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Recent Swedish agricultrual policy developments include selective consumer subsidies to hold down food prices, incentives for expanding agricultural production, and the development and use of new indexes for determining farm prices. Protective levies continue to be applied on imports, particularly for grains and livestock products. U.S. agricultrual exports to Sweden, valued at $81.5 million in 1973, are not likely to be directly affected by policy changes. Exports to Sweden are likely to continue to be dominated by fresh and processed fruits and vegetables and unmanufactured tobacco. The market potential may increase for protein feeds, particularly oilseeds.

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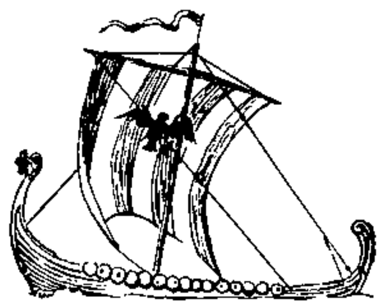
NEW DIRECTIONS in SWEDISH AGRICULTURAL POLICY



U.S. DEPARTMENT OF AGRICULTURE

ECONOMIC RESEARCH SERVICE

FOREIGN AGRICULTURAL ECONOMIC REPORT NO. 104

FOREWORD

This study is based largely on research undertaken in Stockholm in June 1974. The author is indebted to James O. Howard, U.S. Agricultural Attache, Stockholm, Sweden, for directing the study and to his able staff for their assistance. The author is particularly grateful for the materials and guidance provided by many Swedish experts, particularly Mr. Ingvar Lindstrom, Secretary General, Agricultural Policy Committee, and Mr. Karl Sakk, Bureau Chief, both of the Ministry of Agriculture; Mrs. Margarette Sylvan-Johnson, Agricultural Marketing Board; Mr. Erik Swedborg, Manager, and Mr. Olof Karlander, Chief, Foreign Section, both of the Federation of Swedish Famers; and Dr. Sven Holmstrom, Director, Agricultural Economics Research Institute.

ABSTRACT

Recent Swedish agricultural policy developments include selective consumer subsidies to hold down food prices, incentives for expanding agricultural production, and the development and use of new indexes for determining farm prices. Protective levies continue to be applied on imports, particularly for grains and livestock products. U.S. agricultural exports to Sweden, valued at $81.5 million in 1973, are not likely to be directly affected by policy changes. Exports to Sweden are likely to continue to be dominated by fresh and processed fruits and vegetables and unmanufactured tobacco. The market potential may increase for protein feeds, particularly oilseeds.

Keywords: Sweden, Agricultural and trade policies, U.S. farm exports.

CONTENTS

EXPLANATORY NOTES

Kroner (Kr.)—unit of Swedish currency. The exchange rate in 1973 was 4.35 Kr. = 1 U.S. dollar. *Ore*—there are 100 ore per kroner. *Kilogram (Kg.)*—1 kilogram is equal to 2.2046 lbs. *Metric tons (MT.)*—1 MT is equal to 2,204.6 lbs. *Liter*—1 liter equals 1.0567 liquid quarts.

Washington, D.C. 20250 April 1975

SUMMARY

Agricultural policy in Sweden has reflected an "inflation consciousness" in recent years, resulting in changes in the management of farm and retail prices and the method of supporting farm prices. The new 3-year farm program, which became effective July 1, 1974, provides for an 8-percent rise in total compensation to farmers during the first year of the program. The increase reflects the rise in farm input costs, as calculated by a new index that replaces the consumer price index as a measure of inflationary effects on farm production costs.

Serious inflation has resulted in a retail price freeze on key food commodities in Sweden. With retail prices frozen, higher farm prices are to be financed from a Government subsidy. The continuation of the subsidy program will depend on both international and domestic price developments.

Current policy differs sharply from 1967 keynote programs, which called for reductions in farm output and a reduction in self-sufficiency from over 90 percent to approximately 80 percent (on a caloric basis). Under the new farm program, expanded agricultural output is likely and production of exportable surpluses may be tolerated. Government grants and loans are being used to support farms in remote areas—part of an emerging sensitivity toward agriculture and the rural environment.

U.S. agricultural exports are not likely to be significantly affected as a direct result of policy changes. Sweden will continue to use levies to protect grains and livestock products from competitive imports. However, if programs are framed to permit lower priced food imports as an aspect of anti-inflationary policy, the market potential could improve. The United States has traditionally retained an 8-10-percent share of the Swedish market for agricultural commodities. Fresh and processed fruits and vegetables and tobacco have been the main U.S. items exported.

NEW DIRECTIONS IN SWEDISH AGRICULTURAL POLICY

by

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This study describes some of the emerging trends in Swedish agricultural policy, particularly those reflected in the recent 3-year (1974-76) farm law (*8*).* Although the long-range direction of policy will be clarified in 1976 following the submission of recommendations by a Parliamentary committee, some recent developments seem to represent a shift in policy direction.

