

# Synthesis and assessment of the public debate on the reform of the CAP after 2013

## Finland's Country Report

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**Institut für Ländliche Strukturforschung**  
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# **Synthesis and assessment of the public debate on the reform of the CAP after 2013**

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## 1 Introduction

The EU Common Agricultural Policy (CAP) is not structured to target small scale farming in the most northern part of the EU. Therefore, Finland is paying 56% of its agricultural support payments from its national budget and 44% from the EU budget for agriculture. Finland is still successful in acquiring a substantial amount of agricultural support payments from the EU budget even though the majority share of its agricultural support payments is coming from its national budget. In the EU financial framework from 2000 to 2006, Finland together with Ireland and Greece received the highest shares of agricultural support compared to the total value of agricultural production in these countries. Compared to the gross domestic product (GDP), the top receivers of EU agricultural support in descending order were Greece, Ireland, Spain, Denmark, Finland, France and Portugal. The bottom receivers according to the GDP were Luxemburg, Great Britain and the Netherlands.

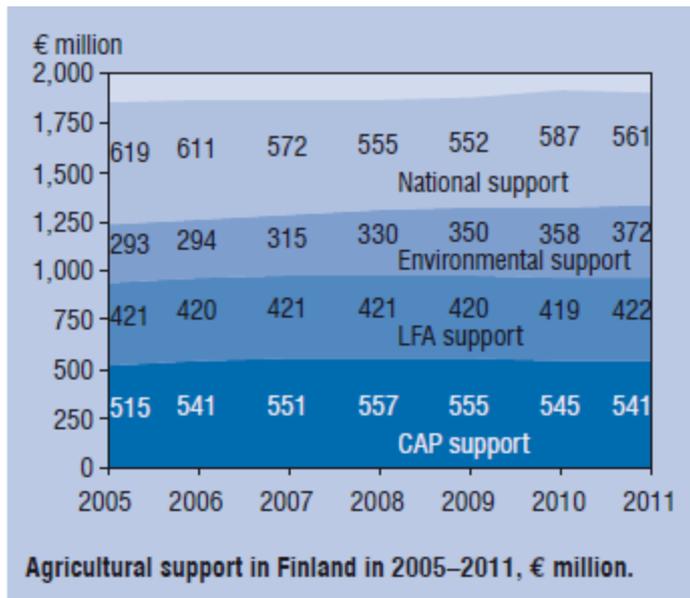
In the EU financial framework from 2000 to 2006, the share of Pillar 1 from the total CAP support payments in Finland was 60% and the share of Pillar 2 support payments was 40%. Finland received a larger share of the CAP support payments in Pillar 2 compared to the other EU member states. The share for Finland out of the total Pillar 2 budget was approximately 2.5%, whereas the share for Finland out of the total Pillar 1 budget was about 1.4%. In comparison, Finland was responsible for only 1.6% of the total EU budget. Hence, Finland had benefited from the Pillar 2 support payments for rural development.

Finnish agricultural policy is founded on the support schemes set down in the CAP, i.e. direct payments funded by the EU and the co-funded less favoured area (LFA) and agri-environment payments. These are supplemented by national aids, which comprise the northern aid, national aid for southern Finland, national top-ups to the LFA payments and certain other aids.

### 1.1 Agricultural policy in Finland

In 2011, the support under the common agricultural policy to the Finnish agriculture will total about € 1,335 million. This consists of the CAP support for arable crops and livestock (€ 541 million), less favoured area (LFA) payments (€ 422 million) and environmental support (€ 372 million). These are funded either by the EU alone or co-financed by Finland (figure 1). The national support in figure 1 contains programs that are solely financed by Finland and also the funds that are spent on co-financing CAP-programmes.

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**Figure 1.** Agricultural support in Finland 2005–2011, € million (Niemi and Ahlstedt 2011, p. 46).

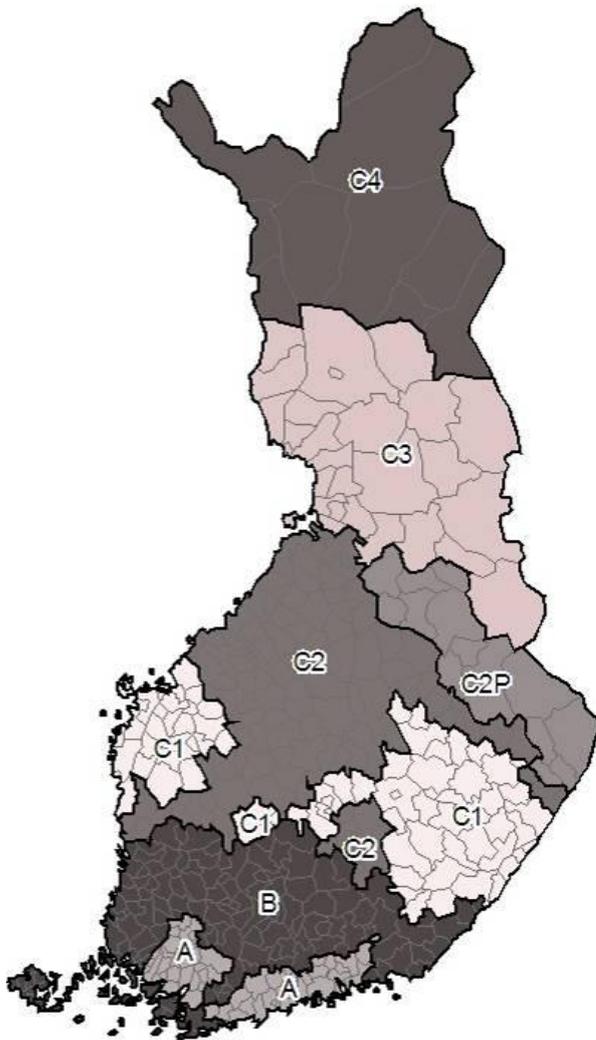
Agri-environmental support introduced in 1995 compensates for income losses resulting from the reduction in the production and increased costs as farmers commit to undertake measures aimed to reduce environmental loading caused by agriculture. The support scheme is comprised of the basic and additional measures and contracts concerning special measures. The main goal is to reduce the load on waters. Besides this, the aim is to restrict emissions into the air, mitigate the risks due to the use of pesticides and protect and manage rural landscapes and biodiversity.

In Finland, LFA support is paid for the whole cultivated area of about 2.16 million ha. The amount of LFA support in Finland budgeted for 2011 is € 422 million. The payment is 150 €/ha in area A, 200 €/ha in areas B and C1 and 210 €/ha in areas C2–C4 (Niemi and Ahlstedt 2011).

A major overhaul of the LFA areas has been started in the EU and should be completed for 2014. The objective of the reform is to create a uniform LFA scheme for all EU member states and take the special conditions of different member countries better into account.

### **Finnish National Aid**

In 2011, the national aid for Finnish agriculture and horticulture will total about € 561 million. The national aid scheme comprises the northern aid (€ 335 million), national aid for southern Finland (€ 84 million), national top-ups to LFA payments (€ 119 million), and certain other national aids (€ 23 million). Finland has been divided into seven support areas for the allocation of these payments. CAP support, environmental support, LFA payments and the national top-ups to these are paid in the whole country. Northern aid is paid only in support area C (figure 2). This has been divided into five areas for the differentiation of the aid. National aid for southern Finland (so-called aid for serious difficulties) is paid in areas A and B (Niemi and Ahlstedt 2011).



**Figure 2.** Support areas in Finland.

The aim of the national aid is to ensure the continued existence of Finnish agriculture in different parts of the country and production sectors. The aid may not increase production, nor may the amount of aid exceed the total payments before the accession into the EU. The principles to be applied in determining the level and regional distribution of national aid were agreed in the EU membership negotiations. Northern aid and national aid for southern Finland are solely funded by Finland.

The Accession Treaty of Finland based on Article 142 allows the payment of national northern aid to areas north of the 62nd parallel and adjacent areas (support area C). A little over 1.4 million ha, 55.5% of the cultivable arable area in Finland, is eligible for this aid.

Northern aid consists of milk production aid and aids based on the number of animals and cultivated area. The northern scheme also includes the aid for greenhouse production, storage aid for horticultural products and wild berries and mushrooms and headage-related payments for reindeer. Northern aid paid in 2011 totals about € 335 million. The most significant types of aid are the northern aid for milk production (€ 155 million) and northern aid based on livestock units (€ 100 million).

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The effectiveness of the northern aid is evaluated every five years. In 2007, the EU Commission ordered an evaluation of how well the objectives set for northern aid have been reached and whether the means applied are still feasible and justified. Based on the evaluation, the EU Commission and Finland discussed the future and development needs of the northern aid in 2008. As a result of the agreement reached in December 2008, the aids for pig and poultry meat production were decoupled from the production in 2009, but coupled payments continue to be applied in cattle farming.

