

WEDNESDAY 4 MARCH 2009

Present

Arran, E.
Brooke of Alverthorpe, L.
Caithness, E.
Cameron of Dillington, L.
Dundee, E.
Sewel, L. (Chairman)
Ullswater, V.

Witness: **Mr Osmo Ronty**, Agriculture Counsellor, Finland, examined.

Q458 Chairman: Welcome, and thank you very much for finding the time to come and help us with our inquiry into LFAs. I suppose in a way Finland must be the specialist country when it comes to maintaining agriculture in Less Favoured Areas.

Mr Ronty: I think so.

Q459 Chairman: This is an evidence-collecting session of our Sub-Committee. A note will be taken of the evidence that you give. You will get a copy of that and be able to revise it and remove any errors that have crept in. Again, thank you for coming and helping us. Perhaps you could give an outline of the importance of LFA payments in Finnish agriculture. I should imagine they are quite significant. Virtually the whole of your agricultural land is covered by LFA, is it not?

Mr Ronty: Yes.

Q460 Chairman: What categories are there? Do you have mountain areas? Perhaps you could give us an idea of the distribution of the different types of LFA categories and how important the relative contribution of LFA payments to farm incomes are to farmers. Could you help us with those?

Mr Ronty: Yes, with pleasure. Perhaps I might just say at the beginning two points. First of all, we do not have the Commission communication yet, so we do not have the Finnish government position, so what I am about to say are initial comments. I would like to start with another background issue, and I will circulate a picture which is quite illustrative of our situation. It is quite simple but it illustrates very well our situation in agriculture. The whole of Finland is north of the 60th parallel and when you follow that parallel around the globe you will find places like Greenland, Hudson Bay, Alaska, Siberia, et cetera. So, yes, we are working in very specific circumstances. Sometimes it is not so easy for people in the middle of Europe to remember that.

Q461 Chairman: They are concerned with drought.

Mr Ronty: Yes, unfortunately with drought. To answer your questions, yes, the whole of Finland is classified as LFA, but at the same time you have to remember that a little bit less than nine per cent of the area is an agricultural area. The land is covered by forest mainly and that gives a specific taste to those who receive the LFA payment. I will come back to that later. I will show you another picture. Your question was, how is it classified? The whole country is classified as LFA. Everything north of the 62nd parallel is considered to be mountain area, the southern coast is classified under Article 20 as specific LFA and the area in between is the Article 19 area that we'll be speaking about in the Commission communication. It is the rather fragmented area with the black border on the paper I have given you. On your question about the significance of LFA support, I do not have the exact figures but, yes, it is very significant in our circumstances. If you think about the farm income, it varies between sectors and between years because in our circumstances the yields vary greatly between years and accordingly the income that the farmer gets from his product

varies, but the LFA payment may be an average of somewhere close to 40 per cent of the income of the farmer¹.

Q462 Chairman: Just LFA?

Mr Ronty: Just LFA, so you can see it is very significant for keeping agriculture in Finland. It is not so important in some sectors but it is very important, for example, in these areas where the proportion is higher. However, as I have said, this varies a lot between the years, the sectors and the different parts of the country. Basically, the conclusion that we can come to from this is that in Finland we have very high production costs. Very often the production cost is higher than the market income, that is, the market income cannot cover the variable costs of production. In this situation you can see that it is very important for keeping the production there. So that we can say that the very existence of farming is dependent on these natural handicap payments.

Q463 Chairman: So it is absolutely fundamental to your agriculture?

Mr Ronty: Yes, very much so.

Q464 Chairman: As that is the case, what are your general concerns about the review, just the headline ones?

Mr Ronty: I will come back to that as well later but, of course, our general concern is to keep the whole country as LFA because of our geographical position, and I will give you another map on that. And, of course, to keep a sufficient level of LFA payments.

