

C.E.D.R.



**European Council for Agricultural Law
Comité Européen de Droit Rural (C.E.D.R.)
Europäisches Agrarrechtskomitee**

**XXIII European Congress and Colloquium of Agricultural
Law – Røros (Norway) – 6-10 March 2005**

**XXIII Congrès et Colloque Européens de Droit Rural
– Røros (Norvège) – 6-10 mars 2005**

**XXIII Europäischer Agrarrechtskongress mit Kolloquium
– Røros (Norwegen) – 6.-10. März 2005**

Commission II – Kommission II

**THE CONSEQUENCES OF THE NEW REVISION OF THE CAP ON
EXPLOITATION AND RURAL PROPERTY**

**LES CONSÉQUENCES DE LA NOUVELLE RÉVISION DE LA PAC
SUR L'EXPLOITATION ET LA PROPRIÉTÉ AGRICOLE**

**DIE AUSWIRKUNGEN DER NEUEN REVISION DER GAP
AUF DIE LANDWIRTSCHAFTLICHEN BETRIEBE UND DAS
BÄUERLICHE EIGENTUM**

National Report – Rapport national – Landesbericht

Finland – la Finlande – Finnland

The Consequences of the new Revision of the CAP on Farming Businesses and Rural Property

NOTE: The views expressed in this paper are purely those of the writer and may not in any circumstances be regarded as stating an official position of the Ministry of Agriculture and Forestry.

Introduction

To start with, it is important to tell some facts about Finnish agriculture. Finland is the most northern country that has farm production. Therefore the conditions in which Finnish farmers are working are not comparable with the countries in more souths. From south to north Finland is almost 1,100 kilometres long. In the southern part of the country growing season is nearly 6 months (180 days) but in the northern part only 2-3 months (120 days). In Central Europe growing season is 260 and in Southern Europe over 300 days, and therefore plants with high yields used in the south can not be used in Finland.¹ It is possible to grow only species of plant that have short growing time. Accordingly the production costs are the same (or even higher) but the yields are smaller. Also the hard winter makes it difficult to grow winter grains. The machine capacity needed for arable farming is very high relative to the average cultivated area. Besides the small farm size, this is due to the short growing season and uncertain cultivation conditions. Cooperation in the use of machinery between farms has increased in recent years despite the difficulties caused by the short optimal harvesting period and long distances between farms.

Structural change

The number of farms has decreased drastically since Finland joined the EU. In 1994 there were 114,000 farms compared to 72,000 farms in 2002. In year 1995 only part of all farms (95,562) declared area and/or animal based subsidies. During the EU membership structural change has been rapid and the number of farms has fallen by 25 percent (3.5% annually). Change has been different in different regions.² The decrease of dairy farms has been more rapid (6-7% per annum) than the decrease of farms with plant production (app. 2% per annum).

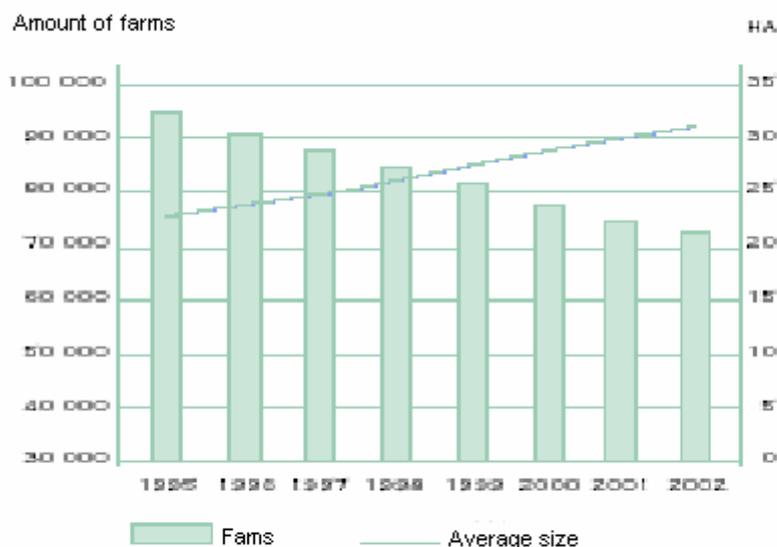
While the number of farms is decreasing rapidly, the average farm size is on the increase. In 1995-2003 the average size of farms receiving agricultural support grew by 36% from 22.8 ha of arable land to 31.0 ha. The growth is due to both the decrease in the number of small farms and increase in the number of large farms. The increase in the cultivated area per farm has mainly occurred through leasing rather than purchasing additional land.³

¹ Finnish Agriculture and Rural Industries 1998, MTT Agrifood Research Finland, pages 18-19.

