Competitiveness of the Finnish Agriculture after ten years in the EU

Konkurenceschopnost finského zemědělství po deseti letech v EU

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Abstract: Finnish agriculture changed radically with the EU joining in 1995. The commitment of the Common Agricultural Policy (CAP) led to unprecedented changes in economic environment – in agriculture as in processing industry. Finland lost the possibility to regulate the original price level of agricultural products supported by the national border protection and export subsidies. Prices guaranteed by the EU are much lower today than before the EU-membership. Recently, Finland has evaluated ten years being an EU member. Despite its competitive disadvantage, given mostly by unfavourable production conditions, Finnish agriculture has not lost within the competitive environment of the single market and it has tried to take advantage of the opportunities offered by the CAP. The article recapitulates the ten year effort of Finnish agriculture to ensure the competitiveness within the EU single market.

Key words: competitiveness, Common Agricultural Policy, single market, European Union

Abstrakt: Finské zemědělství prodělalo vstupem do EU v roce 1995 radikální změnu. Zavedení pravidel společné zemědělské politiky vedlo k bezprecedentním změnám v ekonomickém prostředí jak zemědělství, tak zpracovatelského průmyslu. Finsko pozbylo možnosti regulovat nadále původní cenovou úroveň zemědělských produktů pomocí vlastních ochranářských opatření a exportních subvencí. Garantované ceny EU jsou dnes na mnohem nižší úrovni, než byly ceny před vstupem do EU. V nedávné době Finsko hodnotilo deset let v EU. I přes konkurenční nevýhody, dané zejména nepříznivými výrobními podmínkami, se finské zemědělství v konkurenčním prostředí vnitřního trhu EU neztratilo a Finsko se snažilo využít příležitosti, které společná zemědělská politika nabízí. Článek rekapituluje desetiletou snahu finského zemědělství o zabezpečení konkurenceschopnosti v rámci vnitřního trhu EU.

Klíčová slova: konkurenceschopnost, společná zemědělská politika, vnitřní trh, Evropská unie

Finland became a member of the European Union in 1995. The support for Finland's membership in the EU was not unanimous, like in the case of all northern countries. The membership was agreed by 57% of voters. The main strength of the EU membership was seen in the expected problematic future of the Finnish agriculture. Adoption of the Common Agricultural Policy (CAP) rules meant really radical changes for Finnish farmers. With regard to rapid cut in producer prices caused by the introduction of the new rules, the competitiveness of the Finnish agrarian sector had to be improved. A rapid transition from a relatively closed market to an open market was not easy for Finnish farmers. Finnish agriculture had to cope with such competitive disadvantages as unfavourable production conditions, when the Finnish crop yields for example are usually at the half level compared to the average yields of Mid-European countries. The competitiveness of the Finnish agriculture is also handicapped by its unfavourable structure. Finland is a relatively large country with a sparse population and there is difficult to maintain the population in rural areas. The membership in the EU was thus a challenge for Finnish agriculture – to take advantage of the new CAP conditions in such way to be able to compensate its competitive disadvantages (Rosochatecká, Tomšík 2003).

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MATERIAL AND METHODS

The authors of the article have been focusing on the EU integration of Sweden and Finland since the late 90's within the institutional research activity "Effective Integration of the Czech Agribusiness within the European Structures – a Pre-Requisite of Sustainable Development". The article aims to evaluate the ten years period of Finnish membership in the EU. An attention is paid to the way how the Finnish agriculture has been integrated into the CAP conditions and how it was able to eliminate its specific problems. The article will draw on results from the above mentioned research activities, official sources of the European Union, and from sources of the Finnish research institute MTT Helsinki.

RESULTS

The structure of the Finnish agriculture has changed very significantly since the EU joining. A decline in total numbers was noticed both by agricultural holdings, as well as by labour in agriculture. On the other hand, the level of technical equipment and effectiveness of the production have been increased. Agricultural production has tended to specialization on regional level, as well as on farm level. However, a lower level of farms' self sufficiency is a consequence of such specialization. But in general, the level of self-sufficiency in foodstuffs is high enough in Finland with regard to the specific unfavourable production conditions. An apparent drop in self sufficiency was noticed at beef production during the membership period (Statistic Finland 2006). A comparison of Finnish self sufficiency level in 1995 and 2005 is presented in the Table 1.

