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INTERNATIONAL TRADE IN FARM AND FOOD PRODUCTS

Seventh Finnish–Hungarian–Polish Seminar on Agricultural Economics,

Eger, Hungary, 5-9 October, 1987

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PREFACE

The Seventh Finnish-, Hungarian-, Polish Seminar on Agricultural Economics dealing with "Agricultural and food products in international trade: past and present" was organized by the Research Institute for Agricultural Economics (Budapest) from 5 to 9 October, 1987 at Eger, Hungary.

The basic idea the three institutes had in mind, when starting the seminars was to have regular meetings for discussing ideas of agrarian policy, a contact for exchanging ideas, information and results. There could be of course no idea of a simple adoption of methods, solutions applied by other countries, but it was considered interesting to have a possibility to bring together practical experience, as well as scientific evaluation about macroeconomic policy and the controlling and institutional system. It was supposed, that analysis of the developments would result in a better understanding of the operation of different agrarian systems and would further a balanced evaluation of the developments encountered. It was also a firm conviction that regular meeting of researchers working on similar problems, although in different economic systems, could raise interesting discussions on methods, results and on the utilization of these, for supporting macroeconomic decisions.

The first Seminar was held ten years ago, in 1977 and a look at the topics selected for discussion, clearly shows the issues considered interesting by all three institutes:

I. Technical development and efficiency, forecasting and planning (Budapest, 1977)

II. Economic problems of milk production and processing (Walbrzych, 1978)

III. The economics of beef production (Joutsenlampi, 1979)

IV. Characteristics and instruments of state income policy in agriculture (Csopak, 1980)

V. The economics of crop farming (Ruissalo, 1983)

VI. Problems of income policy in agriculture (Mragowo, 1985)

This year the Seminar ventured into a somewhat novel field, setting problems of agrarian trade and international markets on the agenda. While the past six Seminars discussed "internal" i.e. domestic issues of agriculture and foreign trade relations were touched upon only in relation with the enterprise or product discussed (dairy products, beef, arable crops), this time the widening interest in all three countries in foreign trade was confirmed by putting agricultural foreign trade and international markets at the center of the discussion and analysing the broad aspects of the relations of agrarian policy, development of the food economy and the national economy.

The papers presented were:

From Finland

Pertti Kukkonen: Finnish foreign trade of agricultural products.

Lauri Kettunen: Possibilities of Finnish agriculture to adjust to a more liberal foreign trade.

Juhani Ikonen: Production and foreign trade of some industrial crops.

From Poland*

Michal Kisiel: The evolution of Poland's foreign trade in agricultural and food products in the 15 year period between 1971-1985 - determinants and directions.

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*The Institute of Agricultural and Food Economics (Warszawa) sent the paper of Janusz Rowinski: Polish foreign trade in food and agricultural products: present situation and prospects. As however the author did not participate at the Seminar, the paper was not presented and was considered as background information to the discussion.

Bosena Nosecka: Situation on the mutton and slaughter lamb market and the development of sheep exports from Poland.

Grzegorz Dybowski: Changes on the pork markets and the outlook for exports of pork products from Poland.

From Hungary:

György Bergou - Márton Szabó: The role of the Hungarian food sector in the national economy and in the foreign trade.

Tamás Ujhelyi: Agricultural exports and changing markets of Hungary.

Sándor Mészáros: International competitiveness of Hungarian food products.

The subject chosen for discussion at the Seminar, was basically the role of the agrarian-complex in the development strategies of the national economies of the three countries with special emphasis on the balance of foreign payments and foreign trade. Due to differences of the endowment with resources, the size and potential of the agro-complex, participation in the international division of labour with regard to the development of the market situation, etc. all three countries try to solve the problems with different strategies and economic control systems. A broad exposition of the approach made to the problems and the difficulties encountered gave however an interesting insight into agrarian and macroeconomic policy and the operation of the controlling and regulating system. Although the situation and the opportunities are different the papers and the discussion showed-up many interesting and thought provoking issues.