Recently implemented policies and their possible influence on the direction of both agricultural prices and production through the last half of the 1970's include:

*Numbers in parentheses refer to Literature Cited on p. 10.

- Direct Government subsidies to hold down consumer prices are likely to play a greater role in price policy.
- Expanded agricultural output is likely, and producing exportable surpluses of commodities—largely wheat and pork, and to a lesser extent oilseeds and butter—may be tolerated.
- Greater use of Government grants and loans is likely in order to support farming in marginal areas for conservation purposes and to preserve rural beauty.
- Adoption and use of new regulatory indexes are likely in the future, introducing more flexibility into price policy.

1974-76 FARM PROGRAM—SWEDEN

Sweden's current farm program, which became effective July 1, 1974, strongly reflects a persistent inflationary problem and calls for a total farm income increase during its first year of 910 million kroner (table 1).[1] The total increase, which reflects an 8-percent rise in the rate of inflation to the farmer from October 1973 to April 1974, was agreed to after negotiations between the Government, the appropriate agricultural organizations, and the Swedish Confederation of Trade Unions (L.O.).[2] It includes compensation for the direct effects of inflation calculated via a special price index of inputs

[1]Under the terms of the farm program, prices and incomes are reviewed twice a year. Consequently, an additional allowance of 390 million kroner was made on Jan. 1, 1975, largely reflecting higher production costs (table 1).

[2]Certain income support measures, such as compensation for employee taxes (80 million kroner), are determined by negotiations between the Swedish Confederation of Employers (S.A.F.) outside the farm price discussions.

Table 1—Increased income compensation to Swedish farmers July 1, 1974, and Jan. 1, 1975

Item	1974/75	1975
	Millions of Swedish kroner	
Compensation for cost increases	588	204
Adjusted rise July 1, 1974[1] [2]	84	---
Adjusted rise Jan. 1, 1975[1] [2]	66	66
Compensation for employee taxes[2]	80	44
Special subsidies for small producers[3]	92	---
Total	[4]910	[5]390

[1] Income increase based on rise in wages in nonfarm sector. [2] Based on agreements between the Swedish Confederation of Trade Unions and the Swedish Confederation of Employers. [3] Includes 2 million kroner for replacement farmers during vacation periods. [4] Excludes a special regional support allocation of 89 million kroner for farmers in northern Sweden. [5] This allowance includes a 76-million kroner compensation for higher marketing costs.

Source: Parliamentary Bill 122, 1974, Swedish Government and Foreign Agricultural Service, USDA.

to agriculture. The compensation for higher production costs amounts to 588 million kroner and is designed to compensate the farmer for:

1. Expenditures for purchased production inputs.
2. Handling and processing costs.
3. The farmer's own labor and capital outlay.
4. Export costs.[3]

Additional compensation includes 80 million kroner to reimburse farmers for certain employee taxes they must pay;[4] two automatic increases of 84 million and 66 million kroner—compensations linked to wage increases in the nonfarm sectors; and a special subsidy of 92 million kroner, primarily for small dairy farmers.

Of this total compensation, 752 million kroner represents the amount farmers are entitled to receive through increased farm product prices. The sum excludes the special 92-million-kroner subsidy for low-income producers and a 66-million-kroner compensation scheduled for January 1, 1975, which were decided outside the farm-price aspect of policy discussions. The 752 million kroner are distributed over the commodity spectrum shown in table 2.

An interesting feature of the 1974/75 program is the use of a revised producer price index—a price index for the factors of production bought by the farmer—instead of the consumer price index as an indicator of the rate of inflation for farmers (table 3). Index changes are carefully monitored in biannual reviews to ensure that the farmer is compensated for price increases. Compared with the consumer price index, the producer price index includes fewer items—only those inputs used by farmers—and thus it is a more relevant measure of the inflationary impact on farmers' production costs. This index is currently under review by a committee of experts and could include even more flexibility in the future—that is, the direct effects of imported high-protein feeds and more sophisticated measurements of labor costs. Thus, the importance of inflation in farm price discussions is certain to continue.

Alternative Price Policies

One important divergency from past policy that is likely to continue is the greater allocation of consumer subsidies in supporting selected farm

[3]The Swedish farmer indirectly pays a share of export subsidies; these funds are derived from various fees borne by the farmer—for milling, processing, or slaughtering.

[4]Under legislation passed in 1974, all employers, including farmers, must pay for the increase in employee's income taxes.