Q465 Lord Brooke of Alverthorpe: We now come to the rationale and objectives behind the scheme and how it is viewed in Finland. We understand that Finland allocates more than 30 per cent of its rural development budget to the LFA scheme. Could you explain what the

¹ Of farm income (total gross return minus total costs).

Finnish government sees as the rationale for the LFA payments? I think in part you have probably touched on that with your earlier response but what do you think the public is paying for through the scheme and at present is the support targeted precisely enough? Certainly, it is pretty widespread within Finland but could not a case be advanced that it should be targeted more, given the objectives of the scheme?

Mr Ronty: I will come back to the share of the agricultural area in our country. It is a little bit less than nine per cent. That means that the open agricultural landscape is very important for the Finns; we have so little of it. We think that the public in Finland appreciate having their own agriculture and having this agricultural production and agricultural landscape, and therefore support for agriculture and for rural areas is widely accepted in Finland. If there was a decline in this open and managed landscape it would have effects not only on agriculture, of course, but also on other industries like rural tourism. The area is not so attractive any more if the land is abandoned. You can sum up that without these natural payments farming could not be continued in a country like Finland. This is because of our short growing season and long winters. We have great variations in temperature between the different times of the year. So yes, this is the rationale. On the targeting point, yes, I think it is well enough targeted now. If there was some differentiation needed we could give a little bit more support to animal production because animal production is the first one to leave, but that is just an initial idea.

Q466 Viscount Ullswater: Because Finland is in this unique situation of being 100 per cent in an LFA what do you think is the difference between the single farm payment under Pillar 1 and the LFA under Pillar 2, and, of course, any agri-environment scheme that you might run as well? Do you see them in a way converging as just general support for agriculture with a minimum of land management criteria to support that?

Mr Ronty: The way we see it is that the objective of these natural handicap payments is to make possible continuing agricultural use of the land in the Less Favoured Areas and in that way contributing to the maintenance of viable communities and rural areas and promoting and maintaining sustainable farming systems, et cetera. The agri-environment scheme is more of a tailored measure. It has very clear environmental objectives. The other CAP instruments do not really have such landscape objectives which are important in the LFA. To sum that up, we can see that the LFA scheme is the basis for maintaining agriculture and the agricultural landscape in our circumstances. The agri-environment scheme complements it by guiding the farmer to act in an environmentally friendly way. We do not really see that these schemes could be merged. We see different meanings between the different Pillars and I do not think you can combine them. The objectives and the requirements are different in the two Pillars.

Q467 Viscount Ullswater: What about cross-compliance and the single farm payment? Is that not almost the same objective in your case as the LFA payment?

Mr Ronty: We can look at the single farm payment in many ways. One of the ways to look at it is that it has more to do with the income of the farmer. You can see some convergence, yes, but still we do not think that they are exactly the same. There is another way to look at the LFA scheme and that would be perhaps to see that the purpose of it is to even out the differences between the production areas so that the farmers can continue also in the weaker areas where the production costs are high. This would be in line with the wish of the European Council which has stated many times that the CAP must enable farming to continue in all areas of the Union, including the ones with specific difficulties. Also, I see perhaps a connection to the global food market situation and the way it will evolve in the coming years, so that would speak for maintaining our own food production as well. We can see many meanings to the system.

Q468 Earl of Arran: Because of the terrain of your country I suspect you have answered this question already, but, turning to the two forms of criteria, first, the designation criteria, taking into account the criteria that are currently under examination, in your opinion are there any additional or alternative criteria that should be taken into account?