Foreign trade targets of the agrarian development strategies of two countries - Poland and Hungary - and the problems encountered because of the bad shape of international market scene are in many respects resembling. The approach to the problem, the strategy and the issues considered basically important are however in many respects different. The agrarian complex of both countries is mainly geared to the international market of agricultural products by way of considerable exports; developments on these markets have a strong influence on the foreign currency earning capacity of the food-economy and this has to be considered in agrarian policy and has a strong impact on the global economic situation. There are, however important differences. Poland is occupied very strongly with the production and procurement of the products considered necessary for earning foreign currency and restoring the export level already reached in the 70-es. The foreign currency earning capacity of the food-economy has a similar importance in Hungary and the balancing role of the sector in foreign payments is highly appreciated, but the development strategy - and even more discussion about the future - very strongly emphasizes the importance of finding the optimal role of agriculture in foreign trade with regard to present and potential competitiveness and the outlook on the international markets. Alternative strategies concentrating on high value added goods or the necessity of exporting mass commodities, the confrontation with short and long-term unfavourable market situations are intensively discussed.

Agrarian problems in Finland are very much different. The agrarian complex of the country is mainly linked by way of imports to the international market, but actually exports have also a considerable importance for the agricultural sector. Finding an optimal balance of the limitation of production growth and the heavy burden of subsidies necessary to export agricultural products, maintaining the income earning capacity of the agrarian population or opening new labour opportunities in the non-agricultural sphere are central issues of macro-economic policy-making.

Information about export earnings, subsidies and measures for supporting agriculture met with considerable interest of the participants. Finnish researches deeply analysed the outlook of the present GATT multilateral negotiations and the eventual impact of the outcome on Finnish agriculture. There was very great interest for the exposition of the Finnish participants explaining the impact of a possible agreement stopping agricultural subsidization and committing to a progressive dismantling of agricultural import barriers. This would confront Finnish agriculture, exposed to very unfavourable climate, with an unbearable import competition on the domestic market.

The participants listened with interest to the research account in a Hungarian paper, about methods applied in research on international competitiveness and measuring this with the domestic cost of a unit of foreign exchange earned through exports or import substitution (DRC index) and the results achieved in the calculation of such indices.

Many papers were presented on international market developments, having special importance for some of the participating countries (pigs, lamb, industrial crops) showing the outlook and getting to some conclusions. It is probably interesting to note, that there is considerably more experience about failures in forecasting future market development and subsequent correction of development strategies proved to be mistaken, than positive results of correctly evaluating and utilizing future market development.

Data and analysis presented by the participants on agrarian policy and foreign trade very much supported the exposition of the macroeconomic policies.

Budapest, December 1987.

Tamás Ujhelyi

Pertti KUKKONEN
Pellervo Economic Research Institute

FINNISH FOREIGN TRADE OF AGRICULTURAL PRODUCTS

1. In order to discuss the present problems of the foreign trade of agricultural products I have to start from several fundamental features of the problem. It is not possible to understand the Finnish foreign trade of agricultural products without dealing with the general goals of the Finnish agricultural policies. Foreign trade is an integral part of the agricultural policies.

Secondly, the Finnish trade problems are closely connected to the situation in the international trade of agricultural products. For this reason I have to discuss shortly the present crisis in the world agricultural markets and the attempts to solve the crisis e.g. through the GATT negotiation process. As you will see the Finnish trade problems are quite similar to those in several Western European countries. The same oversupply of agricultural commodities which is seen e.g. in the Common Market countries is worsening the export prospects of the Finnish agriculture.

Finland is exporting mainly dairy products, eggs, meat and meat products and minor quantities of grain and grain products. Main categories of food imports are tropical beverages, fruits, vegetables and grain. The value of imports of agricultural commodities has been in recent years about 6 billion marks as the value of annual exports has been about 3 billion marks. Thus the import surplus has been about 3 billion Finnmarks. The share of agricultural exports of the total Finnish exports is quite small, about 4 per cent.

It may be of some interest to describe the structure of Finnish agricultural exports and imports. I will describe both the distribution of trade by commodity categories and by geographical regions or trade blocks. Especially the regional distribution of exports has undergone several changes as the international integration process has been proceeding. The main export markets have been changing rapidly when the Western European integration, especially the EC has been expanding.

I will base most of my discussion on a research project currently in the finishing phase in our institute (Pellervo Economic Research Institute). The studies made deal with world agricultural markets and trade arrangements (by Kalle Laaksonen) and the Finnish foreign trade of agricultural commodities (by Seppo Aaltonen and Markku Kotilainen).