The number of farms has been falling by 3% in the annual average since the EU membership – from nearly 100 000 in 1995 to less than 70 000 in 2005 (Farm structure in Finland 2006). The number of milk farms has been falling by 7% a year. A reduction to the total number of less than 40 000 farms is expected by 2020. The number of milk farms should fall to 6 000 by 2020 (compared to 35 000 before Finland joined the EU and 16 500 milk farms in 2005). The EU membership resulted in higher concentration; however, this trend was visible before the membership. The decline in total numbers of farms concerned mainly small farms, whereas the number of farms over 50 ha of cultivated area has doubled during the EU membership period. The trend in farm size development is shown in the Table 2. The average size of Finnish farm increased from 22.8 ha in 1995 to 33.3 ha in 2005 (Finnish Agriculture and Rural Industries 2005).

The total cultivated area has increased during the Finnish membership in the EU. It has grown by more than 77 000 ha between 1995 and 2004 to 2.22 million ha, which represents an annual growth rate of 3.6%. The reason for this increase lies in introducing the new CAP rules which made the cultivation of less productive parcels more attractive due to area payments. The CAP regimes influenced the structure of production as well. The wheat area has almost doubled during the EU membership. On the other hand, the area of root crops dropped, however, this was compensated by higher yields achieved. Milk production was falling in the first years in the EU; however, it started to increase since 1997. In the recent years, the production of milk turned to a decline

Table 1. Self-sufficiency in foodstuff (in %)

	Cereals	Dairy products		Beef	Pork	Eggs	Sugar
		fluids	fats				
1995	72	111	126	98	100	124	74
2005	102	106	129	89	116	119	78

Source: Gallup Food and Farm Facts

Table 2. Number of Farms in Finland

	1–10 ha	10–30 ha	30–50 ha	Over 50 ha	Total
1995	27 037	50 971	15 451	6 505	99 964
2000	18 102	35 163	15 624	10 897	79 783
2005	13 835	27 958	14 194	13 530	69 517

Source: Information Centre of the Ministry of Agriculture and Forestry, Helsinki

Table 3. Development of livestock numbers (in 1000 heads, mill. l milk)

	Cattle	Pigs	Poultry[1)]	Sheep	Milk
1996	1 146	1 395	5 429	150	2 261
2004	969	1 365	3 981	109	2 304
2005	959	1 404	4 081	90	2 293

[1)]Egg-laying hens
Source: Information Centre of the Ministry of Agriculture and Forestry, Helsinki

Table 4. Development of crop production (in 1000 t)

	Wheat	Rye	Barley	Oats	Potatoes	Sugar beet
1996	459	87	1 860	1 261	766	897
2004	782	62	1 725	1 002	619	1 064
2005	801	32	2 103	1 073	743	1 181

Source: Information Centre of the Ministry of Agriculture and Forestry, Helsinki

again. The number of dairy cows has fallen to 323 000 in 2004 which represents an average annual decline by 2.3% during the EU membership. This decline was compensated by the growing milk yield. The average milk yield grew in 2005 to 7 404 l per cow, whereas 5 982 l was the average level in 1995. The total numbers of cattle have declined as well. Whereas Finland was almost self sufficient in beef production in 1995, the level of self sufficiency stayed at 89% in 2005. The level of livestock and crop production in 1996, 2004 and 2005 is compared in Tables 3 and 4 (Finnish Agriculture and Rural Industries 2006).

Before the EU joining, Finnish farmers had been afraid of the expected decline in farmers' prices. Finnish agriculture was strongly supported before the EU membership and the acceptance of the CAP rules meant to accept also much lower price levels. The price development in a ten years period 1994–2004 is presented in Figures 1 and 2. A sharp price fall (with an exception by milk) is evident at the first sight.

For the above mentioned reason, it was important to compensate loses caused by the price decline. The access negotiations resulted in implementing of the new structural policy objective for Finland and

