

# THE ANTECEDENTS OF FINNISH ACCESSION TO THE EU AND THE AGRICULTURAL ISSUE

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## SUMMARY

Finland had a two decade long history of integration with the European Union, the European Community and the European Economic Community.

The prices of major agricultural products declined by 40 to 50 and even 60 per cent from 1990 to 1995. There was a need to introduce a new and relevant subsidy system. The total volume of subsidies provided for Finnish agriculture is in excess of the volume of the income actually realised in Finnish agriculture.

For Finland, it is also a painful compromise that only 85 percent of the country's total agricultural area was acknowledged as a less favoured area eligible for LFA support. In the new system, another type of support became available with the intention to help farmers in extraordinary difficulties; this is stipulated in Article 141 of the Accession Treaty. A further characteristic feature of the Finnish agricultural system of subsidies is that it embraces significant regional differences.

Finnish accession brought the issue of agricultural efficiency into the limelight. Within the complex problem of efficiency, economies of scale play a central role. Finnish analyses openly admit that Finland is still behind the countries of the European Union in this respect.

KEYWORDS: Finland; Agriculture; Accession to EU.

Finland only gained its independence in December 1917, and the eight decades that have passed since that time brought a development that deserves respect, even by international standard. Today, Finland belongs to the group of most developed countries. Right before its accession to the European Union in 1994, Finland's overall level of economic development was very close to the average of the European Union.

## THE ANTEDECENTS OF FINNISH ACCESSION

It is beyond doubt that a wide range of factors played an important role in these achievements. However, I shall only mention some of the most significant factors, and only very briefly. First of all, Finland established a market economy and operated its na

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tional economy under the conditions of market economy. On the other hand, Finnish economy is fundamentally based on private property. Yet another important factor is that Finnish politics played an active and positive role in the process, which is understandable because of the country's eight decades of independence. Finland has witnessed a vast number of turning points, where the involvement and active participation of outstanding Finnish politicians were in most cases fairly obvious for the observer. Without aiming at completion, I should mention Marshal C. G. Mannerheim and Presidents J. K. Paasikivi and U. K. Kekkonen, whose personalities and outstanding human qualities survived in Finnish history, and who undoubtedly left their lasting mark on today's Finland. Last but not least, I must mention the fact that the desire to become involved in international integration was historically one of the primary pillars of Finnish economic policy. This ambition became rather obvious soon after World War II, in which Finland found itself on the losing side. Finland joined the United Nations Organisation too, and, as early as 1955, it became a member of the so-called Northern Co-operation in order to accelerate the development of its economy, seeking support for this development process in international integration.

When the European Free Trade Association (EFTA) was established in 1960, Finland expressed its request desire to establish still closer co-operation with the association through full membership. Negotiations started in February 1961 and, within the year, resulted in the conclusion in Helsinki of an agreement between EFTA member states and the Republic of Finland, which entered into force as of June 26, 1961. In accordance with the agreement, Finland became and remained an associated member of EFTA until January 1, 1986, when the country acquired full membership in the organisation. EFTA member states decided to liberalise mutual trading, if only for a significant portion of commercial items. Finland's EFTA membership brought palpable results for the country in terms of foreign trade. While in 1950 and in 1960 the percentage of trading with EFTA member states represented only eight and 15 percents respectively, this figure increased to 25 percent by 1970. This is largely attributable to the conclusion of the agreement mentioned before. On the other hand, EFTA member states widened their co-operation with the European Economic Community (EEC) as well. In 1972, an agreement to this effect was concluded, liberalising trade and strengthening co-operation in various fields between EFTA and the European Economic Community. Soon after the conclusion of this agreement, that is in 1973, Finland as an associated member of the EFTA also signed its own bilateral treaty of co-operation with the European Economic Community, which significantly liberalised the trade of industrial goods, reducing or eliminating tariff barriers and administrative trading limitations between the European Economic Community and Finland.

The treaty defined the following objectives: promoting the harmonic development of economic relations between the European Economic Community and the Republic of Finland through the expansion of bilateral trading, thereby stimulating economic activities, improving living standards, employment conditions and efficiency, and strengthening financial stability in Finland as well as within the Community. Further objectives included establishing the conditions of fair trading in the context of competitive commerce between the two parties, and contributing to the expansion and harmonic development of world trade through eliminating trading barriers. The treaty specified import liberalisation in several sections. Article 3 of the treaty provides that the parties refrain from introduc

ing new protective import tariffs after the conclusion of the treaty. Further, the treaty also specifies that protective import tariffs must be eliminated progressively according to the following schedule: by April 1, 1973, tariffs must be reduced to 80 percent of the initial rates, where after additional 20 percent rate reductions must be introduced in four steps, effective as of January 1, 1974, 1975 and 1976, and July 1, 1977, respectively.

Article 6 of the treaty takes liberalisation one step further, stating that, as of the treaty's entering into force, neither Finland, nor the Community may adopt any measures for the protection of their markets that have an effect equivalent to protective import tariffs. Furthermore, paragraph 3 of this section stipulates that such restrictive measures currently in force must be eliminated progressively according to the following schedule: by January 1, 1974, all these trade barrier measures must be reduced to 60 percent of the status quo of January 1, 1972, then additional 20 percent rate reductions must be introduced in three steps, January 1, 1975, January 1, 1976, and July 1, 1977, respectively.

Although certain sections did make references promoting co-operation in agriculture and fishing, we can say that although the Treaty of 1973 was indeed a great step towards liberalisation and closer co-operation, it had only a limited effect on agriculture and fishing.