2. Foreign trade and agricultural policies

The main goal of the agricultural policy in Finland as in most developed economies is to safeguard a sufficient supply of food for the population. It should be possible to guarantee a sufficient nutrition even during a crisis situation which would severely disturbe the foreign trade. This requires that the domestic production of basic foodstuffs must be equal or a bit higher than the consumption of food items.

In the Finnish situation where the seasonal variation even in animal production is quite large, this means that the annual production of basic commodities must be 5 to 15 per cent higher than the annual consumption. Therefore at least at the seasonal peak of production there is some excess supply and need to export.

The second main goal of agricultural policies is to support the income level of farmers. This is achieved by regulating the prices of agricultural products to the level of production costs. In the Nordic climatic circumstances production costs are quite high. Some subsidization by the government is used to even out the income differences in different regions of the country and in different size classes of farms. When there has been a big need to maintain incentives for rationalization of farm production, part of the subsidies have been directly linked to the produced quantities.

Incentives to increase production together with rapid technological advance have tended to keep the growth rate of agricultural production higher than that of food consumption. This is a typical situation not only in Finland but in most other Western European countries. The supplies exceeding domestic consumption are then exported to international markets at present with great difficulties.

Since 1960's there have been definite policies to restrict the growth of agricultural production. The measures used include bonus systems for the farmers who diminish the land area in cultivation or milk production. They include also restrictions or total denial of starting new animal production units exceeding certain size limits. Since 1985 production quota systems have been applied for milk production and since 1986 for egg production. During recent years total agricultural production has started to diminish as a result of these measures. Agricultural exports have now an even stronger downward trend.

Now the main focus of agricultural or rural policies is to develop other employment opportunities for the farmers. When agricultural production is diminishing, the downward population trend of rural areas especially in Northern and Eastern Finland's underdeveloped provinces has been worsening. This is a great concern for the regional policies and prevents a rapid adjustment of the agricultural surpluses.

To achieve the goal of self-sufficiency of food production and a satisfactory income level of farmers it has been necessary to regulate imports of agricultural commodities. Finland has applied both quantitative import restrictions and tariffs or import fees to restrict imports of those products that are essential for the maintenance of domestic production (in e.g. dairy products, meat and grain). However, for example fruits and vegetables are exempt from import regulation during most of the year. Manufactured food articles are also outside the import controls, and their imports have increased rapidly in recent years. Now, the form of import regulation may be facing modification during the GATT Uruguay -round. However, it is quite clear that some form of import regulation is inevitable when the aim is to preserve the self-sufficiency of food production in Finland.

3. The structure and trends of the Finnish agricultural trade

In the description of agricultural trade the imports and exports consist of manufactured food in addition to basic agricultural commodities (CCCN classification 1-24). We might call this broad category "food products" or simply "food".

Exports and imports of food products have been growing steadily through decades until mid 1980's (chart 1). As we explained earlier, now the food exports have a declining trend. There is a deficit in the balance of food trade. However, if we would value the food exports according to domestic production costs, export value exceed the value of imports.

The structure of food exports (chart 2) has been changing quite rapidly. The share of dairy products and eggs has been declining and the share of meat and meat products has been rising. Also sugar and cocoa products (e.g. chokolate and confectionery products) have increased their share.

A general feature is that the share of more processed and more valuable products has been increasing. This applies also to dairy products, where the share of cheeses has been increasing and the share of butter and milk powder has been declining. The main Finnish export cheese is emmenthaler. Finland has bilateral agreements of cheese trade with several European countries and with USA, which is the main export market for Finnish cheese.

Chart 1. The volume of food imports and exports in 1950-86 (at 1982 prices)