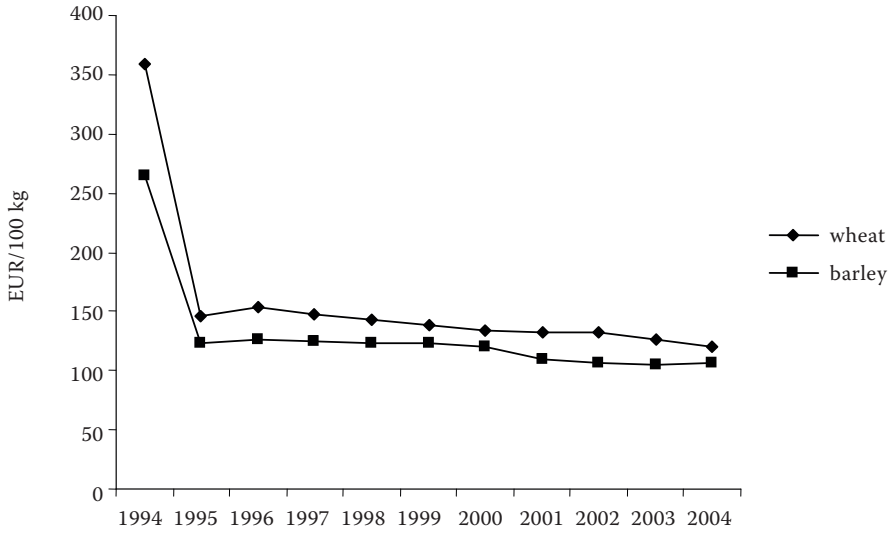

Figure 1. Development of market prices

Source: MTTL Helsinky

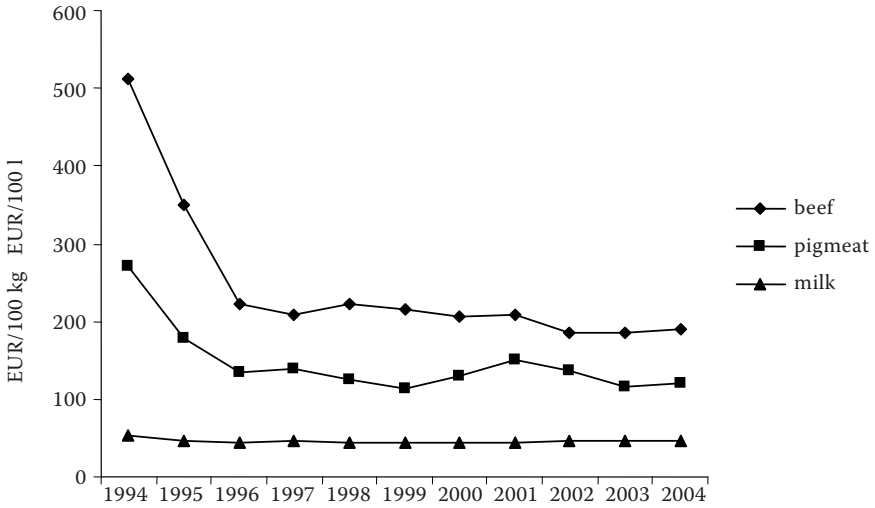

Figure 2. Development of producer prices

Source MTTL Helsinky

Sweden (Objective 6) related to special regimes in northern areas. The next important aspect consisted in the income guarantee due to the acceptance of the national support. The national support had to reduce the impacts of price reduction, but ten years later, it is still being an important element of support of Finnish agriculture. In 2005, the level of the national support was estimated at 620 million EUR, which means in average 6 400 EUR per working unit in agriculture. The national support comprises the Northern Aid, national aid for Southern Finland, national supplements to environmental support and national supplements to compensatory allowances. The national support aims to align the conditions for farming in various climatic regions. The Northern Aid is the most important part of the national support (Finnish Agriculture and Rural Industries 2005).

Like in any other EU country, the CAP rules are the basics of the agricultural support in Finland as well. The agricultural support based on the CAP (CAP support, LFA support and environmental support) changed essentially the structure of Finnish farm support (The European Structural Funds 2006). The total level of contributions based on the CAP according to preliminary data reached the level of 1 260 million EUR in 2005. The EU contribution shares nearly 66% (829 million EUR) (Figure 3). Payments for arable crops and animals (CAP support) are fully covered