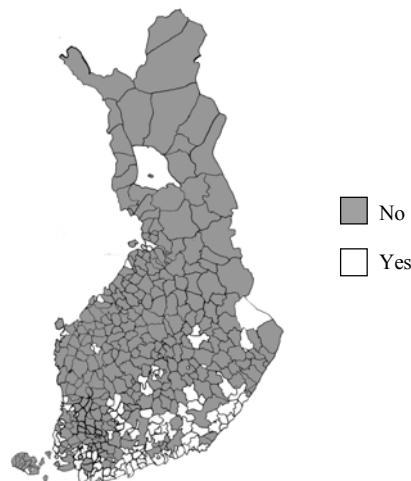
During the period after 1973, further actions were taken and further negotiations were carried out in order to identify how the relations between the European Community and the EFTA member states can be made even more harmonic, and how co-operation can be further developed and deepened. As a result of these efforts, the two international organisations adopted the Luxembourg Declaration in April 1984, which laid down the strategic principles of intensifying and expanding co-operation between the two organisations. These negotiations lead to the signing of the agreement on the establishment of the European Economic Area (EEA) in May 1992 in Porto, Portugal, by the EFTA member states and the European Community. Under the effect of this agreement, EFTA member states became very closely associated with the European Community and with the united European market through further trade liberalisation, and through the liberalisation of the free movement of labour force, services and capital in addition to the free movement of goods. On the one hand, the EEA Agreement took trade liberalisation a few steps further; on the other hand, it extended the scope of liberalisation to the major production factors, namely, to services, citizens and capital. We must note, however, that the EEA Agreement again failed to include agriculture in its own right; liberalisation did not cover the trade of agricultural products, although Finland itself signed a bilateral agreement with the European Community that made mutual trading in certain agricultural products easier for the contracting parties. The agreement between the European Community and the EFTA member states entered into force in 1994. This was Finland's last year before its accession to the European Union.

As a result of the momentous changes in world politics, accession to the European Union as a full member was not any more considered a drawback in terms of Finland's neutral status. Consequently, the Finns themselves had to weigh and compare the expected advantages and disadvantages of full membership and decide for themselves. For better choice, President of the Republic of Finland Mauno Koivisto and Finnish Prime Minister Esko Aho submitted Finland's application for full membership to the European Community. The application covered membership in the European Economic Community, the European Coal and Steel Community, and the European Atomic Energy Com-

munity. After the submission of the application, the sequence of events related to Finland's full membership gained quite some impetus; through the national referendum held in October 1994, the issue was decided and full EU-membership was made final.

As a result of the national referendum, Finns voted themselves democratically into the European Union by a 57 percent majority of votes against a 43 percent opposition. From the historical perspective, this was undoubtedly one of the most significant, if not the most significant decision brought by Finland in the twentieth century. The referendum shows clearly that Finnish society was not homogeneous concerning the issue of membership prior to its accession to the European Union. Moreover, it can be stated that the country and its population were rather divided in this important issue. The two sides – the 'two Finlands' – have been very far from one another in terms of how they think about this question of great significance, and it seems that this difference of opinions still prevails.

Figure 1. The result of the EU-referendum by municipalities



It is clear that rural areas in Finland voted almost unanimously against EU-membership during the referendum. By geographical area, this represents over 90 percent of the entire country. Those who voted 'Yes' are primarily concentrated in the southern and south-western parts of Finland, which are characterised by the high proportion of urban population, and where the most valuable research institutes, intellectual and innovative centres, firms and enterprises are based.

The Finnish greater public was very divided concerning the expected effects of EU-membership. At this point, we are going to take a look at five positive and five negative effects that are considered as the most important, also reflecting the relevant Finnish attitudes (*Finnish EU Opinion*; 1996).

Almost two thirds of the Finns interviewed during the public-opinion poll were of the opinion that accession would have a very favourable effect on the country's foreign trade through the growth of exports. The majority of the interviewees thought that full EU-membership would have a positive effect on the world of science and research and

on business life, it will improve and strengthen competition in the business sector, and it will contribute to the improvement of the country's image abroad. This represents a brief summary of the five most important positive effects of EU-membership. The leading negative effects are as follows: almost two thirds of the Finns expected crime to increase after accession, fearing therefore that EU-membership would have a significant negative effect on public safety. Another important issue that was widely discussed during the preparations for accession was national sovereignty. Almost two thirds of the interviewees expected EU-membership to have a negative effect on Finland in this respect. Over 60 percent of the poll participants indicated that bureaucracy could be expected to increase. Finally, as far as Finnish farmers are concerned, nearly 60 percent of the interviewees had no doubts that EU-membership would have a negative effect on their position, while only nine percent thought that this change would affect farmers favourably. Most Finns were also concerned about a potential weakening of social security as a result of EU-membership. Proceeding to the issue that seems most important, when asked about the effects of European Union-membership on living conditions, only 23 percent of the Finns said that it would have an overall positive effect on the living standard, while 25 percent thought that accession would have an overall negative effect. This serves well to illustrate what is behind the 57 percent of 'Yes' votes and the 43 percent of 'No' votes.

Another aspect of the referendum that is worth mentioning is something that will add further details and richness to our impression of how Finnish society thinks about accession: 47 percent of the Finnish population thought that, although EU-accession would probably bring difficult times for the country, life outside the EU would even be more difficult. 32 percent of the population refused this opinion or held the opposite. In this issue, it is worth mentioning the opinion of university graduates. 59 percent of them thought that life within the European Union would mean less difficult times. If we consider the group of senior managers, 61 percent answered that accession to the EU is a common-sense necessity. However, if we take a look at workers as a social stratum, they are much more divided in their opinions. 37 percent of the workers interviewed expressed their expectation that life would be better within the EU, while 38 percent said that it would be better outside. If we split the entire Finnish population into two groups by their 'Yes' and 'No' votes, we find that 90 percent of the 'Yes' voters considered accession as a common-sense necessity, while 70 percent of the 'No' voters thought that staying out of the EU would be more advisable. This, again, adds some details to our overall impression.

The country that became an EU-member was, in one word, a divided Finland. The issue of EU-membership divided Finland into two parties.

#### FINNISH AGRICULTURE AND EU-ACCESSION

The problems related to the integration of agriculture and the country's requests for derogation were summarised in the Position Paper (*Finnish Position Paper*; 1993). The agricultural chapter of the Position Paper consists of 119 pages; no details are given here, neither is it necessary. The most important strategic features of the agricultural chapter are its consistent assertion of the Finnish national interests and the coherent argumentation set forth in their support in the negotiations with Brussels. A few characteristic points

should be mentioned here, concentrating mainly on those points that may be most peculiar to, and enlightening in the context of, the Hungarian perspective.

1. Finland makes it unmistakably clear that it fully endorses the major objectives of the common agricultural policy as stated by the Treaty of Rome. The Position Paper actually quotes the objectives set out in the Treaty by stating that agricultural activities, even in the wording of the Treaty of Rome, are of special nature. This special nature is related to the fact that agriculture plays a very important role in the rural lifestyle and in the ability of rural areas to retain and to sustain the rural population. Accordingly, the European Community employs special devices to ensure that this special nature of agriculture is indeed taken into consideration within the framework of the EU agricultural policy, making sure that farmers can survive even in disadvantaged areas. Consequently, the Finnish position makes it absolutely clear that the prices defined by the common agricultural policy may only be introduced in Finland if this takes place simultaneously with the adoption of significant compensation schemes and various forms of support. Without this, farmers would suffer such a significant shortfall of income that could easily force them to give up their agricultural activities entirely, with the consequence that agriculture as a whole simply could not survive in disadvantaged areas and regions within Finland.