² Finnish Agriculture and Rural Industries 2004, MTT Agrifood Research Finland, page 20.

³ Ibid. page 20.

The number of farms and the average size of farms



According to recent estimate⁴ the number of farms will decrease continuously so that by the year 2015 30-35 percent of farms will stop farming, in some parts of the country the decreasing can be even 40 percent.

The ownership structure of farms

Finnish agriculture is based on family farms. 88.6 percent of farms receiving support are privately owned and 10.5 percent of farms are owned by the heirs or family companies and corporations. Cooperatives, limited companies and production rings own 0.8 percent of farms and 0.1 percent is owned by the State, municipalities, schools and parishes. In the past three years the only forms of ownership which has increased are the share are limited company (+28%), general partnership and limited partnership (+6%).⁵

Income support⁶

Support plays a major role in the income formation of agriculture and horticulture. Finland had its own agricultural policy till the year 1995 when Finland joined the EU. For the moment the support consist of two main elements: support paid under the rules of the common agricultural policy and national aid funded by Finland. So, CAP support is only one part of the total income support in Finland.

The main payments are those for arable plants and livestock (CAP support), both of which are financed in total by the EU, and the LFA allowance and agri-environmental support, which are co-financed by the EU and Finland. The aim of the national aid system is to complement that set up under the CAP, to secure the operating potential of agriculture in different sectors⁷ and regions, and to promote the continuing vitality of the countryside.

⁴ Laurila, Ilkka P. 12.11.2004.

⁵ Finnish Agriculture and Rural Industries 2004, MTT Agrifood Research Finland, page 21.

⁶ The income support paid for the agriculture and horticulture according the legal status of the recipient is based on the IACS and YTJ (Common Control System of Support) registers.

⁷ Most of the national aid (70%) is paid for livestock production.

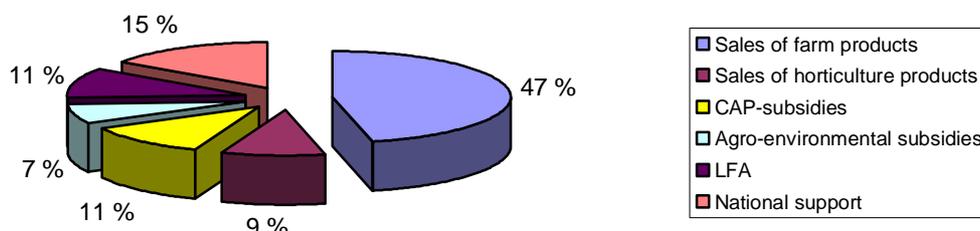
Initially the national aid system had three parts – transitional aid, Northern aid and certain other national aids (e.g. for potato production). As the result of negotiations held under Article 141 of the 1996 Accession Treaty, the national aid for arable crops was introduced in 1997. In addition, the transitional aid for support regions A and B (Finland is divided to support regions A-C depending on the reference yields of regions, see appendix 1) was raised in 1997-1999 in respect of livestock and greenhouse production and the storage aid for horticultural products.⁸

The five-year transitional period granted to Finnish agriculture and also the national aids paid during the transitional period terminated at the end of 1999. Since 2000, the aids paid for livestock and horticultural production in Southern Finland (support regions A and B) have been paid as the national aid for Southern Finland. According the Commission decision 141, those forms of support were first allowed until the end of 2003. This support for arable plant production has been paid as the national aid for crop production. The Northern aid system covering livestock and crop production will continue in central and northern Finland (support region C).⁹

Based on the outcome of the 141-negotiation (this year) with the Commission Finland may grant both national aid and raised investment aid for livestock production and horticulture in southern Finland until the end of 2007. However, when approving this, the Commission set the condition that by 2007 the aid should have decreased by altogether 29% from the level of 2003.

The agricultural net income in year 2003 was app. €1.17billion. Out of all returns only 47 percent comes from the sales of products and the remaining part is different kind of subsidies, see figure 1¹⁰.

Income structure of farm and horticulture production 2003



It is important to notice that the figure above describes the structure of total revenues, not the structure of agricultural incomes. While in 2003 the total output of agriculture and horticulture was €3.96billion and the total cost of agriculture and horticulture amounted to €2.79billion. While CAP support is only 11% of total return it is in theory 44% of farmers incomes.