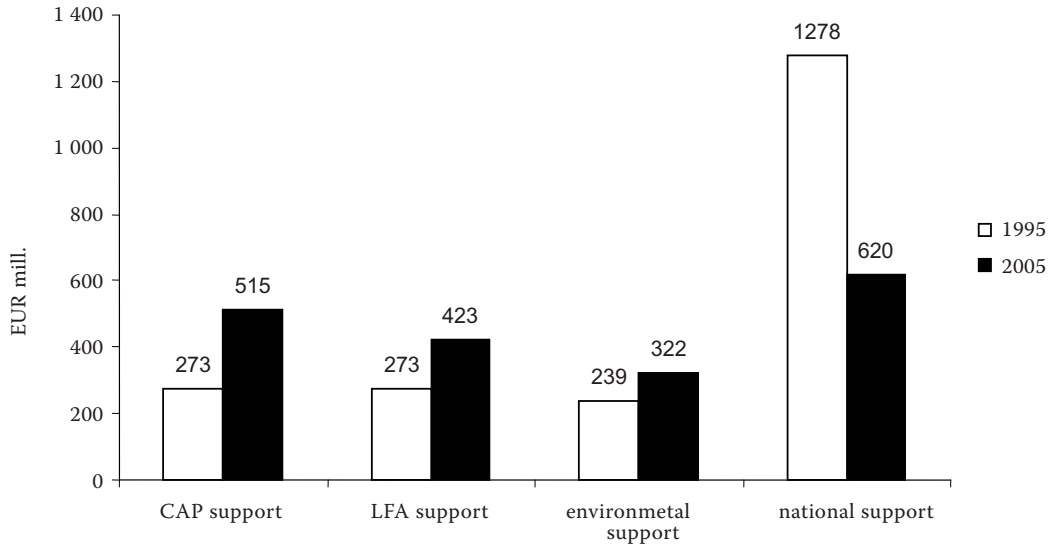

Figure 3. Agricultural support in Finland in 1995 and 2005

Source: MTTL Helsinky

from the EU sources, compensatory allowance for the LFA and agri-environmental support are co-financed by the EU.

New conditions given by the CAP reform can offer some opportunities for Finnish farmers. Decoupling of the payments brings certain advantages because of high production costs. A potential reduction in production would slow down price decrease and farmers continuing in agricultural (and probably expanded) production would find more space on the market. However, no radical changes are expected in the above described trend in agricultural production. Decoupled payments could change slightly the structure of agricultural production; they could encourage the shift from livestock production to crop production or to set-aside, eventually to production of plants offering new income opportunities.

The agricultural income has been falling during the period of the EU membership (Figure 4). A sharp decline occurred in first years when Finland joined the EU. A slight increase started at the turn of the century but since 2003 it turned into a decrease again (Annual Report of the Ministry of Agriculture and Forestry 2005). Between 1994 and 2005, the real family income fell by 44%. The reason for such unfavourable development can be seen in the increasing costs of production and a lower level of the total agricultural return due to the cut in prices.

The importance of financial support to the Finnish agriculture can be demonstrated on the return on agriculture. In 2005, almost a half of the total return on agriculture came from agricultural support (46%). The share of milk production in the return on agriculture stayed at 20%, other livestock production shared by 15%. The sales revenue of crop production took the share of 8%, horticulture represented 9% in the total return on agriculture (Finnish Agriculture and Rural Industries 2005).

The average productivity development has been slightly positive during the first decade of the Finnish membership in the EU, but the new economic environment did not bring the expected acceleration. The farm orientation has played an important role in the productivity growth. While an increasing productivity was evident on livestock farms (mainly dairy farms and pig farms), the development of crop farms was rather stagnating. The total quantity of production volume is still maintaining under the level of the beginning 90's and the slow growth of productivity was reached by a lower level of inputs used.

The extreme northern conditions have always been a reason for the high level of production costs. The competitiveness on the single market became a problem. The production cost per kg milk stayed at 0.59 EUR/kg in 2004 which was about 20% less than nine years ago. The average production cost of cereals reached 0.46 EUR/kg in 2004. It was about the same level as in 1995. The main reason for the decline in milk production cost is seen in the growing farm size and increasing milk yields. The farm size influence the level of unit costs essentially. Whereas small farms with less than 10 cows produced milk for 0.88 EUR/kg in 2004, it was just 0.49 EUR/kg on farms with over 50 cows (data for 2004). The structure of unit cost was essentially influenced by the high share of fixed cost at small farms. The