2. It follows from the previous considerations that several pages of the Position Paper mention the Finnish conception or proposal that while the common agricultural policy is fully introduced with the total consent of Finland, the country should be given a 12-year transitional or adaptation period. During these 12 years, Finland would gradually approximate its own internal prices towards the internal prices of the European Community; we have already seen the drastic price level differences that exist between the two locations and markets. The Finns request a 12-year grace period in order to eliminate these striking differences.

3. Cattle-breeding and dairy farming represent a significant part of Finnish agriculture, and are especially important in the regional perspective. Finland had already introduced a system of milk quotas; in the Position Paper, the country asks for a quota of 2 992 000 tonnes calculated on a 4.35 percent fat content. However, this milk quota is higher than Finland's actual annual milk production in 1992. Another example is the Finnish government's well-considered policy for changing the structure of food consumption favourably. To name just one example: as a part of this policy, Finland promotes the consumption of fermented dairy products. This means that Finland wishes to carry on with its policy of healthier nutrition, promoting the consumption of fermented and low-fat dairy products within the Finnish structure of nutrition. Regulation No 2167/83 of the European Economic Community provides detailed rules for the supply of milk and certain dairy products to schoolchildren. This regulation covers subsidies as well. Since the list of the products subject to the regulation does not include the fermented and low-fat dairy products that play an important role in the Finnish structure of nutrition, Finland requests Brussels to examine the possibility of putting these products on the list of supported dairy products as well.

4. Finland's Position Paper dedicates special attention to oat. Oat plays a significant role in Finnish grain crop cultivation; it is Finland's second most important grain crop after barley. In annual average, Finnish farmers produce oat on almost 350 thousand hectares, which is one third of the entire grain crop sowing area of the country. In 1991 and 1992, Finland's oat production represented 34 percent of the country's total grain crop

production, which is 23 percent of the total amount of oat produced within the European Community. Therefore, from the perspective of Finland, oat is a very important grain crop. At the same time, the European Union regulation currently in effect does not list oat as a product that is subject to intervention prices and market organisation measures. Quite naturally, Finland requests that the intervention should be extended to oat.

Staying with grain crops for the time being, it is worth mentioning that the Finnish Position Paper also speaks about issues related to the quantities of grain crops to be kept in stock. After Finland's accession to the European Community, the Finnish agricultural price level will decline. As a result of the drop in price levels, the existing grain crop stocks will be devaluated, causing the owners to suffer great economic losses. Consequently, Finland requests the European Community to provide a special form of subsidy to compensate for stock devaluation.

5. The Position Paper makes a reference to Regulation No 2328/91/EEC. This regulation specifies the criteria that farmers must meet in order to be eligible for capital investment and start-up subsidies. The regulation specifies that only those farmers are eligible whose income from agriculture, forestry, hunting or fishing represents at least 50 percent of their total income. However, the regulation stipulates further restrictions by stating that the farmers' agricultural income alone must amount to 25 percent of their total income for eligibility. In Finland, farms are peculiar in that sense that agriculture and forestry are closely related to one another. If we take a look at the national average, we find that an average Finnish farm has 13 hectares of arable land and 37 hectares of forest. However, if we visit the northern regions around Lapland and Oulu, the same figures are 10 hectares of arable land with 59 hectares of forest. This is a clear indication of how forestry starts playing a more and more significant role as we move towards the north, even compared to the southern parts of Finland. The result is that there are many farmers who have very limited possibilities under the severe climate to engage in agricultural activities as we usually understand the term. It is often seen that Finnish farmers in the north make less than 25 percent of their total income in agriculture. Therefore, these farmers would be excluded from start-up subsidies and from certain investment support schemes under the present regulation. For this reason, Finland requests that the quoted EEC-regulation be modified in such a way that the 25 percent lower limit of agricultural income is removed from the rules relevant to forestry, since many otherwise viable Finnish forestry farmers with acceptable economic perspectives would be disadvantaged if the regulation is applied mechanically.

6. The great significance of regionalism is clearly reflected in the attitude taken by the Position Paper concerning the imports of reindeer meat. The Paper makes a reference to Regulation No 2658/87, which specifies common customs tariffs. The regulation stipulates that various parts of reindeer meat can be imported into the European Community either freely, or subject to a 14 percent or 24 percent customs tariff. In Finland, reindeer meat production plays an especially important role in the northern regions. Import is subject to special import tariffs, which are designed to protect the domestic market. Finland takes the position that reindeer herding in the north of the country could experience a severe crisis if EU protective tariffs are applied exclusively. The problem is caused by the fact that Russia produces large amounts of reindeer meat, and while the producers' price of reindeer meat in Finland is approximately ECU 350 per ton, the same figure in Russia is only about ECU 15 per ton. This means that even a limited amount of reindeer meat

imports could easily disturb the market, causing farmers in Northern Finland to suffer significant losses. Accordingly, this issue must be examined separately after accession to the European Union. Finland's climate is disadvantageous, rendering grain crop production impossible in Northern Finland; consequently, reindeer herding and dairy cow keeping are the only agricultural activities that farmers in these areas can engage with. At the same time, employment and wage-earning opportunities in other sectors of the national economy are very limited. Maintaining reindeer herding in these areas is therefore a fundamental national interest and a key factor in avoiding the total depopulation of the area. The Finnish proposal, or rather request, submitted to Brussels states that special and stricter market protection measures must be put in place in order to limit reindeer meat imports from third countries.

7. As it is also seen in many other countries, a certain proportion of farms in Finland has accumulated significant debts. Regulation No 2328/91/EEC specifies certain interventions that may be applied in such cases. As far as Finland is concerned, right before the country's accession, about 8 000 farms were in a hopeless situation, struggling with severe financial difficulties. The results of the screening indicated that about half of these farms can be made profitable again by applying easier terms of payment and are viable enough to expect long-term survival after the intervention. In 1992 and 1993, the Finnish government adopted certain measures to apply easier payment terms, which, to a certain extent, made the financial situation of these farms more tolerable. The Finnish Position Paper underlines that the government must not let down heavily indebted farms struggling with financial difficulties even after the country's accession to the EU; instead, special aid schemes must be implemented for the transition period. Therefore Finland requests that, for the 12-year transition period they propose, they should be allowed to adopt national measures for the promotion of farms that struggle with severe financial difficulties but are judged viable enough for long-term survival after the intervention.