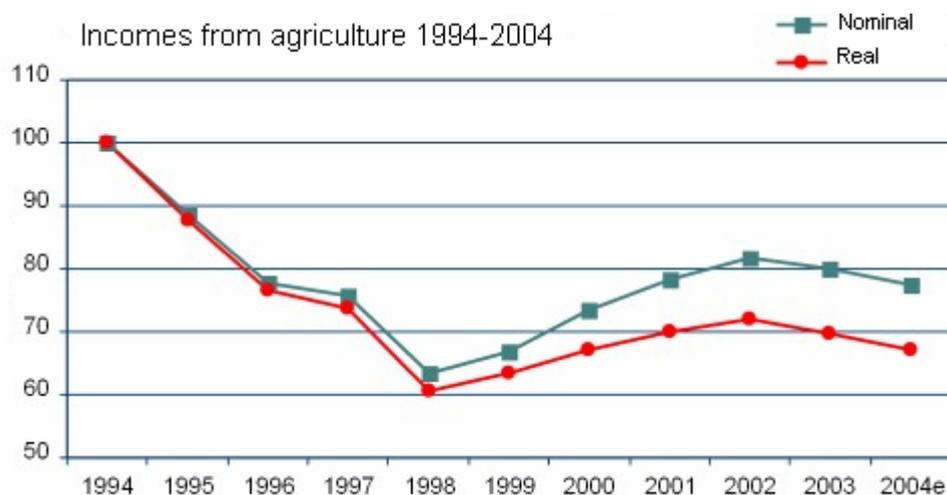
Despite of the CAP, LFA and national support the farm incomes have decreased since 1994 (see below figure 2¹¹).

⁸ Information Centre of the Ministry of Agriculture and Forestry: 2003 Yearbook of Farm Statistics, Helsinki 2003 (page 221).

⁹ Ibid.

¹⁰ CAP-UUDISTUS, Kesäkuu 2004, http://www.mmm.fi/kansainvaliset_asiat/eu/maatalouspolitiikan_uudistus/

¹¹ MTT Agrifood Research Finland: Finnish farm income down by 3% in 2004, press release 19.10.2004.



Farm and small-scale entrepreneurial activity financing aid¹²

Financing aid for rural industries could be granted under the Act of Rural Industries, which came into effect in January 1991. The aid was granted in the form of both state loans and subsidies from funds of the Development Fund of Agriculture and Forestry or interest rate subsidy loans from the funds of financial institutions. The funds of the Development Fund of Agriculture and Forestry were also available for loans under the Act on Reindeer Husbandry, the Skolt Act and the Act on Natural Economy Industries. New acts on Rural Industries Financing, Reindeer Husbandry Financing and Natural Economies Financing came into force in January 2000, replacing all the earlier acts except Skolt Act, which remains in effect. Both state loans and interest rate subsidy loans are granted through financial institutions. Some of the subsidies and the loan related support are partly funded by the EU, others are totally nationally funded.¹³

Investment support

Rural entrepreneurs can get financial support for investments. Investments can relate to enlargement or diversifying of the farm unit, environmental protection, animal welfare, land acquisition and many other targets. This support is interest-rate subsidy loans, state loans and subsidies. The requirement for support is that the entrepreneur and the farm meets the requirements that are imposed. Structural aid is either EU co-financed or fully national support. EU-co-financed support is available only for Objective 1 programme regions (Eastern and Northern Finland).

1 Compliance of the national norms with the new horizontal regulation

Do you think that the national norms regulating farming and agricultural property in your country comply with the definitions established by the new horizontal regulation for subsidised agriculture?

Council Regulation (EC) No 1782/2003 introduces the direct payment scheme. The implementation of these norms began in full only after the government made the decision

¹² The state loans and subsidies granted from the funds of the Development Fund of Agriculture and Forestry and the interest rate subsidy loans granted are all in RAHTU register.

¹³ Information Centre of the Ministry of Agriculture and Forestry: 2003 Yearbook of Farm Statistics, Helsinki 2003 (page 232).

on chosen system 10th June 2004¹⁴. The legislation process is progressing along with the political decision making. Therefore, for the time being, there is no official/published material on the topic concerning the compliance of the EU regulations with the national ones.

To enforce the system Finland must among other new features implement a new register¹⁵ i.e. a system for the identification and registration of payment entitlements. This whole approach is totally unfamiliar to Finnish legal system. The single farm payment schema might be also in conflict with the Finnish constitution while in the case of rented fields the landlord has no right to entitlement to payment if it is not agreed in the rental agreement. This will most probably have effects on the rental level of fields. In the future there will be dual land prices and rental levels. This topic is discussed more in chapters 6 and 7.

2 The foreseeable effects of the reform¹⁶

What are the foreseeable effects of the reform on products included in the scheme of single farm payments and the consequences for the products, which are not included?

