

## **ADJUSTMENT OF FINNISH AGRICULTURE INTO THE EU AND CHALLENGES FOR THE FUTURE**

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by Jyrki Niemi, MTT Economic Research, Agrifood Research Finland

The accession to the European Union (EU) in 1995 was for the Finnish agriculture and food sector an unprecedented rapid shift from closed and regulated markets to open and more competitive ones. Finnish farmers faced a change in output prices, relative prices and direct support which were of exceptional magnitude compared to that of any other country which had ever joined the EU. Commitment to the Common Agricultural Policy (CAP) lowered the producer price level in Finland by 40-50% right at the beginning of 1995, and the fall in input prices was insufficient to compensate. Cereal market prices fell by 50-60% in 1995 and have been declining ever since. Livestock products also saw significant price cuts, ranging from 28% for milk to 65% for eggs.

On market prices alone, the survival of Finnish agricultural production would have been very difficult. A comprehensive package of compensatory payments was therefore agreed to facilitate the adjustment. Various forms of support payments have played a central role during the first ten years in the EU in ensuring that Finnish agriculture succeeded in common EU markets. In 2005, support payments rose to €1.8 billion, which was 46% of the total return on agriculture and horticulture (€3.93 billion). The national objectives of Finnish agricultural policy have been founded on the view that permanent competitive disadvantage due to the natural conditions must be compensated so that Finnish production could succeed on the common EU market.

Despite the growth in direct payments, agricultural income has been falling in Finland. Agricultural income at fixed prices was almost 35% lower in 2005 than in 1994. The share of agriculture in total Finnish gross domestic product fell from 2.9% to 1.2% between 1994 and 2004, with agriculture adding €1.5 billion to the economy in 2004.

### **Livestock sector changes**

Membership of the EU has not led to any significant changes in the volume of Finnish agricultural production, however. Milk production declined initially, but grew again between 1997 and 2001. In 2005, deliveries to dairies totalled 2.293m litres, which was about the same as in 1995. The average yield per cow has risen by 25% since 1995.

Finland's beef self-sufficiency has fallen from 100% to 88% in the past ten years, with production down by about 9% to 85 million kg, and per capita consumption down 5%. Pigmear production, on the other hand, has grown by 20%, amounting to 203 million kg in 2005. Consumption has fallen by 11 million kg, but export volume has grown five-fold, exceeding 40 million kg in 2005.

Poultry meat production has grown by an average of 9% per year during Finland's EU membership. In 2005 it totalled 87 000t, which was double the amount in 1994 and 1995. Turkey meat output has almost quadrupled in the past five years. Poultry meat consumption has also been rising rapidly: in 2005 it was 83% higher than in 1995. However, production and consumption of eggs have fallen by over 20% in the past ten years.

## **Rapid progress in structural development**

The structure of Finnish agriculture has changed rapidly in recent years. Before the EU membership there were over 100,000 farms in Finland, now there are about 69,000 left. The number of farms has fallen by more than 3% a year. In livestock production the decrease has been even more rapid, for example, the number of farms specialised in dairy husbandry has decreased by almost 7% a year. Proportionally the number of farms has decreased the most rapidly in eastern Finland and the least in northern Finland.

The average size of farms has grown as their number has decreased. The number of milk producers was only a little over 15,000 at the end of 2005, less than half of their number in 1994, while the average herd size had grown from 12 to 20 cows.

The average productivity development has been positive on livestock farms during the EU membership, while the development of crop farms has stagnated. In 2004 the same use of inputs yielded, on average, 21% more production than in 1995 on dairy farms, while on pig farms the productivity grew by 17.5%.

## **Future images of Finnish agriculture until 2020**

So far there are no indications that the structural change would be slowing down in the long term, on the contrary, the liberalising agricultural and food trade will continue to call for further concentration in the sector. If the decrease in the number of farms continues at the current rate, by 2020 there would be less than 40,000 farms left in Finland. The number of farms specialising in milk production would fall to less than 6,000 in 2020.

It is also anticipated that the regional concentration of agricultural production will continue. In southern and western Finland the cultivated arable area will decrease only slightly, while in eastern and northern Finland the change is more radical.

The competitiveness of Finnish agriculture and food sector calls for the present kind of quite rapid structural development and increase in the size of farms, and it would hardly be possible to put an end to this through any policy measures. The development of technology alone inevitably leads to growth in the farm size. New technology helps to improve the productivity, lower the production costs and improve the efficiency of planning and use of labour.

Increasing the unit size to the level allowed by the available technology obviously involves certain problems as well. Structural change is a complicated problem especially in terms of the labour and regional policy. Strong concentration of agriculture and food production may also increase the vulnerability of the food economy, and it may also have negative impacts on the environment.

However, efforts to stop or essentially slow down structural development would be both costly to the society and, eventually, fatal to the sector itself. Considering the social value of agriculture it is important that food is produced efficiently so that the other requirements (objectives) set for agriculture by the multi-value society are taken into account.

For further information, please contact: Jyrki Niemi, Senior Agricultural Economist, *tel.* +358 400 753 011 and +358 9 568 6314, [jyrki.niemi@mtt.fi](mailto:jyrki.niemi@mtt.fi)