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

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# Structure of my presentation

(1) accession negotiations with the EU, agricultural policy objectives of Finland

(2) impacts of EU accession on the Finnish agri-food sector

⇨ prices, subsidies, income development and structural change

⇨ food markets and foreign trade

(3) future challenges of Finnish agriculture until 2020

# Finlands's accession to the EU in 1995 …

- presented a serious challenge to Finnish agriculture and food industry

  ⇨ a challenge for which these sectors were not well prepared
- **agricultural markets were almost completely regulated in Finland before joining the EU**
- **the preconditions of agriculture much worse in Finland than in Central Europe**

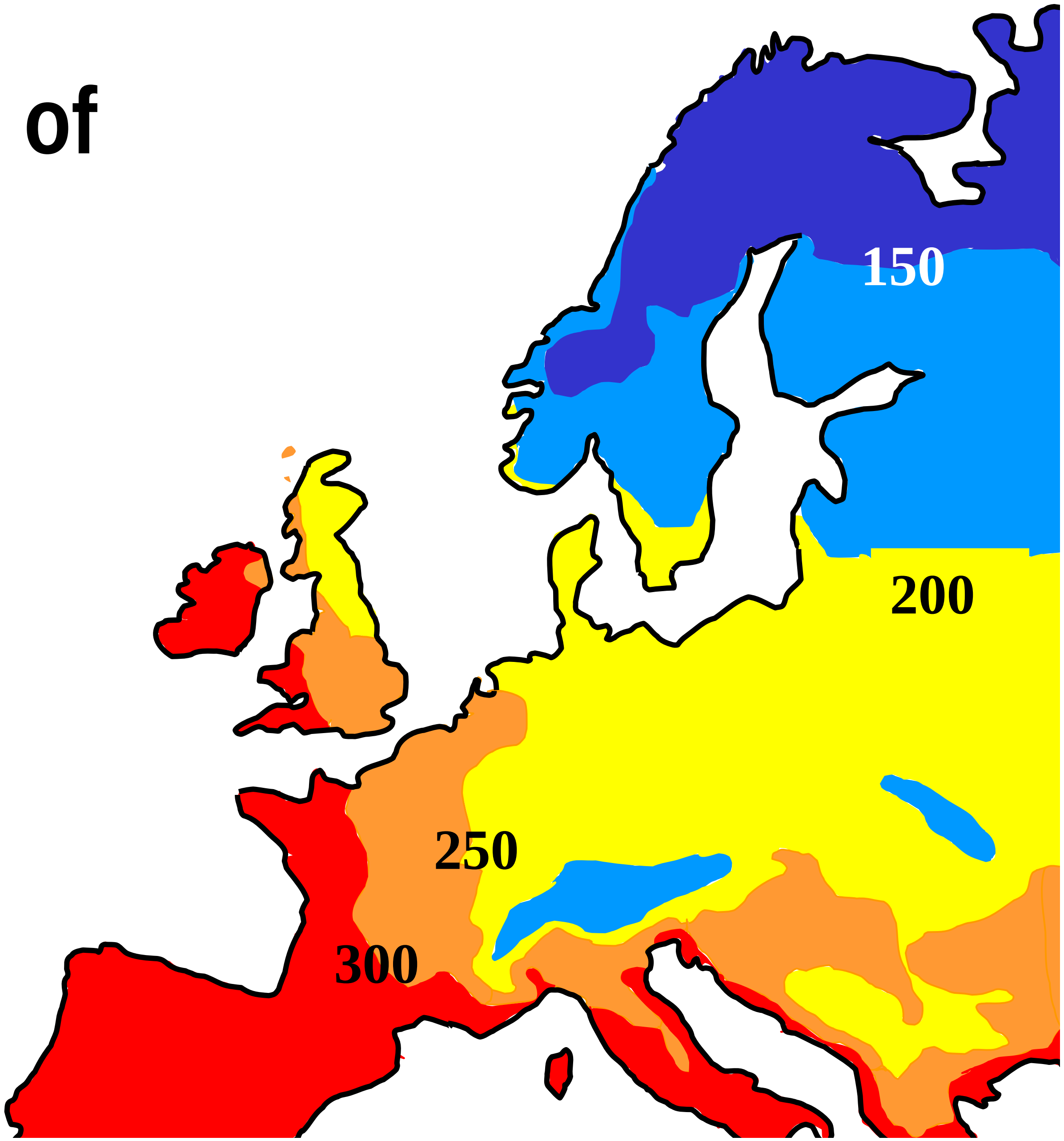
➔ ***"permanent competitive disadvantage of Finnish agriculture"***

# Permanent competitive handicap of Finnish agriculture

- **Northern location and natural conditions**

- ***the growing season is shorter and effective temperature sum is lower than in the rest of the EU***

# Average length of the growing season, days



# Permanent competitive handicap of Finnish agriculture

- **Northern location and natural conditions**

- ***the growing season is shorter and effective temperature sum is lower than in the rest of the EU***
- ***high-yielding species and varieties do not survive***
- ***long, cold winter increases the costs of livestock production through the need for proper buildings, feed supply for the winter and storage of manure***
- ***the pasture season is short***

# Permanent competitive handicap of Finnish agriculture

- Northern location and natural conditions
- Unfavourable structure of Finnish agriculture
- Long distances
- Small domestic markets

- **⇨ all these special characteristics increase costs and reduce possibilities**

# Finlands's accession to the EU in 1995 …

- in the membership negotiations Finland stressed the unique conditions prevailing in Finland,

  and called on the EU to provide permanent support measures for the farming sector

- *it became an important objective for Finland that the Accession Treaty with the EU would quarantee an adequate support scheme for maintaining production in different parts of the country!*

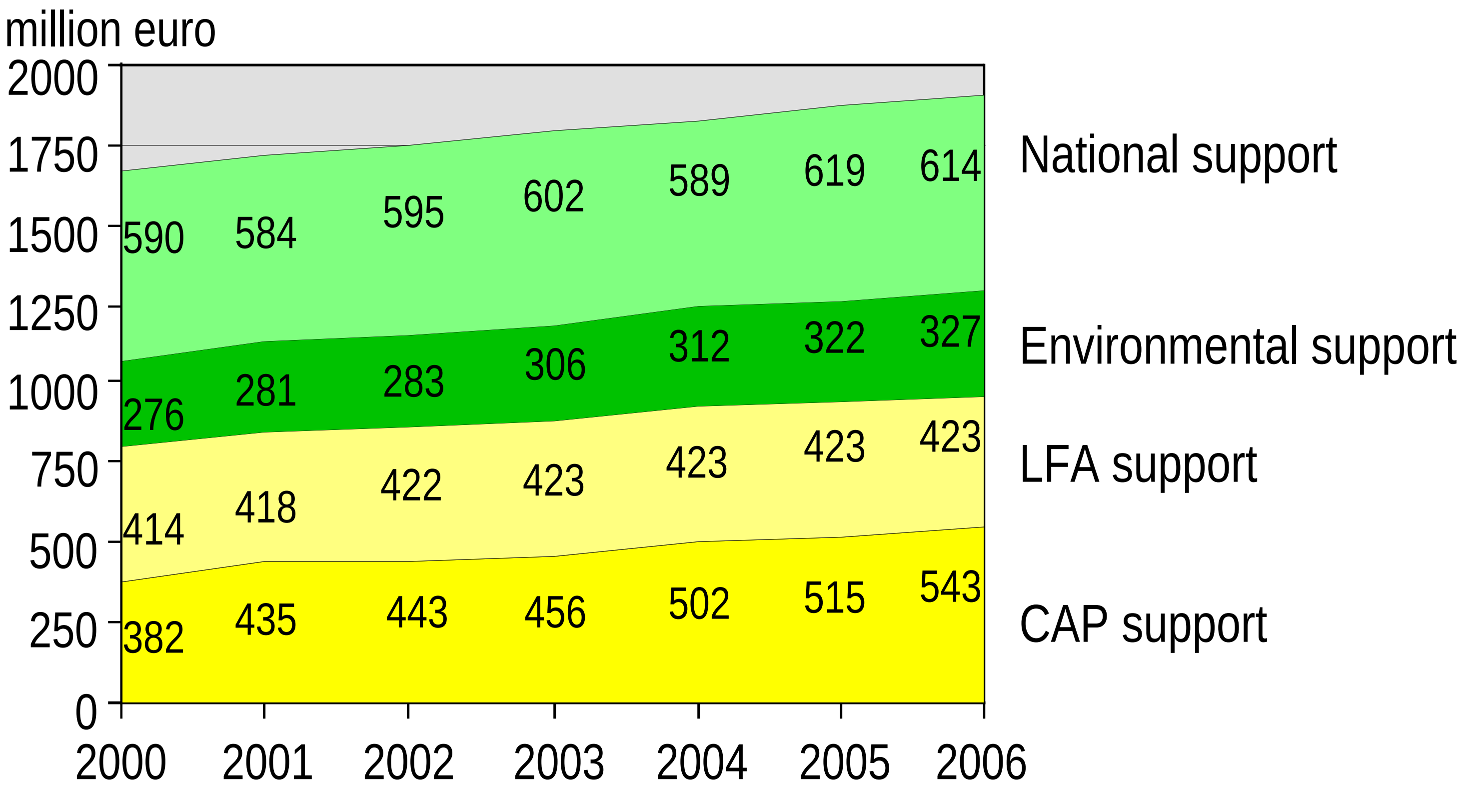
# The national objectives of Finnish agricultural policy under the CAP

- the permanent competitive disadvantage due to adverse natural conditions must be compensated
- so that Finnish agriculture could succeed on the common EU market
- efforts to reach these objectives have been made…

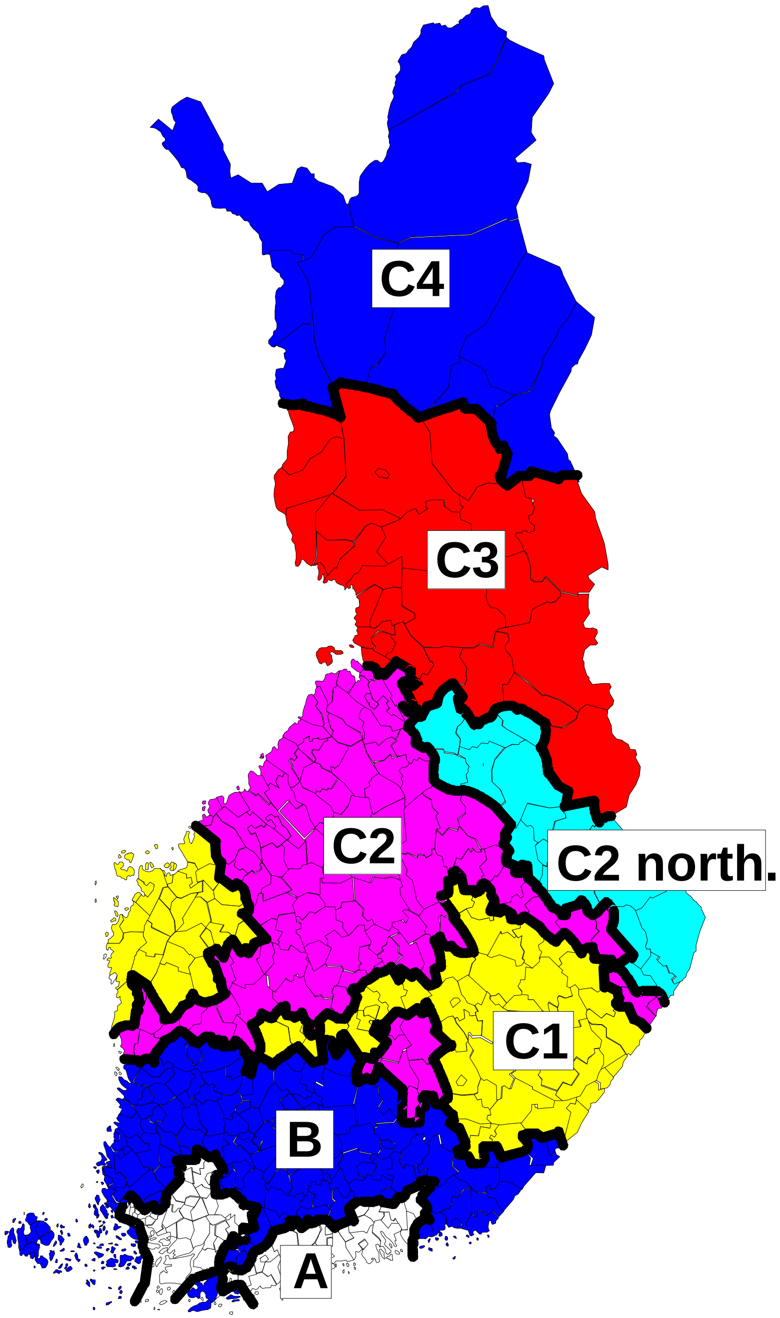
→ by developing the CAP to take better account the special needs of Finland