Economical effects

Decoupling support from production will affect economic efficiency, structural development and supply of agricultural products in the entire agricultural sector. If producer prices remain unchanged, the reform will increase incentives to give up production and decrease incentives to increase the number of livestock by investing in new production buildings. On the other hand, making support independent of production will reduce the supply of most agricultural products, which will tend to raise the price level of agricultural products or, at least, reduce the costs due to the common market intervention programmes of the European Union. However, the effects on the prices of agricultural products in the common market will depend ultimately on the development of the EU's import protection and the world market.

The support model where CAP support is independent of production is a major political issue that affects farmers' income distribution and the viability of farms. On average, the reform will maintain farmers' income and the decoupling of support from production may even raise the income level in the short term. Changes in support payments and income may be considerable for individual farms and farmers. Regionally graded, uniform payment per hectare of arable land, which is the Finnish choice, will change the income level of individual farmers and the support payments they receive.

The transferability of entitlements to decoupled CAP support and the trading of these entitlements are issues that are primarily related to financing and liquidity. The trading of entitlements does not increase the efficiency of the sector in the same way as trade with, say, milk quotas does.

In Finland today CAP support for cereals is paid together with during aid, which is why it is higher than the CAP support for fallowing. Decoupling improves the relative profitability of such crops and land uses whose CAP support has been lower than the support for cereals (silage grass and fallow) or which have previously received no CAP support at all (other grass area and other crops). Studies indicate that probably 10-20% of the cereals area will be set aside in the long term – i.e. to the same level it was on in the years 1994-1995 due

¹⁴ The government came to agreement on this decision with the Central Union of Agricultural Producers and Forest Owners (MTK) on 26th May 2004 - after very long and difficult negotiations.

¹⁵ 1782/2003 art 21

¹⁶ This part of text is based on: Heikki Lehtonen, The reform of the European Union's Common Agricultural Policy in Finnish Agriculture, MTT Economic Research, Agrifood research Finland And Pellervo Economic Research Institute PTT, MTT:n selvityksiä 62/2004.

to extensive fallowing. The change would be greatest on submarginal soils and on farms with higher than average production costs, since harvesting and drying costs are high in Finland. On beef and milk farms, some of the cereals area would become grass area, but the total grass area would continue to decrease.

Decoupling will not decrease the agricultural income. Instead, it would increase the efficiency of grain production and make it easier for farmers to give up less profitable grain production. Reducing the cereals area on submarginal soils could also entail environmental advantages. The orientation towards bigger farms and more efficient use of labour in grain production will continue.

The areas of special crops (such as sugar and starch potato) would continue to be strongly linked with EU market interventions, possibly with national support systems and areas regulated by contracts for growing crops. Only this could retain part of the special processing industry in Finland.

The termination of intervention arrangements for rye will significantly reduce the price of rye and, at the very least, increase its price variations in the EU's internal market. The relative profitability of rye will probably increase.

For a dairy or cattle farm, which is investing or has invested in production, selected uniform support model will result in significant income losses. Income losses could be compensated only by acquiring new land or by essentially expanding production, which would also entail purchasing new land. This will raise the price of arable land in production areas predominated by animal husbandry.

Administrative impacts

Finland will begin to enforce cross compliance in year 2005 as requested in the Council Regulation (EC) No 1782/2003 (annex III). It is obvious that this will require notable investments to management. One practical inconvenience is related to the control of animal welfare: best experts to carry out control visit i.e. municipal veterinarians find it difficult to visit the farm both as control authority and as practicing veterinarian. Therefore the control of animal welfare will be taken care of other authorities.

3 The advantages and the objections of the national implementation of the single payment scheme

What do you consider as the advantages and the objections of the national or regional implementation of the single payment scheme elected by your state?

Finland will implement single payment scheme in year 2006. This single payment scheme is a combination of regionally adjusted subsidy¹⁷ (art. 58) and farm related subsidies i.e. 70% of the payment in the milk sector and 25% of the bull and steer subsidy. In practice these production based subsidies are paid to dairy and bovine farms as raised hectare subsidy. 75% of husbandry subsidy will be paid as suckler cow premium and steer premium today-like. In year 2007 payment in milk sector will be combined to regionally adjusted subsidy which will then lead to different subsidy levels within the regions.

Regionally adjusted flat subsidy will be app. 85% of the CAP support. Drying subsidy will be included to flat subsidy. Farm related subsidies are tied up with production (at the beginning app. 9% of CAP support) and they will decrease by time. Finally these farms related subsidies will be combined to flat payment, which then will be equal to everyone within the region.