Mr Ronty: No. In regard to the criteria that we have on the table now, the climate criteria are the most important and I would also say that they are quite sufficient, or seem to be sufficient, for us. The most important one of the criteria would be the length of the growing period. I gave you a picture earlier under the heading “JRC Length of the Growing Period”. If you have a look at that you will see that, if you take the areas where the thermal growing period is the maximum 190 days, that would cover Finland quite nicely. This would be justified also because if the growing period is shorter than this it will affect agriculture in many ways. First of all, you cannot use high yielding species like maize, for example. We do not grow maize in Finland, at least not on any commercial scale. Some experiments have been done but normally they have failed. Also, you cannot use high yielding varieties of the species that you can use, so mainly we grow spring wheat, for example. The proportion of autumn wheat is very low, five per cent perhaps. If you go up in the country in this area there is no maize at all. This is about the limit where you can grow wheat. North of that it normally fails. If you go up to this other level, this would be the limit for barley and oats, so north of that everything is based on grass. You can see that the length of the growing period really has an effect on farming and if they used the 190 days limit here it would cover Finland. It would cover parts of Scotland as well, as you can see.

Q469 Chairman: This is my little bit of Scotland just there. I am just in it.

Mr Ronty: You do not see the full picture if you only take the technical length of the growing period because there are other factors which affect farming as well. The effective growing season is cut at both ends. It is shorter than it could be. In Finland normally the ground is

frozen during the winter and it takes time before it melts and dries up enough for the farmers to start work in the fields, so this will shorten the period at the spring end, and at the autumn end we have quite heavy rains and you cannot go to the fields at these times. So you have to do the harvest very quickly.

Q470 Earl of Arran: So I imagine the farmers are not urging you to rush to the negotiating table. They are pretty keen to keep the status quo.

Mr Ronty: Yes, I think they would prefer to keep the status quo, except for one point that I will come to later. I was now speaking just about the climate criteria and the length of the growing period. For us, we do not need any of the other criteria as long as this one is taken into account. What we feel is that whatever the criteria, they will have to be applied in an objective way in all the Member States and in a similar manner in all the Member States. This is important for us, to try to make some genuine EU policy.

Q471 Chairman: Can I tease this out a little bit? You stick to the climate criteria. That covers the whole of Finland, so you are using biophysical criteria.

Mr Ronty: Exactly.

Q472 Chairman: But actually what those biophysical criteria do is deliver the socio-economic benefit.

Mr Ronty: I suppose you could put it that way, yes.

Q473 Chairman: And you do not need to have socio-economic criteria because you get the same result by using biophysical criteria.

Mr Ronty: Yes, I suppose you can put it that way. In the case of Finland we think the biophysical criteria are very strong.

Q474 Lord Cameron of Dillington: It may be the same answer, but turning now to the eligibility criteria, you presumably would look for a greater degree of harmonisation across Europe as well in the eligibility criteria, would you, and, if so, what sort of eligibility criteria in general, covering Sicily to Finland, would you have, and would you wish to exclude any farmers or farming practices?

Mr Ronty: Here the answer is different. We have severe doubts about this idea of having the eligibility criteria. To begin with, how do you do away with a handicap due to climate? It cannot be done. It cannot be removed by any cultivation technology. How do you lengthen the growing season?

Q475 Chairman: You want everybody in, do you not? Basically, you want everything in.

Mr Ronty: Yes.

Q476 Lord Cameron of Dillington: Is there any form of cross-compliance attached to your LFA payment at the moment?

Mr Ronty: Yes, there is a connection².

Q477 Lord Cameron of Dillington: Do you exclude people for some reason?

Mr Ronty: We do exclude some people but I do not have the exact details in my mind.

Q478 Lord Cameron of Dillington: But they have to behave very badly to be excluded?

Mr Ronty: Yes. I cannot answer directly because I do not have all the details in my mind about our system. Coming back to the eligibility criteria, as I said, we do not think the handicap can be removed so how do you pick up the ones to be excluded? Also, if you did this we would have a very strange situation. Neighbouring farmers working in the same

² In Finland, the respect of cross-compliance is a prerequisite for receiving any area payment funded fully or partially by the EU.