The national aid for southern Finland, i.e. support areas A and B is based on Article 141 of the Accession Treaty. This article has allowed the payment of aid due to serious difficulties resulting from the accession to the EU, but it does not define the concept of serious difficulties in any more detail or limit the duration of the measure. The Finns have interpreted the article so that it gives the authorisation to the payment of the aid in the long term, while the Commission has seen it as a temporary solution. Finland must negotiate with the Commission on the continuation of the aid based on Article 141 every few years. According to the outcome of the negotiations reached in November 2007, Finland may grant both national direct aids and raised investment aid for livestock production and horticulture in southern Finland until the end of 2013.

In 2011 the aid under Article 141 to southern Finland will total € 83.9 million, which is 3.7% less than the € 87.0 million paid in 2010. In the last two years of the period the total amount of aid under Article 141 will be reduced quite radically, with the greatest cuts in the aid for pig and poultry farms. In 2013 the total amount of this aid will be € 62.9 million. The structure of the aid under Article 141 has also changed. From 2009 onwards decoupled farm payments have been applied in pig and poultry sectors, mainly according to production quantities of 2007. However, the aid for bovine animals will continue to be coupled to production until the end of 2013 (Niemi and Ahlstedt 2011).

The aid under Article 141 also contains investment aids and start-up aid for young farmers. Finland may continue to apply higher investment aids in sectors which are eligible for direct income payments under Article 141 (in particular, investments in dairy and cattle sectors and pig and poultry production).

National top-ups to LFA payments have been paid in the whole country since 2005 based on a tentative agreement reached in the negotiations between Finland and the EU Commission in 2003. The basic top-up paid for the arable area may not exceed 20 €/ha in areas A, B and C1 and 25 €/ha in areas C2–C4. The total of the co-financed LFA payments and the national top-ups may not exceed the average of 250 €/ha.

## 1.2 Finnish farms

In 2010, there were some 62 500 farms in Finland. Some 28 000 of these are located in Southern Finland, 16 000 are located in Central Finland, 11 000 are located in Eastern Finland and some 7 000 are located in Northern Finland. On average the number of farms has decreased at a rate of 2.8% a year. Proportionally the decrease has been the greatest in eastern Finland (38%) and the smallest in northern Finland (28%). In both southern and central Finland (33%) the number of farms has fallen less than in eastern Finland.

While the number of farms is decreasing, the average farm size has been growing. The average size of farms receiving agricultural support in 1995–2010 has grown by more than 60% from 22.8 ha of arable land to almost 36.5 ha. The annual growth in the average size has varied from 0.5 ha to 1.5 ha. The growth is due to both the decrease in the number of small farms and increase in the number of large farms.

Finnish agriculture is almost exclusively based on family farms: in 2010, 88.4% of farms receiving support were privately owned and 10.4% were owned by heirs and family companies

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and corporations. Cooperatives and limited companies owned 1.0%, general and limited partnerships 0.2%, and the State, municipalities, schools and parishes 0.3% of the farms.

Measured by the number of farms, the production structure of Finnish agriculture has changed considerably since 1995. The share of livestock farms has fallen while the share of crop farms has increased clearly. In 2010, 28% of the farms which applied for support were livestock farms and 66% were crop farms. While in 1995, the share of livestock farms was 52% and the share of crop farms was 39%. However, livestock production still represents almost four-fifths of the return on agricultural production at market price, with a 79% share in 2010 (Niemi and Ahlstedt 2011).

In 2010, about 11,000 farms practised dairy husbandry as their main activity. This is 18% of the farms that applied for agricultural support. In 1995–2010 the number of dairy farms fell by more than 21,000 farms, at a rate of about 6.8% a year. Measured by the total value of production, dairy farming is still the most significant agricultural production sector in Finland. In recent years, milk has accounted for about half of the return on agricultural production at market price (46% in 2010).

In 2010, the number of farms specialising in pig farming was about 2,040, which is about 3.3% of farms that applied for support. In 1995–2010, the number of pig farms fell by 67%, i.e. 7.2% per year. Pigmeat represents about 14% of the return on agricultural production at market price. In terms of the value of the production, it is the second most important agricultural product after milk.

In 2010, about 3,790 farms (6.1% of all farms) specialised in beef production, and the share of beef in the value of agricultural production was about 10%. In 1995–2010, the number of these farms fell by about 5,300, at a rate of about 5.6% per year.

The number of poultry farms was 724, which is about 1.2% of the farms that applied for support. During the EU period, the number of poultry farms has decreased by a total of 67%, i.e. about 7.1% per year. The number of farms specialised in egg production has decreased the most, which is why the share of poultry meat farms of all poultry farms has grown. In 2010, about 56% of poultry farms specialised in egg production, 31% in poultry meat production and 13% were breeding units. In 2000, the respective shares were 68%, 21% and 12%.

In 2010, there were about 41,100 crop farms, which were almost 3,900 more than in 1995. In the very recent years, however, the number of crop farms has decreased as well. In 2010, return on crop production represented almost 21% of the return on agricultural production at market price.

### **1.3 Rural enterprises**

The Finnish countryside has changed quite dramatically, with strong differentiation in the development trends in different types of rural areas. In many sparsely populated areas, the population is decreasing and ageing rapidly, while the number of rural residents and enterprises has been growing in urban-adjacent rural areas.

Agriculture and farm forestry still constitute the most significant single rural industry. In 2007, the total number of enterprises in Finland was about 309,000. The number of small rural enterprises was estimated at about 137,600, of which 33% were engaged in basic agriculture, 17% were diversified farms and 50% were other small enterprises. In 2007, the number of farms practising other gainful activities besides agriculture was 23,200, which means that about 34% of the Finnish farms were diversified (Niemi and Ahlstedt 2011).

Diversified farms operate in various sectors, but the majority of them, 70% in 2007, are engaged in services such as rural tourism, contracting and transport and real estate services. Other types of tourism and various other services are also quite common. Rural tourism is

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the part of the tourism industry where the opportunities largely derive from resources characteristic to the countryside. The long-term development prospects should also be quite favourable. Equine industry is one of the most rapidly growing businesses in the rural areas: about 75% of the enterprise in equine industry takes place on farms and 17% otherwise in the countryside. The annual money flows in the industry are estimated at more than € 830 million and it is estimated to employ 15,000–16,000 persons. Reindeer herding is a highly significant business in the sparsely populated rural areas in northern Finland. It is a source of livelihood as such, and it is also significant in terms of the image of tourism and the Lappish culture (Niemi and Ahlstedt 2011).

In recent years especially, the number of diversified farms engaged in the production of renewable energy has grown rapidly and energy production has become the largest industrial sector. The resources available in the countryside have an increasingly important role especially in the production of bioenergy and other renewable energy. Bioenergy is derived from biomass growing in forests, mires and fields as well as from organic solid, liquid and gaseous biowaste suitable for energy production from communities, agriculture and industry. The share of bioenergy in the total energy consumption in Finland is about 25%, and it represents almost 90% of the renewable energy sources.

#### **1.4 Finnish rural policy**

The Finnish countryside and regions are developed under various rural and regional development programmes implemented on different administrative levels by means of national funding as well as co-funding from the EU. National rural policy has evolved with the special aim of highlighting the rural perspective in all choices and decisions in the society which have either direct or indirect impacts on the countryside.

In the EU context the development of the rural areas and regions is founded on various kinds of policy programmes, usually drawn up to cover a whole programming period. The current period is 2007–2013. In regard to rural development, the most important programme is the Rural Development Programme for Mainland Finland, where the EU contribution to the funding comes from the European Development Fund for Rural Development (EAFRD). The action programmes under structural funds, especially the European Regional Development Fund (ERDF) and European Social Fund (ESF), include objectives which also concern rural areas. In rural and regional policy efforts are made to reconcile the action programmes based on EU policies and the national special programmes approved by the Finnish Government in such a way that the special local characteristics and needs are taken into account as well as possible.

In Finland, the rural and regional policy development is steered, in particular, by the Rural Development Strategy, Structural Fund Strategy and Rural Policy Programme. The priorities of the Rural Development Strategy are economically and ecologically sustainable and ethically acceptable agriculture and forestry, developing rural enterprise and reinforcing local initiative. The aim of the Structural Fund Strategy is to reinforce the national and regional competitiveness, employment and well-being. The Rural Policy Programme highlights the impacts of decisions made in various sectors of the society on rural areas and reinforces rural development across sectors.

#### **1.5 Organizations included in the analysis**

##### **Farmer's unions**

- The Central Union of Agricultural Producers and Forest Owners (MTK)
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MTK has some 156 000 members. It has representatives in nearly every town and it takes care of farmers, forest owners, rural peoples and rural entrepreneurs' interests.

There are 14 provincial MTK unions and the central union's headquarter is in Helsinki. The highest decision making power in MTK is in the elected Council. The Forest Council is the decision body for private forest owners. The executive body is MTK's board of directors. Board of directors is assisted by the management team and number of committees. The current president of MTK is Mr. Juha Marttila.