→ through national measures allowed by the Accession Treaty

# Agricultural support in 2000–2006



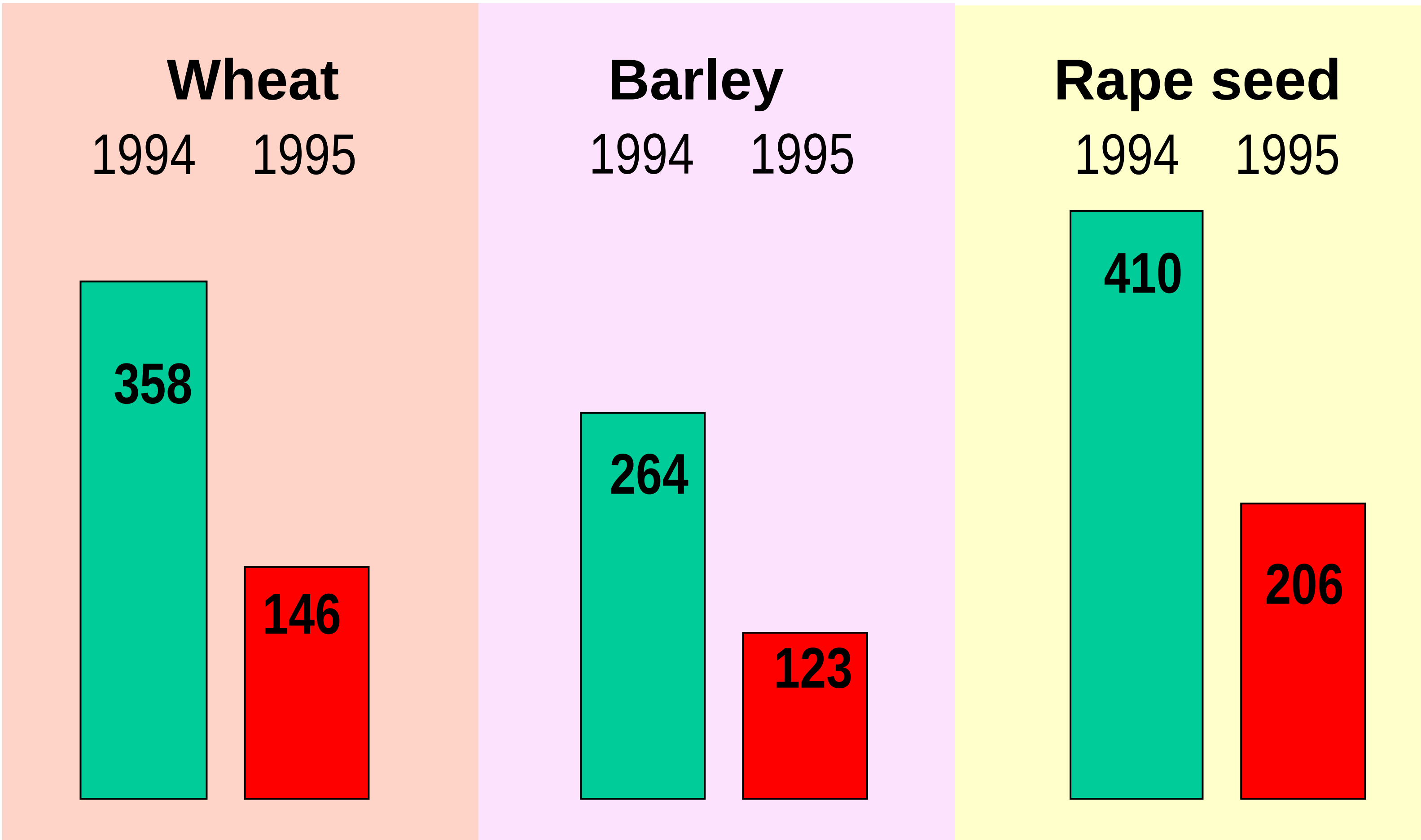
# Support areas



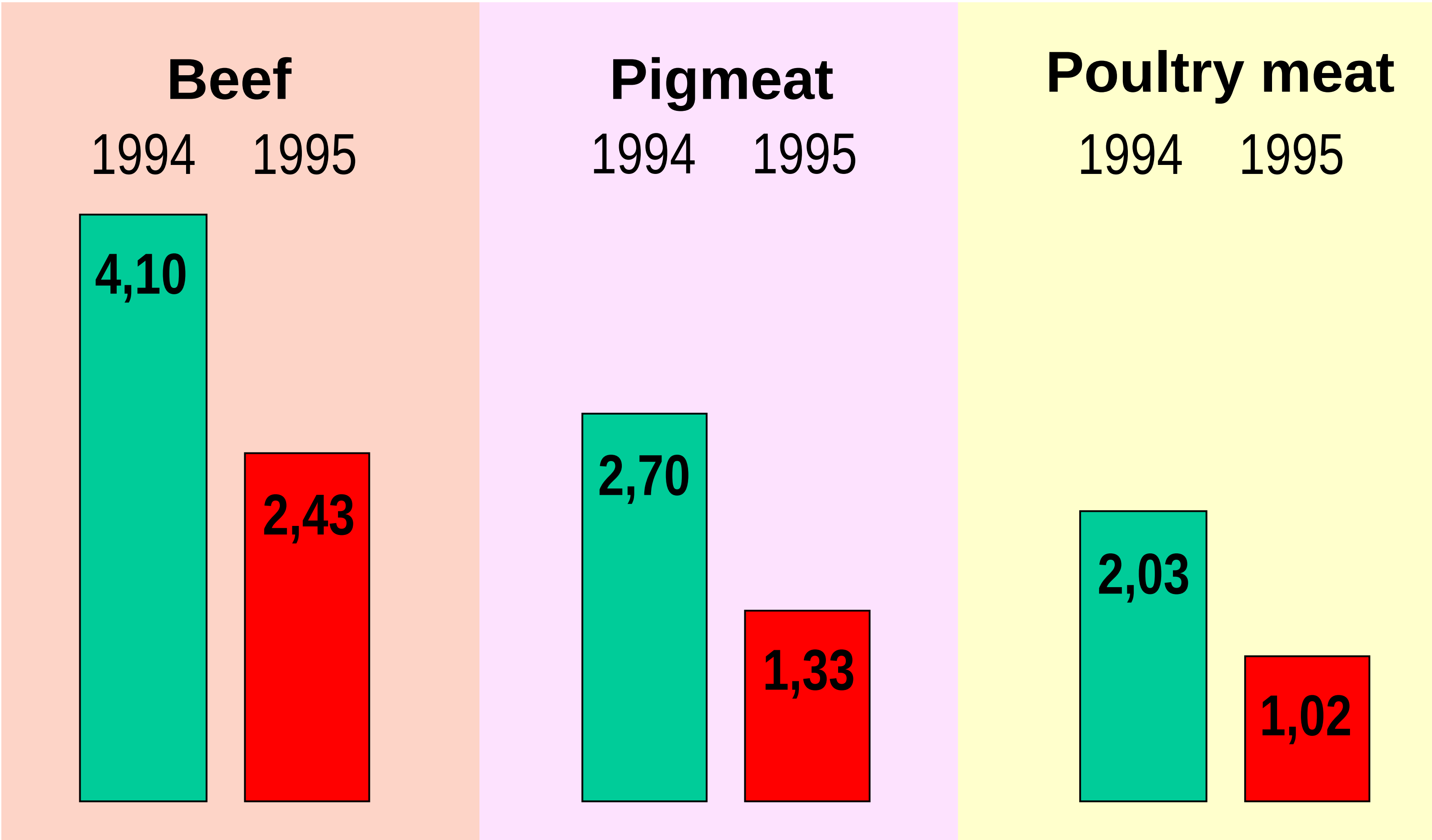
# Impacts of EU accession on the Finnish agro-food sector

- a rapid shift from closed markets to open and more competitive market, market share of Finland of only 1-2 %
- producer prices dropped by 40 - 60%

# Producer prices of arable crops in Finland in 1994 and 1995, EUR/tonne



# Producer prices of livestock products in Finland in 1994 and 1995, EUR/kg

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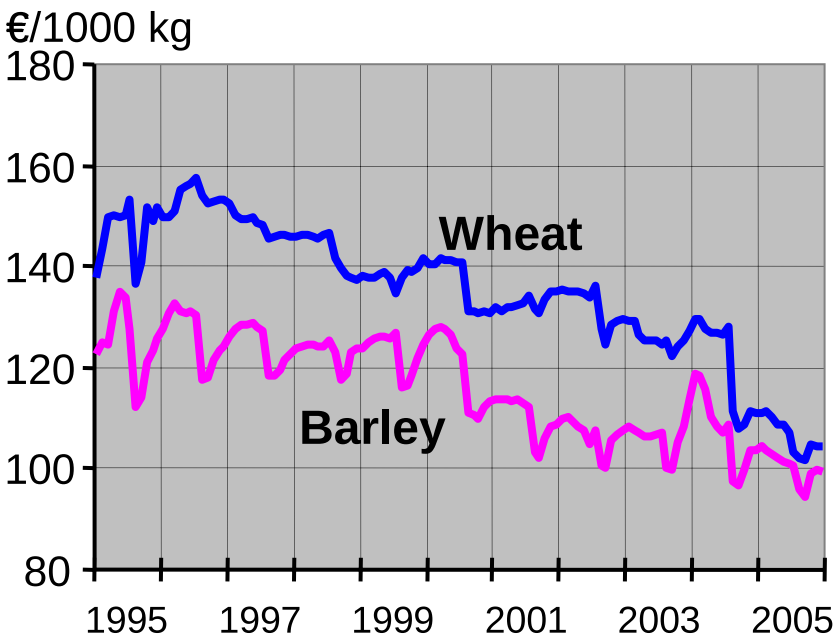
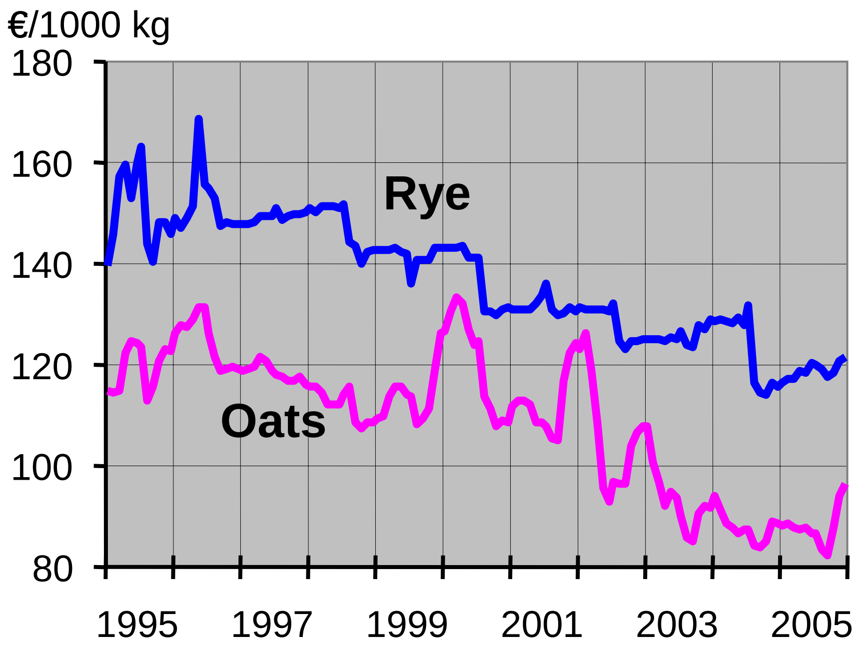
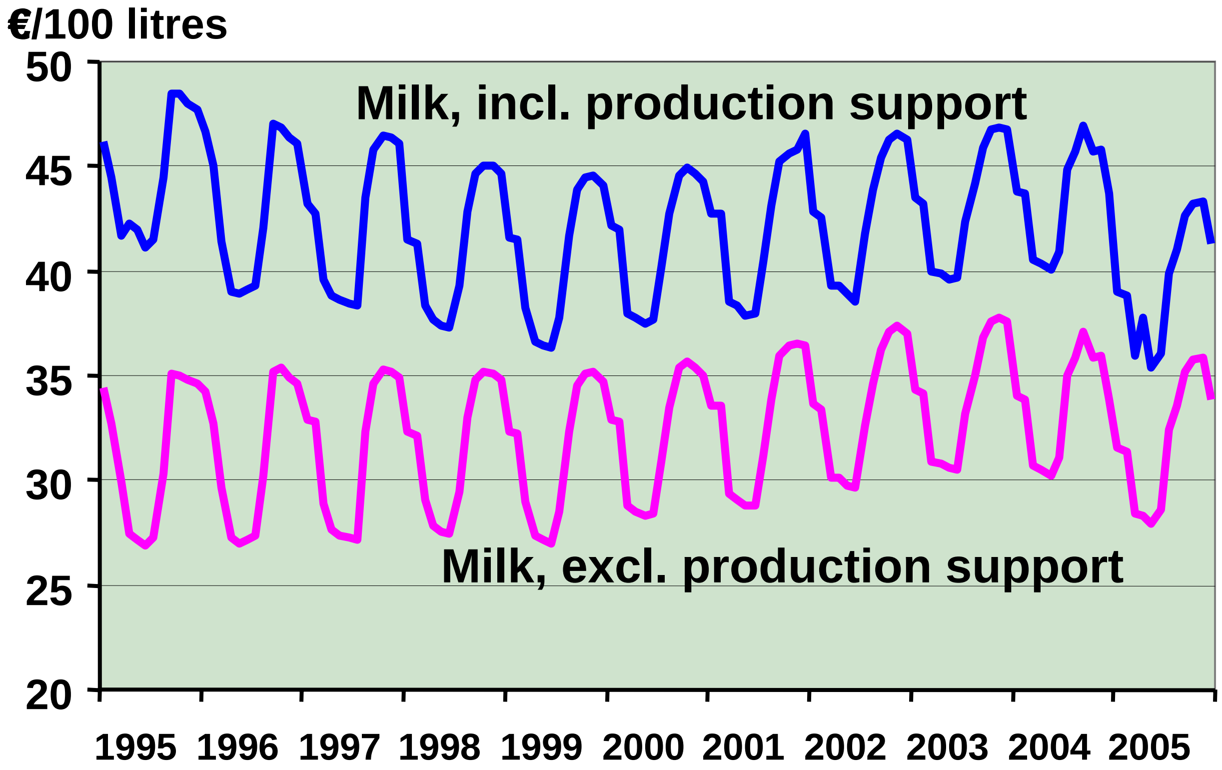
# Market prices of cereals in Finland from 1995 to 2005