¹⁷ Different subsidy levels for regions A, B-C1 and C2-C4.

The reform will decrease the amount of direct subsidies from the year 2005 onwards due to the degressivity, modulation and financial discipline. Finland has to compensate the losses to the farmers with national subsidies from the national funds. One example is the additional LFA-subsidy¹⁸ (additional part which is not co-financed by the EU). The LFA-support is now 200 €/ha and in the future Finland will pay additional 100-1005 €/ha subsidy for husbandry farms and 20-25 €/ha to plant production farms.¹⁹

National, agro-environmental and LFA subsidies will include incentives for production. National subsidies will be tied up with (field/animal) production in the future. Altogether national subsidies will play major role in the future.

4 The transitional period

Does your country use the transitional period allowed for the introduction of the single payment scheme? If yes, what are the motives?

The decision to implement single payment scheme only in 2006 is most of all for the most due to the complexity of agricultural policy in Finland. It wouldn't have been possible to modify legislation all administrative systems by the year 2005. Also, political decision making seems to take time while the negotiations with the Central Union of Agricultural Producers and Forest Owners (MTK) have been rather complicated. MTK is divided into parties who have different opinions on the allocation of CAP/national subsidies between the different production sectors and regions.

Maybe also, Finland hopes to learn something from the experiences of those member states who will implement single payment scheme already in 2005.

5 The single payment scheme and legal relations between the owner and the actual farmer

How does the single payment scheme affect the legal relations between proprietors of the means of production and the persons responsible for agricultural businesses?

The Council Regulation (EC) No 1782/2003 gives unambiguous guidelines (art. 43) how the payment entitlements are determined. As mentioned in the introduction, most of the farms in Finland are owner occupied but many of these farms have increased their field area mainly through leasing rather than purchasing additional land. Unfortunately there is no statistics on land rents in Finland.

In Sami Myyrä's recent survey²⁰ it was concluded that structural development in Finnish farms has mainly based on land leasing. In year 750 000 field hectares were on lease i.e. app. 33 percent of the total field area. According to this survey contracts are made for 5-7 years (on average 6 years). Two thirds of all contracts will continue after 2006 when Finland will introduce single payment schema and when the entitlements are determined to the farmers (but not owners).

In Myyrä's survey the average rent (2003-2004) was €173/ha and mean rent was €149/ha. Rent level varies considerable depending on the region. Highest rents are paid in southern Finland while in Lapland and Kainuu fields are getting marginalized – one can rent fields without rent in money terms (in 25 percent of cases) – sometimes in these contract there are obligations concerning fertility tests or liming (to keep up the productivity of fields).

¹⁸ LFA- lisäosa on kansallinen tuki joka on LFA- tuen (1410,1460) lisätuki. (MTR- koordinaatio /ATK / 1.11.2004)

¹⁹ MMM news review 11.11.2004.

²⁰ Sami Myyrä: Land rents in Finland on years 2003.2004, MTT:n selvityksiä 75, MTT Economic Research, Agrifood Research Finland.

It is general understanding that on the long run any kind of subsidy will capitalize to the land price. In this case, the single payment scheme may work in the opposite way. In year 2006 the owners of 450,000 field hectares (20% of total field area) will lose their connection to entitlement to payment if they have not agreed otherwise with the tenant (i.e. review contract). Further conclusion would be that – accordingly – their properties will be marginalized in value in the same way the fields are already marginalized in the regions of low productivity. In other words the worst scenario is that great part of this 450,000 hectares will lose its value to some extent – in some regions the value might be lost totally²¹.

Central Union of Agricultural Producers and Forest Owners (MTK) has given instructions to land owners to negotiate the rental agreement/make the new contracts so that the entitlement to payment will return to landowner after the contract ends. There are no statistics whether this kind of reviews are been made. In any case the modification of existing contracts requires the willingness of the tenant.

In some member states (e.g. in Germany) financial institutions have been concerned about the security of loans. This is of course depending on whether there will be dual land market or not. In Finland – somehow – financial institutions have not been worried so far. Maybe it is due to the fact that those landowners who rent their fields to neighbours usually own only very limited field areas and therefore the security value of these properties is equally rather small and does not cause real risk for the creditors. On the other hand the risk depends on the national reserve (of entitlements to payment) – how big the reserve will become. If the reserve is big the risk that the price of entitlement will get high is lower. Accordingly if the field area is decreasing (as I have understood it does in some member states) the price of entitlement will be very low and has little if any effect on land market²².

6 The legal nature of the entitlement to payment; impacts on existing property

What do you consider to be the legal nature of the entitlement to payment and what impact would it have on existing property?