MTK has joint representative with sister organizations SLC and Pellervo (the Confederation of Finnish Cooperatives) in Brussels. The organization's own newspaper Maaseudun tulevaisuus comes out three times a week. MTK has been very active in the debate on the post 2013 CAP, and it has a big role in Finnish agricultural policy making. MTK is also active lobbying towards the EU Commission. MTK is a member of the Committee of Professional Agricultural Organisations (COPA).

- Svenska Lantbruksproducenternas Centralförbund (SLC)

The central union of Swedish-speaking agricultural producers in Finland (SLC) has some 13 000 members. The SLC members are located primarily along the southern and western coast of Finland. The Åland Islands in the Baltic Sea are essentially a monolingual Swedish area.

There are 4 provincial SLC unions for general management, information and training. The highest decision-making power at the SLC is in the hands of an elected Council. The executive body is SLC's Board of Directors, assisted by a number of committees. The organisation has its own newspaper, Landsbygdens Folk, which appears once a week. The current president of SLC is Mr. Holger Falck.

SLC is one of the two farmers' organizations in Finland. Despite its smaller size compared to MTK, SLC takes an active role in the Finnish agricultural policy making. SLC is also a member of the Committee of Professional Agricultural Organisations (COPA).

## **Environmental organizations**

- The Finnish Association for Nature Conservation (FANC)

**FANC is the largest non-governmental organization for environmental protection and nature conservation in Finland.** FANC has over 30,000 individual members in about 200 local member associations in 15 county-based district organizations.

FANC is a member of several international organizations, but most of the work is voluntary in the local associations and district organizations. There are about 30 specialists working in nature and environmental protection, administration and communication at the headquarters in Helsinki.

FANC has taken an active role in the discussion on the CAP and Finnish national agricultural policy and the effects on the environment. FANC has also taken a clear stand on the CAP after 2013. However, FANC published a joint declaration with three other environmental organizations on the CAP reform in June 2011. The other three organizations are described below.

- BirdLife Finland
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BirdLife Finland is an organization of 30 Finnish bird societies. It aims to promote bird watching, bird research and protection of birds, their habitats and biological diversity. The member societies of BirdLife Finland have about 10,000 members. BirdLife Finland is a partner of BirdLife International.

- The Finnish Society for Nature and Environment (FSNE)

FSNE (in Swedish: Natur och Miljö) is a national Environmental Citizens Organization. FSNE was founded in 1970 and today has some 4,000 members and 22 local groups in cities and municipalities along the southern and western coast of Finland including the Åland islands. Most members of FSNE belong to the Swedish-speaking minority in Finland.

- WWF Finland

WWF Finland is part of the international WWF organization. WWF Finland's primary targets in Finland are protection of endangered species and habitats. Natural conservation of the Baltic Sea is one of the WWF Finland's focus areas.

### **Rural development organization**

- The Village Action Association of Finland

The Village Action Association of Finland (Suomen Kylätoiminta ry) promotes and develops village action and locally initiated rural development on the national level. The Village Action Association of Finland is a joint organization of regional actors in rural development. Its membership includes regional village coalitions (19), all rural development associations that are local action groups (55 LEADER groups), the most important rural central organizations and other regional and national organizations and associations in rural areas. Resident associations are also taking part in the activities. The Village Action Association of Finland's position on the future CAP was chosen for the analysis because it represents a wide range of actors in executing and developing rural development policy at the national level.

### **Food industry organization**

- Finnish Food and Drinks Industries' Federation (ETL)

ETL represents the interests of the food and drinks industry in Finland. ETL has approximately 300 member companies. ETL has also two member associations that represent almost 90 % of all food and drinks production in Finland and more than 20 branch associations that represents the interest of the different sectors in the food and drinks industry.

ETL's idea is to create competitive operating conditions to its member companies located in Finland. From ETL's point of view, competitive agricultural sector is needed in order to maintain competitive raw material and input prices in Finland. However, national agricultural production is important for Finnish food and drinks industry. ETL takes an active role in the public discussion on issues concerning the food and drinks industry.

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## **Animal rights organization**

- Animalia

Animalia is a federation for the protection of animals. Animalia works to enhance the recognition of animal rights as well as to improve the status and the well-being of animals in the society. Animalia is against any treatment, breeding and use of animals that causes suffering or prevents them from exhibiting their natural behaviour.

Animalia works for animals by focusing on campaigning, distributing information and influencing legislation, attitudes and practices. The long-term goal of Animalia is the banning of industries that exploit animals. However, Animalia approves of humans and animals living together when both parties benefit from it. Animalia is active in the Finnish public discussion on agriculture's role and animal welfare. Animalia has participated and organized several campaigns that aim to improve animal welfare in agricultural production.

## **Finnish government and agency**

- Finnish Government

The Parliament elections in Finland were in April 2011. The former ruling party, the Center Party, lost the elections. The winner of the elections was the National Coalition Party. The 2011 Parliament elections gave the chance for the rise of a populist party, the Finns, grabbing 19 % of the overall votes. After the elections, there were long and difficult negotiations to form a new government.

Finland's 72th government was appointed in 22th of June 2011. It's a majority coalition formed by six parties (the National Coalition Party, the Social Democratic Party, the Left Alliance, the Swedish People's Party in Finland, the Green League and the Christian Democratic Party). The Government has 19 ministers and the Prime Minister is Mr. Jyrki Katainen from the National Coalition Party.

- Ministry of Agriculture and Forestry

The Ministry of Agriculture and Forestry (MMM) steers the policy on sustainable use of natural resources. The activities of the Ministry of Agriculture and Forestry include agriculture, horticulture and forestry, fisheries, game management and reindeer farming, other rural livelihoods and rural development. The use and management of water resources, land surveying and veterinary care, related control of animal and plant health, and foodstuffs of animal origin are included in the Ministry's jurisdiction.

The Ministry of Agriculture contributes to the development and implements the decisions of the Common Agricultural Policy and fisheries policy of the EU. The Ministry is responsible for the preparation of legislation, financing of support measures, and monitoring of policy implementation. The current Minister of Agriculture and Forestry is Mr. Jari Koskinen. He has held this position from June 2011. The previous Minister of Agriculture and Forestry was Mrs. Sirkka-Liisa Anttila.

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## Research organizations

- MTT Agrifood Research Finland

Operating under the Ministry of Agriculture, MTT employs around 750 people at 14 locations across Finland. MTT Agrifood Research Finland is Finland's leading research institute in the field of agricultural and food research and agricultural environment research.

MTT's Agricultural Policy and Markets research group studies the agriculture and food industry, agricultural policy, food chain, and welfare impacts of agricultural policies. Research subjects include international and domestic food markets, international trade policy as well as the EU and domestic agricultural policy.

- Pellervo Economic Research (PTT)

Pellervo Economic Research (PTT) is a non-profit organization. It was established in 1979 by Pellervo Confederation of Finnish Cooperatives (Pellervo-Seura) and the Central Union of Agricultural Producers and Forest Owners (MTK). PTT carries out policy-oriented research on general economic development and issues relating to agricultural and food economics and forestry.

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## 2 Description of the selected statements

This section is an overview of the selected statements from the different stakeholders in Finland. The order of the statements here is in the same order as the organizations described in the introduction. This order does not reflect the significance of the selected statements.

### 2.1 Farmers' unions

#### The Central Union of Agricultural Producers and Forest Owners (MTK)

Two different statements are analyzed from the MTK. The first of the two statements was published in May 2010 (MTK 2010), and thus it does not directly address the issues mentioned in the EU Commission's communication. This statement described the broad lines presented by the MTK for the future CAP. The second statement was sent to the EU Commission in January 2011 through the official consultation procedure. This statement answers a broad range of questions made by the EU Commission's communication in November 2010 (MTK 2011).

In the first statement (MTK 2010), MTK stated that food security is the main challenge for agriculture in the next decades. In order to achieve adequate food security, we need globally sustainable local food production. MTK pointed out that the vulnerability and importance of food security has been noticed in recent food and economic crisis. MTK concluded that the EU must also bear its responsibility in sustaining food security. MTK stated that the biggest threat for global food security is the lack of agricultural land and fresh water.

In MTK's opinion, the CAP has been able to fulfil its objectives in the past. However, sufficient funding is needed to ensure that all of its goals will be fulfilled also in the future. Food safety and especially food security needs more attention in the future CAP. The CAP's objective should be the promotion and securing of versatile agricultural production in all parts of the EU. The means to achieve these objectives are regional **coupled support** and payments to less favoured areas (LFA) in the EU.

MTK pointed out that the European agriculture, through the food supply chain, has a major influence on employment and citizens' livelihood. However, farm income in the EU has not developed at the same rate as the income of others in the society. Therefore, the objective to sustain higher farm income for farmers is needed in the future CAP. In MTK's opinion, one of the main goals of the CAP is to maintain the current two pillars structure of the CAP. MTK stated that Pillar 2 policies have big influence on the balance of development in rural areas.