8. The Position Paper also touches upon the problems related to the so-called reference period. The Paper mentions Regulation No 1765/92/EEC on the support schemes applicable to certain specified field crops. In the context of Finnish accession, the reference period on the basis of which the annual average yield is calculated is the period between 1986/87 and 1990/91 for oil crops and grain crops, with the exclusion of the annual yields of the best and of the weakest years. As far as Finland is concerned, average yields during this reference period for barley, oat, rye and wheat were 2.8 tonnes, 2.9 tonnes, 2.7 tonnes, and 3.1 tonnes per hectares, respectively. The overall average was 2.9 tonnes per hectares. On the other hand, applying the before-mentioned EEC-regulation, the average yield of oil crops was 1.58 tonnes per hectares. Finland states in its Position Paper that the low yields are due to the severe climate. Barley and oat dominate Finland's grain crop production; however, the average yield of these crops is smaller than the average yield of wheat. Because of the short vegetation period and the severe winters, grain crops with a high average yield cannot be produced in Finland. As far as the reference period – that is, the years between 1986/87 and 1990/91 – is concerned, it included two years with extremely poor grain crop yields that were significantly lower than normally. As the average yields are low to begin with, applying the reference period specified by the EEC word for word would imply that Finnish grain crop producers suffer significant losses. It must also be mentioned that after Finland's accession to the EU, grain crop producers' prices will

decline by about half, which will decrease further the income level of Finnish farmers. Therefore, as far as Finland is concerned, the reference period should be modified as follows: instead of the period specified by Regulation No 1765/92/EEC, the years whose average yield is used as the basis for calculating the average yield should be the period between the years 1989/90 and 1991/92.

9. The Position Paper pays special attention to the problems related to fruit and vegetable production of the Finnish agriculture. Because of its northern exposure, year after year, Finland has generally obtained over 60 percent of its fresh fruit and vegetable consumption from imports. However, the country does have its own fruit and vegetable production as well. It is generally characterised by its difference from the vegetable and fruit production of the European Union; firstly, the size of fruit and vegetable farms and enterprises is smaller in Finland than in the EU; secondly, fruit and vegetable producing farmers are scattered across the country. If we mention the severe climate as well, it is easy to see that production costs are higher and that Finnish vegetable and fruit prices are significantly higher than in the countries of the European Community. Finland can only maintain its internal production by very strict market protection; the imports of most vegetable and fruit products are regulated by administrative means, and imports are only authorised if the domestic production is unable to satisfy the demand. Because of the poor competitiveness of the sector, Finland requests Brussels to permit the use of special instruments, emphasising that the vegetation period is short, the list of vegetables and fruits suitable for production under the Finnish climate is rather limited, the average yields are lower, and the producers' fixed costs are substantially higher than within the European Union. Furthermore, the harvesting period is relatively short in Finland, and early harvesting and low winter temperatures increase storage costs. About two thirds of these costs are directly linked to the severe climate. In Finland, the vegetation period in greenhouse farming starts later and terminates sooner than in Central Europe. All these conditions and circumstances call for special support schemes for the production of berries across the country. Therefore, the Finns request that the European Community permit the country to grant national subsidies to Finnish horticultural production because of the unfavourable climatic conditions. In case of greenhouse production, this national subsidy should be based on the footage area of the greenhouses, while subsidies should be granted for the promotion of capital investment projects and for the compensation of high energy costs because of the severe climatic conditions. Additionally, field horticulture must also be granted national support in order to make higher storage costs more tolerable.

10. From the Hungarian perspective, the Finnish position on Emmenthal cheese is also very interesting. Regulation 508/71/EEC provides the detailed rules and subsidies of the long-term private storage of cheeses. In this respect, national quotas have been specified for France, Germany and Ireland. As far as Finland is concerned, the country produces an annual amount of 26 to 28 thousand tonnes of Emmenthal cheese. The annual domestic consumption amounts to 7 300 tonnes. Thinking in terms of agricultural years, the volume of Emmenthal cheese production is over 2 000 tonnes less in the period between September and April than in the period between March and October. As Finland produces the overwhelming majority of its Emmenthal cheese during the summer months, which happens to be the period when consumption is relatively low, the issues of storage are especially important. Finland requests that Brussels could support the private storage

of Emmenthal cheese and establish a 2000 tonnes national Emmenthal cheese quota for Finland. They also imply that the extent of this warehousing support should be higher in the transition period than in the period thereafter.

So far, I have gathered and analysed Finland's most characteristic experiences on joining to the European Union, also addressing the primary difficulties Finnish agriculture had to face as the country entered the EU. Finland has been a full member of the European Union since January 1, 1995; Finnish society has already left behind the period of heated debates that followed the country's accession. In the years following 1995, Finland collected a lot of valuable experiences. It seems logical that we familiarise ourselves with some of Finland's experiences that are in some way related to its EU-membership. We attempt to do exactly this in the following chapter, taking a look at these experiences on the level of the national economy.

#### DEVELOPMENT OF THE NATIONAL ECONOMY

By now, Finland has been a full member of the EU for five years. It must be immediately noted that the timing of Finland's accession was very fortunate. During the first years of the 1990's, Finnish economy experienced a severe recession. The volume of GDP declined radically, with a narrowing of resources available for domestic allocation. This caused a great deal of social tension.

Table 1

##### *The structural characteristics of GDP growth in Finland between 1994 and 1997*

Denomination	1994	1997	Growth	
			billion FIM	percent
GDP at market prices	536	618	82	71
Imports	156	190	34	29
<i>Total</i>	<i>692</i>	<i>808</i>	<i>116</i>	<i>100</i>
Exports	193	246	53	46
Consumption	418	458	40	34
private	295	329	34	29
public	123	129	6	5
Capital investment	81	104	23	20
private	65	87	22	20
public	16	17	1	0
Change in stock	0	0	0	0
<i>Total</i>	<i>692</i>	<i>808</i>	<i>116</i>	<i>100</i>

*Source:* The author's calculations on the basis of the Finnish Ministry of Finance data.