Table 2—Price increases and total expenditure for commodities under Sweden's new farm program effective July 1, 1974

Commodity	Estimated output in 1974/75	Regulated price increases	New producer prices[1]	Price change 1973/74	Total support expenditure
	Mil. kg.	*Ore/kg.*	*Kr./100 kgs.*	*Percent*	*Mil. Kroner*
Wheat	912	10	[1]65.00	+18	91.20
Rye	249	7	[1]62.00	+13	17.43
Barley	191	7	[1]59.00	+13	13.37
Oats	207	8.5	[1]57.00	+18	17.60
Potatoes	688.5	4	46.50	+9	26.74
Starch	66	23	141.00	+19	15.18
Oilseed crops	281	15	[1]115.00	+15	42.15
Milk (ore/liter)	1,304	16	[2,3]102.00	+8	208.64
Cream	53	45	---	+8	23.85
Butter	44	40	---		17.60
Cheese	68	30	---		20.40
Milk powder	23.5	75	---		17.62
Total dairy			---		288.11
Beef	138	100	[2]1,054.00	+10	138.00
Pork	267	32	[2]683.00	+5	85.44
Poultry	34	50	720.00	+8	17.00
Total meat and poultry					240.44
Total					752.22

[1] Intervention price for grains. For oilseeds, the price is established annually by the purchaser, the Oilseed Trade Association. [2] Goods affected by the price freeze. [3] Related to an estimated 1973/74 producer price. Farmer's prices are based on milk deliveries regardless of utilization.

Sources: Parliamentary Bill No. 122, 1974, Swedish Government and Foreign Agricultural Service, USDA.

Table 3—Types of goods and weights used in Sweden's farm production price index

Item	Weights
	Percent of total
Supplies:	
Fuels and lubricants	2.6
Fertilizer and lime	12.0
Feeds	20.5
Processing and transport costs	(2.4)
Electricity	2.4
Miscellaneous supplies	4.7
Total supplies	42.2
Services:	
Freight	1.6
Milk testing	0.2
Insemination costs	0.9
Rented machines	0.5
Drying costs for bread grain	0.3
Other	10.8
Total services	14.3
Capital Expenditure:	
Machines and equipment	18.6
Maintainance	(6.3)
Depreciation	(12.3)
Interest costs on borrowed capital	12.3
Farm buildings, maintenance, and depreciation	12.6
Total capital expenditure	43.5
Total for factors of production index	100.0

Source: Swedish National Farmer's Union, special materials.

prices. Traditionally, Sweden has had a "high price line"—that is, farm prices have been supported at levels higher than world prices and thus higher prices have resulted for the consumer. There has been a considerable amount of discussion in Swedish policy circles concerning alternatives to this price policy. However, the alternative that a "low price" line (a classical deficiency-payments system similar to that in the United Kingdom prior to its membership in the European Community) will be recommended by the long-range policy committee appears unlikely.[5]

The decision to modify price policy was precipitated by a high 7.5-percent inflation rate in Sweden in 1972, which resulted in a limited retail price freeze on some dairy products and meats from January 1, 1973, to December 20, 1973 (*17*). When the price freeze was lifted in December 1973, the retail price of foods continued to rise and resulted in a large consumer protest movement. Although the protest was peaceful and confined to only one area (a suburb of Stockholm), the Government's reaction was immediate and in January 1974, an extended price freeze (still in effect) on a wider range of key commodities—milk, pork, beef, mutton, and horsemeat—was imposed.

The retail price freeze on key food commodities meant the increase for farmers producing these commodities could not be financed through the consumer, the traditional approach. Acting under the Emergency Price Control Act, the Ministry of Finance granted a 2.2-billion-kroner budgetary allocation for 1974/75 as a consumer subsidy—the largest of its type in Swedish history. A large percentage of this allocation will be used to finance farm price increases for foods affected by the retail price freeze during 1974/75, thus shifting the burden from the consumer to the taxpayer.[6] This direct payment may represent the first stage of a "middle price" line for retail food prices, with higher farm prices financed via direct treasury payments.[7] However, it is uncertain that a consumer subsidy of this amount (approximately equal to 60 percent of the total agricultural budget for 1974/75) will be sustained as permanent policy, and the future application and extent of consumer subsidies of this type will hinge on the development of both domestic and world prices.

Some type of "middle price" system is likely to persist, although long-range policy is unlikely to include provisions for extensive and extended price freezes. Some Swedish experts have also argued that a prolonged price freeze at the retail level disrupts the normal marketing process since consumers shift consumption too rapidly—for instance, from fish and fish products, which are not price controlled, to beef.

Output Expansion Policies

There is also an emphasis on increasing agricultural output in the current farm program, reversing the intent of the historic keynote policy of 1967 which proposed reducing self-sufficiency to 80 percent (on a caloric basis).[8] The possible increase in production which is encouraged via increased farm prices reflects:

[5]Under a deficiency-payments program, producers are paid direct subsidies—differences between a guaranteed price and the market price—from the treasury.

[6]The question of whether the subsidy is a consumer or producer subsidy is academic. Technically, the treasury allocates funds for the increase in farm prices. These funds are then distributed via the appropriate commodity marketing organization directly to the farmer. Consequently, key retail food prices may remain frozen, insulating the consumer from the process which normally could push retail prices higher. However, the Government may choose to freeze retail prices at higher levels, depending on the results of future farm-price negotiations.