In MTK's opinion, the CAP is complex, bureaucratic and ever changing. That is why simplifying the CAP is a favourable objective from the farmers' point of view. MTK also pointed out that the CAP needs to be controlled with a long-term perspective. The EU is committed to increase the use of renewable energy and reduce greenhouse gas emissions with the aim to mitigate climate change. Agriculture and forestry are the main executors of this policy. The use of bioenergy should not be increased through imports. Progressive and competitive food production, energy production based on sustainable use of natural resources and the development of livelihood structure and services in rural areas need extensive and practical innovation. Hence, the two pillars CAP ensure that we rise to these challenges.

MTK stated that the correct tool for the future CAP is direct support from the Pillar 1. These payments are compensation for public services and higher costs and standards in the EU. However, in order to maintain production in less favoured and sensitive areas, some elements of **coupled support** should be maintained. In addition to **coupled support**, the future

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CAP should also include strong market mechanisms. These mechanisms will balance the markets if necessary. MTK pointed out that at this point, the volatility in agricultural commodity prices will continue in the future. Thus, income insurances and **risk management** tools are needed to ensure farmers' stable income level. The functioning of markets, equal bargaining power in the food supply chain and fair share of profit from the markets are also objectives, which the CAP should react with sufficient tools. The agri-environmental program is the best tool to tackle environmental challenges related to agriculture. The agri-environmental program should be economically encouraging. However, measures in the program should be reasonable and practical in nature.

The second statement (MTK 2011) from the MTK to the EU Commission includes all the points made in the earlier statement. However, few additional remarks are made. In MTK's opinion, **greening** of Pillar 1 support would lead to increased bureaucracy for farmers. MTK stated that member states should retain the flexible option of co-funding rural development programs. MTK also called for more research on the effects of possible World Trade Organization (WTO) solution or other trade policy solutions on EU's agricultural production.

### **Svenska Lantbruksproducenternas Centralförbund (SLC)**

SLC sent a consultation paper (SLC 2011) to the EU Commission's communication after the communication was released in November 2010. The SLC's statement answered the questions presented by the EU Commission's communication paper.

SLC recognizes all the problems and challenges of CAP listed by the EU Commission. However, SLC pointed out that the EU Commission should also focus on new elements in agriculture. For example, the agriculture sector will be a producer of raw materials to the biochemical sector in the future. SLC is concerned about the future of **coupled support**. **Coupled support** is crucial for certain agricultural sectors in Finland. Thus, a reduction in **coupled support** would threaten the livelihood of these sectors. SLC called for an analysis of the CAP in relation to the WTO commitments. SLC pointed out that some areas in the CAP reform are going further than the WTO commitments would oblige. Also, an analysis should be made in regard to the effects of high animal and environmental standards on agricultural production. These high standards should be better recognized in the CAP as well as in the prices farmers get from their products.

In SLC's opinion, the farmer's position in the food chain should be strengthened. SLC supports the EU Commission's suggestion to change and broaden the legislation for producer and inter-branch organizations. Concerning **risk management** tools, these tools should be a tool that the agricultural co-operatives could use as a part of their **risk management**. However, SLC stated that present market measures should be kept and strengthened.

Pillar 2 policies are very important for Finnish farmers according to SLC. The current structure of Pillar 2 should be kept unchanged. Changes in Pillar 1 should be compensated by increasing the flexibility in Pillar 2. In SLC's opinion, **greening** of Pillar 1 support should be a voluntary measure for the member states. The reason is that stronger green element in Pillar 1 will increase administrative burden. The current cross compliance should be analyzed and the control elements eased.

## **2.2 Environmental organizations**

BirdLife Finland, Finnish Association for Nature Conservation (FANC), WWF Finland, Finnish Society for Nature and Environment (FSNE) and Nature League (FANC's youth organization) released a common declaration in June 2011 on the future CAP (Ympäristöjärjestöjen kanta EU:n maatalouspolitiikan uudistukseen 2011).

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On the first page of the document, the environmental organizations presented a common vision of sustainable agriculture in the EU. The environmental organizations see that agricultural policy should:

- a) enable ecologically sustainable agriculture
- b) cherish agricultural environment's ecosystem services
- c) support the production of healthy and high quality food
- d) sustain the growing condition of the soil
- e) sustain nature's diversity and stop the progress of growing number of endangered species
- f) reduce pollution and enhance the situation of water systems
- g) support measures that prevent climate change and help farmers to adapt to it
- h) promote sustainable use of natural resources and reduce the use of fossil fuels
- i) enhance the well-being of farm animals
- j) support positive development and keep up public services in rural areas

The environmental organizations demanded that the CAP to be reformed. The organizations outlined seven different topics how the CAP should be reformed. The focus of the topics is on environmental and climate change. Naturally these are seen as the main challenges for the future agricultural policy.

First is that sufficient environmental measures are included in the cross-compliance rules and direct payments. Including stricter cross compliance rules to direct payments would ensure that efficient environmental measures are being used in the whole country. Demand for stricter cross-compliance is clearly in line with the EU Commission's communication on some level of **greening** in the Pillar 1 support.

Secondly, the current agricultural policy has led to increasing concentration of animal production. Concentration is causing pressure on the environment. That is why environmental organizations would improve the possibilities for farmers to join animal and plant production. This aspect promotes not only the sustainable management of natural resources, but also the balanced territorial development of rural areas.

In the environmental organizations' opinion, there should be more fundamental reforms compared to the ones presented in the EU Commission's communication. The reforms should include measures that are directed to ecosystem services, organic farming and better recycling of nutrients. The reforms should also include measures that punish the production of conventionally produced agricultural products. More public support should be directed to ecosystem services. This means that public money should be allocated to farmers and other actors who conserve the environment. The CAP should realize all the environmental goals and international commitments pledged by the EU. This would be achieved by using all possible finance available, such as the Natura 2000 subsidies.

There is a lot of potential in organic farming in the future according to the environmental organizations. The share of organically farmed land should be significantly increased. This could be achieved through higher direct payment levels for organic farmland. Organic farms should also get more environmental support in the future. In contrast, conventionally produced agricultural products should be more expensive because conventional production is creating more pressure on the environment.

The environmental organizations insist on the development of an efficient system for recycling of nutrients. This system could be built around the new environmental support scheme. The idea of better recycling of nutrients is presented very vaguely by the environmental organizations. It is not clear what sources of nutrients should be recycled better and what system should be used.

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## 2.3 Rural development organization

### The Village Action Association of Finland

The Village Action Association of Finland contributed to the CAP 2013 debate by sending a consultation paper (Suomen Kyläyhdistys 2011) to the EU Commission through the official consultation process. This organization made only a few statements on the future CAP. This organization's main concern is the **LEADER** program. In this organization's opinion, the importance and position of the **LEADER** program should be increased in the future. The **LEADER** program should be implemented with rules and administration framework that would support better the **LEADER** principles compared to the current situation. The funding for the **LEADER** program should be ensured. This organization takes a firm position on the local action groups. The position of local action groups should be strengthened. This could be achieved by granting local action groups more over-reaching procedures and giving the groups new tasks in implementing the CAP.

## 2.4 Food industry organization

### Finnish Food and Drinks Industries' Federation (ETL)

ETL published their position on the CAP 2013 reform by sending a statement to the Finnish Parliament's Agriculture and Forestry Committee in December 2010 (ETL 2010). ETL recognizes the problems and challenges identified by the EU Commission. However, ETL reminded that Finland has its own difficulties due to unfavourable climate conditions, demographic position and long freight distances. The future CAP should take these issues into account and promote agriculture and food processors' competitiveness and livelihood in the EU.

In ETL's opinion, member states should be given some level of freedom to pay **coupled support** to farmers. The **greening** measures in Pillar 1 should not have an effect on the level of agri-environmental payments in Pillar 2. The perseverance of agricultural policy is needed so that the food industry can plan in the long-term.

The EU's milk quotas will be abolished in 2015. Sugar and starch potato quotas are also in danger of being abolished in the CAP 2013 reform. ETL stated that the livelihood of the milk sector must be secured for example with subsidies allocated directly to the sector. Actions should be taken to ensure that the sugar and starch potato industry will continue in Finland after the reforms.

According to ETL, it is important to develop new kinds of **risk management** tools as price volatility continues in the agriculture sector. However, there is also a need for intervention stocks in the future. The private storage aid should be maintained in the milk and meat sectors. Export subsidies are needed in the future. However, the EU must provide sufficient funding for agricultural product marketing and information programs as the markets open up due to bilateral trade agreements and increasing competition in the EU market. At the same time, the EU must reduce the administration burden related to these programs.