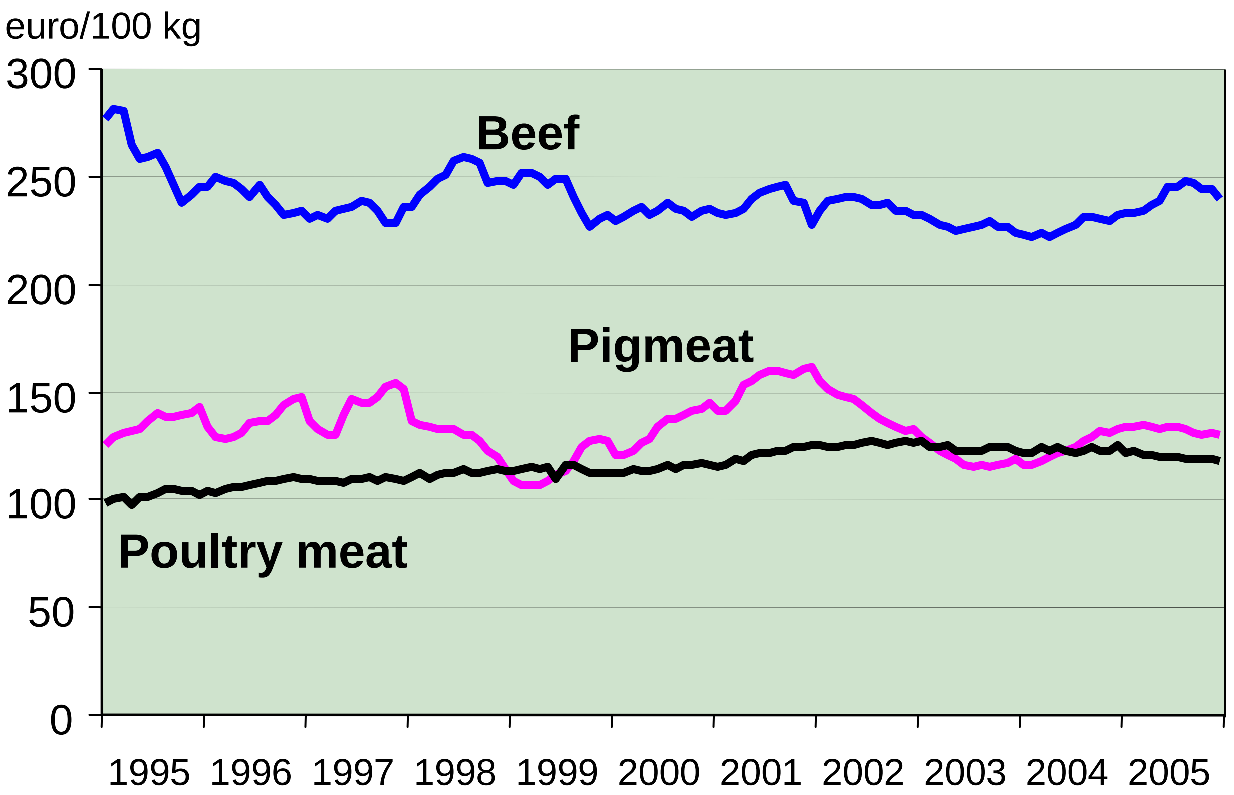


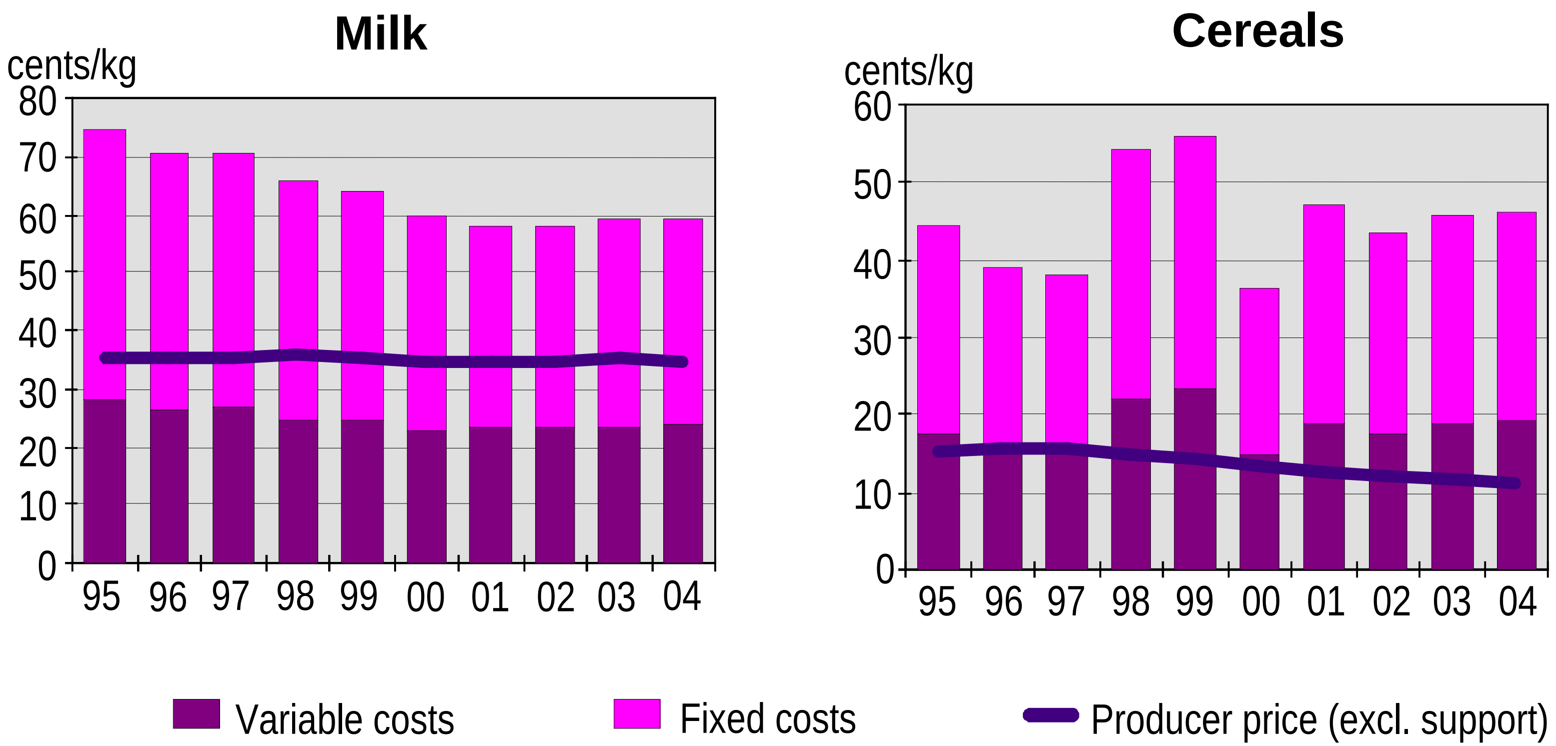
# Producer prices of milk in Finland from 1995 to 2005