[7]The shifting of the payment burden from the consumer to the taxpayer raises definitional questions requiring distinctions between these two groups. It has been suggested that since taxation is highly progressive in Sweden, and that State revenues are also derived from high excise taxes on luxury items and a wide range of consumer durables, the two groups are not directly synonomous in an economic sense.

[8]The attempt to quantify self-sufficiency has resulted in both definitional and practical problems. Consequently,

The rise in import prices for foods, as well as increased commercial and concessional exports of surplus grains, pork, and some dairy products.

The uncertainty of supplies of domestically produced dairy products if milk production falls too low. There had been a rapid decrease in milk output until 1971, when milk prices were sharply increased.

There are also important political reasons for the new emphasis on increasing agricultural output. Although there has been a leveling out of party distinctions in Sweden, the Center Party, which traditionally has been supported by farmers, is now the second largest party in Sweden. The Center Party received 25 percent of the popular vote in 1973 and now holds 90 seats in Parliament—51 more than in 1968. The ruling Social Democrats, with strong links to both the labor and consumer movements, hold 156 seats. Thus, the Center Party has gained considerable political influence. Although there are strong social and economic reasons for the new emphasis on expanding agricultural output, other factors have also been involved. A strong sensitivity toward agriculture and the rural environment—called "the green wave"—has emerged in recent years. Government aid—grants or guaranteed loans—has been available for viable farms in remote areas, such as those in northern Sweden. Funds are also available for protecting the rural environment from farm pollutants and improving the rural landscape in general.[9]

Many of the economic motives underlying the renewed emphasis on agricultural output, center around the milk sector. Because of the dominant importance of milk production in the Swedish agricultural economy (milk production accounted for about one-third of farm income in 1972/73), policies related to this sector are critical, particularly since the 1967 policy resulted in a sharp decline in milk output. Milk production, which was 3.2 million kilograms in 1967, dropped to 2.8 million by 1970 (largely due to the decline in output on holdings below 20 hectares). Since dairying is prevalent on small farms, an important aspect of the current farm program is the provision of special supplementary payments to small dairy farmers—those holding approximately 12 cows or less (most small milk producers in Sweden are low-income earners). This provision should be an incentive for small farmers to raise output. It thus indicates a further reversal of the 1967 policy lines, which had discouraged higher output on small units, particularly in remote areas.[10] The additional supplements are based on monthly milk deliveries, and payments are higher for small farmers. For example, the additional payment to farmers delivering 500 to 5,000 kilograms of milk per month is 5 ore per kilogram per month; for monthly deliveries of 5,001 to 6,500 kilograms, 250 kroner per month; for 9,001 to 9,500 kilograms per month, 100 kroner, etc. Supplemental payments decline to zero for large farmers delivering over 11,000 kilograms of milk per month.

Although this special supplement to small milk producers is largely an income and regional support measure, this aspect of policy as well as the increase in the milk price, indicates that policy has shifted away from the previous direction.

It is too early to conclude that income incentives and higher prices will result in a long-run uptrend in milk output and a resumption of surplus problems. Policy incentives to expand output may be offset in the long run by a natural decline in farm operators—half the dairy farmers are over 50 years of age, and according to one study a decline in farm operators is possible.[11] However, a trend toward improving agricultural structure with fewer and larger herds is a parallel development.

The Government's policy of favoring milk and meat production in the price support program in 1974 is expected to result in a further moderate increase in total cow numbers. Milk and beef production, up somewhat in 1973, increased substantially in 1974 because of an increase in animal numbers and higher average slaughter weights.

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new and more flexible definitions are being discussed. The 1967 concept of self-sufficiency was on a caloric basis, but was net of inputs required in the production process. Consequently, its practicality was questioned, particularly when applied to emergency situations when imports may not be available.

[9] For a complete and excellent description of programs related to farm structural improvement, see (*13*).

[10] One expert, Dr. Sven Holmstrom, Director of the Agricultural Research Institute in Stockholm, has been a long proponent of the renaissance of the small family farm in Sweden. Some of his conclusions may be found in his text, *Svenskt Jordbruk* (Swedish Agriculture), LT forlag, Stockholm, 1970.

[11] A questionnaire sent to 5,861 farmers in 1972 contained the following responses: only 15 percent of milk producers intended to increase production, 4 percent decrease, and 9 percent discontinue. The researcher assumed that a large percentage of those uncertain would discontinue production (*14*).

