts on the best farming regions, the most viable farm size and, in particular, full-time farmers.

Because small farms and part-time farmers have managed quite well in the EU, it has been difficult to increase the farm size. In this situation the majority of full-time farmers have difficulties in acquiring adequate business incomes for viable farming activities. Thus the support system of the EU seems to slow down the structural change.

The calculations indicate the need for adjustment in agriculture at the first stages of the cost adjustment, when it is still profitable for farmers to operate by means of production practices and quantities corresponding to those prior to the EU membership and it is the most beneficial to produce the same quantities as earlier (unit costs at the minimum).

The structural development of agriculture has continued at about the same pace as earlier, and the number of new entrepreneurs to the field has decreased considerably. The agricultural support policy of the EU has been constructed so that it favours more inefficient farms at the cost of efficient ones, and thus the system forms an obstacle to structural rationalization. In Finland the transfer of a farm to a descendant still requires a lot of outside capital, and the young farmers often run into economic difficulties prior to even making the actual production investments. Thus the acquisition of a farm should be made easier by reducing the financing costs.

Changes in the incomes of agriculture have been studied in various institutions, and the results obtained in these correspond to and support the research results reached at the Government Institute for Economic Research presented above. The most recent study is the report made at the University of Helsinki (Sipiläinen et al. 1998). According to the equilibrium model study by Törmä (1993), Finnish agricultural production will be halved in the EU. However, on the basis of the equilibrium model study by Sinko (1995) the GATT/WTO trade agreement will lead to a reduction of agricultural production by about 25 %, which would bring us close to the 100 % self-sufficiency level.

How will agriculture adjust?

According to Myhrman and Heikkilä (1996), the adjustment of farmers to become competitive in the EU progresses by degrees:

- At the first stage the farmers should produce the same quantities as before the EU membership, because the production has been tuned at this level. Production quantities should be changed or activities should be terminated only if the average variable costs exceed the price paid for the produce.
- Farmers can improve their results by adjusting the marginal costs to the EU price level. Reaching the equilibrium in terms of the costs takes time.
- The adjustment of the marginal cost to the EU price level may not be enough to reach profitability in the production. Business income is considerably smaller than before the EU membership. While adjusting the costs to the EU price level, the farmer should at the same time develop the production practices and products. Profitability may be higher in the case of special products.
- Cost adjustment at the farm level is not enough to maintain the viability of farms, agriculture and rural areas. Increase in the farm size is needed.

The development of the production practices and products occurs at a stage when agriculture is not attractive in terms of investments. For the most part the income level of farmers is clearly lower than before the EU membership. Rationalization measures implemented on individual farms are not likely to be adequate to create profitable business activities without an extensive and radical reduction in agricultural production in general, especially because the Finnish farms are considerably smaller than farms in the most important agricultural countries in the EU.

In 1993 the average farm size in terms of the arable land area in Finland was 14.0 ha, in Sweden it was 36.7 ha, in Denmark 37.1 ha, in Germany 28.1, in the Netherlands 16.8 and in France 35.1 ha (European Commission 1997). The high prices in Finnish agriculture have led to internationally high capital costs and use of labour per unit produced. Agricultural production has been profitable on very small farms in international comparison.

In the first years of adjustment the incomes of farms have been clearly lower than before the EU membership, and thus the economic position of many farms is weakening rapidly. Proportionally the situation is the most difficult on full-time farms. Results may be improved by means of rationalization measures undertaken on farms, but the possibilities for this are also limited. The profitability of farms is going to remain clearly weaker than before joining the EU. The most efficient way of improving the profitability of farms would be to increase the farm size. This is not an easy way, because the average farm size in terms of hectares has increased very slowly in spite of the rapid decrease in the number of farms. The farm size in Finland is clearly smaller than in Denmark and Sweden. In fact, the

shift to the support system of the EU is slowing down the growth in the farm size in Finland.

Rapid structural adjustment is needed in all parts of Finland. The time reserved for this purpose was five years, after which the transitional aid will be abolished, and the first years of adjustment have already gone. Because the best way of adjusting is to first maintain the production at the same level as it was when Finland joined the EU and to adjust the production gradually to the level required by the EU price level, during the first years in the EU the adjustment process has proceeded quite slowly. Farms are operating at a lower income level, which affects the farmers' possibilities to make investments. The difficulties will be accumulated to the last years of the decade, when the farms will have to make the final decision whether to continue their production or not. The decision can be made on the basis of the income flow of agriculture. An essential question in terms of the survival of Finnish agriculture is whether the redistribution of the production and farms is managed properly. However, on farms where the producer price does not cover the variable costs the best decision has been to terminate the production immediately.

How can the size of full-time farms be increased to an extent that they become profitable in the EU during the transitional stage when the EU support system favours part-time farms and farms with less than 30 ha arable land?

In a report published in 1991 the Board of Agriculture presented two alternative scenarios on the structural development in agriculture. The first of these, the so-called drift scenario, gives an estimate according to which there would be 76,000 farms left in 2000. According to the second alternative, the so-called change scenario, the number of farms in 2000 would be 44,500.

Before the EU membership there was the unanimously approved objective in Finland that the most important foodstuffs should be produced domestically in a possible crisis situation, too. According to the most recent parliamentary committee concerned with agriculture, Agriculture 2000, the objective is to direct the production so that in the long run the production of the target price products corresponds to the domestic consumption. On the basis of the current outlook this no longer seems realistic.

According to the act concerning the security of the supply (1390/92), the Council of State should determine the general objectives for securing the supply, including the level of preparedness, taking into account the minimum needs of the people and economy as well as the national defence. In the decision of the Council of State (VnP 1440/95) issued on the basis of the act concerning the security of the supply it is noted that the general objective is to secure an

independent security of the supply that is based on the domestic measures and resources.

5. Conclusion

The present common agricultural policy of the EU, as well as the reformed agricultural policy outlined in Agenda 2000, means that the agricultural support paid from the national funds in Finland will stay at a high level. The pressures for national support and, through this, on the state budget could be reduced if the amounts of area payments per hectare according to the common agricultural policy were the same in all member states. The financing of the common agricultural policy should also be to an increasing extent managed through the Commission funds, which would reduce the budget pressures caused by agriculture to the state of Finland, i.e. the national share in the financing (cf. Figure 3).

The European Union is facing major challenges at the turn of the decade, and some of these may also have significant repercussions in agriculture. The EMU will not bring along any significant direct impacts on agriculture, but the Agenda 2000 programme drawn up by the Commission is going to have important effects on the possibilities for agricultural production.

In addition to the reform of the common agricultural policy, the programme contains a basic proposal for a reform in the regional policy of the EU as well as a new budget framework for 2000 - 2006. The agricultural reforms presented in the programme may not lead to any adequately efficient or rapid reforms in agricultural policy, and from the next budget period starting in 2007 there may be a need for much more radical reforms, because the possible eastward enlargement would bring agricultural countries with high production potential to the Union. In such a situation the Union could no longer afford the current support systems. In view of the possible enlargement, preparations should also be started in Finland by directing the national agricultural policy measures so that the productivity, efficiency and marketing of the products will be improved.

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