# Producer prices of meats in Finland from 1995 to 2005



# Unit costs of milk and cereals and prices in 1995–2004 (at 2004 prices)



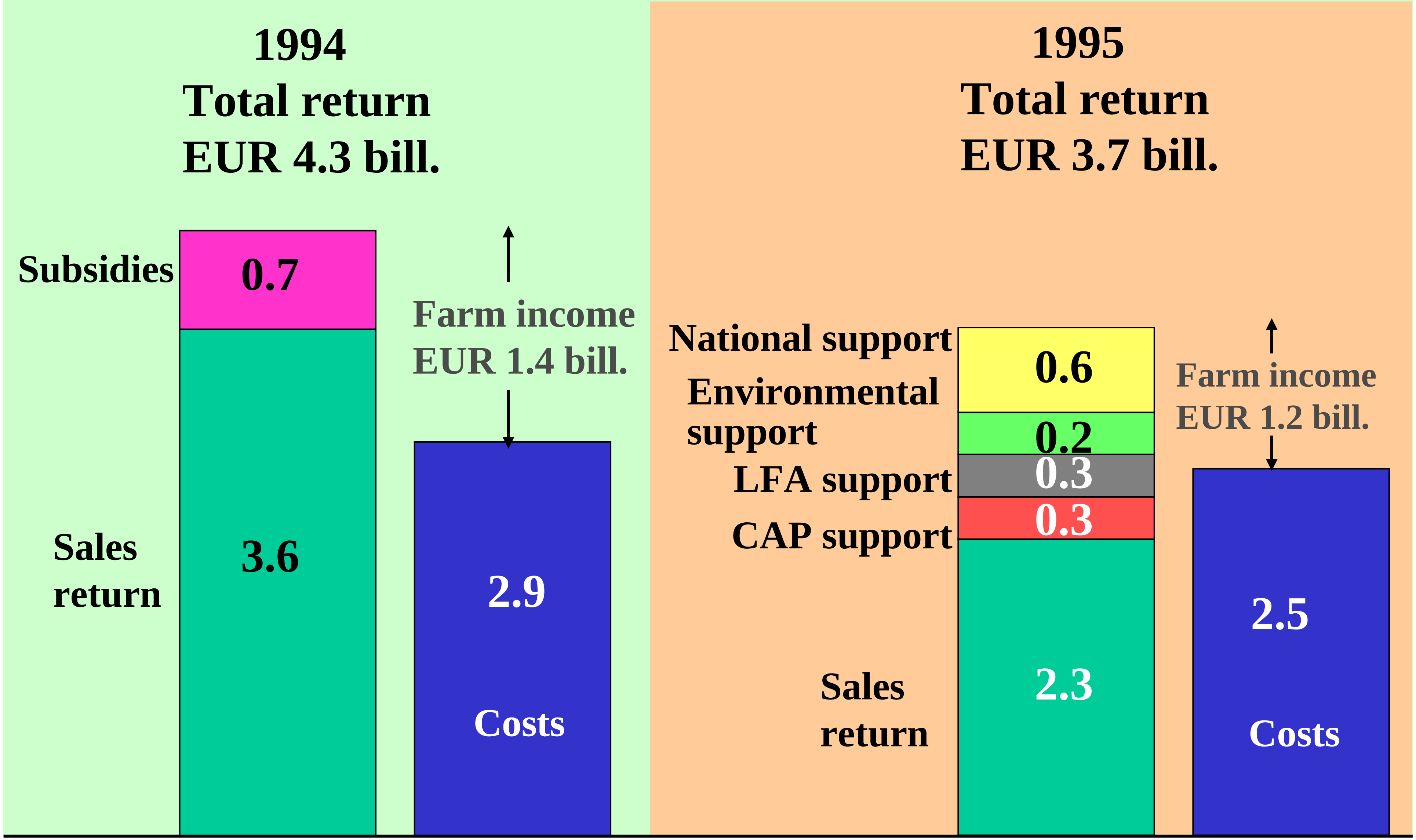
# Impacts of EU accession on the Finnish agro-food sector

- a rapid shift from closed and regulated markets to open and competitive common market, market share of only 1-2 %
- producer prices dropped by 40 - 60%

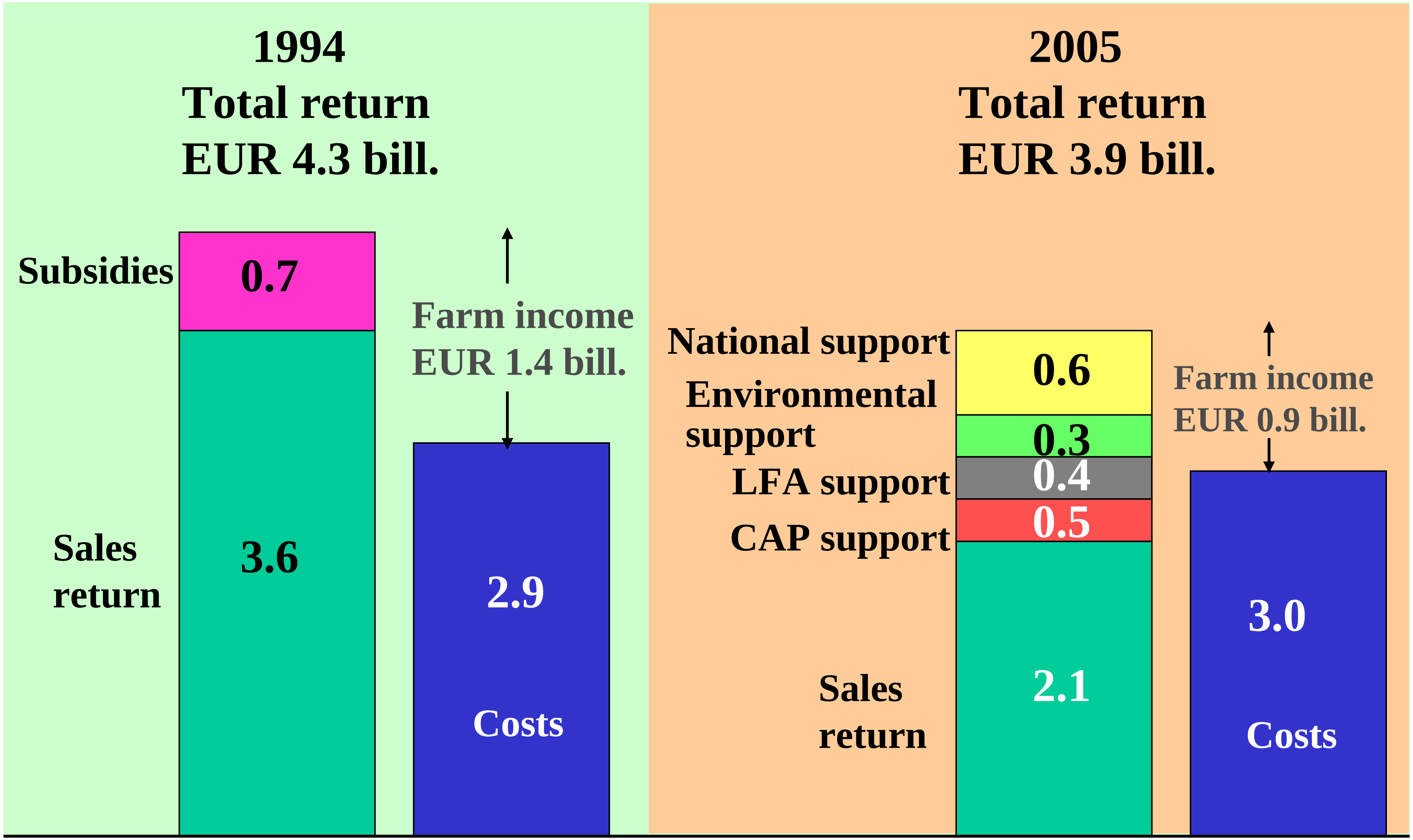
  ⇨ the profitability of agriculture deteriorated

  ⇨ structural change of income formation *(→ Table)*

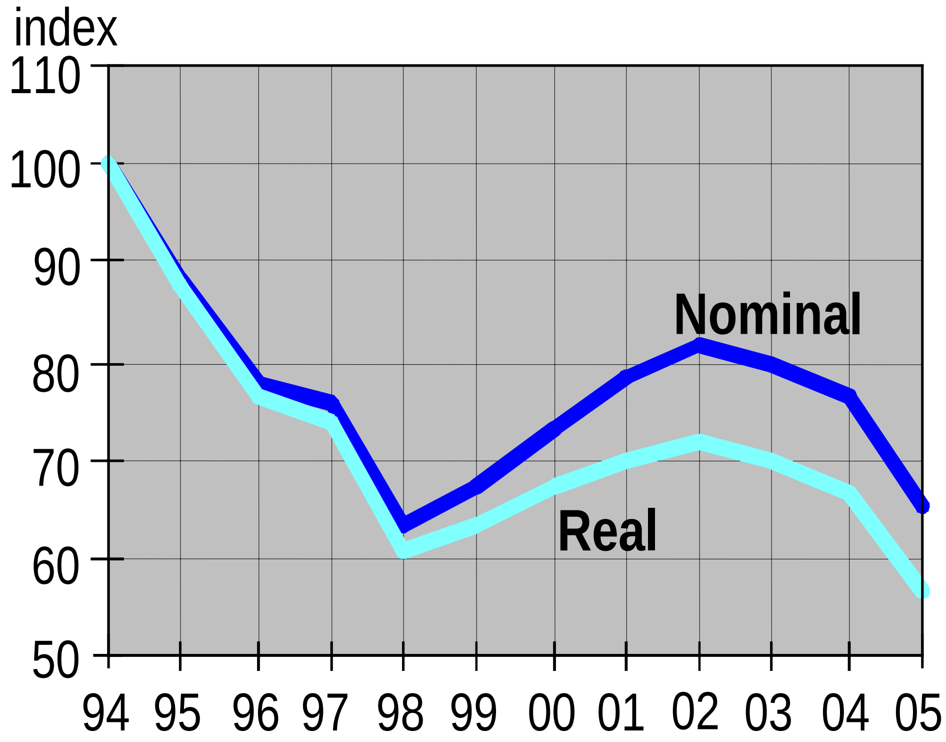
# Structural change of income formation in Finnish Agriculture



# Structural change of income formation in Finnish Agriculture

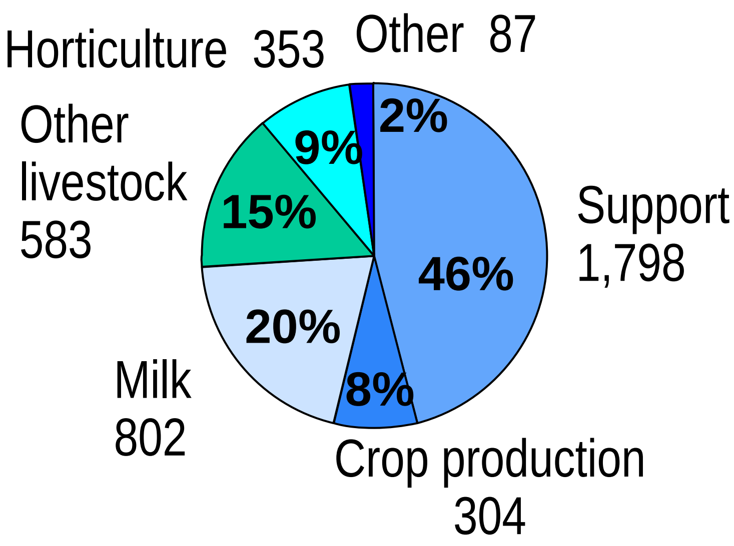


# Development of agricultural income in 1994–2005



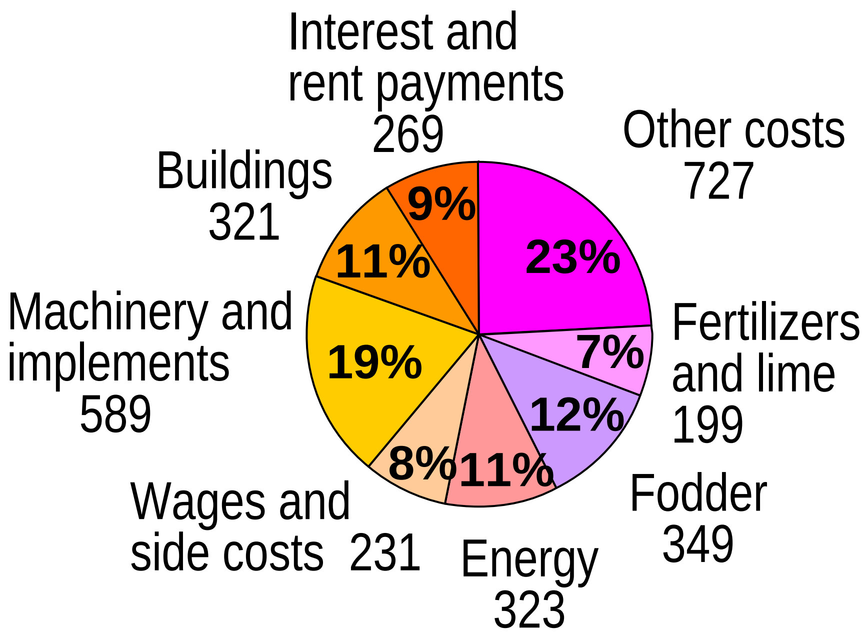
# Return on agriculture and costs of agriculture in 2005, € million