METHODOLOGY IN PRESENT FARM POLICY

Agricultural price policy is first determined by intensive negotiations between the Agricultural Marketing Board—a Government agency—and farmer's groups, wholesalers, and consumers (*13*). Each representative presents the priorities of his group, based on, for example, changes in production costs and consumer prices. There is finally a consensus of the aggregate amount of income the farm sector should receive annually. This increase should directly reflect several factors, most notably the rate of inflation (which, as mentioned on p. 2, is currently measured by an index composed of items related to farm production) and the rate of increase in incomes in the nonfarm sector. As in the previous farm bill, the 1974/76 act contains provisions for biannual adjustments of farm prices reflecting inflation and income changes in the nonfarm sector and changes in the international market situation.

After agreement is reached by the negotiating parties as to the total increase in aggregate farm income,[12] the total amount is distributed over the entire commodity spectrum. The supply and demand situation, as well as import prices for each commodity, are considered in determining price changes. The various marketing associations also play a role in recommending the rise in specific product prices. The proposed farm bill is then presented to Parliament for approval.

A relatively unique feature in Swedish policy is that the negotiated farm price is at the "wholesale" level, rather than at the farm gate or producer price level. The farm, or producer price, is, in a sense, a residual price after the wholesale price is accounted for. This policy has been employed for several reasons. A typical Swedish farmer generally is a member of several cooperatives and has an ownership in the cooperative processing and marketing industries. Thus, a farmer's income indirectly is affected by the cost and profit levels in the food industry, particularly the cooperatives.[13]

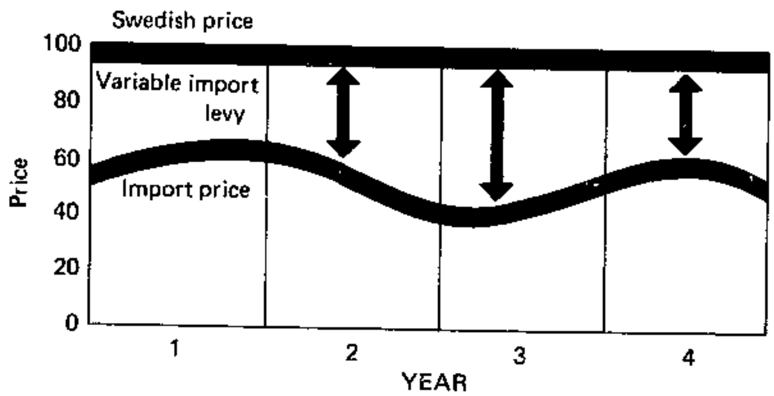
The "wholesale" price is also used as a fulcrum from which other important prices, such as farm and retail prices, are linked, as well as in the calculation of import levies.

Figures 1 and 2 illustrate the Swedish system of variable and fixed import levies, which are employed to insulate internal prices from world market prices. Variable levies (fig. 1), reflecting the gap between the Swedish market price and the import price, apply to wheat, rye, certain prepared feeds, and sugar—commodities whose market prices are generally fixed above world market prices for relatively long periods. These commodities are regulated by some form of state monopoly. For example, grains and feeds are regulated by state agencies and grain associations; sugar is regulated by the Swedish Sugar Trade Association, a semigovernmental organization.[14] In figure 1, a theoretical example, the levy is greatest in year 3, when the import price has fallen to a relatively low level.

[12]Farm income is defined net of forestry. Although a large percentage of farmers in Sweden own forest land, they are largely in the central region. Farmer's in southern Sweden (South Swedish Lowlands), primarily a livestock and grain area, would receive little income derived from forestry.

[13]Three-fourths of all Swedish agricultural production and supplies are handled by the cooperatives; they account for 86 percent of all the meat slaughtered, 98 percent of the milk, 99 percent of the butter, 96 percent of manufactured cheese and other popular processed cheeses (whey and skimmed milk), and approximately 70 percent of the grain processed (*10*).

[14]However, the regulations are executed by the Swedish Sugar Company, a private company which is the sole manufacturer of sugar.



SOURCE: STATENS LANTBRUKS INFORMATION, STOCKHOLM.

Figure 1--System of Variable Import Levies

For livestock products—meats, dairy products, poultry, and eggs—the import levy stays constant and remains in a fixed relationship to the import price only as long as the Swedish market price remains within the specified upper and lower price limits (fig. 2). In year 1, for example, the Swedish price increased to an upper price limit. At this level, the levy (the gap between the Swedish price and the import price) is narrower and imports become more price competitive. The reverse is true in year 3, when the Swedish price declined to a lower price limit.

As illustrated in figure 2, if the Swedish market price falls to the lower market price range, levies (or the gap between the Swedish price and the import price) are increased to keep out lower priced imports. Thus, the levy system has been an effective protectionist device for regulating domestic prices and farm incomes.

