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REPORT FROM THE COMMISSION TO THE COUNCIL

**2006-2010 report on the implementation of the long-term national aid scheme for
agriculture in the northern regions of Finland and Sweden pursuant to Commission
Decisions 2009/3067 and 2010/6050**

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1. INTRODUCTION

Pursuant to Article 142 of the Act of Accession to the European Union of Austria, Finland and Sweden¹, the Commission has authorised Finland and Sweden to grant long-term national aid to agriculture in the northern regions, in order to maintain agricultural activity. This aid is referred to as the Nordic aid ("the Aid").

The present report is submitted to the Council in compliance with the reporting requirement of Article 143 of the Act of Accession, where it is laid down that the Commission shall submit every fifth year a report on the authorisations granted and the results of the aid granted under such authorisations. Previous reports were made in 1996, 2002², and 2007³.

2. GENERAL PRINCIPLES OF THE NORDIC AID

2.1. Objectives of the Aid

The Aid is granted in particular to maintain traditional primary production and processing naturally suited to the climatic conditions of the regions concerned, to improve structures for the production, marketing and processing of agricultural products, to facilitate the disposal of such products, and to ensure that the environment is protected and the countryside preserved.

2.2. Commission authorisations

The Aid is authorised by separate Commission Decisions for Finland and Sweden respectively.

The basic conditions are fixed in Article 142 of the Act of Accession; the total amount of the aid granted should be sufficient to maintain agricultural activity in the northern areas but may not lead to overall support exceeding the level of support during a pre-accession reference period, defined in the authorisations. Also, aid may not be linked to future production or bring about an increase in production, in relation to reference levels.

The first Decision concerning Finland was adopted in 1995 (95/196/EC⁴), recast by Decision 2002/404/EC⁵, and by Decision C(2009)3067. The maximum payment authorised is currently EUR 358 million/year.

The first Decision concerning Sweden was adopted in 1996 (96/228/EC⁶) and recast by Decision C(2010)6050. The maximum annual payment authorised is SEK 318.67 million (approx. EUR 35.41 million: the exchange rate used in this report is 9.0 SEK/EUR).

¹ OJ C 241 of 29.08.1994

² Finland COM(2002) 102 of 25.02.2002, Sweden COM(2002) 105 of 01.03.2002

³ Finland COM(2007) 459 of 31.7.2007, Sweden COM(2007) 416 of 31.7.2007

⁴ OJ L 126, 9.6.1995, p. 35

⁵ OJ L 139, 29.5.2002, p.38

⁶ OJ L 76, 26.3.1996, p.29

2.3. Regions covered by aid

The regions covered by the Aid scheme are defined in the respective Decisions and are situated north of the 62nd parallel and some adjacent areas south of the parallel affected by comparable climatic conditions rendering agricultural activity particularly difficult. The factors taken into consideration when determining the areas are low population density (max 10 inhabitants/km²), Utilised Agricultural Area (UAA) as a proportion of the total area (<10%), agricultural area used for the cultivation of crops intended for human consumption as a proportion of UAA ($\leq 20\%$), and municipalities surrounded by others within before mentioned areas (even where they do not satisfy the same requirements).

In Finland, the current Aid area covers 1 417 140 hectares (ha) of UAA (55.5% of total UAA) and in Sweden 335 676 ha of UAA (11 % of total UAA⁷).

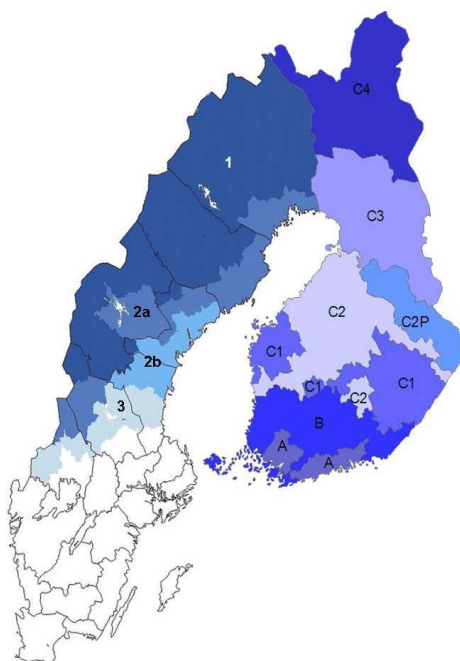


Figure 1: Finnish (C1-C4) and Swedish (1-3) support areas.

