IMPLICATIONS OF FINNISH IMPORT RESTRICTIONS AND AGRICULTURAL PROTECTION ON AGRICULTURAL IMPORTS FROM LESS DEVELOPED COUNTRIES

by

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I. INTRODUCTION

Finnish Foreign Trade

Finland, in spite of her small size, has developed rather diversified trade relationships with the industrialized countries. The main trade flows are to the European Economic Community (EEC), the European Free Trade Association (EFTA) and to the Socialist Countries in East Europe. Finland became an associate member of EFTA in July 1961 and in October 1973, after the expansion of EEC with England, Denmark and Ireland, negotiated special trade arrangements with EEC to secure her future trade relations. This arrangement is mainly for forest-based industries and agricultural exports and to avoid the tariff increases on exports from England and West Germany.

With the Socialist countries, the trade is based on bilateral agreements which define the composition and volume of the trade for two to five years and therefore is relatively free from year to year fluctuations.

Finland, unlike many of the industrialized countries, does not have any historical or colonial relationships with the Less Developed Countries (LDC). Neither has Finland any industries which are entirely based on imported raw materials from LDCs. Consequently the volume of trade with LDCs has not developed as fast as in some developed countries.

Until late 1950's trade relations with the LDCs were based on bilateral agreements. This policy has since been abolished and the trade is now based on multilateral agreements. This means that except for a

few products, amounting to about 5 percent of the total Finnish imports in 1969, imports from the LDCs are free from quantitative restrictions. The impact of Finnish tariffs on imports from LDCs is not very strong, especially, after January 1972 when Finland joined the group of industrial countries which apply the Generalized System of Tariffs (GSP) to their imports from LDCs.

Purpose of the Study

This study deals with the import restrictions in Finland which originate in or are closely related to the protection of domestic agriculture and therefore directly or indirectly restrict imports from LDCs. More specifically the objectives of this study are:

1. To discuss the impact of the resolution made in the second United Nations Conference on Trade and Development (UNCTAD) in 1968 whereby the industrial countries agreed to give preferential treatment to exports of manufactures and semi-manufactures by LDCs.
2. To study domestic agricultural policy in Finland and its impact on imports of agricultural products from LDCs. The domestic agricultural policy affects the trade policy and therefore adjustments in agricultural policy have an impact on the trade relations.
3. To study the interrelationship of agricultural policy and import restrictions and the economic consequences if these restrictions were relaxed.

Literature Review and Analytical Framework

Literature Review

Agricultural protection has been one of the major issues on the forums of multilateral trade negotiations. Considerable efforts have been devoted to theoretical analysis of its effects on international trade of agricultural products.

The process of balancing domestic supply and demand of agricultural products and at the same time securing an adequate income for agricultural producers is a complex problem including both social and economic considerations. The national agricultural policies of most of the industrialized countries usually do not allow for drastic adjustments in production but rather use international trade as a tool to equilibrate supply and demand.

Sorenson (1) discusses some interests which determine national policies: i) the effect of trade policy on consumer prices and costs, ii) the need to maintain certain industries in the interest of national security, iii) the effect trade will have on balance of payments and economic stability, iv) the effect trade policy will have on employment and income distribution, and v) the effect trade policy will have on economic development and growth.

Each of these issues can be used as a reason to justify a given level or protection for agricultural trade.

The economic argument for protection according to Sorenson (1) can be divided into three general categories: i) protection to offset a competitive disadvantage, ii) trade restrictions to protect monetary flows and balance of payments, iii) and protection to accelerate economic

expansion. In the third category the most often used example is the infant industry argument. New industries should be protected against foreign competition, who have the advantage of being the first in the market.

According to Josling (2) protection implies a practical or complete alleviation of some economic hazard facing the producer of a good or service. Protection is usually provided either by securing the price level of outputs or reducing the cost of inputs. Josling notes that the location of the producer can give him some protection or reduce it, and that the producer in general cannot affect directly his level of protection, but producers can form interest groups and request governments to increase their protection level.

If a given group gains protection it implies a loss of protection for competing producers in the absence of any offsetting policies. This applies as well on national as on international levels.

Josling summarizes the main effects of protection as follows:

1. the effect on profitability of the protected activity;
2. the effect on profitability of competing but not protected producers--arising through a reduction in demand for their output caused by a) the increased production from protected producers and b) the decreased demand by users. In competitive activities these two effects show up as a reduction in product price. In addition there may be an increase in the price of purchased inputs arising from the extra demand for these by the protected producers.
3. The effects on consumers and users of the protected product within and outside the protected area, on taxpayers, and on producers and consumers of other products.

Josling also points out the differences in nominal and effective rates of protection. Effective rate of protection being the value added in an industry under protection divided by the value added in the sector at the same output level but without protection.

These effective protection rates for a single product cannot be compared among countries since: ". . .there is no straight forward normative interpretation of a comparison."[1] However, the comparison does give an indication of the direction of the trade adjustment which would occur if protection is removed or reduced.

Josling (3) has used formal economic analysis in examining the relative efficiency of several alternative methods of price support for agricultural commodities. These include a deficiency payment scheme, a variable levy, a minimum import price program and a hybrid policy combining a guaranteed producer price and a somewhat lower minimum import price. Rather than the traditional method of analyzing the inefficiency or loss in consumer real income he explicitly considers a) the existence of objectives other than economic efficiency, b) the importance of disequilibrium in the rest of the economy, c) the effect on markets into which the supported product passes as an input and d) the implications of marginal adjustments to policy levels.

Free trade in all products does not, according to Johnson, (4) bring a hoped for period of prosperity and justice for poor countries and high income countries will not realize major gains in national income that can be used to meet the costs of curing their social ills.

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[1] Josling (2), ibid., p. 3.

> "Protection has done damage to the increase in world's real output of goods and services, but the extent of the damage has been minimized by the very substantial flexibility that seems to exist in all economies."[2]

Achieving free trade is only one of a number of policy measures for governments to improve the efficiency with which their economies function and thus increase national welfare.

Johnson points out that there are other benefits from free trade than those that can be measured in gains of real output. One is that protections involve substantial income transfers that are often inconsistent with any notion of equity that many societies claim to adhere to. The other is that protection has all too often provided an excuse for avoiding or ignoring important social and economic issues.

Johnson discusses the cost of protection to the protected and to the excluded and classifies the first costs into three categories: i) the loss in consumer welfare due to the consumption alternatives that consumers forego because the prices they face do not represent the real cost alternatives, ii) the excess production cost of domestic production compared to the cost of acquiring the same marginal output through trade and iii) the transfer of income from consumers and taxpayers to producers and suppliers of the inputs to the producers.

The costs to the excluded in an exporting country consist of decreases in exports and lower price for the exported products, which shifts resources to the production of imported products and causes excess resource cost and consumers' surplus losses. If the commodity is also consumed in the exporting country the income transfer will be

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[2]Johnson (4), ibid., p. 2.

from the producers of the exported product to the consumers of that product who are able to save in the expenditure on the previous level of consumption.

Johnson also points out that in the case of industrial countries restricting trade on agricultural products they are not only imposing income transfers from consumers to producers in their own countries but are also imposing income transfers from producers to consumers and to some degree to producers of imported products in other countries. And if the exported good is an agricultural product, it is highly probable that a significant part of the income transfer would be from low income farm families to higher income urban families if the country involved is a developing one.

These pieces of literature suggest that the major objectives of the protectionist agricultural policy are to maintain domestic production in the interest of the nation and to provide income transfers for the low income farm families, ignoring the other possible ways to improve their standard of living. The effects of protection in the importing and exporting country have a very low correspondence with each other since the countries usually have different national objectives and different levels of economic development.

In both countries the major impacts are income transfers. In the importing country from consumers and taxpayers to producers and in the exporting country from producers to the consumers. In the following section Figure 1 shows that the real costs of protection (producers and consumers costs) are relatively small compared to the national incomes of the trading countries.

Analytical Framework

The most common barriers to international trade have been and still are tariffs which for a long time have been used to protect domestic industries and to collect government revenues. The latter function has become less important in recent years and increasingly the purpose of tariffs is to protect the national industries from international competition and dumping sales of surplus products.

Due to the great variety of economic and social aspects involved in imposing a national tariff it is rather difficult empirically to quantify the amount of protection that they provide. A partial equilibrium diagram can be used to illustrate the economic costs and income transfers involved in protecting the agricultural sector by imposing a tariff on imported commodities in a given country.

Figure 1 illustrates the effects of imposing a tariff for a given product. Domestic supply and demand are represented by straight lines S and D in the figure and they intersect at equilibrium E_o. The world market price (equal cost of production) is P_w, domestic producer price is above it P_d. The difference (P_d-P_w) is the amount of a tariff. In a free trade situation domestic production is Q_1, and imports Q_4-Q_1, these two together equal the consumption Q_4. When the producer price and the import price plus tariff are increased to P_d consumption decreases to Q_3 of which domestic production is Q_2 and Q_3-Q_2 imports.