In 1994, the Finnish economy started to grow, and this tendency of growth has been continuous since Finland's accession to the European Union on January 1, 1995. According to the data of the Finnish Ministry of Finance the GDP has grown by 5.1 percent in 1995, by 3.6 percent in 1996, by 5.9 percent in 1997 and by 4.9 percent in 1998.

These data show that the national economy of Finland – as a member of the European Union – was able to increase the volume of its GDP by almost 20 percent during the pe

riod between 1994 and 1998, with a rate of growth of over 15 percent during the period between the years 1994 and 1997.

One of the most obvious characteristics of this growth is that it was based largely on the expansion of exports: during the three years between 1994 and 1997, and the volume of exports increased by nearly 28 percent.

Another characteristic feature of economic growth was the expansion of domestic consumption, with the private sector taking the lead in this respect. This is true not only to the market of consumer goods but also to that of capital goods, as the growth of capital investments was most prominent in the private sector (see Table 1.).

### FINNISH AGRICULTURE WITHIN THE EUROPEAN UNION

While it is true that the agricultural aspect of Finnish accession to the EU caused no serious problems at all from the point of view of the European Union, the case is exactly the opposite if one considers the issue from the Finnish perspective. This follows logically from the significant difference between the agricultural prices of Finland and the internal agricultural prices of the EU. These significant differences explain the Finnish concerns about the introduction of the prices of the Common Agricultural Policy (CAP).

Table 2

#### *Impact of CAP prices on the income level of Finnish agriculture, 1993*

Returns	At current Finnish prices	At estimated CAP prices
	in million FIM	
Crop production	6 166.9	2 928.8
Livestock production	13 819.1	8 490.9
Horticultural production	2 025.0	1 070.3
<i>Total</i>	<i>22 011.0</i>	<i>12 490.0</i>
Subsidies	4 265.0	0.0
<i>Total return</i>	<i>26 276.0</i>	<i>12 490.0</i>
Costs of production	20 342.3	15 281.6
<i>Income</i>	<i>5 933.7</i>	<i>-2 791.6</i>

Source: (Kettunen; 1996).

Taking a look at the 1993 data, one observation becomes obvious immediately: had Finnish agriculture been subjected to the price system of the common agricultural policy without a period of transition, the income of nearly FIM 6 billion that was realised under the actual economic circumstances would have changed into a loss of FIM 2.8 billion. If we adjusted this pricing system to the Finnish subsidies of 1993, the income realised in agriculture would still be as low as about FIM 1.5 billion. It is obvious from the calculations that because of the high level of Finnish domestic prices, introducing the agricultural producers' prices of the European Community would create a disastrous income situation in Finnish agriculture.

Although it is true that lower producers' prices would imply a more than FIM 5 billion reduction in production costs, the resultant of the three effects – the declining of the prices, the unavailability of non-price subsidies, and production costs – would still cause Finnish agriculture to suffer a loss of income amounting to nearly FIM 8.7 billion. This is a loss that Finnish agriculture would be definitely unable to survive. It would imply that agriculture would essentially disappear in Finland within a short period of time, and the country would have no agriculture at all of its own. This is a complete nonsense; neither is it in line with the agricultural policy of the European Union, nor is it acceptable in the least for Finnish society. (It must be noted, however, that this calculation enlarges the problem to a certain extent; it does not match the introduction of the CAP prices with any type of support.)

It is not by pure accident that agricultural issues were attracted so much attention during Finland's negotiations with Brussels, and it is also not by chance that the Finns invested so much energy into asserting and protecting their national interests. This is obviously an oversimplification of the problem.

As of January 1, 1995, Finland had to introduce the prices of the common agricultural policy from one day to the other. The country became the part of the single market of the European Union. The loss of Finland's means of market protection against other EU-member states cleared the way for the imports of foodstuffs. This brought along that Finland became even more of a net importer in terms of its trade balance.

Table 3

*Finland's agricultural foreign trade balance between 1991 and 1998*

Period	Average annual exports	Average annual imports	Average annual trade balance
	in million FIM		
1991–1994	3709	7224	-3515
1995–1998	5055	9905	-4850

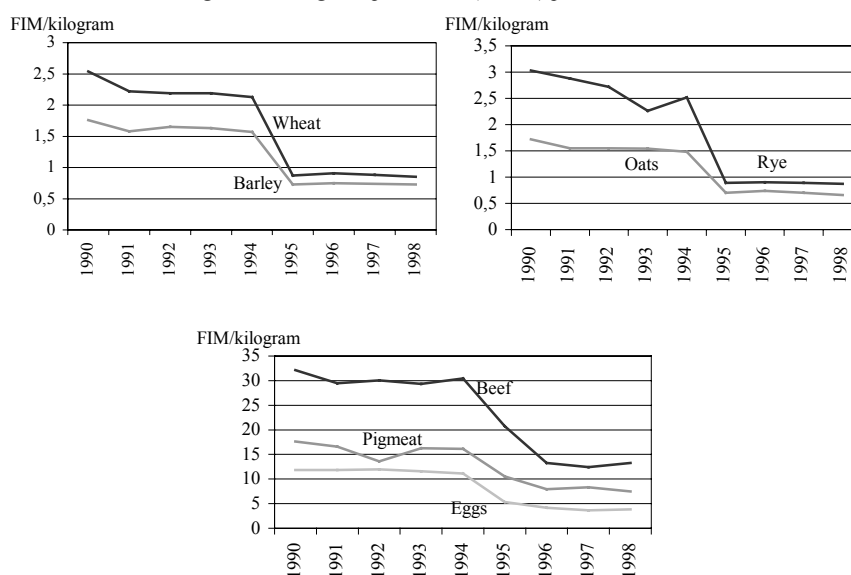
Source: The author's calculations on the basis of (*Finnish agriculture*; 1999).

Taking a look at the four years right before Finland's accession to the EU, the country's average annual foreign trade deficit in agricultural products was FIM 3.5 billion, which increased to nearly FIM 5 billion during the four years following the accession. The volume of the country's foodstuff exports is also at a level of about FIM 5 billion, although the volume varies significantly from one year to the other. This volume comes close to the 1994 level. The primary export products of the country are butter, cheese, powdered milk, pork and beef, and grain crops with volumes varying around 0.5 million tonnes per year.