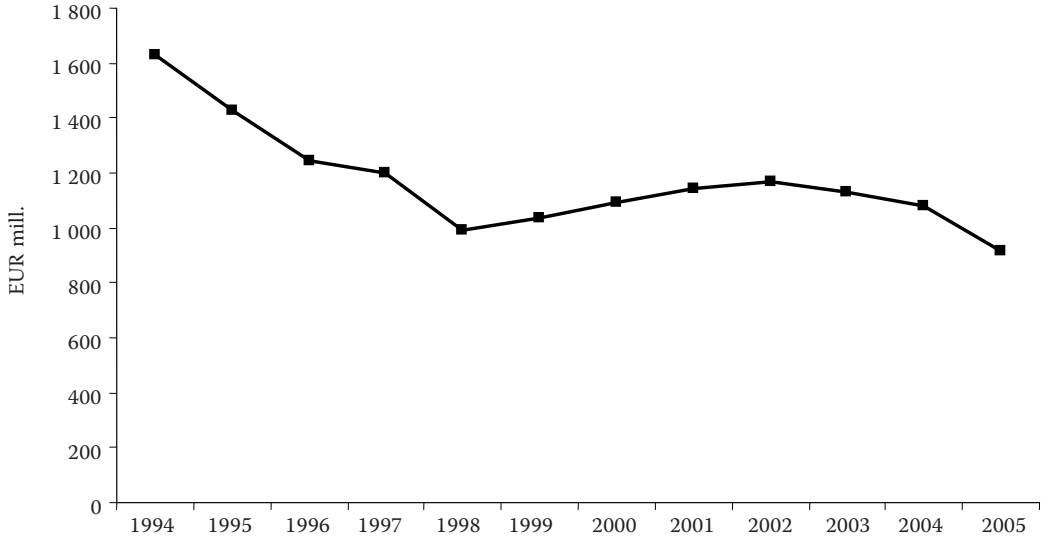

Figure 4. Agricultural income in Finland

Source: MTTL Helsinky

cost of cereal production was fluctuating during the membership period due to the changing of poor and good years. But the advantages of reducing costs are visible at bigger farms (Finnish Agriculture and Rural Industries 2006).

The change in the CAP orientation from production support to sustainability and rural development support suits to Finnish conditions. Finnish rural areas have never been purely agricultural areas. Besides typical farms providing agricultural and forestry activities, the structure of Finnish rural holdings consists of many diversified farms and other holdings with few or no relations with agriculture. Typical agricultural holdings comprised 39% of the total small rural enterprises in 2003 (18% diversified farms and 43% other holdings). The decline in the total numbers of rural holdings concerns the typical agricultural holdings, while the relative share of diversified and other holdings is growing. Agriculture is nevertheless still remaining the most important activity in rural areas. Agricultural production is estimated to remain at the current level in the near future – by rising productivity and decreasing number of farms.

Diversification of activities belongs traditionally to the common approaches to agriculture. Because of unsure yields, Finnish farmers had always to ensure their income from various sources. Diversification activities have been increasing since the 90's. New farmers' activities are oriented on services; one of the most typical activities is contracting machines (Farming and Food in Finland 2006). More than one third of the diversified farms practise at least two non-agricultural activities. They are often connected to agriculture. Development of rural areas is influenced positively by growing importance of other (non-agricultural) small rural enterprises. Their number grew by 2% in the period 1997–2002. However, there are huge regional differences. Services in forestry, breeding of fur animals, and turf mining are the most important non-agricultural activities. Reindeer breeding is a typical activity for the northern Finland. Approximately one fifth of workers employed in small rural enterprises are active in processing industry. Various economic activities are thus an important element of stability for Finnish rural areas.

DISCUSSION AND CONCLUSION

Finnish approach to the Common Agricultural Policy reflected a necessity to compensate competitive disadvantages of agrarian sector. This fact was clear for Finland already in the pre-accession period. Finland thus was pushing for the CAP conditions to be adjusted to get proper compensations for its agriculture. A new Single Farm Payment Scheme came into force in 2006. Farm support is in Finland more important than in other EU-countries because of its unfavourable production conditions. Because the CAP does not consider the northern agriculture with small farms as a priority, a national support is of big importance. The Finnish national budget covers 56% of the total agricultural support (both the national and the CAP based support), whereas only 44% come from the common EU sources. This model of support, which is, however, acceptable only in extreme production conditions, belongs to the pillars of stability of the Finnish agriculture and rural areas in the conditions of the single market. Stabilisation of sparsely populated areas has an extreme importance for Finland because approximately one third of Finnish population lives in the areas with the average density of population lower than 50 inhabitants per km^2.

The orientation on diversification is the next important factor of competitiveness. Diversification activities are no new phenomena for Finnish farmers; they can thus take advantages of their long term experiences. The CAP is supporting an important strength of Finnish farmers from this point of view.

Despite its competitive disadvantages, Finnish agriculture has come through in the conditions of the single market. The EU membership has lead to many changes in the agrarian sector; nevertheless, no dramatic downturn has occurred. Even if the conditions of the Finnish agriculture are really specific, Finland can become an example for the other European countries. Finland has proved that a success of an agrarian sector in the EU is not influenced only by the CAP rules. A national approach oriented on strengths and competitive advantages plays an important role as well.

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