Last summer in the parliament a written question signed by 34 members of parliament was submitted to members of the Government. In this question members of parliament wanted to get answer whether the government will sort out possible constitutional conflicts concerning the entitlement to payment and also, how the government will establish the national reserve of entitlements. The government stated in its answer that Commission Regulation (EC) No 1782/2003 can not in principle be in conflict with the Finnish constitution while in the treaty of Rome in paragraph 295 states: "This Treaty shall in no way prejudice the rules in Member States governing the system of property ownership". Land ownership has never been the basis for subsidies and there is no entitlement before it is determined on the basis of administrative decision. The new decoupled aid will be paid to the active farmer; it is not paid on the basis of land ownership nor on the basis of production. Further more the government stated that this regulation is in force in Finland in such according to the act (1540/1994) on joining the EU. The government promised to clarify the constitutional viewpoints separately if requested.²³

²¹ Fictional assuming: if the average field price is 4 000 €/ha then the maximum loss for landowners would be nearly €2billion.

²² In case the price level of entitlement goes down later on, the cost of purchasing these entitlements can be considered as loss. This can even cause inequality between the farmers who begin farming or who enlarge their production at different times.

²³ Laki Suomen liittymisestä Euroopan unioniin tehdyn sopimuksen eräiden määräysten hyväksymisestä (1540/1994).

This criticism continues still in media where some members of the parliament have raised questions/claims:

- Is the entitlement to payment system in conflict with the Finnish constitution (731/1999)?²⁴
- Does the system where the entitlement is given permanently to the tenant give the landlord right to notice the contract according to the Act on Land Tenure (1966/258)?²⁵

The possible constitutional problem has not yet got any answers. There may not be any problem at all. The possible problem does not actualize in case the national reserve is big enough and all those farmers who request additional entitlements can get them freely. If there will be shortage of entitlements, some problems may arise (dual land market etc.).

7 The different means of transfer of the entitlement to payment; legal problems

What legal problems do the different means of transfer of the entitlement to payment bring about for the new regulatory regime in the individual member states?

There are several kinds of entitlements of payment i.e. entitlements to payment²⁶, entitlements subject to special conditions²⁷, set-aside entitlements²⁸ and authorisation to manufacture of potato starch²⁹. The transfers of these entitlements are to be done as regulated in Council Regulation (EC) No 1782/2003. The main rule is that the farmer will lose his/her entitlement to payment if the farmer does not apply for CAP subsidy in year 2006. These entitlements will be transferred to national reserve. The entitlements once given to the farmer can also be transferred to national reserve in case the farmer has not used these entitlements for 3 years.

If the farmer has used at least 80% of the entitlements during at least one calendar year a farmer can transfer entitlements of payments (by sale or any other definitive transfer) to other farmer either with or without land. A farmer may also transfer his payment entitlements without land after he has given up voluntarily to the national reserve all the payment entitlements he has not used in the first year of application of the single payment scheme. Finland has not yet made any decision yet that part of the payment entitlements sold revert to the national reserve or that their unit value is reduced in favour of the national reserve (Art 46). Nor has Finland made any decision yet whether part of the entitlements should revert to national reserve if a farmer – not later than 29th September 2003 – sells or leases (Art 42) the holding or part of it for six or more years (Art 42)

Entitlements can be given from the national reserve to farmers who commence farming after 31st December 2002 (or in 2002 but without receiving any direct payment in that year). Also farmers who expand their farm can be given entitlements. However, the terms of receiving additional entitlements are not agreed yet.

²⁴ The Constitution of Finland (731/1999), Section 15 – Protection of property: The property of everyone is protected. Provisions on the expropriation of property, for public needs and against full compensation, are laid down by an Act. (Unofficial translation)

²⁵ 16.2 §: If the possibilities to use rented land substantially increases (ref. to paragraph 1) the landlord has the same equal right to check the amount of rent or notice the agreement (building lots excluded) as the tenant has in the situation where his/her possibilities to use land decreases. (Unofficial translation)

²⁶ 1782/2003 art 43

²⁷ 1782/2003 art 47

²⁸ 1782/2003 art 53

²⁹ 1782/2003 art 60

No problems concerning transfers have been recognized so far. However, while the definitions³⁰ and transfer processes are still under political preparation it might be too early to say definitely that problems will not arise.

8 The limits of the transfer of the entitlement to payment

Do you consider the limits of the transfer of the entitlement to payment adequate or not?

N/A (Too early to comment.)

9 The national reserve

Do you consider the provisions which authorise the constitution of the national reserve sufficient and adequate?

N/A (Too early to comment.)