The increase in the foreign trade deficit was caused by the growing volume of imports. As the per capita food consumption was on the increase nation-wide during the period under review, competition, although increased by the growing role of imports, was still easier to tolerate for Finnish farmers than for the masses of individual farmers in Hungary who just started to work on their own in the 1990's. (To avoid possible misunderstandings, we must emphasize that the overwhelming majority of Finnish farmers – or, we could say, the overwhelming majority of the rural population of Finland – objected to EU accession from the very beginning, and has hardly changed its opinion until now.)

For long, Finnish farmers had been fearing the drastic decline in prices that ensued with the 1995 introduction of the common agricultural policy. This was the very factor that turned the rural Finnish population against EU-membership. The price changes are astonishing. The next graphic presentation indicates the changes in price levels for some of the most important agricultural products.

Figure 2. Changes in producers' (market) prices in Finland



The chart indicates clearly that the producers' prices of several of Finland's main agricultural products dropped by 30 to 60 percent from 1994 to 1995. Just to mention a few examples, the producers' price of cereals dropped by 53 to 65 percent; the market price of meats dropped by 30 to 35 percent; and the price of eggs dropped by more than 50 percent. This in itself could have potentially generated an intolerable situation. (It should be noted that the price of milk only dropped by 13 percent.)

Such a drastic decline in producers' prices indicates that Finland's accession to the European Union was successful if success is measured by the government's realisation of one of its greatest promises, namely that the urban population will have access to more affordable foodstuffs. And this is true indeed. Table 4 will serve well to demonstrate the drop in consumer prices.

In just one year, this drastic decline in producers' prices resulted in a 20 percent decrease in the consumer price of meats and meat products. To make the picture more complete: the consumer price of vegetable oils decreased by over 23 percent; sugar prices dropped by 10 percent; vegetable and fruit prices declined by over 5 percent; while cereals became over 13 percent cheaper for the consumer. All in all, we can say that in 1995, the consumer price of foodstuff decreased by 11 to 12 percent as compared to the consumer price level of 1994, the last year before Finland's accession, which is slightly more than the 9 to 10 percent promised by the government. (It may be interesting to mention

that the price decline is somewhat lower at just under 10 percent if coffee, alcohol and the others are omitted from the average.) This change has proven to be a long-term change; during the period after 1995, the consumer price of foodstuffs has been fluctuating around the 1995 consumer price level. Therefore, we can say that one of the greatest advantages of EU-membership for Finland is today that the Finnish population has access to the necessary foodstuffs at a significantly lower price.

Table 4

*The projected and the actual decrease in consumer prices in 1995*

Product	Projected	Actual
	decrease (percent)	
Cereals	-15	-13.3
Meats and meat products	-16	-19.8
Dairy	-4	-7.5
Fish	-4	-4.6
Vegetable oil	-24	-23.5
Eggs	-4	-42.3
Sugar	-14	-10.4
Fruits and vegetables	-4	-5.4
Coffee, tea, cocoa	-4	3.3
Other foodstuffs	-10	-6.7
<i>Total</i>	-9.5	-11.5

Source: (*Integration of Agriculture...*; 1996).

Table 5

*The output of the Finnish agriculture*

Denomination	In 1994	In 1995	1995/1994 (percent)	1998 (million FIM)	1998/1994 (percent)
	million FIM				
Gross output (at market prices)					
Plant	5 192	1 812	34.9	1 960	37.8
Horticulture	2 198	1 693	77.0	1 695	77.1
Animal husbandry	13 476	7 893	58.6	8 040	60.0
<i>Agriculture</i>	<i>20 866</i>	<i>11 398</i>	<i>54.6</i>	<i>11 695</i>	<i>56.0</i>
Various other revenues					
Compensation for stock devaluation	0	2 182	–	0	–
Compensation for damages	8	12	150.0	20	250.0
Rent	419	365	87.0	354	84.5
Subsidies	4 096	8 293	202.5	8 500	207.5
<i>Total</i>	<i>4 523</i>	<i>10 852</i>	<i>240.0</i>	<i>8 874</i>	<i>196.2</i>
Gross return total	25 389	22 350	88.0	20 569	81.0
Total costs	17 089	15 016	87.9	15 284	89.4
<i>Farm income</i>	<i>8 300</i>	<i>7 334</i>	<i>88.4</i>	<i>5 285</i>	<i>63.7</i>

Source: (*Finnish agriculture*; 1999).

Quite naturally, the radical change in Finland's agricultural price structure also involved rather significant changes in the output and income indicators of Finnish agriculture (see Table 5.).

From 1994 to 1995, calculating at market prices and excluding subsidies from the calculations, the country's gross agricultural output dropped by approximately 45 percent. The decline in the gross output is especially significant in plant cultivation at about 65 percent. Such a decline in price levels would have resulted in a total collapse of Finnish agriculture if a well-considered system of subsidies had not been applied. Just consider the fact that from one year to the other, the price level of Finnish agriculture dropped from 3.7 times the world market price level to 1.9 times the world market price level!

Fortunately, this collapse actually did not happen. Thanks to the rather significant subsidies provided for agriculture, the 1995 gross turnover of the sector was only 12 percent lower than the same figure in the year before. The producers' prices of the sector were also 12 percent lower than in 1994. As a result, the income level generated by agriculture only declined by 12 percent as compared to the 1994 income level. However, this – one could say – satisfying result had a price: the volume of agricultural subsidies increased in 1995, and they were supplemented by an additional FIM 2.2 billion that Finnish farmers received as a special subsidy in compensation for the devaluation of their existing stocks. All in all, the 12 percent decline in the agricultural income level was backed by the introduction of a highly complicated and highly sophisticated system of subsidies. This system of subsidies placed special emphasis on the concept of regionalism, which, indeed, has long historical traditions in Finland. At the time of its accession to the European Union, Finland revised its system of agricultural subsidies, so to say, making it EU-conform. However, regional differences remained the inevitable reality. The issues of regionalism have been studied in detail by *Erzsébet Tóth* in the Hungarian literature (*Tóth*; 1997).

Extending our inquiries also to the period after 1995, we can say that the 1998 gross output calculated at market prices was effectively the same as in 1995. This is therefore another indicator of stabilisation. All these circumstances imply that, in all probability, the volume of agricultural production also stayed more or less the same since consumer prices also show a high degree of stability around the 1995 level. In 1998, the volume of agricultural subsidies was again somewhat higher than the 1995 level. These comparisons indicate that in the five-year transitional period between 1995 and 1999, Finnish agriculture was rather heavily subsidised. The 1998 figures also draw our attention to the fact that agricultural income dropped to less than two-thirds of the 1994 level. This clearly indicates a profitability problem becoming more and more critical within Finnish agriculture. The model computations carried out at the Faculty of Agriculture of the University of Helsinki also yielded results in support of this observation (*Sipilainen – Ryhanen-Ylatalo – Haggrén – Sepala*; 1998). The authors of the study pointed out, among others, that during the transitional period between 1995 and 1999, about 90 percent of Finland's strategically important cattle farms would suffer a decline in their income levels and that by 1999, only about 3 percent of the cattle farms would be able to meet the favoured 'target profitability'.