One of ETL's main points is the prevention and adaptation to climate change. According to ETL, the EU's self sufficiency in producing protein crops should be strengthened. At the same time, products coming from outside the EU should have the same health and sanitary requirements as the food products produced in the EU. This includes the requirements and rules concerning animal welfare. The EU should create information programs directed to EU consumers about the high requirements for animal welfare in EU's farms.

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ETL stated that it is very important to enhance a well-balanced food supply chain. However, this should be done in a careful manner. It is important to ensure that the reform doesn't affect the functioning of free markets and weaken the competitive situation of the Finnish food supply chain. The work of the High Level Forum for a Better Functioning Food Supply Chain must be recognized in the future CAP reform.

## 2.5 Animal rights organization

### Animalia (Eurogroup for Animals)

Animalia is a member of the Eurogroup for Animals. Eurogroup for Animals is an animal welfare organization that represents animal welfare interests in EU advisory committees and consultation bodies. Animalia has a joint statement with the Eurogroup for Animals' to the EU Commission's communication (Eurogroup for Animals 2010). This specific statement is analyzed as Animalia's statement on the CAP reform.

Animalia is disappointed and stated that the EU Commission's communication does not present any concrete proposal on how the EU Commission would improve animal welfare through the reformed CAP. There is also concern that the **simplification** of cross-compliance rules could lead to fewer inspection on farms.

In Animalia's opinion, EU farmers who apply good animal welfare standards should be able to use it as a factor of competitive advantage. This is why animal welfare should be supported through the Pillar 1 as a public good. Present EU animal welfare standards are not often enough respected by EU farmers. This may cause distortion of competition between farmers that respect the standards and who do not. In addition to Pillar 1 support for complying with legal standards, additional funding should be allocated to those farmers who wish to implement higher animal welfare standards. This would respond to the consumers demand and thus boost competitiveness in the agriculture sector.

According to Animalia, animal welfare payments in Pillar 2 should be compulsory and available for all farmers in every member state. Switching to a more sustainable system of livestock production by improving animal welfare can contribute to the protection of the environment and climate change mitigation. Thus, Animalia supports the conversion to extensive livestock production. In addition, a more animal friendly system of production generally require more human labour and consequently contribute more to rural employment and the development of rural areas. Therefore, measures that support the development of rural areas should also cover the improvement of animal welfare.

Animalia listed three aspects that are positive in the EU Commission's communication. First, Animalia welcomes the objective to have a more **equitable distribution** of payments among farmers in different member states and capping of direct payments. Second, limiting payments only to active farmers is seen to be a good development. Third, reinforcing and extension of the rural development pillar in the CAP is a positive sign.

## 2.6 Finnish government and agency

### Finnish Government

The Finnish government released its program in June 2011 (VN 2011). The CAP reform is shortly mentioned in the program (VN 2011, p. 52). It states that the EU must recognize the special needs of Finnish agriculture. Agriculture should be sustained also in remote rural areas and areas with natural constraints.

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The Finnish government also has an opinion on the redistribution of direct payments. The current system of direct payments based on historical support levels does not reflect the needs of agriculture in the 27 different member states. A more equitable system would promote the acceptance and justification of the agricultural subsidies. The Finnish government would also like a more equal EU member state payment scheme, less bureaucracy and a top-up for farm payments.

Finally, according to the Finnish government, the CAP should promote efficient environmental measures for the whole Baltic Sea region. However, the allocation of agri-environmental support should not be evaluated, until the structure of the future CAP is known

### **Ministry of Agriculture and Forestry**

The Ministry of Agriculture and Forestry (MMM) described Finland's stand on the CAP reform in a communication sent to the Grand Committee of the Finnish Parliament (MMM 2010). This communication described the EU Commission's communication, and listed the Finnish statements on the different subjects mentioned in the EU Commission's communication paper.

Finland agrees with the EU Commission on the challenges that lie ahead for the CAP. The CAP is needed to ensure viable agricultural production in all parts of the EU. The CAP is also needed to ensure the production of healthy and quality food for EU citizens. The agriculture sector needs decision making that is persistent and predictable. Finland also endorses the EU Commission's view on the changes in the operational environment of agricultural production.

In Finland's opinion, the current CAP already corresponds to the future challenges listed in the EU Commission's communication. However, this doesn't rule out that the policy could be much better aligned with the EU 2020 strategy. Finland agrees on the objectives of the future CAP listed in the EU Commission's communication paper. It is important for Finland to ensure food production in the entire EU. Important objectives for Finland are also the balanced development of rural areas and the impact of agriculture on the environment. The CAP evens out the effects of differences in natural conditions between member states. Therefore the CAP is needed to sustain family farming also in less favoured and remote areas, and thus secure the livelihood of these farms and keep the remote rural areas inhabited.

Finland stated that different policy consolidation is needed in order to fully respond to the needs of rural development policy. This means especially the consolidation of cohesion, regional and rural development policy. The future CAP should respond to new challenges. The CAP should promote interaction between rural and urban areas, local development and research as well as development and innovation of rural entrepreneurship. Therefore, EU funding for agricultural and rural development policy must be kept at an adequate level so that these goals can be achieved.

Finland stated that the current Pillar 2 structure of the CAP should be maintained. Changes should not be made to the funding structure of the current two pillars. However, the objective of Finland is to equalize the distribution of direct payments among member states. The current system of direct payments should be evaluated. Support should take into account the different production conditions in different member states. These conditions include production costs, the price of land and the consumer price differences. Finland would also welcome a simpler CAP with less bureaucratic burden.

According to Finland, the single farm payment scheme should be reformed from historical support levels towards more evenly distributed support in all areas of the EU. Decoupled single farm payments must compensate EU producers for providing public services and the

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higher costs due to the higher standards in the EU. Finland supports the EU Commission's plan in **greening** the Pillar 1 as long as it is done without adding more bureaucracy and governance. However, the different situations in EU member states must be taken into account when the new system is being considered. EU member states must be also given the freedom to choose the best alternative measures for their own purposes.

In Finland's opinion, the LFA-support system and **coupled support** allocated to certain production sectors must be continued in the new CAP because circumstances vary between EU member states. This is essential to maintain production in the entire EU and balance the competitiveness margins in different parts of the EU and among different agricultural sectors. More research is needed to gather information about the definition of active farmer. However, Finland wants enough leeway for defining an active farmer.

Finland welcomes the EU Commission's definition that some level of market intervention is needed in the agriculture sector in the future. More attention must be given to the functioning of the agricultural product markets in order to ensure that all participants in the food supply chain get enough negotiation power and their fair share of the profits. Finland also welcomes the new producer organizations for milk. Furthermore, the continuation of the current system of production quotas for sugar is the primary solution for the EU sugar sector.

According to Finland, the EU must take special care of the livelihood of less favoured areas in the environment of a more competitive agriculture sector. In order to achieve this goal, there must be enough freedom for member states to define the measures needed in the rural development policy. The different circumstances in EU member states would define the different measures in the rural development policy. Pillar 2 support to Finnish rural environment and balanced rural development is significant. That is why Finland demands a sufficient level of finance for the Pillar 2 policies. LFA-support and agri-environmental programs are essential part of Finnish agricultural policy. Finland wants to maintain these programs in the Pillar 2 and co-financed with the EU. The criterion on how the less favoured areas are being defined should be based on an objective criterion. There shouldn't be any limit for LFA-payments and the entire agricultural area in Finland should be eligible for LFA-payments.

Finland agrees on the issues that the EU Commission considers as important concerning the future rural development policy. The Baltic Sea Strategy<sup>1</sup> is important for Finland. It must be ensured that the future CAP includes the objectives of the Baltic Sea Strategy. Measures that are needed include better allocated policies to reduce water pollution and reducing phosphorus, nitrogen and ammonia spillage from manure use. The current measures need to be broadened. Rural development policy should also take into account the full potential of rural areas. For example, the potential of entrepreneurship based on food processing industries and forestry is not fully utilised in the current policy.

## 2.7 Research institutes

### MTT Agrifood Research Finland

MTT Agrifood Research Finland contributed to the discussion of the CAP reform by sending two analyses through the official consultation process in beginning of year 2011 (Lehtonen & Niemi 2011; Latukka 2011). These research papers analysed three different scenarios for the

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<sup>1</sup> The Baltic Sea Strategy is a comprehensive Strategy, covering several Community policies. The Strategy aims at coordinating action by different stakeholders to promote a more balanced development of the Baltic Sea region. The Strategy's aim is to make this part of Europe more environmentally sustainable, prosperous, accessible and attractive and safe and secure.

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future CAP, which are described at the end of the EU Commission's communication. Lehtonen & Niemi (2011) used a regional sector model for Finnish agriculture known as DREMFA. Latukka's (2011) results are simulated by utilizing the Agriculture and Horticulture online service called the "Economy Doctor" available at the internet site of MTT. The research method applied was static simulation based on bookkeeping data [Farm Accountancy Data Network (FADN)-data].