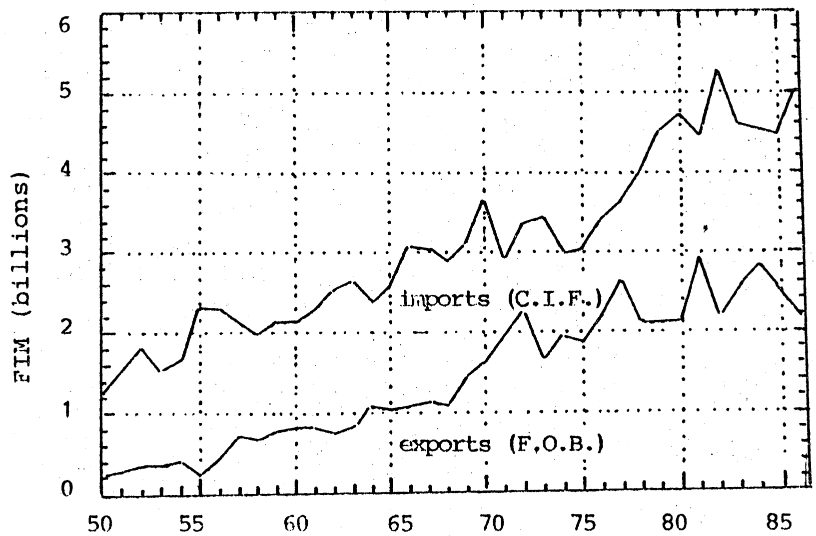
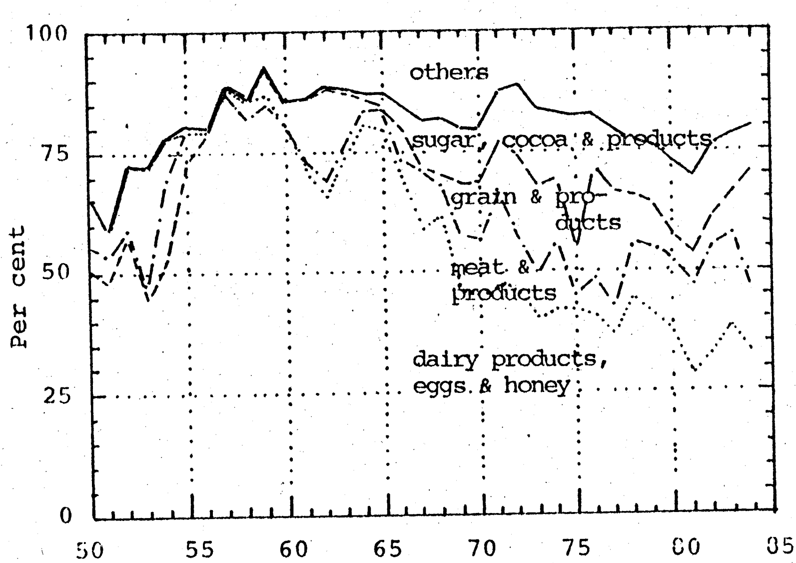
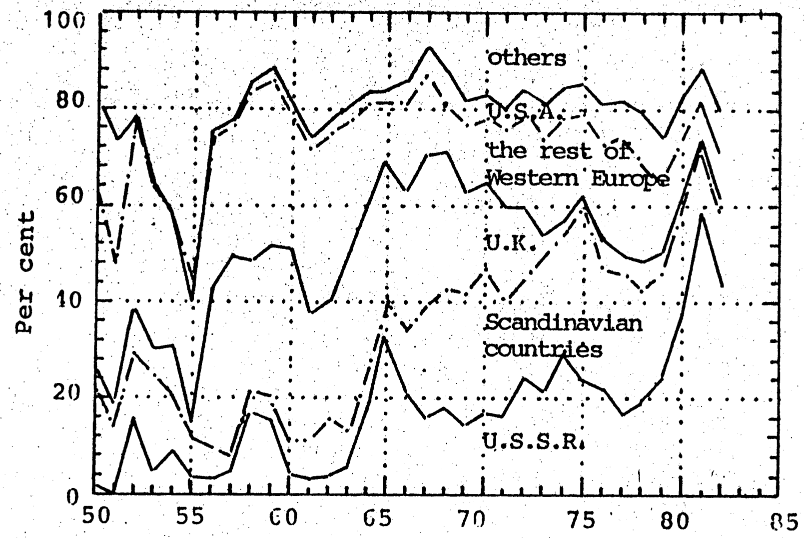


Chart 2. The composition of agricultural exports by value in 1950-84



The main export markets have been changing quite rapidly. Western Europe and Britain were the main markets in the 1950's and 1960's until Britain joined the EEC in 1973, which drastically reduced Britain's share. During the 1970's and especially in 1980's the share of USSR has been rising. In 1980-1985 its share of total food exports has been 41 per cent. The most important goods exported to the USSR have been meat and meat products and dairy products.