## Return on agriculture




Total € 3,927 million

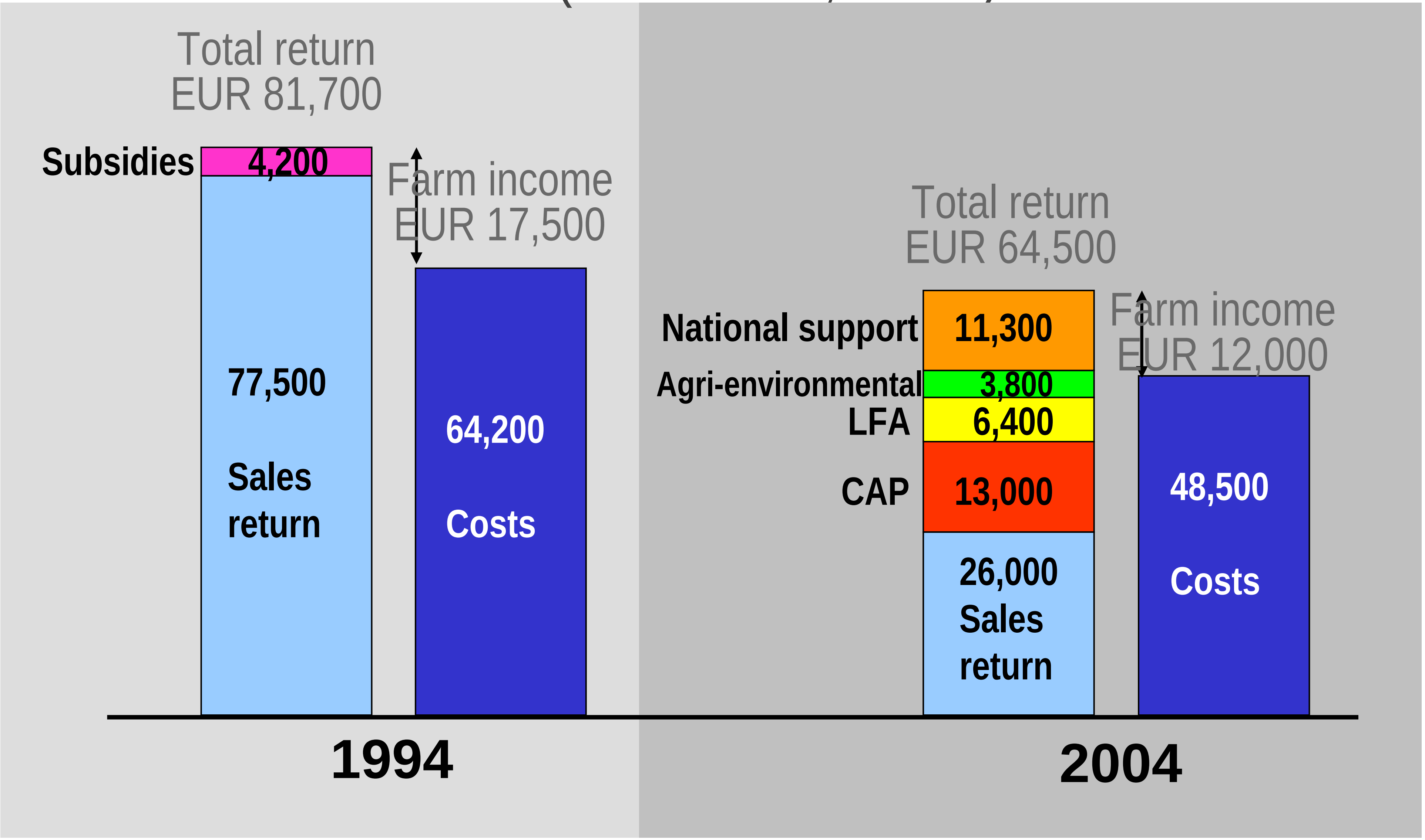
## Costs of agriculture




Total € 3,009 million

# Structure of income formation in the Finnish farm specialised in beef production

(50 animals, 32 ha)



# Progress in structural development

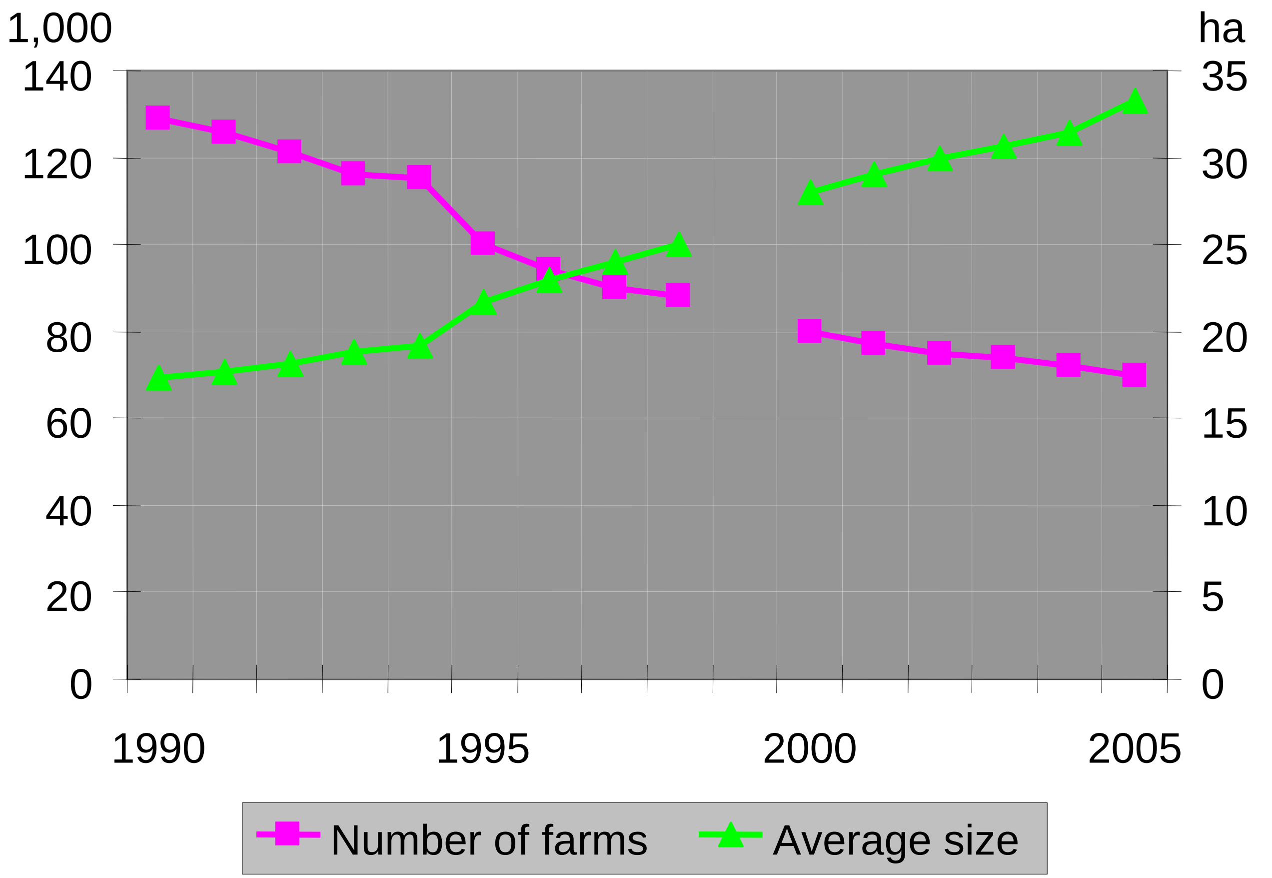
- the structure of Finnish agriculture has changed considerably in recent decade

  ⇨ in 1994 there were still more than 100,000 farms, while now the number is a little over 69,000
- the number of farms has decreased by more than 3% a year, in livestock farming even more

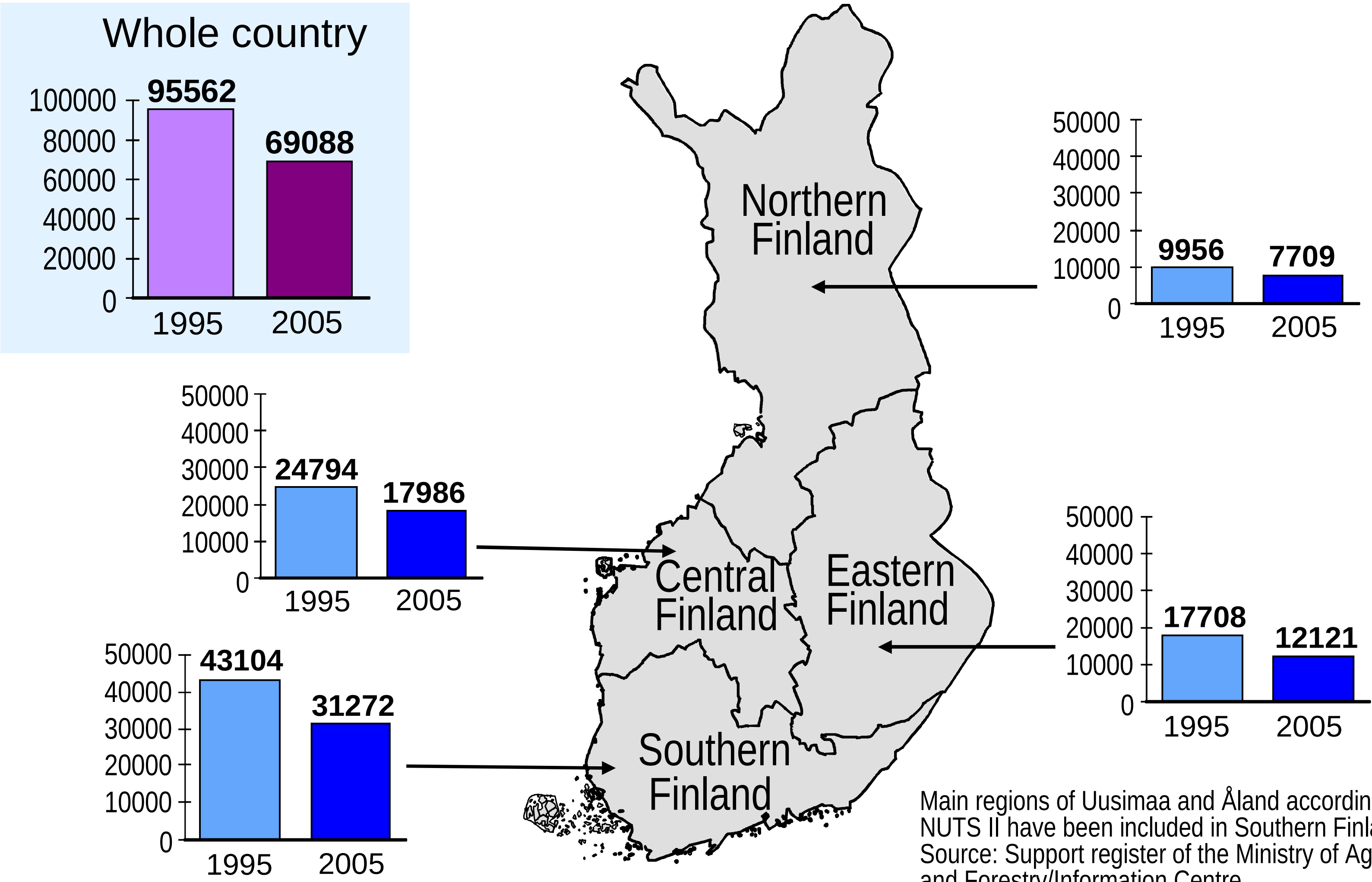
  ⇨ for example, the decrease in the number of dairy farms has been about 7%/year

- ***the average size of farms has clearly grown as their number has decreased***

# Number of farms and average size (ha) in 1990–2005



# Number of active farms in 1995 and 2005




Main regions of Uusimaa and Åland according to NUTS II have been included in Southern Finland.
Source: Support register of the Ministry of Agriculture and Forestry/Information Centre.