The three different scenarios evaluated in the papers are:

1. Reduction of the Single Farm Payment by 50% and introduction of a flat rate payment fixed at 130 €/ha to all EU member states. Production linked payments would be reduced by 50%. Pillar 2 policies remain unchanged.
2. Abolition of the Single Farm Payment and production linked payments during 2014–2020. Pillar 2 policies remain unchanged.
3. Pillar 1 policies remain unchanged, but the possibilities for national **co-financing** of Pillar 2 policies are decreased. National **co-financing** cannot exceed 50% after 2013.

Lehtonen & Niemi (2011) showed that the affected sectors in Finland would be crop and beef production. CAP payments are very important in the decision making process for these sectors. Cutting Pillar 1 payments by 50% would decrease cereals area by about 40%, and abolishing Pillar 1 payments completely would decrease cereals production by about 60%. Cutting Pillar 2 payments would reduce cereals production by 46%. This would have an effect that land would become idled in a large scale if a significant part of subsidies were eliminated. Lehtonen & Niemi (2011) also revealed that beef output would decline by 15 to 18% as a result of the CAP reform scenarios. The smaller negative effect on the Finnish pork and poultry meat sectors in all scenarios reflect their smaller dependence on CAP payments. In all scenarios, milk production would suffer only a minor decline.

According to the various publications from MTT, the **co-financing** of the CAP payments is vital to Finnish agriculture. The **simplification** of administrative procedures would be beneficial to farmers as well as the Ministry of Agriculture. The **greening** of direct payments would be helpful for the environment, where farmers would be involved in the mission to mitigate climate change. For example, crop diversification would enhance the biodiversity of agricultural areas (Huhtala and Sipiläinen 2010). Permanent grassland would reduce nutrient flows to the Baltic Sea if neighbouring EU member countries would also implement the same measure (Hyytiäinen et al. 2009). The **strengthening** of the Finnish producers' position in the food supply chain would help them get a better price for their products since the retail chains in Finland are highly concentrated (Kuosmanen and Niemi 2009). Linking compensatory payments to **biophysical** (Helin et al. 2006), **climatic** (Juntti et al.) and **biodiversity** (Miettinen and Huhtala 2005) criteria would also be favourable for the environment and rural development. Linking measure for rural areas to **objective criteria** and achieving concrete targets would be beneficial for rural development (Voutilainen 2009). Finally, the **coherence** between rural development policy and other EU policies would boost the livelihood of rural areas in Finland (Aakkula et al. 2007).

Latukka (2011) indicated that cutting subsidies in each scenario would decrease the Farm Net Income (FNI) of the farms. In several production sectors, this would lead to a very drastic reduction in the FNI. In scenario 1, the FNI would decrease on average by 42%, in scenario 2 by 83% and scenario 3 by 51%. The impact would be largest for cereals farms, which would produce a negative FNI in all scenarios.

**Pellervo Economic Research (PTT)**

PTT has participated in the discussion on the future CAP by publishing a review on the CAP reform with different authors, from civil servants to the environmental organizations and researchers. Arovuori (2011) gave an overall picture of the politics behind the CAP reform. According to Arovuori (2011), the EU Commission's communication doesn't give much room for more fundamental CAP reform. This is due to the lack of ambition for deeper reforms. The need for comprehensive reform still remains. For more equal distribution of direct payments within the EU member states, there is a need to cut the link between direct payments and historical production levels. The distribution of direct payments should be based on an objective criterion. The criterion can be separated into three groups: economical objectives, natural conditions and public goods. An objective criterion would ensure a more efficient and equitable distribution of direct payments.

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	MTK	SLC	Env. Org.	ETL	Anim.	MMM/GV	MTT	PTT
<b>Market measures</b>								
Strengthening the position of producers in the food supply chain	+	+		+	+	+	+	+
Promotion policies to enhance competitiveness	+	+		+	+	+		+
Risk management toolkit	+	+		+		+		
Keeping up the previous decision on the elimination of milk quotas				-		-		
The reform of the sugar regime	-			-		-	-	
Continuation of current intervention systems	+	+		+		+		
EU position within the WTO negotiations	-	-		-		-	+	+
<b>Rural development</b>								
Linking compensatory payments to biophysical and climatic criteria			+		+	+	+	+
Linking measures for rural areas to objective criteria and achieving concrete targets			+		+	+	+	+
Coherence between rural development policy and other EU policies						+	+	

**MTK:** The Central Union of Agricultural Producers and Forest Owners;

**SLC:** The Central Union of Swedish-speaking agricultural producers in Finland;

**Env. Org.:** Environmental organizations;

**ETL:** Finnish Food and Drinks Industries' Federation;

**Anim.:** Animalia;

**MMM:** The Ministry of Agriculture and Forestry;

**GV:** The Finnish Government;

**MTT:** MTT Agrifood Research;

**PTT:** Pellervo Economic Research

### 3.1 Orientation

One of the major questions of the reform is the redistribution of direct payments between EU member states. Farmers' organizations take no stance on this issue, but the Finnish government and the Ministry of Agriculture want a more **equitable distribution** of direct payments. PTT also calls for a more **equitable distribution** of direct payments between the EU member states. ETL's stance is somewhat cautious. ETL states that different production environments must be taken into account when payments are distributed. This could mean

more **equitable distribution** depending on determination of the criteria in which the distribution is made.

All stakeholders mention that the CAP structure should be maintained in two pillars. Most of the statements also state that agricultural policy should be co-financed with the EU in the future. SLC considers the two pillar structure of the CAP enables flexible policy making. MTT's positive view on **co-financing** is based on the fact that cuts in the nationally co-financed LFA and agri-environmental support payments would result in dramatic changes in farm income that would have a negative impact on rural areas in Finland.

Farmers' unions (MTK and SLC) as well as the Ministry of Agriculture and MTT welcome the good intention to simplify procedures and cut bureaucracy in the CAP. Despite the nice objective for a simpler CAP, there is concern that the **greening** measures in Pillar 1 will increase the bureaucratic burden for the administration and farmers. Higher level of cross compliance will need more monitoring. This would lead to more administrative burden and more bureaucracy for the farmers and the Ministry of Agriculture. The agri-environmental program is already quite extensive in Finland. Farmers' unions are not against attaching environmental measures to Pillar 1, but they are concern about facing more administrative burden while the effects of **greening** will be limited due to measures already taken in Pillar 2 policies. Farmers' unions also consider that **greening** would harm the competitiveness of Finnish agriculture production.

### 3.2 Direct payments

Farmers' unions, environmental organizations, ETL, and the Ministry of Agriculture are in favour of **coupled support** payments in the future. The **coupled support** maintains the production of some agricultural sectors, for example beef, that are important for Finland. Environmental organizations would pay price support to organically farmed products or raise the price for conventional agricultural products. **Coupled support** for one product group, organic farmed products, is vaguely described by the environmental organizations. Animalia would introduce **coupled support** to animal welfare. Similar to the environmental organizations stance on organic farming, Animalia thinks that producers who apply higher standards for animal welfare should be paid more subsidies.

The Finnish government takes a positive stance on putting a **ceiling** to direct payments. The Ministry of Agriculture is somewhat more cautious on this issue, and calls for more research on the impacts of putting a **ceiling** to direct payments for Finnish farmers. However, both agree that some level of **ceiling** should be attached to direct payments. Animalia would also limit the maximum amount of direct payments, thus it would prevent the creation of immense farms and animal welfare is better secured in smaller farms.

The **ceiling** on direct payments is not a big issue in Finland. Table 2 shows that the overall number is quite small for over 100 hectare farms in Finland. The number of farms that would reach the ceiling set for direct payments would be even smaller. Most of the Finnish farms are small compared to the farms in middle Europe.

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**Table 2.** Number of farms in Finland according to size in 2010.

Size	Number of farms	%
< 10 ha	12,755	20
10-20 ha	13,278	21
20-30 ha	9,689	16
30-50	11,927	19
50-100	10,795	17
> 100 ha	3,777	6

No stance is taken by the stakeholders on the support for **small farmers**. The structure of Finnish agriculture has been changing over the years, but the average size of farms is still smaller than in the old EU-15 member states. Only about 20 % of farms are smaller than 10 hectares in Finland (Table 2). In this respect, there is not really a need for specific support for **small farmers** in Finland. The Finnish farm structure is different compared to the new EU-12 member states. In the new EU member states, the number of small farms is considerably high, but the biggest part of agricultural production comes from medium sized or really big farms.

The Ministry of Agriculture would research further on the impact of limiting direct payments only to active farmers, despite taking a slightly positive stance on this issue. Animalia would limit the CAP payments only to active farmers. On the other hand, the environmental organizations would like to have all stakeholders to be eligible for the CAP payments and not only for farmers. Farmers' organizations do not cover this issue in their statements.