climatic conditions would be put in different positions through the support policy, which we do not find very acceptable in the government, and I do not think the public would find it very acceptable either. Also, we fear that the administrative burden would be quite dramatic. I do not know if this would be done in at regional level, at municipal level or at farm level. There could be some eligibility conditions established by the EU, perhaps a certain minimum area, for example, or fulfilling of the cross-compliance conditions, but what comes over and above that is, we feel, up to the Member State. The Member State knows better its regional needs. We feel that the designation criteria, the biophysical criteria, should be applied at EU level in a common way. There might be this cross-compliance condition, but defining the eligibility criteria above that should be up to the Member State. So we do not support any further harmonisation of that. We also feel that it should be voluntarily managed, whether there are any further eligibility criteria or not. In Finland, if we wanted to apply some eligibility criteria on a national basis, we could perhaps think about the age of the farmer or the minimum surface area. We have not really thought about that.

Q479 Earl of Caithness: Can I move on to the payment formula? Could you tell us please what payment formula you use at the moment as to how to get to your LFA payment, and what do you think of the new proposed payment that the Commission have put forward, “additional costs and income foregone related to the handicap”?

Mr Ronty: First of all, on the calculations, we are already doing the calculations to this formula, additional costs and income foregone. The LFA payment we are paying now is based on this kind of calculation. The problem here is that in Finland the climatic conditions are so severe that if you did an objective calculation, you would end up with higher amounts than we can pay at the moment according to the regulation. So it would be in our interest to remove the limit that we have at the moment in the regulation and do a genuine objective calculation and compensate for the real handicap. Also, how do you compare when doing

these kinds of calculations? In the case of Finland, the whole country is classified under LFA. We do not find it very fair to make a comparison to the Finnish average, for example, as the whole country is already suffering from the handicap compared to the other Member States. So we should develop something else to compare to other areas or maybe to the EU average, but this comparison to the national average we do not feel would be feasible in our circumstances. In the Member States where there are LFA areas and non-LFA areas this would work, but in our case not really.

Q480 Chairman: You have got no reference, have you? You have got no non-handicap referenced available?

Mr Ronty: Exactly.

Q481 Earl of Caithness: Can I tease that one out a little bit? If your production costs are more than the market price your LFA should be 100 per cent or more and, as you rightly say, the farmers would get more. Would you therefore support in Common Agricultural Policy reform that LFA payments move from Pillar 2 to Pillar 1?

Mr Ronty: I had not thought about that. I have no answer to that one.

Q482 Chairman: Have a think about it, and perhaps in the autumn you can send us a paper on it.

Mr Ronty: I am sure we will consider all the options.

Q483 Earl of Dundee: On the new implications for Less Favoured Areas, and as we learn all Member States are going to be asked to map these out, has Finland already done an exercise like this and, if so, how far do you think your new map will differ from your existing one?

Mr Ronty: I have a very simple answer to this one. Yes, we have done the mapping and we have the data. When you take the biophysical criteria, the length of the growing period, the whole country would still be classified as LFA.

Q484 Chairman: We have worked that out!

Mr Ronty: On the other criteria, we have done the mapping, but all of them are not really relevant in our case and in some cases it is a little bit difficult to get the data that you need at the municipal level, so it might be more feasible, more sensible, to work at the regional level in this case. When it comes to the length of the growing period, yes, we have done our exercises and the result is very good.

Q485 Earl of Dundee: And there is probably nothing further that you need to do. I imagine that on the weather, for example, you have a very accurate account of that, have you?

Mr Ronty: Yes.

Q486 Lord Brooke of Alverthorpe: Have you evidence of abandonment of land and farms taking place and, if so, what reasons would you put that down to? Secondly, and this is related to the maps you have provided to us, have you any evidence of climate change starting to affect your country on a worrying scale?

Mr Ronty: On abandonment of land, or, let us say, abandonment of farms, yes, we have evidence of that, especially in the northern and eastern part of the country. The reason for that is very simple. The income on the farms is not sufficient to keep the people there and keep them farming, so we come back to the meaning of the LFA payment and the other payments. As for climate change, what can you call evidence? We have had some warm winters lately, quite abnormal, I would say, but I do not know if you can call that evidence in such a short

time. Yes, there will apparently be a change in the farming conditions in Finland as well with climate change and that will improve our situation to some extent.