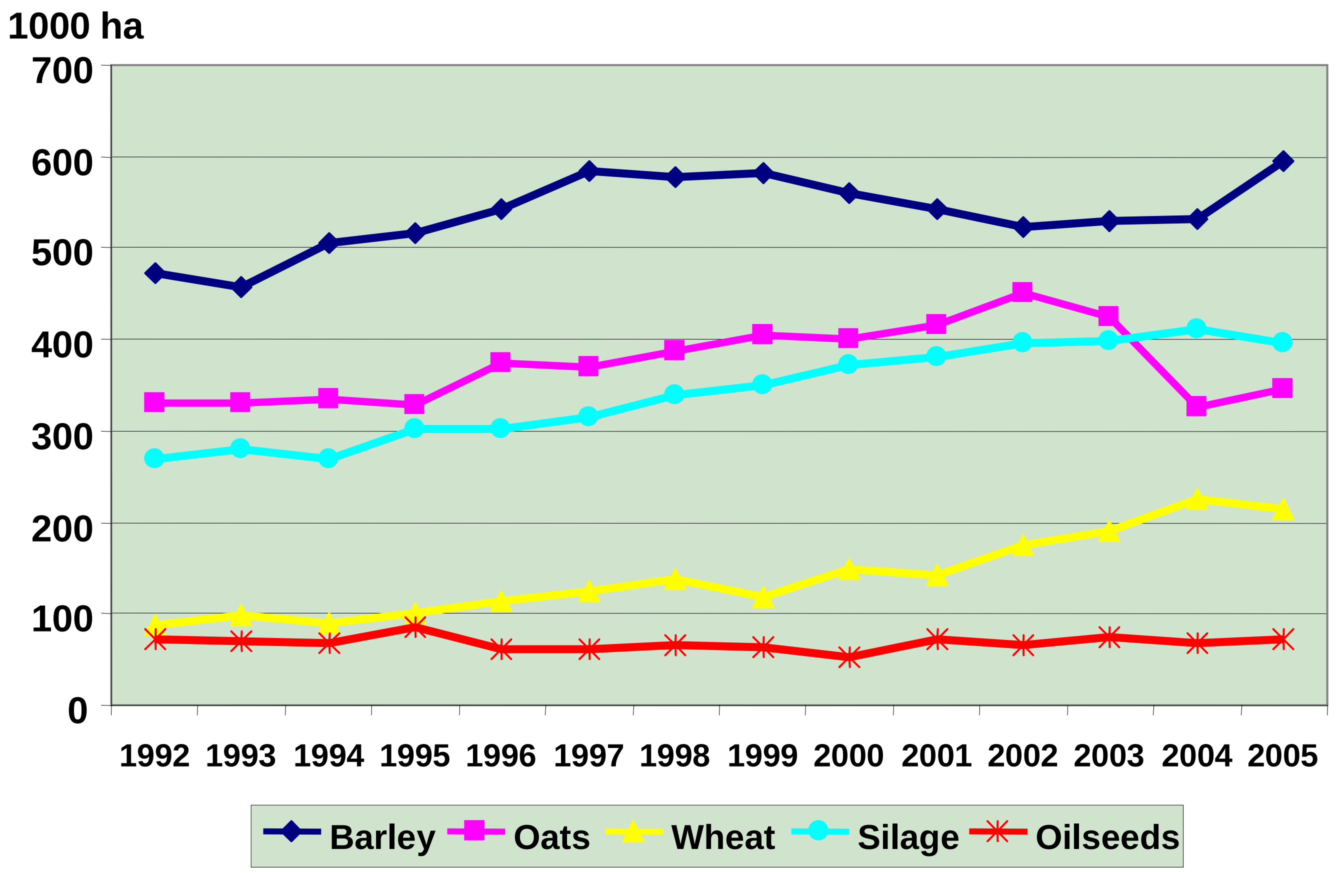
# Number of farms in Finland engaged in different production lines in 1994-2004

| | 1994 | 1997 | 2000 | 2004 | Change from 1994 |
|---|---|---|---|---|---|
| Milk production | 35,075 | 28,677 | 22,913 | 17,427 | -50.0% |
| Beef production | 10,630 | 7,571 | 5,349 | 4,640 | -56.3% |
| Pigmeat production | 6,631 | 5,612 | 4,316 | 3,385 | -49.0% |
| Poultry production | 2,576 | 1,802 | 1,231 | 890 | -65.5% |
| Grain production | 34,200 | 32,000 | 30,000 | 28,895 | -15.5% |

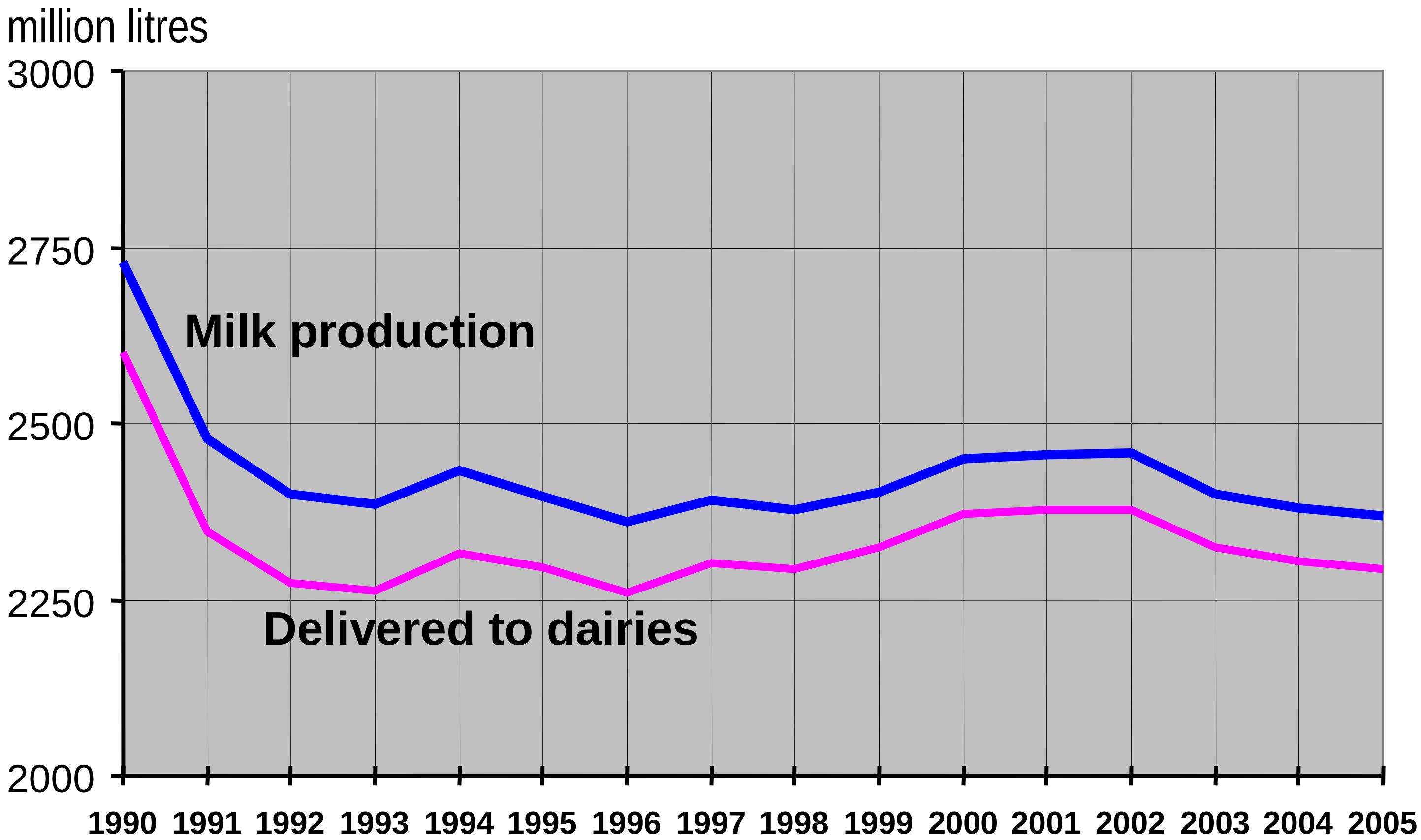
# Development of agricultural production

- Has the membership in the EU led to significant changes in production volumes?

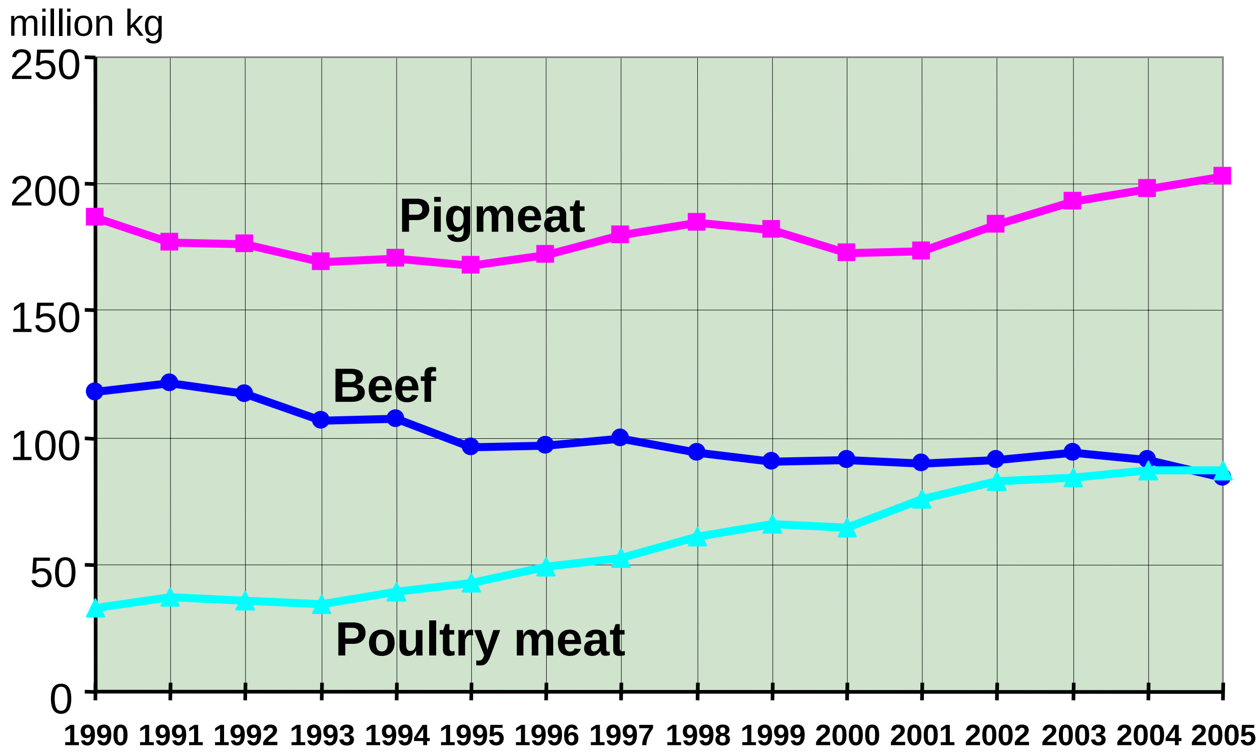
# Harvested areas of main crops in Finland from 1992 to 2005



# Production of milk
# in Finland from 1990 to 2005



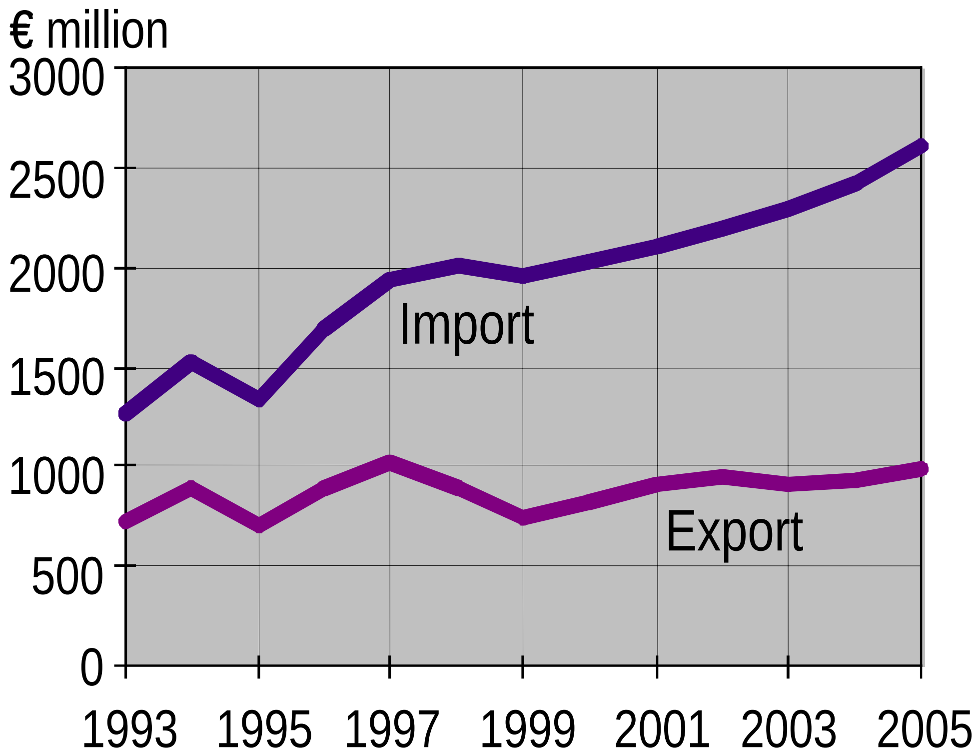
# Production of beef, pigmeat and poultry meat in Finland from 1990 to 2005