Area (A+B+C+D) represents the loss in consumer surplus due to the tariff. Area (A+B+C-F) is the increase in consumer money cost of which (C) is the increase in government revenue. If government revenues are fixed this area represents a reduction in taxes and the increase in consumers and taxpayers money cost is area (A+B-F). (A) represents the

increase in producers' income and (B) is the increased resource cost. (D) is the loss in consumers' surplus due to the increased prices.

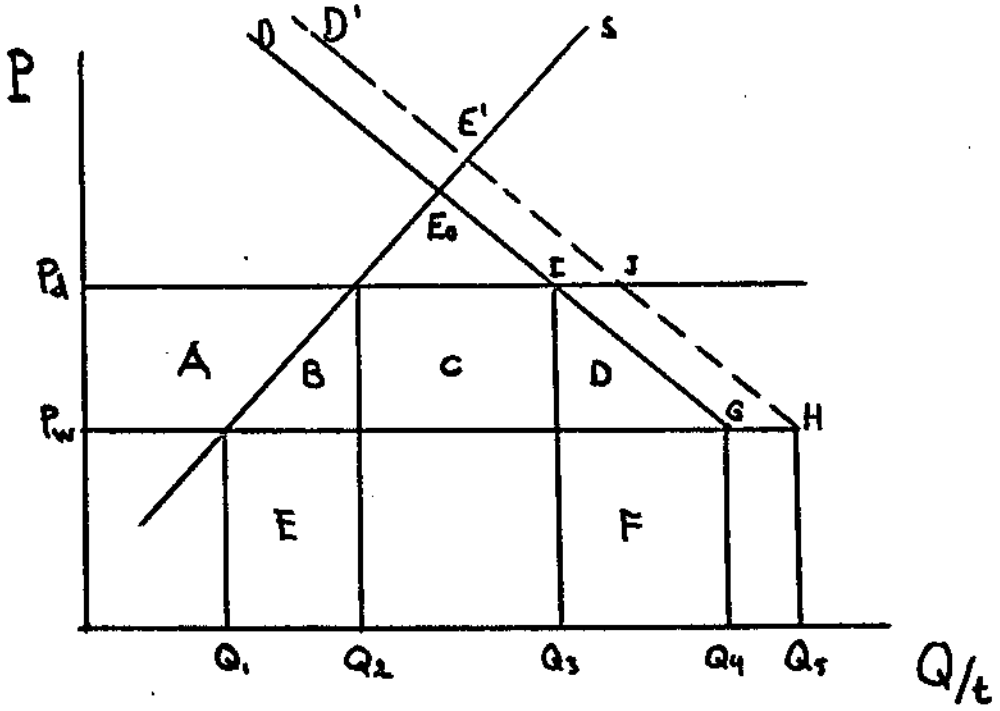

Figure 1. Cost of protection.

The costs involved in this analysis are (B) and (D), and transfers (A) from consumer to producer, and (C) from consumers to taxpayers. (E) and (F) are the reductions in imports.

If deficiency payments are used instead of tariffs the analysis is somewhat simpler. Producer price is P_d. World market price P_w. P_d-P_w is the deficiency payment per unit to the producer. The cost to the taxpayers is (A+B); (A) is the income transfer to the producers and (B) is the real cost of the program. Shift in demand curve is represented by a new demand curve D' which changes the equilibrium from E_o to E'.

The export of commodities which have domestic price above world

market prices can be analyzed with the following partial equilibrium model (Figure 2). Straight lines S and D represent domestic supply and demand, respectively. At domestic market price P_d quantity supplied is Q_2 and quantity demanded Q_1. The difference Q_2-Q_1 is surplus production on the domestic market and represents the export need for this commodity. If the world market price is P_w, then government subsidy, totalling to $(P_d-P_w)x(Q_2-Q_1)$ = (B+C+D), is required to export quantity (Q_2-Q_1). Due to higher domestic price level the loss in consumers' surplus is (A+B); gain in producers' surplus (A+B+C) of which (A) is transfer from consumer; and (B+C+D) is transfer from government to producers. Areas (B) consumer cost and (D) production cost, are the costs of the program. Areas (E) and (F) are the increases in government foreign exchange earnings.

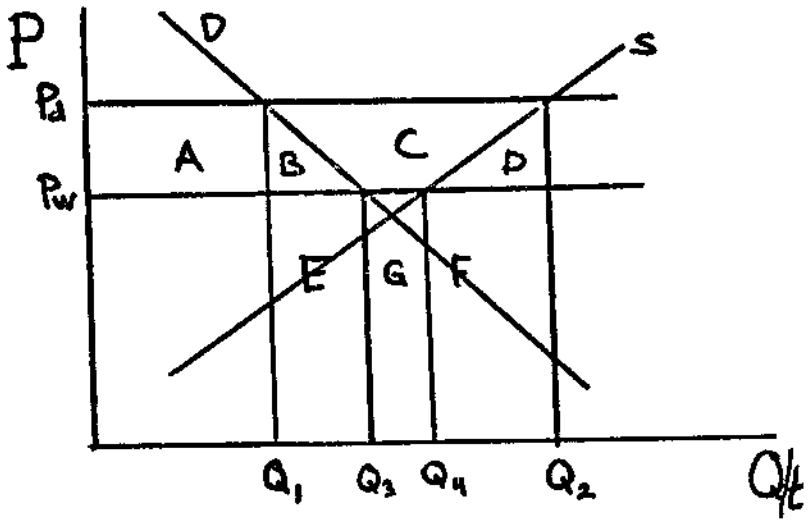

Figure 2. Export subsidies.

II. AGRICULTURE IN FINLAND

Structure and Importance of Agriculture in Economy and Major Changes After War

At the beginning of 1973 the population in Finland was 4,715,000 of which 43 percent were living in the rural areas. Total area of the country is 337,009 sq. kilometers of which about 10 percent are lakes and rivers. Total arable area in 1972 was about 2.67 million hectares of which 2.47 million hectares were in agricultural production.[3]

Table 1 gives the percentage distribution of labor force and net National Product in 1960 and 1970 for the different sectors in the economy.

Table 1. Percentage Distribution of Labor Force and Net National Product in 1960 and 1970.

	Labor Force Distribution %		Net National Product %	
	1960	1970	1960	1970
Agriculture	35.5	20.1	10.5	6.4
Forestry			9.9	7.5
Industry	22.8	25.7	27.9	31.5
Trade & Commerce	11.6	18.8	12.6	10.2
Services	14.8	18.0	22.1	27.8
Construction	8.7	8.3	10.0	10.1
Transport	6.3	7.1	7.0	6.5
Unspecified	0.3	2.0	--	--
	100.0	100.0	100.0	100.0
Total labor force percent of population	45.7	46.1		

Source: Marketing Research Institute of Pellervo Society.

[3] Soil Bank System had about 0.2 million hectares in 1972.

These figures indicate that the labor force reduction in agriculture has been relatively fast in the 1960s and the same trend is likely to continue in 1970s.

Finland's geographical position at the outermost limits of human habitation determines to a great extent the agricultural activities possible. One-third of the country lies beyond the Arctic Circle. The most southern parallel of latitude of Finland intersects with the northern tip of Labrador; the southern tip of Alaska and Yakutsk in Siberia.

However, unlike these areas Finland enjoys much more favorable climate due to the moderating effect of "Gulf Stream" current and to its location in the transitional zone between the moist Atlantic area and the dry continental climatic area.

The Finnish agriculture is characterized by small size family farms as the basic production unit. The agricultural activities as well as other activities of the economy are concentrated in southwestern and southern parts of the country where the average density of the population is about 35 per square kilometer. Corresponding figures in northern and eastern parts of the country are, in general, below 2, while the average density in the country is 15 inhabitants per square kilometer. Among other European countries only Norway and Iceland have a lower population density.

The average size farm in 1969 consisted of 9 hectares of arable land and 30 hectares of forest.[4] These figures are about the same as three decades ago. This situation results from the large increase in

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[4]Farm rental statistics are not included, therefore, real average figure is above these figures.

the numbers of holdings in 1920-60. Part of this increase is due to the events of World War II. During and after the war the people from those areas which were ceded to Soviet Union by the Peace Treaty of Moscow in 1940 and by the Armistice Agreement in 1944 migrated to territories still under Finnish Sovereignty. The number of displaced people amounted to about 420,000, 11 percent of the population, of whom 48 percent were farmers, i.e., approximately 40,000 farm families (5). These farmers were resettled by allocating them land which was owned by the state corporations and large farmers. These newly established farms were generally of small size, from 5 to 10 hectares arable land.

One of the compensating factors for the small size of farms is the importance of forests to Finnish farmers. Total forest area in the country comprises 21.8 million hectares of which 60 percent is owned by the farmers.

In Table 2, the percentage distribution of holdings according to the size of arable land is given in 1950, 1959 and 1969 in hectares.

Table 2. Percentage Distribution of Holdings According to Size in 1950, 1959 and 1969.