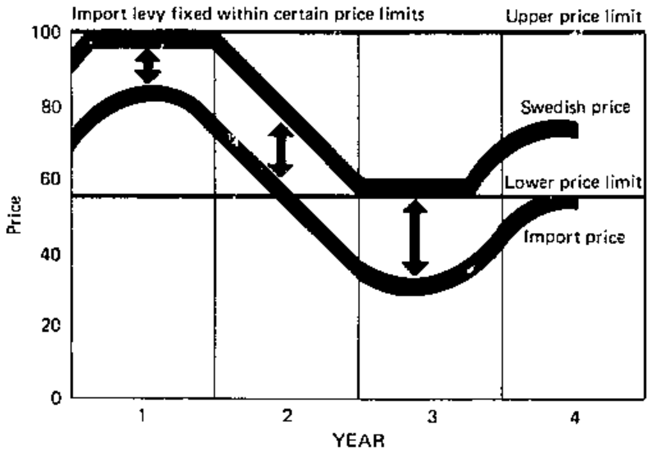


Figure 2--System of Import Levies Fixed Within Certain Price Limits

SOURCE: STATENS LANTBRUKS INFORMATION, STOCKHOLM.

HISTORICAL DEVELOPMENTS IN AGRICULTURAL POLICY

The basic philosophy underlying the present agricultural policy in Sweden dates back to 1947. Since that time, both income and production goals have directly or indirectly been a major aspect of farm policy, although the emphasis and method used to achieve them have varied.

Income goals generally have attempted to sustain farm income at levels reasonably comparable to those in nonfarm sectors. This "egalitarian" motive in farm policy has strongly been tied to the overall political and economic philosophy in Swedish society (*16*). Sweden's agriculture generally has been at a comparative price disadvantage internationally—that is, average farm prices have been relatively high compared with world prices. Thus, to achieve both income (and price) objectives, Sweden has imposed a highly protective policy apparatus on domestic production, particularly for grain and livestock production.[15]

Production targets have generally spelled out specific output levels to achieve self-sufficiency in food production. Although the level and definition of self-sufficiency has varied and new concepts are currently under discussion, policy normally has favored maintaining food production to cover 80-95 percent of peacetime domestic requirements (on a caloric basis). The policy also has been closely tied to Sweden's neutral foreign policy—policy which at least theoretically assumed that neutrality could result in disruptions in normal food supply, via blockades, and so forth.[16]

The evolution of Sweden's farm policy since 1947 has reflected both world conditions and internal economic and social developments. Post-World War II policy (1947-50) was strongly influenced by the Government's desire to increase food production while ensuring that efficient farmers, on small as well as large-sized farms, received compensation comparable to industrial workers. However, the 1947 parliamentary resolution discouraged costly surplus production and was not geared toward producing surpluses for export—a concept which apparently has shifted. The social motives incorporated in policies begun in the 1930's were strongly influenced by the rising importance of agricultural associations and a unique "middle way"

[15] Some studies of the Swedish Agricultural Economic Research Institute indicate that when production subsidies, which are used more extensively in some areas as the EC than in Sweden are included, unit farm prices in Sweden are more internationally competitive.

[16] Although Sweden has not been at war for over 150 years, Sweden experienced severe food shortages during World War I; at that time German mines and submarines were a constant threat to Swedish shipping.

economic philosophy which compromised the objectives of socialism and capitalism (2).

However, as industrialization progressed during the 1950's, income differentials between the farm and nonfarm sector widened, largely because of a relatively strong wage-drift[17] in the rapidly expanding industrial sector. Also, during the 1950's world food prices were at relatively low levels. Rather than relax import barriers, which may have depressed farm incomes, the Government introduced more direct adjustments between farm prices and industrial prices and implemented a system—still used—of linking import levies to farm prices. Revenues received from import levies were used for various support programs, a policy still in effect. A system that rigidly fixed farm prices for relatively long periods of time was replaced by a more flexible process that permitted domestic prices to fluctuate around an annually negotiated middle-price level. This process has been even more formalized since 1967. Variable import levies were used to protect farm prices, and provisions for more frequent review of commodity prices were employed.

These policies in the 1950's and early 1960's, however, failed to result in income parity between the farm and nonfarm sectors. Consequently, policy directives in the 1960's became increasingly geared toward improving income, principally on efficient farms. Intricate producer price and cost of production indexes were used—when these indexes moved apart by at least 3 points for 3 consecutive months, levies were adjusted (the so-called "3-percent rule"). Other innovations such as "income adjustment clauses" were introduced to adjust incomes of certain groups of nonfarm workers. Although these improvements in the price-determination process introduced more flexibility in the adjustment process by linking prices to inflation rates, it became clear in the late 1960's that income improvements required more emphasis on supply. Thus, the policy guidelines in the 1967 farm bill strongly emphasized production controls in agriculture and a broad-based policy linking income and structural improvement policy.

Several factors precipitated Sweden's decision to formalize a goal of reducing self-sufficiency levels in agriculture:

(1) New industrial policies were aimed at shifting resources from low-productivity sectors into the rapidly expanding industrial sector.

(2) Import prices on the world market remained low relative to Swedish prices.