Chart 3. The destination of exports by value in 1950-83

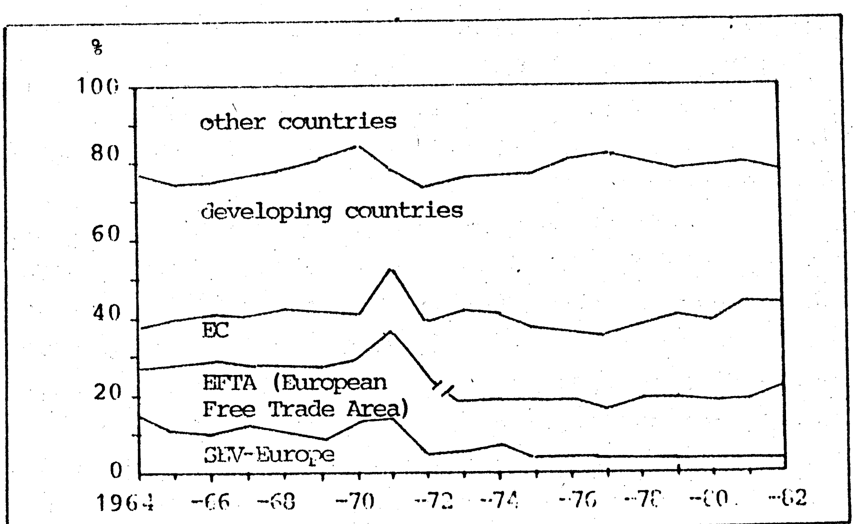


The food exports to Soviet Union are based on bilateral trade agreements. In addition to annual agreements a 5-year base-agreement is used to guide the development of trade. The exports to USSR have been fluctuating quite heavily depending on the surpluses and deficits in the overall trade caused by oil price fluctuations. For example, during 1987 food exports to Soviet Union have declined after the oil price fall of 1986.

The composition of Finnish imports of food products has been quite stable over the last decades. Coffee and tee (CCCN 09) is the most important group, the share of which has been 20-25 %. Fruits is the second group in importance. Its share has been increasing to about 15 %. About the same share have inputs to fodder industry, which include oil seed, "certain products of animal origin" and residual and waste from food industry. Vegetables have also increased their share in food imports. Other significant groups are sugar and sugar products and tobacco.

The country composition of Finnish food imports has been quite stable (chart 4). In average 38 % of imports are from developing countries the main product groups being coffee, fruits and sugar.

Chart 4 The area distribution of Finnish food imports in 1964-1982



In this group the most important countries of origin for the Finnish food imports are Colombia, Brasil, Costa Rica, Guatemala, Cuba and Kenia.

The share of European Community in Finnish food imports was in 1964-1972 13 % in average. It increased to 21 % after EC expanded in 1973, when Britain and Denmark joined the EC. For the same reason the share of EFTA countries was falling at the same date. Sweden and Norway are now the main suppliers of food for Finland among the EFTA countries.

4. Adjustment of the Finnish agricultural trade to the changing world markets

As is well known, the basic factor behind the current crisis in the world agricultural markets is the quite rapid growth of the food production in most areas of the world. Agricultural production is growing in most countries for similar reasons as was explained above in the Finnish case.

Self-sufficiency of food production is such an important goal of national security that it is very unlikely that countries would give up that policy. Knowing the mounting preassure in GATT Uruguay-round from the side of the big agricultural producers like the USA, the end result will probably be e.g. measures that would restrict the excess supply by reducing the export subsidies. The form of import regulation may also face some modification.

Finland, as most small producers in the world agricultural markets has to adjust to the changes in the markets and to the changes in the trade arrangements. Finland's own policies could have some minor influence only in dairy product markets, where Finland's export share is about 2-3 per cent. Mainly world markets determine export prices and therefore export costs for Finland in those commodities Finland is forced to export. If prices are low because of the vicious spiral of mounting surpluses, exporting to world markets is costly. Finnish domestic costs and prices will be considerably higher than the prevailing world market prices. On the other hand, Finnish surplus production and exports are currently diminishing as was explained above.

I will stress again, that the fatal question for the entire Finnish agriculture will be the right to maintain import regulation also in the future. If domestic production would not have sufficient protection against imports, agricultural production would be largely impossible. Finnish climatic conditions do not allow as cost-efficient production as in the countries of more temperate climatic zones.