The element of additional direct payment to farmers suffering from specific natural constraints is seen as a negative development in Finland. This is because at the moment Finland can pay LFA support for the entire country. LFA support payment is co-financed with the EU in Pillar 2, and moving this support to Pillar 1 and completely financed by the EU would reduce the overall support for Finnish farmers. This issue is seen as one of the biggest threats for Finnish agriculture in the reform proposals. Figure 1 shows the agricultural support payments in Finland from 2005–2011. The share of LFA support payments is substantial compared to the overall support payments to Finnish farmers.

Farmers' organizations take a negative stance on **greening** of direct payments in Pillar 1. MTK thinks this is unnecessary and SLC considers the **greening** element in Pillar 1 should be on a basic level and voluntary for EU member states to implement. The Ministry of Agriculture and Forestry considers **greening** a good objective, but it should be achieved without adding more bureaucracy to the system. ETL does not cover **greening** in its statement, but overall ETL's stance is positive on environmental protection and mitigating climate change. Environmental organizations would like to see overall a "greener" CAP. Their statement does not mention the **greening** of direct payments, but we can assume that their stance is positive on all objectives that try to enhance the state of environment and mitigate climate change.

The Finnish agri-environmental program in Pillar 2 is quite extensive. Thus, adding stricter cross compliance rules or **greening** the Pillar 1 support is seen as a negative development in the farmers' organizations. Environmental protection and climate change mitigation are seen as one of the main challenges for the CAP by all the stakeholders, but many of them consider that these challenges are best tackled by measures taken in Pillar 2. Policies in Pillar 1 and Pillar 2 may overlap due to the **greening** requirements. This would mean more bureaucracy and costs for the farmers.

### 3.3 Market measures

MTK, SLC, MMM, ETL, Animalia, MTT and PTT consider the **strengthening** of producers' position of in the food supply chain as a positive initiative from the EU Commission. However, ETL wants to achieve a stronger producers' position without harming the competitiveness of the food supply chain. MTK reckons that the **strengthening** of farmers' position is one of the most important objectives of the CAP. The same stakeholders think that **risk management** tools are important to be included in future policies. Despite similarity in the opinions of the different stakeholders, SLC regards **risk management** tools to be better suited for producer groups than for individual farmers.

None of the stakeholders reckon that the decision to eliminate the EU **milk quotas** should be reversed. However, these stakeholders are concerned about the impact in Finland from the elimination of the EU milk quotas. Furthermore, the continuation of the EU **sugar quotas** is seen to be a favourable solution for Finland. ETL and the Ministry of Agriculture are in favour of continuing the **sugar quotas** until 2020.

All stakeholders deem that some level of **intervention policies** should be maintained in the EU. There is a wide consensus in all of the statements that intervention policies provide some level of security for the farmers.

Table 3 describes the opinion of MTK, SLC, and ETL on the EU position within the **WTO negotiations**. MTK calls for more research in the effects of possible WTO or other trade agreements on EU agriculture production. SLC emphasizes that in many areas of the current CAP, the EU has gone far beyond its WTO commitments. ETL thinks that the EU should ensure the option of using export subsidies in the future. According to the farmers' unions, the issue relating to the WTO concerns the competitiveness of EU agricultural products compared to agricultural products imported from the world market. These stakeholders consider that the various regulations imposed on EU food production will impair the competitiveness of EU agriculture production. Thus, there are higher production costs in the EU compared to the production in third countries. Agriculture production especially in the least competitive areas of the EU such as Finland will be threatened by increasing imports from the world market.

**Table 3.** Stakeholders' opinion on the EU position within the WTO negotiations.

	<b>EU position within the WTO negotiations</b>
<b>MTK</b>	More research on the impacts of a possible WTO solution (or other trade agreements) on EU agricultural production.
<b>SLC</b>	An analysis of the CAP in relation to EU's WTO commitments. SLC pointed out that some areas in the CAP reform are going further than the WTO commitments. High standards in EU food production should be recognized.
<b>ETL</b>	Export subsidies must remain to be an option in the future.

### 3.4 Rural development

Many of the stakeholders think that linking rural development payments to **biophysical** and **climatic** criteria as a positive development. Zahrnt (2009) and Huan-Niemi et al. (2011) showed that linking Pillar 2 payments to **climatic** and **biophysical** criterion would be very favourable for Finland.

The Finnish government and Ministry of Agriculture underline the importance of the Baltic Sea Strategy. Finland's share of phosphorus and nitrogen load to the Baltic Sea is about 15%. Agriculture produces 60% of the phosphorus and 52% of the nitrogen load in Finland (Uusitalo et al. 2007). Thus, reductions in the phosphorus and nitrogen load from agriculture would be highly beneficial for the Baltic Sea.

The Ministry of Agriculture sees that any reductions in the national **co-funding** of Pillar 2 payments are unacceptable. SLC and the Ministry of Agriculture want more freedom for EU member states to target and choose appropriate measures for Pillar 2 policies. Especially the environmental organizations demand an environment support scheme that directs subsidies to areas where it has the biggest impact. This idea is also supported by the Ministry of Agriculture.

Only the Ministry of Agriculture would like to see a better adaptation of regulations between European Agricultural Fund for Rural Development (EAFRD) and the other EU funds. It is evident because the Ministry is implementing the policies and facing difficulties in aligning rural development policy with other policies such as the EU cohesion policy.

### 3.5 Focus of the stakeholders' statements

Table 4 summarizes the focus points of the different statements of the stakeholders. Farmers' unions and the Ministry of Agriculture have the same kind of overall focus in their statements. Main point in their statements is focused on the need to maintain agricultural production in the entire EU region. Farmers' unions also emphasize on the need to sustain and enhance farmers' income in the future CAP. Overall, these stakeholders consider that the current structure of the CAP is adequate. However, improvements should be made to the income level of farmers and bring down bureaucracy and administrative burden related to the CAP.

The environmental organizations focus on the environmental aspects of the CAP. The main point is that agricultural support should be targeted to environmental measures and environmental friendly production should be rewarded with higher prices. The question is whether the consumers are willing to pay a higher price for the environmental friendly products, and is there a viable market for these products. The environmental organizations' recommendation is in contrary to CAP the objective to provide consumers with food at reasonable prices. Animalia's statement is quite similar with the environmental organization, but the focus is on animal welfare being more prominent in the CAP.

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**Table 4.** The focus points of the different statements of the stakeholders.

	<b>Focus of the statement</b>
<b>MTK</b>	The EU must take food security into consideration. Viable agriculture production must be maintained in all member states. Bureaucracy and administrative burden should be reduced and farmer's position strengthened in the food supply chain.
<b>SLC</b>	New elements of agriculture, coupled support and effects of input prices must be recognized. The current two pillar system should be maintained and flexibility increased.
<b>Environmental organizations</b>	Targeting agricultural support to environmental measures.
<b>Suomen Kylätoiminta ry</b>	LEADER.
<b>ETL</b>	Agriculture and food production must be maintained in the whole EU.
<b>Animalia</b>	Payments conditional to animal welfare standards and switching production to more extensive systems of livestock production.
<b>MMM</b>	It is important to maintain the viability of agricultural production in the whole EU. It is important to continue the current framework of current policy with some modifications for example to the environmental measures. Bureaucracy and administrative burden should be reduced.
<b>GV</b>	More equitable distribution of CAP payments and the continuation of agriculture in the whole EU.
<b>MTT</b>	Major cuts in Finnish agricultural subsidies will lead to dramatic consequences in Finnish agriculture and rural areas.
<b>PTT</b>	More fundamental reform is needed. The distribution of direct payments should be based on an objective criterion.

The Finnish Village Action Group's statement focuses on the **LEADER** approach in the CAP. The **LEADER** program and its importance should be increased in the future CAP. **LEADER** is innovative and bottom up approach to the rural development policy. The Finnish Village Action Group's statement is very short and does not give a good description on how the **LEADER** program should be made more important in the future CAP. The **LEADER** program is an important part of the Finnish rural development policy. However, the short statement from the Finnish Village Action Group is the only public statement from the stakeholders in Finnish rural policy after the release of the EU Commission's communication.

Research institutes such as PTT calls for a more fundamental reform. MTT's role has been only to provide information on the effects of the future reform. A big part of the Finnish farm income is derived from subsidies and any impairment to the level of subsidies would have a dramatic effect on Finnish agriculture production. Lehtonen & Niemi (2011) results show that the different support payments are especially important for the beef and crop sectors.

## 4 Further discussions in Finland on the future of the CAP

After the first reactions to the EU Commission's communication, the public debate on the future CAP reform has been somewhat active. However, the debate has focused on farmers' income and environmental issues. A significant part of the discussion over the future CAP has been concerning the environmental issues and the impact of agriculture to the water systems. For example, the Ministry of Agriculture and the Finnish government have mentioned the importance of the reduction in pollution from agriculture to the Baltic Sea. A wide range of stakeholders has suggested that the environmental support for agriculture should be paid for concrete environmental measures. For example, the auction method has been explored to be used in the future agri-environmental programs when allocating support payments (Iho et al. 2010). In the auction method, farmers would make offers for implementing environmental measures. Farmers who are willing to perform certain environmental measures with the lowest costs would be chosen to the environmental program. Hence, the auction method would improve the efficiency of the environmental programs.