# Consumption and self-sufficiency in agricultural production

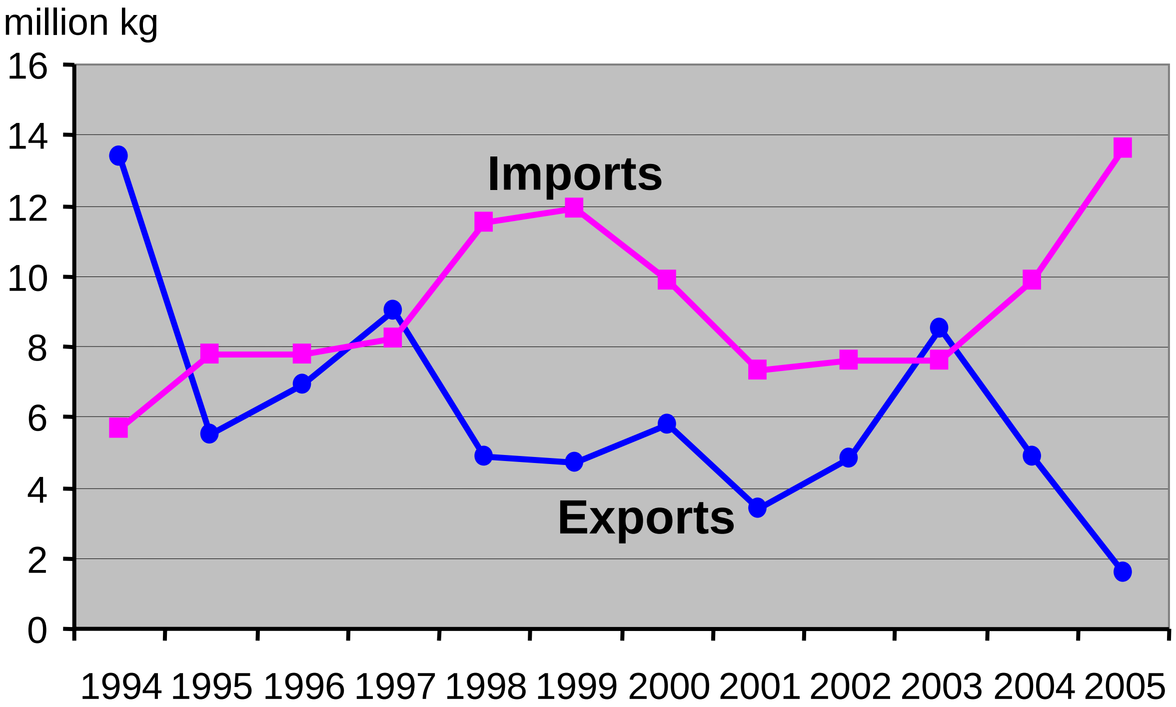
| | Dairy, liquid | | | Meat | | | Bread grain | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1994 | 1999 | 2004 | 1994 | 1999 | 2004 | 1994 | 1999 | 2004 |
| Consumption | | | | | | | | | |
| - per capita, kg | 207 | 198 | 186 | 56.5 | 66.1 | 69.0 | 60.4 | 63.1 | 64.6 |
| - total, million kg | 1,027 | 984 | 969 | 288 | 340 | 362 | 300 | 317 | 325 |
| Self-sufficiency, % | 112 | 110 | 109 | 110 | 99 | 105 | 75 | 40 | 110 |

# Exports and imports of agricultural products (CN 01–24) in 1993–2005, € million




Source: National Board of Customs

# Exports and imports of **beef** in 1994-2005




**Year 2005**

**Export destinations**

| | |
|---|---|
| • Sweden | 81% |
| • Norway | 9% |
| • Estonia | 4% |
| • The rest | 6% |

**Import sources**

| | |
|---|---|
| • Sweden | 27% |
| • Brazil | 21% |
| • Germany | 14% |
| • Denmark | 12% |
| • Ireland | 8% |
| • The rest | 18% |

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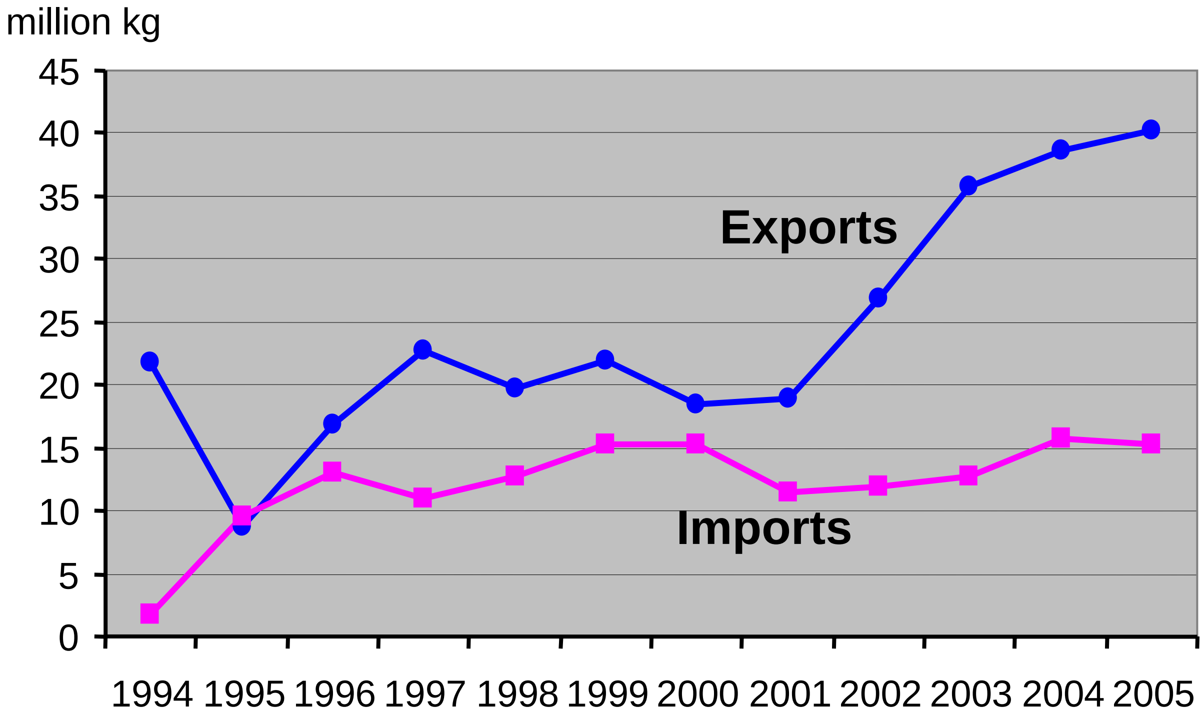
# Exports and imports of **pigmeat** in 1994-2005




**Year 2005**

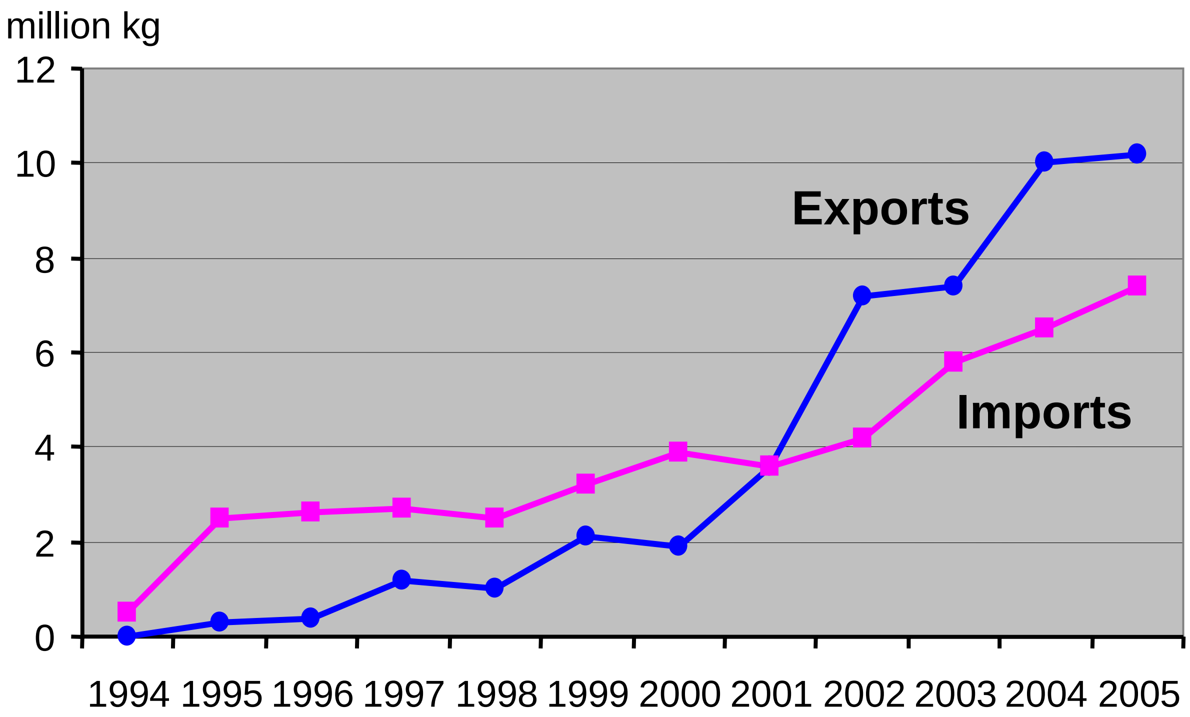
**Export destinations**

| | |
|---|---|
| • Russia | 24% |
| • Estonia | 17% |
| • Japan | 15% |
| • Sweden | 13% |
| • Germany | 6% |
| • The rest | 25% |

**Import sources**

| | |
|---|---|
| • Denmark | 53% |
| • Germany | 25% |
| • Belgium | 7% |
| • Sweden | 4% |
| • The rest | 11% |

# Exports and imports of **poultry meat** in 1994-2005



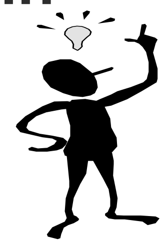

**Year 2005**

| **Export destinations** | |
|---|---|
| • Estonia | 28% |
| • Russia | 21% |
| • Germany | 9% |
| • Lithuania | 9% |
| • Poland | 5% |
| • The rest | 28% |

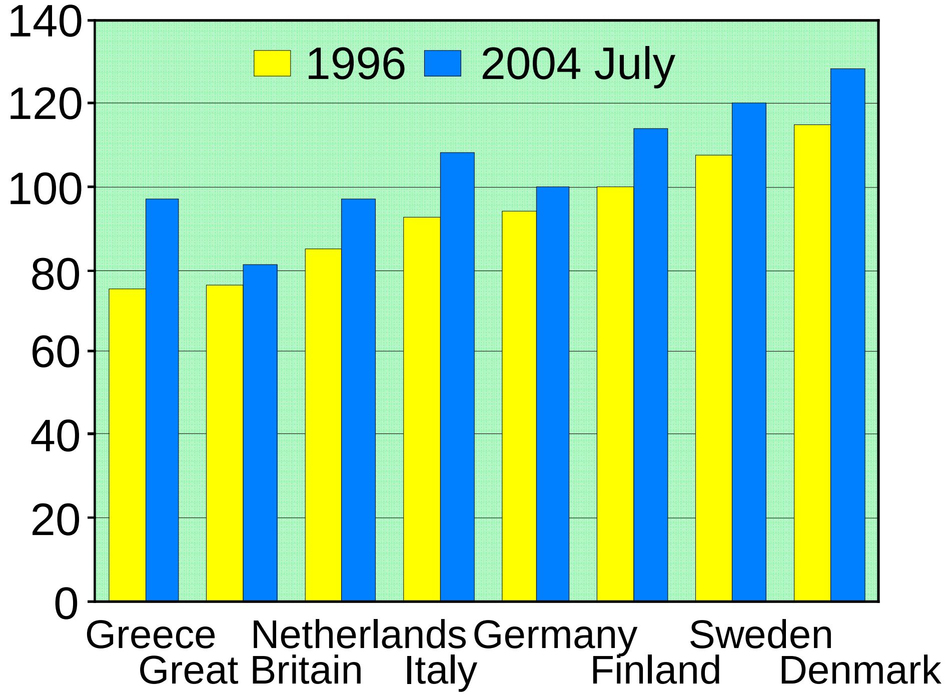
| **Import sources** | |
|---|---|
| • Brazil | 36% |
| • Germany | 20% |
| • Denmark | 17% |
| • France | 13% |
| • Hungary | 6% |
| • The rest | 8% |