Farm Size Hectare	Percent Distribution		
	1950	1959	1969
1.0 - 1.9	2.6	2.6	1.8
2.0 - 4.9	13.8	13.1	9.6
5.0 - 9.9	26.5	28.1	26.6
10.0 - 14.9	19.8	20.8	21.6
15.0 - 24.9	18.8	18.6	21.3
25.0 - 49.9	13.6	12.0	13.5
50.0 -	4.9	4.8	5.6
	100.0	100.0	100.0

Source: Marketing Research Institute of Pellervo Society.

The structural changes in the Finnish agriculture follow the general European trend; namely the number of farms is decreasing and the size of the farms is increasing.

Interestingly enough, Finnish agriculture has had a relatively late start in this process which becomes very evident from the following OECD statistics in Table 3, indicating the changes in the numbers of farms in some of the member countries during the last two decades.

Table 3. Percentage Change in Number of Holdings in Selected OECD Member Countries During the Last Two Decades.

Country	Period	Percent Change	Period	Percent Change	Period	Percent Change
Sweden	1951-61	-1.9	1961-68	-4.3	1968-70	-5.0
Belgium	1950-60	-2.2	1960-65	-3.1	1965-70	-3.8
N. Zealand	1949-57	-0.3	1957-60	-3.1	1960-67	-1.7
France	1955-63	-2.3	1963-67	-2.9	1967-70	-2.9
Netherland	1950-59	-3.1	1959-65	-2.5	1965-70	-3.1
Denmark	1950-60	-0.6	1960-65	-2.5	1965-69	-4.1
W-Germany	1949-60	-1.6	1960-65	-2.1	1965-70	-3.1
Switzerl			1955-65	-2.1	1965-69	-2.1
England	1950-60	-1.1	1960-65	-1.6	1965-67	-2.2
Ireland	1949-55	-0.3	1955-60	-1.5	1960-65	-0.5
Finland	1949-59	+1.0	1959-64	+0.6	1964-69	-2.0

Source: Maatalous ja Yhteiskunta, Marketing Research Institute of Pellervo Society, Helsinki, 1972.

The relatively late start in the structural changes in the Finnish agriculture can be an advantage if the policy-makers can learn from other countries' negative and positive experiences.

Agricultural Policy in 1960s

Agriculture was the largest employer of the labor force up to the early 1960s. The structure of this sector as discussed in previous section was not favorable for introduction of programs which would

drastically reduce the number of people engaged in it. There was already considerable migration of workers to Sweden in 1950s and any major program to curtail surplus production would speed up this outflow of labor force. Finnish major industry, pulp and paper and other forestry-based industries are relatively capital intensive and although they have expanded rapidly after World War II they have not been able to employ all the people who would be willing to leave farming if alternative employment opportunities existed. This led to a situation where government support programs were needed to maintain the income levels in agriculture to prevent falling too far behind from those in other sectors. The major thrust of Finnish agricultural policy have been to maintain production slightly over the domestic consumption level and to provide incomes to the agricultural population equal to those of other secotrs of the economy.[5]

Surplus production was the major problem for the policy-makers in 1960s. The attempts to solve this problem involved various programs which were designed to decrease the resources employed by agriculture. The soil bank system was introduced in 1969. In 1972, 7.5 percent of the total arable area was drawn out of agricultural production.

In 1970 a Slaughter Act was made operational for a short period of time to reduce the milk production by decreasing the number of dairy cows. Farmers were encouraged by a money incentive to slaughter all their dairy cows and not to produce milk within the next three years. To be eligible for the extra payment provided by this act all the cows in

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[5]The self-sufficiency level set by government for basic agricultural products is 110 percent, except for sugar, 25 percent.

the heard had to be slaughtered. This resulted in a 4.7 percent decrease in the number of dairy cows but did not affect milk production substantially since the slaughtered cows mostly came from herds with low production. Adjustment of agricultural production so as not to exceed domestic consumption has been the major issue of discussion and various programs have been designed to speed up the natural decrease of the population in agriculture without producing unnecessary hardship.

Most of these programs aim at improving the social environment of the farmer, provide him an opportunity to retire at the age of 55-60, give an annual paid leave for all farmers including milk producers, and arrange especially in dairy production five-day working week by arranging trained personnel to release the farm family from day-to-day duties.

These types of programs can be of great value for the people involved, not so much in monetary terms but in recognizing them as equal to nonfarm workers and thereby entitled to get their share from the increase in income level.

Production Targets and Subsidies

Approximately 9 percent of the arable land was devoted to food production in 1972. Most of the remainder is used for the production of animal fodder. Grain production for human consumption is concentrated in the southwestern and southern parts of the country and the milk and meat production to the central and eastern parts.

Despite the decreases in agricultural population and the present agricultural policy to curtail production the self-sufficiency level has slightly increased for some commodities. Table 4 shows the level of self-sufficiency in 1960, 1970 and 1971 in percent.

Table 4. Level of Self-Sufficiency of Basic Agricultural Commodities in 1960, 1970 and 1971.

	1960	1970	1971
Milk and milk preparations	123	121	121
Meat and meat preparations	92	110	119
Eggs	121	138	154
Grain and grain preparations	78	114	100
Sugar and sugar products	27	27	29

Source: Marketing Research Institute of Pellervo Society.

According to these figures the production of basic agricultural commodities has become more balanced but surplus production still exists.

Finland exports her surplus agricultural products by subsidizing the price difference between the world market and domestic producer price. In 1972 the subsidies averaged about 50.0 percent of the total domestic value of the products. The highest subsidies were required to export eggs, 62.2 percent and lowest to export meat products, 37.7 percent. However, in September 1973 the world market price of wheat rose to about 20.5 percent above the Finnish producer prices and wheat was exported without subsidies. The costs of these export programs and the various transfers involved could be estimated in terms of the partial equilibrium model represented in Figure 2. However, such an estimation is beyond the scope of this paper.

Existing Agricultural Policy

It is estimated that in 1970s the natural reduction in the agricultural population would be about 33 percent of 1969 population, while the reduction in 1960s has been about 40 percent (6).

Similarly, the number of small farms is expected to decrease under the present agricultural programs thus reducing the need for government support.

In order to balance production and consumption by 1980, about 25 percent of the arable land has to be withdrawn from production. This figure is based on estimates of the total consumption in 1980 taking into consideration population growth and changes in consumption patterns.[6]

For the major agricultural products production and consumption has been estimated in 1980, based on recent trends and structural changes in the economy. Table 5 gives these estimates for the basic agricultural commodities.

Table 5. Total Production and Consumption of Basic Agricultural Commodities in 1970 and Estimates for 1980.

Commodity	Production Million Kg		Change ±%	Consumption Million Kg		Change ±%	Balance Million Kg	
	1970	1980		1970	1980		1970	1980
Milk	3310	2440	-26	2650	2190	-17	+660	+250
Pork	106	143	+35	96	130	+35	+ 10	+ 13
Beef	106	89	-16	96	89	- 7	+ 10	± 0
Eggs	65	65	0	47	59	+26	+ 18	+ 6
Rye	131	105	-20	113	105	- 7	+ 18	± 0
Wheat	409	270	-34	300	270	-10	+109	± 0

Source: Suomen Maatalous, 1960-1980, Publications of the Marketing Research Institute of Pellervo Society, No. 14.

The annual population increase in Finland has been relatively low and in 1972 was 0.4 percent. Increase in consumption due to population change is, therefore, small, major changes being due to the changes in consumption patterns which result from increased incomes. Milk consumption

[6]Estimates made by the Marketing Research Institute of Pellervo Society.

is estimated to decrease approximately 1.7 percent annually resulting from the decreased consumption of butter and whole milk although the consumption of cheese and skim milk is expected to increase. The relative prices will favor pork consumption and pork is substituted for beef, also the reduction of milk production makes beef production more expensive. Beef is mainly produced as a by-product in the dairy production.

These figures will reflect the existing agricultural policy of 110 percent self-sufficiency level in the basic agricultural commodities. However, the export need for surplus products decreases considerably reducing the need for subsidies.

According to the prevailing agricultural policy it is not feasible to assume that Finland would reduce her self-sufficiency level so much that she would become a net importer of agricultural products. The only group of agricultural commodities where this is likely to happen is fruits and vegetables.

Consumption

The per capita calorie consumption decreased from 3,120 K cal/day in 1960-61 to 2,884 K cal/day in 1967-68, this is about 1 percent decrease per year in 1960s (7). Approximately one-third of these calories came from various grain-products, 18 percent from milk, 15 percent from animal and vegetable oils and fats and 7 percent from meat and meat products. Compared to other Scandinavian countries the consumption of milk and grain products is relatively high. The other commodities are on about the same level as in neighboring countries.

The consumption of the major commodities and their nutritional share in the Finnish diet is shown in Table 6 for 1960-61 and 1967-68.

Table 6. Per Capita Consumption of Selected Agricultural Commodities in 1960-61 and 1967-68.