(3) The costs of supporting marginally productive farms in Sweden had risen sharply.

(4) Although milk production trended lower, surplus output still resulted despite high production costs.

The policy which was spelled out intended to formalize via agricultural legislation a process which had already begun. Farm numbers declined by about 8,000 annually between 1960 and 1967, and the farm labor force fell to about 8 percent of the total labor force in 1967. Also, productivity in agriculture (including fishing) increased 4.8 percent on an average annual basis between 1960 and 1965, compared with 3 percent between 1950 and 1965 (*11*).

The 1967 legislation (7) contained a guideline for reducing production to a peace-time minimum of 80 percent on a caloric basis. In the event of war or blockades, self-sufficiency would increase by (1) shifting production from livestock to grain-based products and (2) reducing overall per capita consumption. The reduction in aggregate output was largely to be accomplished by encouraging an accelerated reduction in farm units, primarily marginally productive farms in remote areas. The 1967 program replaced acreage subsidies applying to small (8-10 hectare) farms and certain milk subsidy schemes with a program encouraging "transition support." The latter was a program of temporary financing designed to encourage farmers to either retire completely from farming or change employment. In practice, however, the transition support has been of small importance.

An important feature of the 1967 farm policy was the retention of the "high price" policy which had prevailed. Consequently, the proposals in the 1967 program, although stressing a goal of reducing output, retained a highly protective price apparatus and thus the policy was not directly translatable into a freer trade policy.[18] Nevertheless, the policy did succeed in promoting rapid rationalization and reducing agricultural production of some surplus commodities. The decline in output occurred most perceptively in the dairy sector.

The 1967 legislation, although abolishing the 3-percent rule, included guidelines for regulating prices for a relatively long period—6 years. The final phase, a 3-year (1971/72-1973/74) period included provisions for a biannual review of farm prices and import levies (Jan. 1 and July 1), and importantly, linked prices to a specific, modified consumer price index—a measure of the rate of inflation in farming in Sweden. Thus, unlike several of the previous agreements, fixed increases in the total agricultural income were agreed

[17] An increase in wages above negotiated increases, indicating such factors as increased productivity, particularly for skilled workers on piece rates.

[18] Total imports of agricultural products apparently followed a normal uptrend from 1967-1970, and were valued at $542 million in 1965, $571 million in 1967, and $705 million in 1970. Imports of levy-protected products—dairy products and grains—did not change significantly during this period.

upon and represented estimates of compensation necessary to reflect both inflation (measured by the index) as well as income changes in nonfarm sectors (637 million kroner was alloted over the 3-year period).

Inflationary pressures became severe enough in 1972 to warrant the imposition of a partial 6-month price freeze on certain meats and dairy products.[19] The negotiated increase in farm prices, which normally would have been passed on to the consumer (via higher retail prices) was paid by the Government to the farmer as a direct subsidy. Although the total amount was relatively small—236 million kroner—it represented a new form of support philosophy, namely, shifting the absorption of higher food prices from the consumer to the taxpayer by way of Government subsidies. The process defines what may be called a "lower" or "middle" price system, compared with a "high" price system under which consumers paid for the rise in farm prices. Thus, a new line of thinking was initiated into farm policy—one which was carried much further under the present (1974-76) bill.

[19] Price freezes were justified under the Emergency Price Control Act of 1956.

IMPLICATIONS FOR U.S. AGRICULTURAL EXPORTS

Assuming that the policy direction continues along current lines, the quantity and composition of U.S. farm exports to Sweden will probably not be altered significantly as a direct result of policy changes—at least in the short run. Sweden's basic policy goals are likely to continue to be oriented toward farm price and income protection. Essentially, this means that variable levies, which normally apply to grains and byproducts, and fixed levies applying to livestock products, will continue to be employed.

Exports of many processed foods, which may have a favorable price competitiveness, face difficulties from Sweden's highly developed processing industries. Also, policy directives in recent years have favored increased protection for small industries to enhance their growth. For example, in July 1974, the levy on turkey rolls—which had been successfully promoted by the U.S. industry (imports from the U.S. totaled $307,000 in 1973)—was increased by 32 percent to 8.18 kroner per kg. In recent years, a duty has been imposed on soy protein (for food products), although it was reduced on July 1, 1973, from 200 ore to 80 ore per kg. (9 cents per pound). The Swedish Government has already announced that effective July 1, 1975, a 5-percent duty will apply to soybean oil to protect a new domestic crushing plant. Sweden made duty concessions on certain fruits and vegetables during the Kennedy Round, but Sweden's generalized System of Preferences, implemented in 1973, lowers duties on selected products only to developing countries. Duty concessions were made to the European Community in 1973 on carrots, cauliflower, grapes, and peaches. U.S. trade with Sweden for these products has been small, however.