# Development of retail market

- food prices fell, on average, by 11% when Finland joined the EU in 1995
- even if the value added tax was raised from 12 to 17 %
- the reduction was caused by the decrease in the producer prices to the EU level
- between 1995 and 2004 the food prices rose in nominal terms by 11 %
- the general consumer price index rose by 13,4 %, which means that the real food prices are below the level in 1995



# Consumer price levels of foodstuffs in certain EU countries in 1996 (Finland=100) and July 2004




Source: Statistik Finland

# THE QUESTION:
# WHO GETS WHAT?

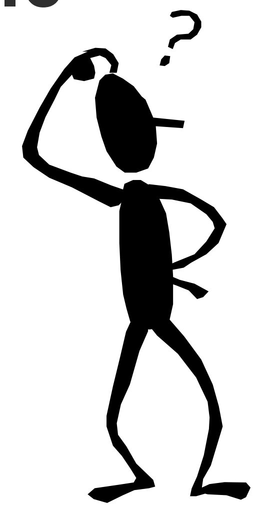
## - the share of the retail price going to each sector along the supply chain

**(1) Farmer's share**

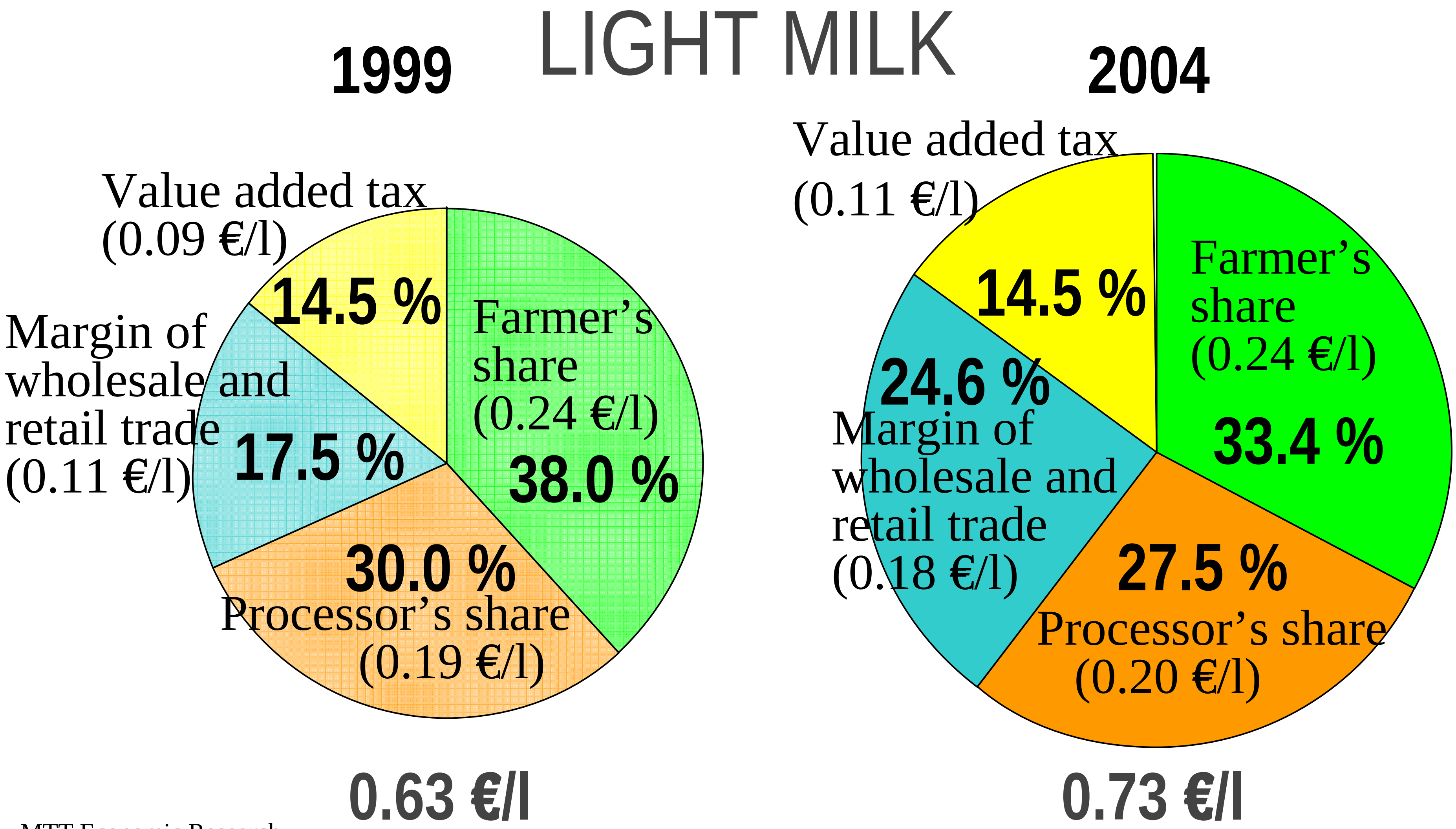
**(2) Margins of processing and wholesale and retail trade**

**(3) Value added tax**

- **development from 1999 to 2004**



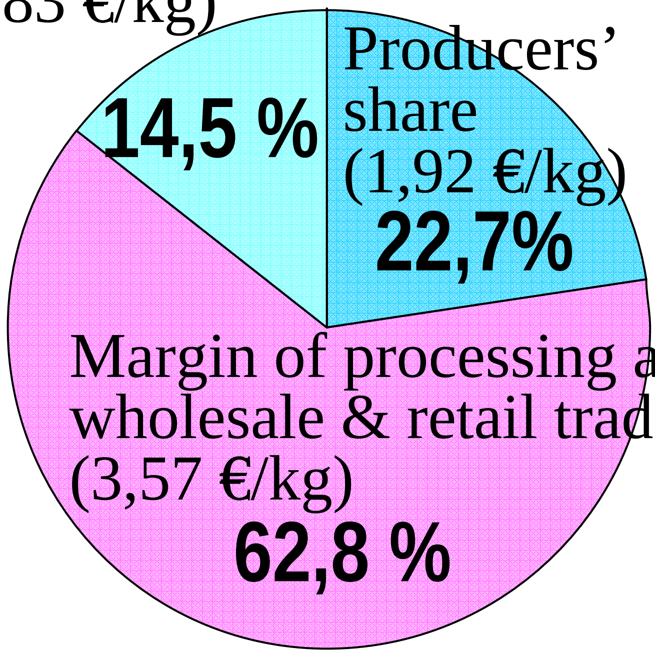
# Supply chain margins



Supply chain margins

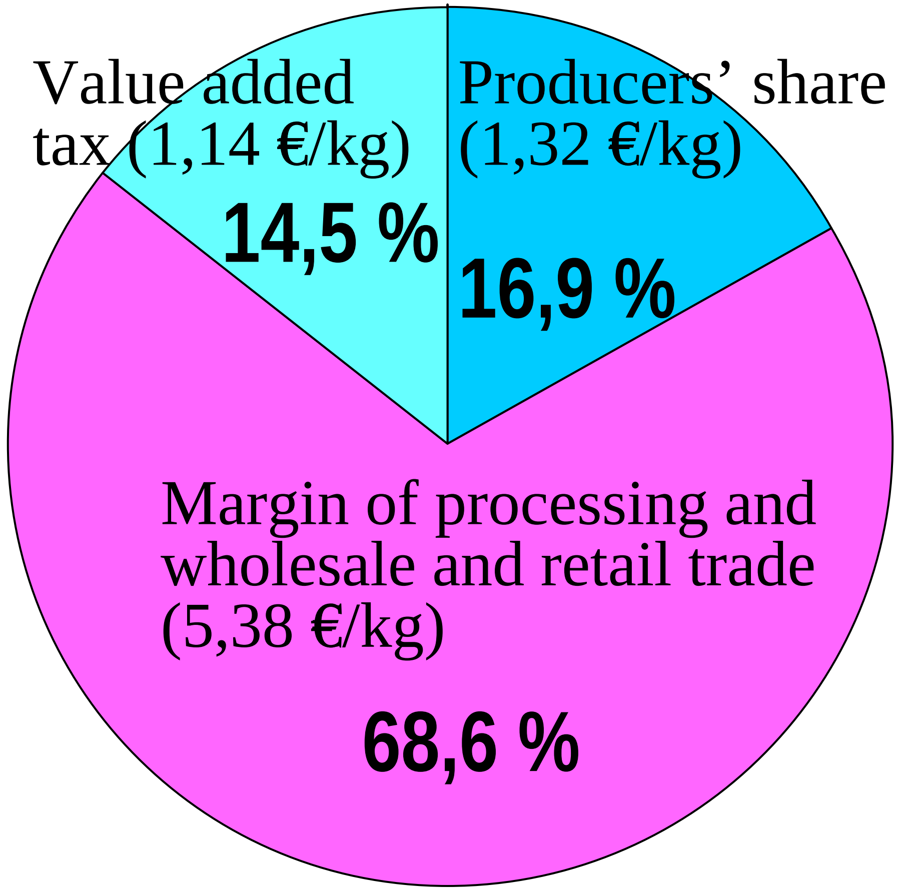
# PORK CHOPS

**1996**




**5,69 €/kg**

**2002**




**7,84 €/kg**

# Conclusion: RETAIL-FARM PRICE MARGINS GROWING IN FINLAND

- **Farmers have been receiving an increasingly lower proportion of the retail price of food**
- **The share of the processing sector in the food prices is still the same as before?**
- **The share of wholesale and retail in the consumer price of food has increased by a few precentage points**
  - the EU membership clearly reinforced the position of retail trade in the food supply chain relative to the domestic raw material production and food industry
  - large retailers are able to take advantage of the competition between the domestic food companies and between the domestic companies and foreign ones

# The future ?

- agri-food sector is facing a period of re-adjustment to the challenges of the CAP reform and impending agreement in the WTO
- the application of the single payment scheme introduced in the context of the CAP reform of 2003 started in Finland in 2006
- ⇨ coupled CAP support will continue to be applied for suckler cows, bulls and ewes
- ⇨ but the CAP support for arable crops will be completely decoupled from production
- WTO-linked reductions (severe cuts in tariffs plus phasing out export subsidies) would pose problems especially for the Finnish dairy, beef and poultry sectors

# Impact of the 2003 CAP reform on Finnish agriculture

- **Decoupling the CAP support for arable crops will cut the area under feed grains by 10-20%**

→ the domestic feed grain supply would still cover domestic demand

- **The reform accelerates the structural development of the milk sector**

→ the incentive to give up milk production increases on small farms

→ expansion investments concentrate on ever bigger milk herds

- **Domestic supply of beef decreases**

→ reduce the incentives to invest in new establishments

→ the beef sector very much dependent on the development of milk production

# Future images of Finnish agriculture

- liberalising agri-food trade calls for further concentration in the sector

  ⇨ less than 40,000 farms left in 2020 (less than 6,000 in milk production)

  ⇨ regional concentration will continue
- in terms labour and regional policy, strong concentration of agriculture is a complicated problem
- however, efforts to stop structural development would be costly to the society
- the competitiveness of Finnish agriculture calls for the present kind of rapid structural development

  ⇨ the development of technology alone leads to growth in farm size

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