Commodity	Kg/Year		Kcal/day		Protein g/day		Fat g/day	
	1960-61	1967-68	1960-61	1967-68	1960-61	1967-68	1960-61	1967-68
Wheat	65.0	48.7	648	484	19.4	14.5	2.0	1.5
Rye	31.5	24.2	275	211	9.5	7.3	1.6	1.3
Barley	7.4	4.0	67	36	2.2	1.2	0.4	0.2
Oats	3.6	2.9	38	30	1.3	1.0	0.7	0.6
Rice	2.8	3.3	28	32	0.5	0.6	0.1	0.2
Potatoes	103.4	86.0	198	165	4.8	4.0	0.3	0.2
Sugar	39.4	39.5	418	418	-	-	-	-
Vegetables	15.2	18.8	9	15	0.6	0.6	0.1	0.2
Fresh Fruits	29.3	29.0	37	37	0.4	0.4	0.2	0.2
Canned Fruits	2.8	3.2	15	13	0.1	0.1	0.0	0.0
Berries	6.7	7.4	8	10	0.2	0.2	0.1	0.1
Beef	15.5	18.8	70	84	6.5	7.8	4.7	5.7
Veal	0.7	0.25	3	1	0.3	0.1	0.2	0.1
Pork	13.4	16.9	115	144	4.3	5.4	10.6	13.4
Mutton	0.6	0.25	2	1	0.2	0.1	0.1	0.0
Other Meat	1.9	2.4	5	7	0.8	1.0	0.2	0.3
Eggs	8.0	8.35	32	33	2.4	2.5	2.3	2.4
Fresh Fish	8.9	8.9	32	32	4.6	4.6	1.4	1.4
Canned Fish	2.1	2.1	13	13	1.3	1.3	0.8	0.9
Milk, Fluid	284.8	280.6	531	538	27.3	26.9	30.4	33.1
Milk, Skimmed	34.8	25.7	37	27	3.4	2.5	0.4	0.3
Milk, Powder	0.7	1.8	9	19	0.6	1.8	0.3	0.2
Cheese	3.2	3.6	26	29	1.6	1.7	2.1	2.3
Butter	15.9	16.9	312	330	0.3	0.3	35.3	37.3
Margarine	5.9	5.2	117	103	0.1	0.1	13.1	11.6

Table 6. Continued

Commodity	Kg/Year		Kcal/day		Protein g/day		Fat g/day	
	1960-61	1967-68	1960-61	1967-68	1960-61	1967-68	1960-61	1967-68
Vegetable Oils	1.1	0.7	27	17	-	-	3.0	1.9
Other Fats	0.5	0.75	13	18	-	-	1.4	2.1
Cocoa	0.3	1.1	3	10	0.1	0.2	0.2	0.7
Total			3088	2857	92.8	86.2	112.0	87.6

Source: On Food Consumption in Finland During 1959-68 As Shown by Food Balance Sheets, Publications of the Agricultural Economics Research Institute, Finland, No. 15, Helsinki 1969.

Grain consumption has decreased, except in the case of rice, 31.3 percent and milk consumption 3.8 percent. However, the consumption of fruits and vegetables and berries has increased about 8.1 percent and meat consumption 34.3 percent.

These reflect the usual changes in diet pattern when per capita income rises. The consumption of milk and milk products is still relatively high compared to other industrialized countries and that of vegetables relatively low.

Cocoa consumption increased nearly threefold within the first part of 1960s but in recent years has stayed on the same level as in 1967-68, just over one kilo per person per year.

Price Levels

The agricultural producer prices are based on the Agricultural Act, which requires an annual revision of the producer price levels. Basically this act means that the increases in agricultural income should follow the wage indices in the industrial sectors. The required income increase is first calculated for the total agricultural sector and is then distributed to producers either through increases in the producer prices or through special support programs to small farmers in low income areas.

The Agricultural Act for the production year 1973-74 provides the price increases shown in Table 7.

As can be seen, Finnish agriculture clearly operates with relatively high producer prices compared to those prevailing on the world market. It can, of course, be argued that the world market prices also are subsidized and do not reflect the real production costs and, therefore, should not be used in comparison.

Table 7. Producer Prices of Major Agricultural Commodities in Finland and Selected Import and Export Prices in 1973.

Commodities	Producer* Prices	Increase From Previous Year %	Export Price (f.o.b.)	Import Price (c.i.f.)
Milk	71.67 p/l	9.1		
Beef	7.54 mk/kg	15.3	4.01 mk/kg	
Pork	5.01 mk/kg	12.8	2.30 mk/kg	
Eggs	3.85 mk/kg	11.0	1.53 mk/kg	
Rye	72.85 p/kg	)		27.04 p/kg
Wheat	65.00 p/kg	)	24.15 p/kg	33.16 p/kg
Barley	46.09 p/kg	)2.7	28.04 p/kg	
Oats	41.89 p/kg	)	20.05 p/kg	

*Exchange rate for 1$U.S. was Fmk 4.15 in 1972 and approximately 3.70 in 1973. (1 Fmk = 100 pennies).

Source: MTK:h Vuosikertomus 1972 Publications of the Central Union of Agricultural Producers, No. 98, Helsinki 1973.

The labor intensive milk production and also production of meat and eggs have in recent years received the largest price increases. This has been done mainly to increase the incomes of small producers who use relatively more family labor than capital inputs in the farming. These small farmers also receive subsidies in low income areas to compensate transport costs for inputs and outputs.

The differences between Finnish producer prices and world market prices suggest that especially beef imports would be advantageous and domestic agricultural resources could be released for the production of export commodities, e.g., by forest planting of surplus agricultural land.

III. FOREIGN TRADE

Trade Flows

Agricultural commodities represent a minor group in the total Finnish foreign trade. The exports contributed 3.5 percent to the total exports in 1969 and in the following year this figure was 4.0 percent. Corresponding import figures were 6.4 percent in 1969 and 5.5 percent in 1970.

During 1960-68 Finland was a net importer of agricultural products but in 1969 and 1970 the situation has changed and the value of exports exceeded imports by 21 percent in 1970 (9). The major part of imports is of vegetative origin and exports consist primarily of animal products.

The geographical distribution of agricultural trade follows the same pattern as that of total trade. In Table 8 the export and imports of agricultural products in 1961, 1970 and average 1961-70 are divided into four groups, according to the country of origin/destination.

Table 8. Finnish Foreign Trade Flows in Agricultural Commodities, Four Major Trade Areas in 1961, 1970 and Average 1961-70.

Year	Imports (Percent)				Exports (Percent)			
	EFTA	EEC	Soc.C	Others	EFTA	EEC	Soc.C	Others
1961	16	12	34	38	42	30	14	14
1970	24	12	28	36	50	14	23	13
1961-70	17	11	26	46	48	20	20	12

Source: T. Lasola, Research Reports No. 19, XI, 1971, Institute of Agricultural Policy, University of Helsinki, 1971.

The table shows that two-thirds in 1961 and half of the average in 1960 of the imports and five-sixth of the exports are traded with Europe, including the Soviet Union.

Finland's trade with EFTA increased considerably after Finland associated with it in the early 1960s. This was mainly due to the large exports to England and increases in trade between Sweden and Finland.

Imports from socialist countries and exports to EEC have decreased and exports to socialist countries increased during this decade. Trade with countries outside these groups has remained rather unchanged.

In 1973 the trade flows have changed considerably due to the changes of members in EFTA and EEC. EEC has become the largest trade partner for Finland.[7]

Table 9 gives the geographical distribution of average agricultural imports and exports in 1961-70 for the four groups of countries.

It is interesting to note that quite a few tropical products do not come directly from the country of origin but through some other industrialized country, e.g., only one-third of cocoa and cocoa products comes directly from outside Europe, although there is no production in Europe. Similarly, oil seeds and fruits do not seem to come directly from the country of origin.

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[7]Percentage distribution of exports in 1971.

Trading Areas	Forest Products	Other Products
EEC + (England & Denmark)	60.2	25.0
EFTA - (England & Denmark)	6.9	42.9
Socialist Countries	12.5	18.1
Other	20.4	14.0

Table 9. Geographical Distribution of Agricultural Imports and Exports in 1961-70 (Average in Percent).

	Imports				Exports			
	EFTA	EEC	Soc.C	Others	EFTA	EEC	Soc.C	Others
Grains	8	4	42	46	48	15	26	11
Grain Prepar.	10	60	23	7	61	1	1	37
Vegetables	6	49	19	26	62	22	5	11
Edible Fruits	2	13	5	80	61	36	3	-
Oilseeds & fruits	17	8	30	45	72	8	8	12
Meat	76	-	10	14	39	15	46	-
Fish	93	1	1	5	98	-	1	1
Dairy Products & Eggs	24	26	38	12	43	20	25	12
Animal & vegetable Fats & Oils	44	36	9	11	47	42	8	3
Meat & Fish Prepar.	34	1	11	54	68	3	14	15
Sugar & Sugar Prepar	4	2	60	34	63	2	-	35
Cocoa & Cocoa Prepar	11	58	-	31	64	6	2	28
Bakery Products	86	8	-	6	63	20	-	17
Canned & prepared Fruits & Vegetables	10	11	20	59	49	22	3	26
Processed Food	64	18	-	18	46	16	-	38
Feeding Stuff	28	2	37	33	58	15	23	4
Live Animals	56	4	19	21	29	3	62	6
Wool	63	3	-	34	35	3	-	62
Fertilizer & Fertil Raw Materials	16	28	45	11	-	-	-	-

Source: T. Lasola, Research Reports No. 19, XI, 1971, Institute of Agricultural Policy, University of Helsinki, 1971.