As far as the target profitability indicator is concerned, I will not discuss the term in details, but encourage all interested readers to study the literature (*Koester – Thiele –*

*Conrad – Nuppenau – Poggensee*; 1996). In economic terms, the target profitability indicator represents the profitability level at which any given farm can be competitive.

As far as the group of hog farms is concerned, the prognosis was that during the transitional period, 50 percent of the farms would suffer a decline in their income, and that by 1999, only about 18 percent of the farms would be able to reach the target profitability level. During the transitional period, 80 percent of all cereal growing farms should expect a decline in their income generated by grain crop farming. According to the calculations of the authors, only 24 percent of the farms in this group will be able to reach the target profitability level.

Simultaneously with the significant price changes and with the revision of the system of agricultural subsidies discussed before, a number of other changes also took place within Finnish agriculture that were linked to Finland's EU membership. As a result of the heavy competition, Finland was forced to move towards a wider and deeper application of economies of scale. The data presented in the following table demonstrate the importance of this concept.

Table 6

*Scale and efficiency of Finnish agriculture*

Arable lands (hectares per farm)	Production cost of cereal production		Number of cows per farm	Production costs of milk production	
	FIM/kilogram	percent		FIM/litre	percent
– 10	2.04	122	– 10	4.54	135
10 – 50	1.72	103	10 – 20	3.41	101
50 – 100	1.48	89	20 – 30	3.07	91
100 –	1.40	84	30 –	2.78	82
<i>Total</i>	<i>1.67</i>	<i>100</i>	<i>Total</i>	<i>3.37</i>	<i>100</i>

*Source: (Finnish agriculture, 1999).*

It is obvious from the table that as far as the production of cereals is concerned, economies of scale play a positive role also in Finland. Farms of a size larger than 100 hectares can produce at a cost that is about 16 percent lower than the average cost of cereal production. Farms with an arable land area between 50 and 100 hectares can still produce at a cost 11 percent lower than the average of Finnish agriculture. The correlation is reverse in the case of the other two groups of farms, that is, farms less than 10 hectares and farms with an arable land area between 10 and 50 hectares.

A similar correlation can be found in milk production. As compared to the average cost level of milk production, farms with more than 30 cows produce milk at an 18 percent lower cost. Farms where the average number of dairy cows is between 20 and 30, the production cost is still 9 percent lower than the average. However, farms keeping less than 10 dairy cows must face a production cost that is 35 percent higher than the national average. This explains why the issue of the economies of scale was so heavily emphasized at the time of Finland's EU-membership and why it was underlined so often that new capital investments and subsidies are only available in cases when the economies of size are taken into consideration. To bring only one example: while the

average Finnish dairy farm only kept an average of 12 dairy cows at the time of the Finnish accession, after it subsidies available for Finland only in case of investment projects where the number of dairy cows is in excess of 20. Farmers keeping less than 20 dairy cows are not eligible, etc.

## CONCLUSIONS

When Finland entered the European Union, the country's general level of development was close to the average level of the Union. This is a fact that Hungarian observers cannot overemphasize. We have to state nevertheless that one clue to the success of the country is the fact that Finnish politics and economic policy recognised in time the importance of international integration. Thus, as early as 1955, Finland joined the so-called Northern Co-operation; then, in 1961, it forged a partnership with the EFTA member states that was converted into full membership in 1986. As far as integration into the European Community is concerned, Finland's first step goes back to 1973, when EFTA-countries made an agreement with the European Economic Community. This agreement brought Finnish firms and the Finnish national economy closer to the firms and economies of the European Community since it resulted in the elimination of trade barriers and in the gradual liberalisation of foreign trade between the parties. The idea of closer co-operation was very much in the air after 1973 and received a further impetus in 1984 with the adoption of the Luxembourg Declaration. As a result, an agreement was concluded in 1992 after lengthy negotiations on the establishment of the European Economic Area (EEA). The Agreement entered into force in 1994, whereby Finland came very close to becoming a member of the European Community and part of the single European market. In my opinion, Finland's actual accession to the European Union was to a large extent dependent on political factors. The collapse of the Soviet Union and the great changes in world politics made it possible for Finland to become a full member of the European Union without denouncing its attitude of active neutrality.

Finland's accession to the European Union took place at a favourable time. Finland just emerged from the recession of the early years of the 1990's; in 1994, the country was already on the road of economic growth. Between 1994 and 1998, the volume of the GDP increased by nearly 20 percent. Accordingly, we can conclude that the experiences of the first four years of full membership in the European Union were all in all favourable.

Export markets contributed about 46 percent of the country's GDP and import increment. Domestic consumption accounted for 34 percent of the increment, while capital investments utilised 20 percent of the excess GDP. Therefore it is obvious that growth implied, and, indeed, was based on the simultaneous expansion of both the domestic and the export markets. We must also note that the expansion of the internal consumer goods and capital goods markets took place primarily in the private sector. The various measures adopted for the promotion of savings only resulted in a limited growth (or only stagnation) of the volume of public consumption and capital investments.

It can be established that the most sensitive aspect of the Finnish accession process was the issue of agriculture. The bilateral discussions related to the issues of agriculture carried a special importance in the negotiation process between Brussels and Finland. The scale of the problem is very easy to judge if we consider the fact that Finland's domestic

producers' prices were significantly higher than European CAP prices right before the country's accession. The study supported this observation with actual figures. This implied that introducing the CAP prices from one year to the other would have caused Finnish farmers to suffer an extreme decline in producers' prices and income levels. The calculations have shown that if the introduction of the CAP prices had not coupled with a highly sophisticated system of subsidies, Finnish agriculture would have generated an almost FIM 3 billion loss instead of the FIM 6 billion income. These calculations may shed a light on why the Finnish public opinion, and, above all, the Finnish agricultural population, was so concerned about accession to the European Community.