Q487 Lord Brooke of Alverthorpe: It will lengthen your growing period.

Mr Ronty: It will lengthen our growing period, it will give us more winter rains, it will give us a little bit warmer summers. The forecast is such that the winters will be relatively warmer than the warming of the summers in the future. Of course, that will affect our farming in many ways. It will affect the water balance and it will affect our situation quite a lot when it comes to the insects and the fungi that affect farming. At the moment we have quite hard winters that clean the fields but in the future that might not be the case, so we would perhaps need to use more herbicides and insecticides.

Q488 Lord Brooke of Alverthorpe: Just going back to abandonment, is it solely failure to deliver sufficient income that is the prime cause? I have spent some time in northern Sweden where a lot of the farms are abandoned and there the children simply do not want to continue in the steps of their parents and their grandparents. They want to go to Stockholm and so on, and it is not just money.

Mr Ronty: I think it is simple. It is part of a general phenomenon in society. (There followed a discussion off the record)

Q489 Lord Cameron of Dillington: Following up on that from the other side of the equation, if you were not part of Europe and the Finnish taxpayer had to fund all the agricultural support, would they still wish to continue to support an agriculture which is fighting against the elements? Is it considered to be really important?

Mr Ronty: Yes, it is considered to be really important. We have not done a study on exactly that question but, yes, I think there is general agreement in Finnish society that we want to maintain at least basic agriculture and the basic agricultural landscape, as I said before.

Q490 Earl of Arran: On abandonment, is the land that becomes abandoned being taken up by others?

Mr Ronty: In most cases yes, in some cases no. We used to do afforestation, for example, in the most remote areas. Where it was lucrative to the farmer we tried to promote that at some time but not any more. The problem with the single farm payment is that this is increasing the rent of land in those areas because now you can quite easily get some basic income from the land. Even if you are living in the city you can organise that, no problem. Then we have some animal producers, like dairy farmers, who need some fields nearby and they have to pay for them. I do not have any study on that but what I hear from the countryside is that this is a problem now for the active farmers that remain there. The rent of land has gone quite a bit higher. There were areas in the eastern part of Finland, where I come from, where you could get land for free. People just appreciated that somebody was farming the land, but now it is the next generation who own the land and they may be more conscious about money and now we have the new system where they can get some payment from the land with minimum requirements, so this is affecting the farms.

Q491 Chairman: There is a difference between maintaining agricultural activity in Finland and maintaining agricultural activity over its present range in Finland. If we look at the effect of climate change, in southern Spain there is a fair likelihood that there will be some areas where the cost of overcoming the handicap associated with climate change is going to be so high that you might as well give up. Is there any argument that in Finland the cost of

maintaining agricultural activity in some parts of Finland is so high that you really cannot justify it?

Mr Ronty: At the moment we have been able to keep agriculture in just about all the feasible areas, but yes, I can see a difficulty if the increase in costs continues as it has done.

Q492 Earl of Dundee: You have a very impressive number in your country of farmers who are also foresters, and the farmer is all the more sustained in his business because he is a forester as well. Would you say that that number of people is increasing or is it a steady number? From year to year do there come to be more farmers who are also foresters?

Mr Ronty: I would say when it comes to farmers that that would be a steady number, just off the cuff. The problem here is that this kind of forest property is appreciated also by the siblings who leave the farm and go to the cities, so the forests are cut into smaller and smaller parts nowadays and the part remaining for the farmer is not so big any more. The relative importance of forestry in that group might be diminishing in that way. Yes, forestry is very important to Finnish farmers. It has always been a part of their income.

Chairman: Can we just go off the record at the end? (There followed a discussion off the record) Thank you very much. It was very interesting indeed.