Trade With Less Developed Countries

During 1965-71 imports from LDCs have varied between 4.9 and 7.7 percent of total Finnish imports and exports have been approximately 5.5 percent of total exports.

The trade is concentrated in a few items and a few countries. Table 10 shows the percentage share of imports and exports of five major trading partners in different continents in 1971.

Table 10. Percentage Share, in Three Continents, of Finland's Five Major Trading Partners of Total Trade with These Continents in 1971.

Continent	Exports	Imports	Main Imports
Asia	66.4%	93.4%	Mineral oils
Africa	70.8%	62.7%	Cocoa products
South and Central America	80.4%	62.0%	Coffee, fruits, food preparation

Asian imports consist predominantly of mineral oil from Iran, imports from Africa are cocoa products from Nigeria and from Latin America, coffee, food and food preparations and fruits and vegetables are imported.

Finland's exports to these continents contain mainly three groups of products; paper and cardboard, cork and lumber and pulp.

If mineral oils are excluded the balance of trade has developed less favorably to the LDCs as shown in Table 11 and Table 12 which give imports and exports of three major groups of commodities, in 1966 and 1971 (10).

Table 11. Value and Percentage Share of Finnish Imports of Three Major Commodities from LDCs in 1966 and 1971. (Value, Million Markkas)

SITC	Commodity	1966	1971	Percent Change
33	Mineral oils	47.3	247.4	+423.0
07	Coffee, tea, cocoa	154.3	119.7	- 22.4
05	Fruits and vegetables	24.9	49.5	+ 98.8
Total		226.5	416.6	+ 83.9
Share of Total Imports from LDCS		65.5%	72.9%	

Source: Finnish Board of Customs, Quarterly Report II/1973, Helsinki, 1973.

Table 12. Value and Percentage Share of Finnish Exports of Three Major Products to LDCs in 1966 and 1971. (Value, Million Markkas)

SITC	Commodity	1966	1971	Percent Change
64	Paper and cardboard	157.0	292.2	+ 86.1
24	Lumber and cork	12.0	50.2	+318.3
25	Paperpulp	42.1	31.8	- 24.5
Total		211.1	374.2	+ 77.3
Share of total exports to LDCs		77.1%	68.8%	

Source: Finnish Board of Customs, Quarterly Report II/1973, Helsinki, 1973.

The imports of mineral oils count for most part of the increase in LDCs' exports to Finland. In other commodities there has not been any sign of the diversification of the imports, since these three commodity-groups (mineral oils, coffee, tea, cocoa and fruits and vegetables) still in 1971 counted for two-thirds of the value of the imports from LDCs.

IV. ANALYSIS OF PRESENT SITUATION

The Generalized System of Preferences

As a result of the first United Nations Conference on Trade and Development (UNCTAD) in 1964, (Geneva) and subsequent negotiations between the parties concerned the industrialized countries agreed to establish the General System of Preferences (GSP). The purpose of this system of tariffs was to abolish the existing discriminatory trade preference systems and give equal trade preference treatment to all LDCs. This was supposed to raise the material wealth of the LDCs via trade rather than aid (Finnish scheme given in Appendix I). The objectives of this system would be: i) to increase export earnings for LDCs, ii) to promote industrialization, and iii) to accelerate the rate of economic growth in LDCs. So far the GSP has been implemented by most of the industrialized countries. Only the U.S.A. and Canada are outside the system.

The Finnish scheme was implemented in January 1972 and follows the general policy of other developed countries to allow nontariff entry for manufactured and semimanufactured products which originate from LDCs. Finland's exceptional list (negative list)[8] contains three groups of commodities: i) basic agricultural products which are also produced in Finland, ii) products which could negatively affect domestic industries

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[8]Finland's positive and negative lists are given in Appendix II and III.

and iii) products which are subject to duty of a fiscal nature (gasoline, passenger cars and motorcycles).

Some agricultural goods in Brussels Tariff Nomenclature (BTN)[9] 1-24 are included in the scheme. However, the value of these imports is relatively small.

This treatment is given to all countries in the group 77[10] (94 countries) and the list of the countries will be expanded taking into account among others the principle of burden sharing between the preference giving countries.

Implications of Trade Restrictions on Imports from LDCs

As mentioned earlier Finland does not have any close historical ties with LDCs. The Finnish overall policy, therefore, has followed the U.N. policy recommendations. Within the area of international trade the recent major development has been the adaptation of GSP.

In Table 13, total trade with LDCs is compared with Finnish total foreign trade. The volume of this trade has grown significantly but the realtive share has not increased which indicates that the trade has been rather traditional with the countries which are now entitled to GSP treatment.

The Finnish GSP scheme excludes the major agricultural import commodities from LDCs, i.e., coffee, sugar and rice still have tariff restrictions. If it is assumed that also these tariffs are abolished it can be estimated how much Finnish demand for these commodities changes

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[9] BTN 1-24, includes mainly primary agricultural products.

[10] List of the Finnish beneficiaries is given in Appendix I.

using available price elasticities of demand. An increase in demand also occurs when per capita income rises and this can be estimated using the income elasticity of demand figures. Table 14 gives estimated percentage changes in quantities demanded of coffee, rice and sugar if existing tariffs were abolished. Also the income elasticity figures are used to estimate consumption increases due to per capita increases in income.

Table 13. Percentage Share of LDCs Trade of Total Finnish Trade in 1965-72.

Year	Imports			Exports		
	LDC	Total	%	LDC	Total	%
1965	313.5	5265.1	5.9	245.3	4565.0	5.4
1966	346.6	5524.4	6.3	273.5	4826.9	5.7
1967	420.5	5794.4	7.3	288.4	5231.2	5.5
1968	439.6	6710.9	6.6	351.1	6874.2	5.1
1969	652.3	8504.8	7.7	455.8	8504.8	5.5
1970	850.7	11071.4	7.7	534.0	9686.7	5.5
1971	571.2	11734.4	4.9	543.7	9897.2	5.5
1972	825.3	13113.5	6.3	--	12082.0	--

Source: Suomen Ulkomaankauppaliitto, Kauppatilastoa 1973, Helsinki, 1973.

The effect on demand of tariff reduction, which is similar to a reduction in the market price of a commodity when there is no domestic production, was quantified using the partial equilibrium model presented in Figure 1 on page 9. In case of coffee, sugar and rice (Table 14) the increased consumption in 1971 (4.06 percent; 13.1 percent and 9.04 percent, respectively) corresponds to an increase from Q_3 to Q_4 in Figure 1 which is the change in the quantity demanded due to the price reduction with respect to a single commodity.

Table 14. Estimated Effect of Tariffs on Consumption of Selected LDCs' Exports to Finland.

Commodity	Price Elasticity of Demand	Tariff (%) of (c.i.f.) Value[d]		Estimated Price Effect on Consumption (%)		Income Elasticity of Demand[e]	Estimated Annual Income Effect on Consumption (%)		
		1970	1971	1970	1971		2[f]	3[f]	4[f]
Coffee	-.24[a]	6.7	16.9	1.60	4.06	0.2	.4	.6	0.8
Sugar	-.48[b]	31.6	27.2	15.2	13.1	0.2	.4	.6	0.8
Rice	-.20[c]	40.1	45.2	8.02	9.04	0.3	.6	.9	1.2
Fruits						0.8	1.6	2.4	3.2
Vegetables						0.2	.4	.6	0.8
Cocoa						0.6	1.2	1.8	2.4

[a]The World Coffee Economy, ,FAO, Commodity Bulletin Series 33, Rome 1961.

[b]Trends and Forces of World Sugar Consumption, FAO Commodity Bulletin Series 32, Rome 1961.

[c]The World Rice Economy, Volume II; Trends and Forces, FAO, Commodity Bulletin Series 36, Rome 1963.

[d]Official Statistics of Finland I A: 91, Foreign Trade Volume I, 1971, Helsinki, 1972.

[e]Agricultural Commodities--Projections for 1975 and 1985, Volume II, FAO, Rome 1967.

[f]GNP growth in Finland in 1961-68 was 3.2 percent, World Bank Atlas, IBRD, 1970.

The supply effect in this model would apply to the domestic production of sugar and producer price reduction to world market level would decrease the quantity supplied from Q_2 to Q_1 (Figure 1). This has not been measured but it is assumed that present domestic producer price is maintained on the same level (P_d) through deficiency payment system.

For all commodities in Table 14 the estimated income effect on consumption is represented by a shift in the individual commodity demand curve (D to D') to the right. If the quantity demanded after tariff reduction is Q_4 in Figure 1 then the new quantity demanded after the shift is Q_5 and combined effect of tariff reduction and income increase is (Q_5-Q_3). Finnish demand curve for the imported commodities, when there is not domestic production, is therefore, IGH in Figure 1.