10 The practices of agricultural tenancies or transfer of agricultural property and of agricultural businesses - farmers in a special situation

Do you consider that the cases of “farmers finding themselves in a special situation” within the meaning of the Regulation would adapt to the practices of agricultural tenancies or transfer of agricultural property and of agricultural businesses within each of the member states?

The problems that may arise in Finland may be different in nature compared to other member states where – as common practice – farmers very often lease their farms. As mentioned in the introduction Finnish farmers own their farms and – for the moment – lease additional land only to expand production. Further more in some regions there are a lot of fields for lease and in some other regions there is scarcity of fields for lease.

11 Other cases that should be included in the “farmers finding themselves in a special situation” practice

Which other cases do you think should be included in the “farmers finding themselves in a special situation” in order to attribute the reference amount from the national reserve?

N/A (Too early to comment.)

12 The system of exceptions and the optional implementation of some aspects- positive or negative development?

Do you consider that the system of exceptions and the optional implementation of some aspects of the single payment scheme poses a danger of renationalising the CAP? Or, on the contrary, do you consider this to be a positive development?

From the Finnish point of view the question on renationalising the CAP is very interesting. Most of the other member states have only one support system i.e. CAP support. Finland has a very complex palette of subsidies under WTO and CAP umbrella. As mentioned above, CAP support is only one part of all subsidies. If it would be possible, renationalising of the CAP could give Finland the change to build more justified, simpler and more understandable (for everyone) support system for Finnish farmers.

³⁰ The definitions to be determined include: farm/farmer/customer etc..

13 The model of modulation approved and its impact on agricultural businesses in Finland

What do you think of the model of modulation finally approved and the impact it has on agricultural businesses in your country?

N/A (The political preparation of modulation is under way – too early to comment at this moment.)

14 The model of modulation and the mechanism for financial discipline – better balance between the two pillars?

Do you consider the model of modulation and the mechanism for financial discipline may permit a better balance between the two pillars?

N/A (The political preparation of modulation is under way – too early to comment at this moment.)

15 The consequences from the foreseeable financial perspectives – the pricing and market policy up to 2013 – the uncertainty of the budget destined for the rural development from 2007 onwards

What do you think will be the consequences from the foreseeable financial perspectives for pricing and market policy up to 2013 and for the uncertainty as regards the budget destined for the rural development from 2007 onwards?

Rural development funding will most probably decrease in total in the future. This is due to the fact that Finland can not use Objective 1 subsidy in the future. The cross national product of new member states is rather low. The criteria for Objective 1 subsidy is that the income level of the area which should be under 75% of the mean income level in EU; after the enlargement there is no such area in Finland anymore³¹.

16 The real consequences of the provisions based on the principle of cross compliance of direct payments

What are the real consequences of the provisions based on the principle of cross compliance of direct payments?

It is difficult if not impossible to foresee the real consequences of the provisions based on the principle of cross compliance of direct payments. The number of farms will definitely decrease but the whether the ongoing structural change will escalate is to be seen. In worst case some parts of remote rural areas will loose most of their population. When this happens most of the services (small shops, schools) will die out – and – thereafter life on a farm will become even more difficult.

17 The scope of liability for non-compliance with the provisions (included in the priority list of 18 common norms) which have been established to guarantee cross compliance

What is the scope of liability for non-compliance with the provisions included in the priority list of 18 common norms which have been established to guarantee cross compliance?

³¹ Second report on economic and social cohesion (adopted by the European Commission on 31 January 2001)

The ministry of agriculture and forestry will provide farmers instructions on cross-compliance in spring 2005. The control of cross-compliance will be taken care of by the regional Employment and Economic Development Centres. Both the instructions and organization of administrative processes are still under preparation. There are problems ahead while e.g. not all farmers are aware that their fields are situated inside some ground water restriction zone or fields are included to Natura area. The detailed norms for sanctions are not yet completed either.

18 The new measures introduced to reinforce the support for rural development

Do you consider the new measures introduced to reinforce the support for rural development to be sufficient?

Finland has not yet made any decisions on the support for rural development measures concerning the years 2007 onwards. See also chapter 15.

19 The effects of the reform on the common organisation of the market in cereals, rice, dried fodder and milk

What do you consider will be the effects of the reform on the common organisation of the market in cereals, rice, dried fodder and milk?

According to MTT's study³² grain production will decrease 20% in the next ten years. This would diminish the feed grain production and gradually will cease the oversupply and exports of feed grain from Finland. However, the domestic feed grain supply would still cover domestic demand. Hence, the CAP reform and reduction of oversupply would have a positive impact on grain markets in Finland. However, rye cultivation would cease as a result of CAP reform which will cease intervention purchases of rye. The resulting drop of rye prices would make rye clearly a relatively uncompetitive and unprofitable crop in Finland.