The Finnish Position Paper includes almost 120 pages of item-to-item argumentation in support of the Finnish position represented at the talks. One of the main characteristics of this argumentation is that Finland requests a twelve-year transitional period from Brussels for the full introduction of the CAP. Another characteristic feature of the argumentation is that Finland fully endorses the CAP objectives and is dedicated to their implementation. At the same time, the Finnish Position Paper never fails to underline the special position of Finnish agriculture, laying utmost emphasis on the country's Nordic nature. The Paper often derives Finland's less prominent specific indicators, higher producers' costs, higher storage related costs and lower average yields from this fact, indicating that long-distance transportation is frequently inevitable, which, again, increases costs. Accordingly, Finland put forward certain requests to Brussels that could have enriched the wealth of CAP instruments. (One of these is the country's appeal for the acknowledgement of the need for a so-called Nordic Support, the promotion of the consumption of low-fat products, etc.)

If we take a look at the claims of the Finnish Position Paper and the Accession Treaty as concluded at the end of the accession talks, we can see that the Treaty is a final product that came into being at the price of great compromises. In talking about the more painful side of these compromises, Finnish experts mention that Finland was not granted the twelve-year transitional period, and that it had to introduce CAP prices beginning January 1, 1995. Another sore point is that although Brussels did indeed acknowledge the need for subsidies on account of Finland's Nordic position, this support was not granted the status of a standard CAP instrument in its own right, which implies that the Nordic Support must be entirely funded from the Finnish national budget. Still viewed from the Finnish perspective, it is also a painful compromise that only 85 percent of the country's total agricultural area was acknowledged as a less favoured area eligible for LFA support. Looking at this decision from the Finnish perspective, the best 15 percent of the country's agricultural areas is excluded from this support scheme. Finally, the milk quota received by Finland was 22 percent less than what the Position Paper called for, and the list is far from being complete.

It is quite an achievement that Finland managed to link a support system to the introduction of the CAP prices, achieving that Finnish agriculture 'only' suffered a tolerable shortfall of income in agriculture. This means that the total sum of subsidies is in excess of the income actually realised in Finnish agriculture, or, in other words, the whole Finnish agricultural income comes from subsidies.

When talking about the support system, it must also be mentioned that during the transition period between 1995 and 1999, Finnish agriculture was under pressure to increase its efficiency. Survival should not only be a function of the existence or non-existence of

subsidies; the road of reducing production costs must also be taken. This is truly one of the many real challenges of the European Union membership.

A further characteristic feature of the Finnish agricultural system of subsidies is that it embraces significant regional differences. From this aspect, one of the most important questions is whether the best 15 percent of Finland's total agricultural area – defined on the basis of grain crop average yields – is excluded from the subsidies granted to disadvantaged areas. This has been and still is a painstaking dilemma for Finnish agricultural economists. It must be mentioned at this point that after 1997, another type of support became available with the intention to help farmers in extraordinary difficulties; this is stipulated in Article 141 of the Accession Treaty.

From Hungary's perspective, it must be left mentioned that Hungary, similarly to Finland, should not expect to enjoy any type of simplified agricultural support system upon its accession; however, the fact that a new type of support, namely the support to compensate Finland for the difficulties caused by its Nordic position, was in essence introduced in an EU-member state. This draws our attention to the great role of international co-operation can or could play in the case of former socialist countries waiting for their admittance. It is possible that we should think together about what types of special support could be justified in this region, leading, hopefully, to co-financing by Brussels.

When discussing the agricultural aspects of Finnish accession, we must mention that the volume of production is limited by a certain quota. This limitation involves more than just the milk quota, which is significantly lower than what the Finns asked for, as the entire agricultural system has been made profitability-oriented in accordance with the MacSharry CAP reform. This is a warning sign for Hungary: until we start the accession talks, we will either increase the currently very low output, thereby improving our initial bargaining position – and as of today, this is still possible – or we start the accession talks with the current low agricultural output, in which case we will probably not be able to achieve higher quotas, or only at the cost of painful compromises. This is indeed one of the most important messages of Finnish accession for Hungarian agricultural policy, economic policy, and politics.

Finnish accession brought the issue of agricultural efficiency into the limelight. Within the complex problem of efficiency, economies of scale play a central role. Finnish analyses openly admit that Finland is still behind the countries of the European Union in this respect: not only the average farm size is smaller than in many member states of the European Union, there is also still quite some room for development in Finnish agriculture in terms of economies of scale.

One of the most painful messages for Hungary is the issue of economies of scale. From the end of the 1980's, the country adopted and enforced a rather haphazard privatisation concept that only served to dismember Hungary's large-scale farms, to shatter the unity of plant cultivation and animal husbandry, and to create a multitude of small and in all probability far less than viable farms owned by a large number of small producers and small owners, putting a heavy yoke on Hungarian agriculture. Consequently, the issue of economies of scale has by now emerged as a highly significant key issue and downright challenge for Hungarian agriculture.

As Hungarians try to draw our lesson from the agricultural aspect of Finnish accession, we must identify a very important message in the fundamental Finnish approach of

handling the issues of agriculture by means of an evolutionary and not revolutionary attitude. Economic analyses of the farm structure and of the problems of agriculture elaborated by Finnish experts consistently emphasize that Finnish agriculture is struggling with a lack of capital, that Finnish farmers suffer from limited agricultural income levels, that many of them are heavily indebted, and that there is no realistic possibility for any radical or revolutionary changes. Therefore, as they very clearly stated, efforts must be made to fully exploit the existing capacities. While this message is still very important to Hungary, it would have been absolutely vital when Hungary decided to change its system of agriculture after 1989.

Finland's accession also raises the poignant question: what does the term 'market economy' indeed signify in the context of the agricultural sector? We should have dedicated significantly more attention to this issue when elaborating the strategy of changing Hungary's system of agriculture after 1989. We have seen that Finland's agriculture is, for example, one of the highly subsidised national agricultural sectors in Europe as well as in global comparison. This is also true to the Norwegian agriculture and, to take an example from Asia, to Japanese agriculture. In these states, the Produce Subsidy Equivalent (PSE), which represents the overall level of agricultural subsidies, was about 70 percent in 1994, which was the last year before Finnish accession. The same indicator was 49 percent within the European Union and 42 percent in the average of the OECD countries.

In 1998, the Hungarian PSE was 12 percent, contrary to 45 percent within the European Union and 22 percent in the USA. Therefore the question is, what does the term 'market economy' signify in the context of the agricultural sector? This is a very important theoretical as well as practical issue that must be further clarified.

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