Tariff reductions seem to have substantial effects on the quantities demanded of those three commodities, especially on sugar consumption. The consumption of coffee would increase approximately 4 percent since 1970 tariff level was exceptionally low and normally tariffs on coffee have been on 1971 levels. The last three columns in Table 14 give estimates of percentage changes in quantities demanded based on different levels of annual GNP growth rates. The estimates of increased consumption based on income elasticity figures do not indicate considerable changes, except for fruits and cocoa both which are presently imported duty-free.

The total increase in imports from LDCs in 1972 was 44.5 percent higher than in previous years. This was due to the abnormal imports in two previous years and does not result from the implementation of the GSP scheme. The imports in 1970 increased well above normal when the temporary surcharge tariff on coffee was reduced, and in the next year when tariffs were re-established the imports fell far below normal. The temporary reduction of tariffs on coffee, which is not entitled to GSP treatment

provides an opportunity to have a closer look at the effects of the trade policies in industrial countries on exports from LDCs.

The price increase on coffee in the world market in 1970 originally caused this tariff reduction, because the government did not want the import price of this product to rise and increase the consumers' expenditures on food and beverages. The tariff imposed was about half of its usual amount; it was reduced to 6.7 percent of c.i.f. value (generally it is about twice as high; 16.9 percent in 1971). This caused the importers to increase stocks and 1970 imports of coffee were one-third higher than in previous years and nearly four times higher than in the following year.

Finland imports coffee were about 1.5 percent of total world imports in 1960. In 1970 this share increased to 2.4 percent and in 1971 dropped to 0.6 percent of the total world imports. Although the absolute effect of less than 1 percent change in total world imports does not cause any major disruptions on the market it can have considerably large effects on a small exporting country if this country exports all of its coffee to Finland.

It can be seen that this case involved an income transfer from the government to the consumer and probably also a small amount to the importer. The exporting countries did not benefit from the tariff reduction, since their export price remained the same regardless of the variations in quantities. This tariff reduction increased the quantities exported compared to the situation with no reduction. Without the temporary decrease in tariffs the consumer price would have increased by the amount of the tariff. The quantity consumed would have decreased although not

very much since the demand is rather inelastic. Now the government income transfer in form of reduced tariff enabled the consumers to maintain their previous consumption level without increased expenditure on coffee.

Trade policy was used to compensate consumers' loss by the income transfer from the government. This policy may have partly been speculation by the government that the world price increase would be temporary and could be eliminated from consumers' expenditure by tariff reduction. However, it was not and the increase was passed on to the consumer but during a longer time period which did not affect the quantity consumed considerably.

Effects of the Generalized System of Preferences

The total Finnish imports in 1971 were 11734.4 million markkas and imports from GSP countries 571.2 millions. The imports of commodities entitled to GSP treatment by Finnish scheme in January 1972 and imported from GSP countries in 1971 were calculated as percentage share of total imports from GSP countries in 1971. It was found that only 4.4 percent of total imports from GSP countries were covered by this scheme, and this would be 0.21 percent of total Finnish imports from all countries.

The following Table 15 gives a clear indication that in its present form the GSP does not affect the trade flows in any significant amount and has not been able, so far, to reduce the existing trade barriers.

The share of the products covered by GSP in 1972 was 40.8 percent of total Finnish imports[11] but only 0.7 percent of them came from GSP countries (11). This is a surprisingly low figure and suggests that

[11]Total imports of GSP commodities were 5344.57 millions compared to total Finnish imports 13113.5 million in 1972.

Table 15. Value and Percentage Distribution of Finnish Imports of Major GSP Products According to the Country of Origin, Selected Commodities and Total in 1972, Million Finnish Markkas.

BTN	Main GSP Products	Imports From GSP Countries				Imports From Non-GSP Countries		Total GSP Product Imports	
		GSP Treatment		No-GSP Treatment					
		Value	%*	Value	%*	Value	%*	Value	%*
24.01	Tobacco	4.58	8.2	5.89	10.5	45.52	81.3	55.99	100.00
76.03	Alum sheets	2.21	4.7	1.37	2.9	43.76	92.4	47.34	100.0
58.04	Textiles	1.19	2.3	0.39	0.8	49.92	96.9	51.50	100.0
58.01	Carpets	0.79	36.9	1.23	57.4	0.12	5.7	2.14	100.0
41.05	Skins	0.78	43.8	0.48	27.0	0.52	29.2	1.78	100.0
08.12	Dried fruit	0.50	6.8	0.31	4.2	6.54	89.0	7.35	100.0
	Subtotal	10.05		9.67		146.38		166.10	
Import of all GSP Products		11.46	0.2	23.63	0.5	5309.48	99.3	5344.57	100.0

*Percentage of imports from all countries.

Source: Finnish Board of Customs, Quarterly Reports II/1973, Helsinki, 1973.

countries giving the GSP treatment for imports from LDCs only want to gain popularity which soon wears off and disillusion sets in for both parties and especially for the one which is supposed to benefit from the agreement.

The figures in Table 15 also show that the effect of GSP is reduced by the fact that some of the GSP products were given preferential entry already before the scheme became operational. Most of the industrial countries have reduced the tariffs of industrial raw materials to zero in order to give an advantage to the domestic production.

Table 16 shows the absolute and percent distribution of GSP imports according to GSP and MFN tariff schemes, in 1972.

Table 16. Value and Percentage Distribution of Finnish Imports from GSP Countries According to Classification in GSP and MFN Tarrif Schemes in 1972, Million Finnish Markkas.

Trade Flow	Value	Share of Total (%)	
		All GSP Countries	GSP Products
Total imports from GSP countries	825.3	100.00	
Products not covered by GSP	790.2	95.75	
Products covered by GSP	35.1	4.25	100.00
Dutyfree under MFN or schemes not yet in operation	23.6	2.86	67.24
Products actually imported under GSP	11.5	1.40	32.76

In 1971 the share of products imported from GSP countries and also covered by the scheme was 4.4 percent and in 1972 only 4.25 percent. This indicates that no positive effect can be traced to show that importers had shifted to import from GSP countries due to the reduction of the tariffs. The figures actually show that the reverse may have happened, although the abnormally low coffee imports in 1971 have increased the

share of GSP imports since coffee is not covered by the scheme. The GSP does not have any effect on 67.24 percent of imports covered by GSP scheme since these already have zero duty or are from countries which within a year had not claimed the benefits from the scheme.[12]

The countries which had the most benefit from the Finnish scheme in 1972 were those which had developed their manufacturing sector or happened to produce products which were not excluded from the scheme.

Table 17 shows the biggest beneficiaries in 1972.

Table 17. Major Beneficiaries of Finnish GSP Scheme in 1972, Value (Million FMK) and Percentage Distribution.

Country	Value of Actual GSP Imports	Share in Percent of Total GSP Imports
Brazil	4.67	40.8
Yugoslavia	3.42	29.8
Philippines	0.93	8.1
Mexico	0.77	6.7
Iran	0.70	6.1
Argentina	0.51	4.5
Total	11.00	96.0

Source: Finnish Board of Customs, Quarterly Report II/1973, Helsinki, 1973.

Six countries out of 94 possible received the major benefits (96.0 percent) from the scheme. These countries are among the wealthiest of all GSP countries (excluding oil producing countries) and have established a manufacturing sector which can benefit from the GSP.

For most of the LDCs the Finnish trade restrictions remain the same as before the GSP became operational.

[12] T. Murray has calculated corresponding figures for total LDC exports in 1967 and found out that 61 percent of these exports were admitted duty-free under MFN treatment. "How H elpful is the Generalized System of Preferences to Developing Countries," The Economic Journal, June 1973, pp. 449-455. The difference is probably due to the fact that Finnish scheme was not fully operational in 1972; only 36 countries of total 94 beneficiaries had claimed GSP status.

Areas to Increase Trade with LDCs Within the Scope of Domestic Agricultural Adjustment

Finnish agricultural production and existing policy does not allow for considerable increases in imports of basic agricultural commodities from LDCs.

Food Grains. Production of wheat in recent years has increased over the domestic consumption. Rye imports have declined due to increased production which has been stimulated by increases in producer prices. Rice is not produced in Finland and its consumption is rather low compared to other industrialized countries. Surcharge tariffs on rice in 1970 and 1971 were 40.1 percent and 45.2 percent, respectively. Reduction of these tariffs would increase consumption especially if industrially processed.

Feed Stuff. Corn and oilplant products are the main imported feeding materials. Corn imports have been 15-20 million kilos annually in the 1960s. These products are used mainly in feed mixtures to increase their protein contents. Considerable efforts are presently devoted to develop high protein feeding materials from industrial waste cellulose and urea, to substitute for imported feeding materials.

Dairy Products. Future outlook is that Finland remains net exporter of these products in the 1970s.

Meat and Meat Products. Production of pork is expected to increase and that of beef to decline in the 1970s. As indicated in Table 5, page 18, net exports of meat are expected to prevail in the 1970s.