Expansion of the Swedish market for U.S. exports of certain meats and poultry is difficult because of sanitary and veterinary regulations (e.g., beef produced with the aid of growth hormones is prohibited). Fresh poultry from the United States is prohibited because of Newcastle disease.

Other factors which may reduce Sweden's dependency on agricultural imports are the renewed emphasis on expanding unit size of arable farms, the encouragement of increased production, and continued experimentation in the use of seed varieties suited for a northern climate.

The United States has retained a relatively constant 8- to 10-percent share of the Swedish agricultural import market in recent years. The total value of agricultural imports from the United States increased from approximately $70 million in 1970 to $81.5 million in 1973 (table 4). Total agricultural imports by Sweden in 1973 were $829 million. Imports from the United States have traditionally been dominated by fruits and vegetables ($27 million in 1973) and tobacco ($17.6 million). Also, there has been a small market for grains (primarily corn and rice) and fibers. Although there are seasonal import restrictions and/or low duties on fresh and processed fruits and vegetables, the market appears favorable for such products as apples, pears, prunes, grapefruit, grapes, peaches, raisins, lemons, lettuce, carrots, dried peas, canned peaches, and certain processed potatoes.

On the more positive side, there could be a growing market for U.S. agricultural exports to Sweden if policies were framed to permit lower priced food imports as one aspect of anti-inflationary policy. This development depends upon the extent of direct subsidies used to keep consumer prices down. Policymakers will continue to pursue a dual objective of keeping down the cost of living (high food prices exert inflationary pressures) and ensuring efficient farmers adequate incomes.

In the long run, increased U.S. agricultural exports to Sweden could be affected by modifications which may occur in the regulatory indexes linking levies to

Table 4—Sweden's agricultural imports from the United States, 1968-73

Commodity	1968	1969	1970	1971	1972	1973[1]
	Million dollars	*Million dollars*	*Million dollars*	*Million dollars*	*Million dollars*	*Million dollars*
Live animals	0.4	0.3	0.5	0.1	0.4	0.3
Meat and meat preparations	2.2	2.5	2.1	0.8	0.5	0.5
Dairy products and eggs	0.2	0.2	0.4	0.3	0.3	0.3
Grains	6.7	4.7	4.8	5.0	5.8	7.3
Wheat and flour	0.9	0.6	0.3	0.2	0.6	1.1
Rice	1.1	1.1	1.3	1.4	1.9	1.9
Feed grains	3.2	2.0	2.2	2.5	2.3	4.3
Fruit and vegetables	21.9	22.7	28.9	28.6	26.4	27.1
Sugar, sugar preparations and honey	0.2	0.2	0.1	0.1	0.3	0.1
Coffee, tea, cocoa, spices	0.2	0.2	0.3	0.2	0.2	0.3
Animal feed	2.4	2.5	2.6	1.8	1.6	2.5
Oilseed cake and meal	2.1	2.2	2.2	0.9	0.4	2.5
Meatmeal and fishmeal	---	---	(2)	(2)	(2)	(2)
Misc. foods (i.e., lard, margarine)	2.5	2.3	2.8	1.5	2.1	2.0
Beverages	(2)	(2)	(2)	(2)	(2)	(2)
Tobacco (raw)	14.2	11.4	16.3	11.9	17.6	17.6
Hides and skins	2.3	2.5	2.3	2.0	3.8	3.8
Oilseeds	0.2	0.2	0.4	1.2	1.2	1.2
Natural rubber	(2)	(2)	(2)	(2)	(2)	(2)
Natural fibers	7.5	6.0	3.6	3.8	2.1	4.0
Cotton (raw)	7.4	6.0	3.6	3.8	2.1	2.1
Crude animal and vegetable materials	0.8	1.1	1.6	1.9	2.0	3.0
Agricultural fats and oils	0.6	2.6	2.9	9.7	9.8	11.5
Total agricultural	62.3	59.4	69.6	68.9	74.1	81.5

[1] Preliminary. [2] Less than $50,000.

Source: U.N. trade statistics, and Swedish Trade Yearbooks.

domestic prices. Indications are that the Swedish Government's long-range policy committee, whose recommendations related to agricultural policy are expected to be submitted to Parliament in 1976, will have reviewed the regulatory indexes and may allow for more flexibility in their application.

Other factors which may favorably affect U.S. farm exports to Sweden are:

- Political relations between the United States and Sweden, which had been strained by divergencies in foreign policy, were strengthened in 1974 when an exchange of ambassadors was renewed.
- There has been an increase in international investment between Sweden and the United States.
- The United States will be a continual major supplier of feed grains and soybeans as well as other food and fiber products.
- Sociological shifts, which are likely to affect food habits and result particularly in greater consumption of processed convenience foods, include increased urbanization, more away-from-home vacations, and a continued uptrend in the proportion of women working outside the home. A continued rise in tourism in Sweden could also lead to increased demand for institutional foods.

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