Decoupling of CAP support on beef production will weaken incentives for suckler cow production and bull fattening considerably in Finland. Beef prices are likely to go up in Finland if beef production declines, but the price increase is not likely to be sufficient in order to retain incentives for production because of high production costs in Finland.

There are relatively few large dairy farms which use efficient production techniques in Finland. Decoupling weakens the incentive for investment in dairy production causes a temporary but significant slow/down in dairy investment and technical change. Consequently, decoupling is likely to result in a significant drop in milk and beef production in the 10/15 year period if no corrective measures are taken in agricultural policy. The prices of milk quotes will first drop while many of the middle size and big farms have expanded their production lately and are therefore quite indebted. Only after 2015 when small farms have stopped production and middle size and big farms will start expanding again, milk quota prices will go up again and reach the 2002 price level by the year 2020. Nevertheless, considering the oversupply of milk fat and especially butter in Finland, the small or moderate decrease in production would benefit not only tax payers but also milk producers because of stronger milk prices and decreased cost of butter export.

³² Heikki Lehtonen et al, The reform of the European Union's Common Agricultural Policy in Finnish Agriculture, MTT Economic Research, Agrifood research Finland And Pellervo Economic Research Institute PTT, MTT:n selvityksiä 62/2004.

20 The effects of the other planned aid schemes for products such as durum wheat, protein crop, nuts, etc.

What do you think will be the effects of the other planned aid schemes for products such as durum wheat, protein crop, nuts, etc.?

Finland will implement new support schemes for protein crops, energy crops and dairy premium. These support schemas will certainly have some positive effects. For the moment there are no resent evaluations made about the effects on these sectors.

Even more important question for the moment is the Commission proposal for sugar reform, which will in the worst case stop sugar beet production in Finland. Finland produces only 60% of sugar consumption.

21 The community regulatory framework - the avoidance or fraud

Do you think that the community regulatory framework contains mechanisms which permit avoidance or fraud as compared with the objectives of the norms?

N/A

22 The possible advantages – neutralised by the complexity and the costs for the management of the system?

Do you think that the possible advantages of the new regulation might be neutralised by the complexity and the costs for the management of the system

The agricultural subsidy schema in Finland is already now very complex. In May 25th the Finnish government and the Central Union of Agricultural Producers and Forest Owners (MTK) agreed on the implementation of the CAP reform. In this agreement the government promised to remain the existing subsidy levels between different regions and between different production sectors unchanged. Without this agreement the Northern subsidy for arable plants and livestock would fall drastically (in region C).

Now - after this above mentioned agreement the government only has to find the solutions for implementation and financing! The means to follow through this kind of decision/agreement will make the support system more complex than before. The agri-environmental schema must be modified, the LFA schema must be revised and all the 141-schemas will be modified. There are no other EU-member states where the system is as complicated. In other member states the administration has to implement the changes to CAP system only - in Finland the whole support palette, computer systems and administration have to be reorganised. In Finland it is difficult admit that CAP reform is made for the sake of simplification

23 The new regulation and the agriculture of the new member states

What do you consider will be the impact of the new regulation on the agriculture of the Accession States incorporated into the EU and for their process of adaptation?

N/A

24 The new reform – may it fulfil the general objectives: Ensuring a fair standard of living for the agricultural community – Contributing to the conservation of rural areas

Do you think that the new reform may fulfil the general objectives of ensuring a fair standard of living for the agricultural community and contributing to the conservation of rural areas?

It is maybe too early to make reliable conclusions whether the new reform will ensure a fair standard of living for the agricultural community. Ongoing rapid structural change will leave the questions unanswered. Most probably those farmers who have the courage to continue farming and who will expand / diversify production will get paid on the long run.

However, in these circumstances there are many farmers who will find farming unprofitable and/or uncertain. If they are forced to stop farming and they are living in the region, where there are no other work opportunities, it is justified – from their point of view – to call the CAP reform unfair. In Finland farmers have no changes to choose the production sector on the ground what crop is most profitable – the climate puts the limits. Those farmers who stop farming before the retirement age are just dropped out from the statistics. One can ask, is anyone concerned with their and their family's wellbeing. Furthermore, it is possible to say, that social impacts in northern and eastern part of the country are more severe than what the impacts are for instance in the Southern Finland.

There is too little knowledge about the modulation and the national regional aid policies that is rather impossible to give opinion, whether contributions to the conservations of rural areas are adequate or not.