Sugar. Domestic production of sugarbeets covers approximately 25 percent of domestic consumption. Sugarbeets are imported from Denmark

and raw cane sugar from the USSR to meet consumption requirements. It can be assumed that the cane sugar originates from Cuba and therefore comes from LDC. However, the imports could be shifted directly to LDCs. Raw sugar had the highest surcharge tariffs in 1970 and 1971 and were 104.5 and 81.7 percent of c.i.f. value, respectively. Sugar has accounted for the largest tariff revenue of an imported product to the government in recent years.

Coffee, Tea and Cocoa. Coffee is not covered by the GSP scheme. Considerable amount of these imports comes through an industrialized country even if unprocessed. The consumption of these products is relatively high and is increasing with the increase in incomes.

Fruits and Vegetables. Imports have increased considerably in recent years due to increased consumption. The imports are restricted to the time when domestic production is not available (usually October-March). Finnish consumption of fruits and vegetables is relatively low, only about two-thirds of that of other Scandinavian countries and less than half of Middle-European consumption levels. The imports are expected to grow rapidly and this provides a potential to increase imports from LDCs.

Under the present GSP system the products for which demand is expected to increase are rather limited. Finnish positive list (Appendix II) contains so far products which are not previously introduced to the northern diet or are required in normal diet in very small quantities, and therefore have marginal level of consumption. Some products in the positive list still have implicit import restrictions, e.g., oil seeds cannot be used for feeding if imported under GSP, soups and broths may not contain meat or meat offal, lemonades may not contain fruit and vegetable juices.

The expansion of the positive list would be one way to relax import restrictions. This will not mean increased imports from the LDCs if the relaxed products do not have any major role in consumption in the importing country or if LDCs are unable to supply them.

Selecting the products which would increase imports from LDCs must be done using the following criteria: i) products must have relatively large share of consumption in importing country, ii) products must be produced in LDCs and iii) must have low tariff or preferential entry to the importing country. Coffee, sugar, fruits and vegetables, rice and oilplant products for feeding and production of margarine are such products in Finnish imports. These will not compete with the domestic production since they are not produced in Finland or are produced in small amounts.

Second group of LDCs products are those which compete with domestic production and the imports of these are subject to the domestic agricultural policy decisions. In most cases this policy seems to prefer the domestic production. In the case of Finnish agriculture grain and dairy products are heavily protected and imports are only allowed when domestic production is insufficient.

Economic Consequences of Increased Imports from LDCs

The Finnish government is spending annually about 450 million to subsidize agricultural production. Approximately similar amounts are used annually to export the surplus agricultural products. If we think only in terms of maximum output and optimum use of the resources then it can be shown that the cost of protection of domestic agriculture under

the present program of subsidized production amounts to significant figures. Kiene (12) has shown that the Austrian agricultural policy of subsidized production is nearly twice as expensive as a deficiency payment policy which would provide agricultural products to the consumer at world market price.

However, in the Scandinavian context agriculture has important functions to perform other than the production of basic food and raw materials to the society. The most important of these which has not been long recognized, is to maintain a basic habitation throughout the country and decentralize the economic activities. This would mean less congestions, traffic jams and pollution for the entire population. Also the agricultural sector provides basic services for the increasing recreational needs of the urban population since there is not yet any other sector in the economy prepared to provide these services. These functions cannot be measured against the present costs of subsidized agriculture, but they will become a social cost if the agricultural sector is reduced drastically.

The most relevant issues in determining the national agricultural policy in Finland fall into the category (ii) on page 3; the need to maintain certain industries in the interest of national security. This means basically independence of foreign supplies of basic food materials. It is doubtful that a small country could rely on the world market supplies where she may meet large fluctuations in the price levels. Also the balance of payment question becomes involved especially for Finland who depends mainly on earnings from forest-based industries, and does not have any other significant natural resources to trade with other

countries. The resources presently employed by agriculture could be used to produce export commodities. The industrial sectors, however, have not been able to absorb enough labor from agriculture which has resulted in over-production and migration out of the country. During 1947-70 about 400,000 people migrated out of Finland mainly (330,000) to Sweden. At the same time 85,000 have returned from Sweden and about 20 percent of the remaining would return if they had job opportunities.[13]

Estimated total loss of this migration for Finland is Fmk 27,000 million. The people willing to return provide a potential increase in Finnish labor force, but the present reduction of agricultural sector must be slowed down if it is intended to use this potential labor force which is more trained to industrial jobs than the Finnish farm labor.

The imports from LDCs could be increased by shifting the GSP imports from industrialized countries to LDCs. This would create no cost to the importer nor any economic consequences in the importing country, if we assume no quality differences in the products and the trade is on multilateral basis. This was the original meaning of the GSP and is expected to happen although the results from the first year experience are disappointing.

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[13] M. Joensuu, "Ruotsiin Muutosta ja Peltojen Paketoinnista Keski-Pohjanmaalla vuosina 1969-1971," unpublished M.S. thesis, University of Oulu, 1973.

V. CONCLUSIONS

The major conclusions drawn from this study can be summarized briefly as follows.

1. The trade between LDCs and Finland is product-wise and geographically rather concentrated. The value and volume of the trade has increased in the 1960s, the Finnish imports have increased threefold and exports doubled (in value terms) but the relative share of LDCs in the total Finnish trade has not increased.

   The first observations from the GSP are that it has not accomplished what it was intended to do. There is poor correspondence between products qualifying for preferential duties and products actually exported by the LDCs. In 1972, 95.75 percent of the LDC exports to Finland were outside the preferential system, because they were either agricultural products or duty-free under MFN system or the schemes were not yet operational.

2. There was no positive improvement in the GSP trade from 1971 to 1972, but rather the reverse. Only 4.25 percent in 1972 of LDC exports to Finland were covered by the scheme compared to 4.40 percent in 1971; this may be due to abnormal imports in 1971. The benefits from the GSP scheme go to the richest of the LDCs who are able to produce the type of products which are included in the scheme. Six countries of 94 received 96.0

percent of the total benefits in 1972. After the Finnish scheme had been operational for one year only 36 GSP countries of 94 had claimed the benefits from the scheme. Weintraub (13) includes into the concept of preferences "the way things are done counts as well as what is done." So far the GSP has accomplished only the first part of this concept.

3. The remaining trade barriers, after the implementation of GSP, on agricultural imports provide a potential for increased imports from LDCs, espcially of products which do not compete with Finnish domestic agricultural production. The price elasticities of demand suggest that abolishing tariffs on coffee, sugar and rice would increase Finnish consumption 4.1 percent, 13.1 percent and 9.0 percent, respectively, assuming that the self-sufficiency level on sugar is maintained on its present level. These are relatively large figures although the absolute effect on LDCs' exports is small due to small size of Finnish market. The annual increase in demand for LDCs' exports resulting from increased incomes in Finland is of less importance except for fruits and cocoa which have relatively high income elasticities of demand.

4. The cost of protection of Finnish agriculture is relatively high if calculated using traditional economic analysis. However, for a small country the dependence on the world market in supplies of agricultural products involves the question of national security. The natural adjustment of agricultural sector is very slow and is impeded by year to year deviations

from the long run trend which require either exports or imports to balance the domestic consumption. Finland's policy to reduce surplus exports of agricultural products makes possible the increase of these exports from other countries. Under present agricultural policy there are considerable income transfers to the agricultural sector. These could be avoided if industrial sectors could absorb the excess resources from agriculture to produce export products.

5. Finnish agriculture has important functions besides the production of food and raw materials. Especially the maintenance of basic rural population, and to provide ecologically suitable environment for the population are considered amongst the most important of these functions in Scandinavia. Until recreational industries are well enough developed, agriculture has to supply these services.

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APPENDICES

APPENDIX I

GENERALIZED SYSTEM OF PREFERENCES*

Schemes of the Nordic Countries--Finland

1. Product Coverage

Eligible for GSP treatment in Finland are the following natural produce, raw materials and manufactures:

(a) Goods falling within BTN Chapters 1-24 listed in Appendix II;

(b) Goods falling within BTN Chapters 25-99, with the following exceptions:

(i) goods listed in Appendix III

(ii) agricultural products falling within BTN Headings 35.01, 35.05, 38.12 and 39.06

(iii) products which are subject to duty of a fiscal nature falling within BTN Headings except 27.10 (gasoline), except 87.02 (passenger cars) and 87.09 (motorcycles).

2. Preferential Treatment

Eligible goods, as defined in paragraph 1 above, when imported into Finland under the provisions of the GSP, are accorded duty-free entry without tariff quota limitations.

3. Beneficiary Countries

Subject to the provisions under paragraph 7 below, Finland will regard as eligible beneficiaries all those countries of the Group of 77 which are members of the United Nations.

The list of beneficiary countries is preliminary and will be

*Source: UNCTAD, TD/B.373/ADD.2. (Finland), 13, January 1972.

expanded taking into account among others the principle of burden sharing between the preference giving countries.

4. Qualification for Preferential Treatment

Eligible goods qualify for GSP treatment on importation into Finland when it is shown to the satisfaction of the Finnish Customs Authorities that the goods originate in an eligible developing country and that conditions in relation to their consignment to Finland have been fulfilled.