The Finnish foreign trade policy problems are in some important aspects similar to those in the EC. Import regulation is important for the domestic agricultural production and for some products exporting is unavoidable. The Finnish agricultural trade will consequently be affected significantly by the possible changes in EC's policies. EC will hardly be able to change its agricultural import policies very markedly without endangering its very existence. Common agricultural policies are one of the cornerstones of the European Community. Therefore, it is improbable that the basic policy lines would change drastically.

In the GATT-negotiations European Community as well as Finland, Sweden, Norway, Austria, Switzerland and in some aspects Japan will have quite similar thoughts about import regulation of agricultural commodities. Therefore there are fairly strong reasons to expect that the reformed agreements about import controls will in the future allow the production of the most important agricultural commodities also in Finland.

Table 1. The distribution of Finnish food exports by commodity classes, averages for different sub-periods in 1945-1984

	1945/49	1950/59	1960/69	1970/79	1980/84
	per cent				
Dairy products, eggs etc. (eggs)	30,0 (0,1)	65,7 (4,8)	68,5 (2,8)	42,4 (6,3)	34,1 (3,8)
Meat and fish preparations	0,4	0,1	0,3	2,9	9,3
Meat	9,6	4,5	4,6	7,9	8,0
Sugar and sugar confectionary	1,0	0,4	2,8	9,1	7,0
Cocoa and cocoa preparations	0,5	0,4	1,7	5,2	6,6
Cereals	1,7	5,5	3,1	8,7	5,0
Animal and vegetable fats	0,1	2,5	4,5	3,3	4,9
Tobacco	0,0	0,0	0,6	3,3	4,6
Beverages	14,6	8,3	2,8	3,0	4,0
Products of the milling industry; malt etc.	0,4	1,1	3,1	3,3	2,9
Miscellaneous edible products	0,3	0,0	0,1	0,5	2,6
Preparations of cereals	0,0	0,1	0,9	2,6	2,4
Preparations of vegetables, fruits etc.	0,1	0,1	0,1	0,3	1,8
Edible fruits etc.	2,5	1,1	1,9	3,1	1,2
Coffee, tea, mate and spices	0,0	0,0	0,0	0,8	1,1
Live animals	24,3	0,6	0,8	0,5	0,6
Oil seeds and oleaginous fruits	4,2	4,8	0,1	0,1	0,1
Others	10,3	4,8	4,1	2,8	3,8
Total	100,0	100,0	100,0	100,0	100,0

Table 2. The distribution of Finnis food imports by commodity classes, averages for different sub-periods in 1945-1984

	1945/49	1950/59	1960/69	1970/79	1980/84
	per cent				
Coffee, tea etc.	3,7	20,0	22,1	24,1	21,7
Edible fruits etc.	2,6	9,7	16,4	14,4	14,5
Cereals	37,0	25,9	9,8	3,8	6,9
Sugar and sugar confectionary	11,8	11,5	9,4	10,0	6,5
Residues and waste from the food ind.; prepared animal fodder	3,8	5,1	4,6	4,4	6,0
Products of animal origin n.e.s.	0,9	1,0	2,4	3,3	4,8
Oil seeds and oleaginous fruits	2,0	3,0	7,1	6,6	4,5
Tobacco	5,6	4,2	5,0	3,9	4,1
Miscellaneous edible preparations	0,0	0,1	1,9	4,2	3,9
Edible vegetables and certain roots and tubers	0,6	0,5	1,9	3,1	3,8
Preparations of vegetables, fruits etc.	0,2	0,5	1,5	2,6	3,7
Cocoa and cocoa preparations	0,7	1,1	1,7	3,0	3,7
Live trees and other plants; cut flowers	0,5	1,0	3,3	3,1	3,2
Fish	2,8	0,9	1,6	2,8	2,8
Beverages	1,7	2,0	3,6	3,4	2,3
Animal and vegetable fats etc.	9,5	7,4	2,1	2,2	2,3
Preparations of meat, fish etc.	1,5	1,4	2,0	1,9	2,2
Preparations of cereals	0,1	0,1	0,3	0,7	1,4
Lacs, gums etc.	0,6	0,3	0,7	0,7	0,6
Products of the milling industry, malt etc.	4,4	2,3	0,4	0,3	0,3
Dairy products, eggs etc.	7,0	1,6	0,1	0,1	0,1
Meat	3,0	0,2	1,7	1,1	0,2
Others	0,9	0,2	0,4	0,2	0,3
Total	100,0	100,0	100,0	100,0	100,0