2.4. Relation with the production

The Aid is limited to specific agricultural sectors, as defined for each Member State in the respective Decision.

The Aid is granted on the basis of production units, either livestock units (LU) or ha, with the exception of support to and transport of milk, where the quantities delivered and transported are supported. The Finnish aid to reindeer is on a per animal basis.

As stated above, aid may not be linked to future production or bring about an increase in production in relation to a reference period. Reference periods are stipulated in the respective Decision for each Member State per sector. The reference quantity for milk production in Finland has several times been aligned with CAP related developments in the milk sector. However, the 2009-2010 review of the Finnish and Swedish Aid schemes removed the link between individual CAP milk quotas and the aid payments. Instead, it introduced a restriction

⁷ Due to changes in the definition of UAA this figure has decreased from previous report.

not to pay such aid for the quantity of milk in the region subject to surplus levy under the milk quota system.

3. RECENT EVOLUTIONS OF THE NORDIC AID SCHEME

3.1. Evaluation of the Aid scheme

After more than 10 years of application, the Commission launched an evaluation of the Aid scheme, which was finalised in 2007⁸. The evaluation analysed to what extent the objectives of the schemes had been met, potential side effects, if the instruments were still adequate and justified, and the effectiveness, efficiency and relevance of the Aid.

The results of the evaluation suggest that the Aid schemes:

- have contributed to maintaining the agricultural activities, production and land use in the regions concerned;
- are still necessary in order to meet the objectives of Article 142 of maintaining agricultural activity in the regions concerned and therefore remain relevant;
- could be reformed (simplified).

Based on the recommendations of the evaluation and the developments of production, both Member States proposed to review their respective schemes.

3.2. Reform of the Aid schemes

The review of the Decisions aimed at simplifying the schemes, and aligning the authorisations with the objectives of the Act of Accession.

As regards simplification, the recasts finalised in 2009 and 2010 regrouped different production sectors and specified the maximum average aid rates for the entire Finnish and Swedish aid areas, respectively. Previously, the Decisions differentiated the aid between regions and per production unit. In this context, the national authorities were mandated to identify the specific conditions and detailed criteria, based on the degree of natural handicap, for differentiating the aid amounts. The objective criteria relating to the severity of the natural handicaps have been communicated to the Commission by both countries.

In relation to aligning the authorisations with the objectives set in the Act of Accession, the review of production and payment authorisations revealed that in the Finnish Aid area, production had in general been maintained, even though a certain shift southwards within the area had occurred. In some sectors, particularly pigs and poultry, production had however increased substantially, partly due to the Aid. This, together with developments in the other payments to the Aid area led to a reduction of the maximum annual payment authorisation for Finland from EUR 448.59 million to 358 million. Also, aid to the pig and poultry sectors was decoupled from the type of production.

⁸ http://ec.europa.eu/agriculture/eval/reports/nordic/index_en.htm

The review further revealed that in the Swedish Aid area, production levels had been decreasing - especially in the milk sector, which is the main sector supported. This indicated failure to achieve the goals of Article 142 of maintaining agricultural production. Therefore, based on the proposal by the Swedish authorities, the revision of the Decision finalised in 2010 allows for concentrating the aid to the remaining production to stop this decline.

4. NORDIC AID IN FINLAND 2006-2010

4.1. Authorisations granted

At the beginning of the five-year period, Decision C(2002)404 authorised Finland to annually pay total aid of EUR 448.59 million. The Decision specified aid and production factors permitted per sub-region (not shown). Decision C(2009)3067 (amended by Decision C(2009)9122) applied from 1 January 2009 and authorised aid as shown in Table 1. The provision concerning milk applies from 1 April 2009 and its provisions concerning ruminants, horticulture, crop production and other aid applies from 1 January 2010.

Table 1: Annual aid authorised according to Decision C2009/3067/EC

	Max average aid allowed / unit	Unit	Max aid allowed (mEUR)	Max number of eligible production factors
1. MILK	10.9	cents/kg	193.7	1 776 765 t ⁹
2. RUMINANTS		€/LU	73.7	
Bovines	412			179 160 LU
Ewes, she-goats	533			
Horses	277			
3. PIGS AND POULTRY¹⁰	266	€/LU	37.0	
4. HORTICULTURE			25.4	
Greenhouses	11.3	€/m ²		202.9 ha
Storage of horticultural products	18.5	€/m ³		
5. CROP PRODUCTION		€/ha	58.3	
General hectare-based aid	37			881 825 ha
Aid for certain crops ¹¹	145			62 475 ha
Aid for young farmers	36			
6. OTHER AID			14.9	
Reindeer	36	€/animal		171 100 animals
Compensation for damages caused by carnivores to reindeer herding ¹²				
Aid for transport of milk and meat				
Safeguarding services for livestock				
Storage of wild berries, mushrooms	0.10–0.42	€/kg		
Other aid ¹³				
Total			358	