There is no wide discussion on the objectives of Finnish agricultural policy. However in Finland, there is broad public support for domestic agriculture production. One of the main issues for Finland in the future CAP is the right to pay LFA-support in the entire country after further reform of the CAP. The second major issue is the continuation of the so called 141-support. The 141-support is completely nationally financed and it is paid mainly for livestock producers in southern Finland. The 141-support will end in 2013 unless extended. The negotiation between Finland and the EU Commission to continue this support is in conjunction with the negotiations for the future CAP reform. However, Finland negotiates the continuation of the 141-support separately from the future CAP reform. Without the 141-support, the livelihood of livestock production in southern Finland would be at stake. Overall, there is a wide consensus in Finland that this type of support should continue in the future.

The EU Commission published a budget proposal in July 2011 for the framework years of 2014 to 2020. In the budget proposal, the overall funds allocated to agriculture are held constant through the whole period. The share of agriculture in the EU budget would shrink from 40% to 33%. This yielded criticism from the MTK (MT 2011b). MTK's president stated that the EU should decide what it really wants from agriculture. Farmers in the EU are trying to cope with stricter regulations with lesser support. The EU is demanding better quality, food safety and environmental protection. All these objectives cannot be achieved simultaneously without increasing support for agriculture. In addition, the new Finnish government is cutting support for domestic agriculture.

The newly elected Finnish government published its budget for the year 2012 at the end of August 2011. The new government proposed a €49 million cut to farm subsidies. This is the biggest cut in farm subsidies after the 1990's recession in Finland. This raised a question whether the cuts in domestic support will weaken the Finnish position in the CAP negotiations. How can Finland defend its EU funded farm subsidies when cuts are made to its domestic budget for agriculture? (MT 2011c). The Finnish government's budget cut for domestic agriculture is creating concern among the stakeholders because the future cuts planned for the CAP may be sanctioned by the Finnish government. MTK stated in September 2011 that farmers would be the hardest hit in the Finnish society due to budget cuts. Farmers will not only be hit by cuts in farm subsidies, but also cuts in the subsidies for Finnish households (MT 2011a).

Farmers' unions have concentrated on defending a strong CAP. For example, the current crisis in the Finnish pig meat sector caused by increasing feed costs has influenced the debate on the CAP. Farmers' unions are concerned about the future development of farm income in Finland. From this point of view, the EU Commission's budget proposal for 2014 to 2020 and the new Finnish budget for agriculture in 2012 do not improve the farm income in

Finland. In fact, these budget proposals would impair the current position of farmers in Finland. Thus, a strong CAP would ensure sufficient support for EU farmers to continue agriculture production.

MTK's president published a statement in a newspaper (*Maaseudun Tulevaisuus*) concerning the **greening** of CAP on 12th of October 2011 (MT 2011d). This was on the same day as the EU Commission's publication of the new legislation proposals for the new CAP. In the statement, the increasing burden from bureaucracy due to the **greening** requirement is highlighted. Instead of **greening** the CAP, MTK called for policies that are not only environmental friendly, but also increase the efficiency and profitability of agriculture. MTK does not promote policies that shift agricultural land out of production and decrease the productivity of agriculture. The new CAP should create opportunities to maintain or even increase agricultural production and face the challenges created by climate change. MTK proposed that the rules for cross compliance should be streamlined to be more transparent for consumers. These rules should be associated as the EU standard rules for agricultural production. Nobody outside agriculture knows what the term **cross compliance** means. This would enhance the awareness of consumers on all the rules and extra costs European farmers must bear. MTK stated that when consumers realize this, they will accept the necessity of farm subsidies and choose European products over imported goods.

The published regulation proposals in October 2011 have increased the opposition towards the **greening** measures in Pillar 1. The Ministry of Agriculture reacted positively towards the **greening** of direct payments after the EU Commission's communication in November 2010. When further details of the proposed **greening** measures were revealed in October 2011, the Ministry of Agriculture has changed from a positive to a negative stance on the **greening** measures in Pillar 1. This reason behind this is that the crop diversification measure would be difficult to comply for highly specialized livestock farms in Finland due to their farm structure. In addition, the Ministry of Agriculture is concern whether the **greening** measures would increase bureaucracy and administrative burden instead of simplifying the CAP.

MTT's publication (Liesivaara et al. 2011) on the future of Finnish sugar production has caused a public discussion in the media and some stakeholders. The continuation of the EU sugar quotas is important for Finnish sugar beet farmers. If the sugar quotas are abolished, sugar production will likely to concentrate in most efficient areas of the EU. In the 2006 reform of the EU **sugar regime**, one sugar factory in Finland was closed. Now only one factory is operating and some 14 000 hectares of sugar beet is under cultivation. There is also one sugar refinery in Finland that produces white sugar from imported raw sugar. In the 2006 reform of the EU **sugar regime**, Finland negotiated a right to pay national support to sugar beet farmers. This support is 350 €/hectare. Domestic aid ensured that the farmers can continue to grow sugar beet, and that they will survive the price cuts in the EU reference price. Further cuts to sugar beet prices or subsidies paid to the sugar beet farmers will seriously threat the sugar beet supply in Finland. Sugar production in Finland is mainly in the hands of one operator -- German company called Nordzucker. In the future CAP reform, the abolition of sugar quotas may have the largest impact on Finnish agriculture. This is because one of the major crops in Finland would not be cultivated anymore. Sugar beet would be the first crop which production would end after Finland's accession to the EU in 1995.

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## 5 Conclusions

There is wide consensus that agriculture is integral to the Finnish society and domestic production should be sustained in the future. Finland is situated in the most northern part of the EU, where the production conditions are not as favourable as in the other parts of the EU. Therefore, the national support system in the Finnish agricultural policy is very important for Finnish agriculture, and the CAP support from Pillar 2 has a big role in sustaining the rural areas in Finland.

The most active stakeholders in the debate on the CAP after 2013 are of course the farmers' unions -- MTK and SLC. Environmental organizations and organizations promoting animal rights have also been active, but their concerns are focused on the general issues relating to agriculture rather than on the future CAP reform. The feasibility of their recommendations being taken into account in the future CAP is not very high. For example, the environmental organizations consider that CAP payments should be paid for ecosystem services and conservation of nature in rural areas. This is a radical idea. Directing CAP payments also to other recipients than farmers in rural areas is ahead of its time. Another example, animal rights organization such as Animalia would like to promote livestock production only in small farms with the assumption that the standard of animal welfare is higher in smaller farms. However, improving animal welfare is a complex issue, which needs broader measures than just promoting small farms.

Stakeholders who are involved in rural policy have not been actively participating in the public debate on the CAP after 2013. Only one statement was sent by the stakeholders of rural policy to the EU Commission through the official consultation process. The EU Commission's communication did not suggest any major changes to the rural development policy and this may influence the inaction of the Finnish stakeholders. Some of the stakeholders may have direct influence on the EU Commission's rural development policy making process. There was also debate on EU rural policy in the international arena. For example, Finland is holding the 2011 presidency of the European **LEADER** association for Rural Development (ELARD).

The Finnish government focuses on the issue of **equitable distribution** of direct payments among EU member states and the need to sustain agricultural production in the entire EU. However, Finland may not be able to increase its direct payments through more **equitable distribution** of direct payments among EU-27 member states. MTT's publication (Huan-Niemi et al. 2011) showed that only one model of direct payment (average EU-27 per hectare payment adjusted by purchasing power parity) out of the numerous models for direct payments will increase the direct payments that Finland is currently receiving. At the moment, Finland's per hectare direct payment is near the EU-27 average whereby the other models for direct payments would not increase or decrease Finland's direct payments substantially.

The support for the **greening** of Pillar 1 is unclear in Finland. The **greening** proposal is rejected by the farmers' unions. The worry is that more stringent cross compliance will lead to more bureaucracy and administrative burden which is against the **simplification** objective of the future CAP. The same worry is shared by the Ministry of Agriculture. One favourable aspect of adding environmental measures to Pillar 1 is that Finnish farmers' may gain from agricultural land set aside in the most competitive areas of the EU. Therefore, the **greening** measures act like a quota system for land, which restrict production in the EU. Productive agricultural land in the competitive areas of the EU will be preserved for environmental purposes.

Overall, the biggest challenges from the future CAP reform in Finland would likely be the structural changes in Pillar 2 support. Changes in the **co-financing** of LFA- and agri-environmental payments would have a major impact in Finnish agriculture. The right to continue the co-financed part of the LFA-support payments that cover the whole country is a

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major issue. Finally, the right to continue paying national support in southern Finland after 2013 will coincide with the implementation of the new CAP. The national support payments are critical in maintaining agriculture production in Finland in addition to the CAP payments.

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