5. Safeguard Mechanism

If the application of the GSP causes or threatens to cause market disruption, Finland reserves the right to introduce safeguard measures along the lines of the Agreed Conclusions of the Special Committee on Preferences.

6. Entry into Force

Subject to the provisions of paragraph 7 below, the Finnish system of preferences will enter into force as from 1 January 1972.

7. Undertakings by the Beneficiary Countries

Finland invites hereby each country to which it has offered beneficiary status in her GSP scheme to give the following undertakings:

(a) to notify to the Board of Customs (Erottajankatu 2, 00101 Helsinki 10, Finland) the name, address and authorized signatories of the governmental authority which is empowered to issue GSP certificates or origin;

(b) to send the Board of Customs specimen impressions of the official stamps which will be used by the authority on certificates of origin;

(c) to take the appropriate domestic action to enable the Finnish rules of origin for GSP to be properly enforced, particularly in ensuring cooperation with the Finnish authorities in the pursuit of verification enquiries.

Goods will be admissible to the benefits of GSP only after these undertakings have been implemented.

LIST OF BENEFICIARY COUNTRIES*

Afganistan
Algeria
Argentina
Bahrain
Barbados
Bhutan
Bolivia
Botswana
Brazil
Burma
Burundi
Cameroon
Central African Republic
Ceylon
Chad
Chile
Colombia
Congo (Peoples Republic)
Costa Rica
Cuba
Cyprus
Dahomey
Dominican Republic
Ecuador
Egypt, Arab Republic of
El Salvador
Equatorial Guinea
Ethiopia
Fiji
Gabon
Bambia
Ghana
Guatemala
Guinea
Guyana
Haiti
Honduras
India
Indonesia
Iran
Iraq
Ivory Coast
Jamaica
Jordan
Kenya
Khmer Republic
Kuwait
Laos
Lebanon
Lesotho
Liberia
Libyan Arab Republic
Madagascar
Malawi
Malaysia
Maldives
Mali
Mauritania
Mauirtius
Mexico
Morocco
Nepal
Nicaragua
Niger
Nigeria
Pakistan
Panama
Paraguay
Peru
Philippines
Qatar
Rwanda
Saudi Arabia
Senegal
Sierra Leone
Singapore
Samali Democratic Republic
Sudan
Swaziland
Syra
Tanzania
Thailand
Togo
Trinidad and Tobago
Tunisia
Uganda
Upper Volta
Uruguay
Venezuela
Yemen Arab Republic
Yemen, Peoples Democratic Republic of
Yugoslavia
Zaire
Zambia

*As of 12 April 1973, Bangledesh, Bulgaria Western Somoa and Nauru were added to this list.

APPENDIX II

POSITIVE LIST OF COMMODITIES

Goods Under B.N. Chapters 1-24 Eligible for GSP Treatment in Finland*

ex 03.02 Fish, dried, salted or in brine; smoked fish, whether or not cooked before or during the smoking process; except herrings, (Clupeidae), salted or in brine and salmon.

ex 07.01 Garlic, fresh or chilled.

ex 07.03 Olives and capers, provisionally preserved in brine, in sulphur water or in other preservative solutions, but not specially prepared for immediate consumption.

ex 07.04 Garlic, dried, dehydrated or evaporated, whole, cut, sliced, broken or in powder, but not further prepared.

ex 07.06 Jerusalem artichokes- fresh or dried, whole or sliced.

ex 08.01 Dates, coconuts, Brazil nuts, cashew nuts, pineapples, avocados, mangoes, guavas and mangosteens, fresh or dried, shelled or not.

08.03 Figs, fresh or dried.

ex 08.04 Grapes, dried

08.05 Nuts other than those falling within heading No. 08.01, fresh or dried, shelled or not.

ex 08.06 Quinces, fresh

ex 08.07 Apricots, peaches and tropical stone fruit, fresh.

ex 08.08 Tropical berries, fresh.

ex 08.09 Honey dew melons, ogen melons, tropical fruit, fresh

*Source: UNCTAD, TD/B/373/Add. 2, Annex I.

ex 08.10 Tropical fruit (whether or not cooked), preserved by freezing, not containing added sugar.

ex 08.11 Tropical fruit, provisionally preserved (for example, by sulphur dioxide gas, in brine, in sulphur water or in other preservative solutions), but unsuitable in that state for immediate consumption.

ex 08.12 Peaches, plums and tropical fruit, dried

08.13 Peel of melons and citrus fruit, fresh, frozen dried, or provisionally preserved in brine, in sulphur water or in other preservative solutions.

09.09 Seeds of anise, badian, fennel, coriander, cumin, caraway and juniper.

11.04 Flours of the fruits falling within any heading in Chapter 8.

ex 12.01 Caster oil seeds, hemp seeds, linseeds, oiticica seeds, sesamum seeds, and beech nuts, not for feeding purposes.

12.05 Chicory roots, fresh or dried, whole or cut, unroasted.

12.08 Locust beans, fresh or dried, whether or not kibbled or ground, but not further prepared; fruit kernels and other vegetable products of a kind used primarily for human food, not falling within any other heading.

ex 15.06 Neat's-foot oil for technical purposes

16.04 Prepared or preserved fish, including caviar and caviar substitutes.

ex 16.05 Crustaceans and molluscs, prepared or preserved, except shrimps and prawns

18.01 Cocoa beans, whole or broken, raw or roasted

18.03 Cocoa paste (in bulk or in block), whether or not defatted

18.04 Cocoa butter (fat or oil)

18.05 Cocoa powder, unsweetened

19.06 Communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products.

ex 20.01 Mango-chutney; olives and capers, prepared or preserved by vinegar or acetic acid, with or without sugar, whether or not containing salt, spices or mustard.

ex 20.02 Olives; tomato pulp and paste in airtight containers with a dry weight content of not less than 25 percent tomato; prepared or preserved otherwise than by vinegar or acetic acid.

ex 20.04 Tropical fruit and parts thereof, preserved by sugar (drained, glace or crystallized).

21.01 Roasted chicory and other roasted coffee substitutes; extracts, essences and concentrates thereof.

21.03 Mustard flour and prepared mustard.

21.04 Sauces; mixed condiments and mixed seasonings.

ex 21.05 Soups and broths, in liquid, solid or powder form; homogenized composite food preparations, not containing meat or meat offal

ex 21.06 Inactive yeasts, prepared baking powders.

22.01 Waters, including spa waters and aerated waters; ice and snow.

22.02 Lemonade, flavored spa waters and flavored aerated waters, and other nonalcoholic beverages, not including fruit and vegetable juices falling within heading No. 20.07

22.10 Vinegar and substitutes for vinegar

23.05 Wine lees; argol

24.01 Unmanufactured tobacco; tobacco refuse.

By "Tropical fruit" in the B.N. positions 08.07 - 08.12 and 20.04 is meant: mangoes, guavas, papayas, cashew apples, tamarind, avocados, mangosteens, lychees, ginger, figs and angelica. Mixtures containing other fruit added are excluded from preferential treatment.

APPENDIX III

NEGATIVE LIST--FINNISH GSP SCHEME

Goods Under B.N. Chapters 25-99 Not Eligible for GSP Treatment in Finland

25.23 Certain minerals
28.25 Mineral oil products
39.07 Plastic products
40.11 Rubber products
41.02 Bovine cattle leather
41.03 Sheep and lamb skin leather
41.08 Patent leather and imitation
42.02, 42.03 Leather products
51.04 Women fabrics of man-made fibers
53.11 Women fabrics of sheep's or lamb's wool or of fine animal hair
54.05 Flax or ravine yarn put up for retail sale.
55.05 Cotton yarn, not put up for retail sale
55.06 Cotton yarn, put up for retail sale
55.08 Terry toweling and similar terry fabrics of cotton
55.09 Other woven fabrics of cotton
56.07 Woven fabrics of man-made fibres
57.10 Woven fabrics of wool or of other textile based fibres.
58.02 Other carpets, carpeting, rugs, mats and matting
58.05 Narrow woven fabrics and narrow fabrics consisting of warp without weft assembled by adhesive.
60.01, 60.02, 60.03, 60.04, 60.05 Knitted and crocheted goods
61.01 Men's and boys' outer garments
61.02 Women's and girls' and infants' outer garments
61.03 Men's and boys' under garments including collars, shirt fronts and cuffs
61.04 Women's, girls' and infants' under garments
61.05 Handkerchiefs
61.09 Corsets, corset-belts, suspender belts, brassieres, braces, etc.
62.01 Travelling rugs and blankets
62.02 Bed linen, table linen kitchen linen
62.05 Other made up articles (including dress patterns)
64.01, 64.02 Footwear, plastic, leather, rubber
69.07, 69.08, 69.11, 69.12 Ceramics and porcelain

73.31	Spikes, tacks
82.09 82.14	Knives, forks, spoons
85.01 85.02 85.03 85.04 85.09 85.15 85.19 85.23	Electrical machinery and equipment and parts thereof
97.02 97.03 97.05	Toys

Source: UNCTAD, TD/B/373/Add. 2, Annex II.