⁹ In marketing year

¹⁰ Decoupled aid. Reference quantity ≤ 139 200 LU's

¹¹ Cereals (except barley, oats, mixed cereals), oilseed, other oil crops, protein, fibre crops. Sugar beets, starch potatoes, apples in regions C1, C2, C2 north. Field vegetables in regions C1–C4.

¹² Maximum Aid allowed 5 mEUR

¹³ Skolts, natural livelihoods, reindeer husbandry

4.2. Aid disbursed

Nordic aid

During the years 2006-2009 the total annual Aid paid out was approximately EUR 326 million (of EUR 448.59 million authorised), while it increased to EUR 338 million in 2010 (of EUR 358 million authorised) (Table 2).

Table 2: Nordic aid disbursed in Finland (mEUR)

Sector supported	2006	2007	2008	2009	2010
Milk	159	159	159	159	161
Ruminants	65	66	66	68	71
Pig, poultry	36	35	35	33	32
Horticulture	21	20	21	20	22
Crop production	42	43	42	41	42
Other aid	3.5	3.7	4	4.2	11
Total	326.7	326.6	326.5	325.8	338.1

In conclusion, the annual Nordic aid granted in Finland respected the maximum levels set in the Decisions. It should be noted, that for those sectors where total production exceeded the authorised number of eligible production factors, a pro-rata reduction of aid per unit of production factor was applied in order to respect the financial ceiling authorised by the Decision.

Total support in the Nordic aid area

Agriculture in the support areas in the Aid scheme benefits also from instruments financed by the EU, notably the two pillars under the CAP. Of the second pillar measures, support for less-favoured areas (LFA) and agri-environmental (AE) measures are of particular importance for the agricultural sector in the support areas. Decision C 2000/405¹⁴ fixed the maximum ceiling of total annual support in the Aid area at EUR 1118.9 million (1993 level). Table 3 shows that aid disbursed in the Aid area in the years 2006-2010 according to the legal basis used, respected the maximum ceiling set in the Decision.

Table 3: Summary of the total annual aid disbursed in Finland, including EU aid (mEUR)

Type of aid disbursed	2006	2007	2008	2009	2010
Direct aid, fully EU financed	350.3	278.9	281.3	283.8	278.5
LFA, including national supplements	308.7	309.1	309.5	308.9	308.1
AE- support	164.9	153.5	162.7	164.6	167.1
Nordic aid ¹⁵	326.7	326.6	326.5	325.8	338.1
Total	1 150.6¹⁶	1 068.1	1 080.6	1 083.1	1 092.6

4.3. Production volumes in the Nordic aid area

Milk sector

Almost 80% of the Finnish milk is produced in the Aid area. The share has been quite stable during the five years, with a slight overall increase towards the end of the period. However, the production is concentrated in the C2 area.

¹⁴ OJ L 154, 27.6.2000, p.23

¹⁵ Reference level 448.59 mEUR until 2008, 358 mEUR from January 1, 2009

¹⁶ During the 2006 calendar year, direct aid was paid for years 2005 and 2006

During the five-year period, the milk production was highest in the 2006/2007 and lowest in the 2008/2009 marketing year (1 813 vs. 1 756 thousand tonnes). Production exceeded the set reference level in three marketing years; in 2006/2007, 2009/2010 and 2010/2011. The excess in 2010/2011 was in the order of 1.5%.



Figure 2: Development of milk production during the 2006/2007-2010/2011 marketing years in the Finnish Nordic aid area

Ruminants

The revised Decision of 2009 authorising the aid grouped together the production factors for bovines, ewes, she-goats, and horses. Within this group, bovine production showed an increasing trend, while production of ewes, she-goats, and horses decreased slightly.

Beef production in the Aid region varied during the five-year period. The 2010 level is about 2% lower than the 2006 level, whereas it fell by 8.8% in the rest of Finland. The number of suckler cows increased everywhere in Finland, but the greatest growth has been in region C with 55%. Other ruminants have remained fairly stable during the 2006-2010 period. The overall ruminant production was 173 774 LU in 2010, i.e. still 3% below the authorised maximum level of supported production.

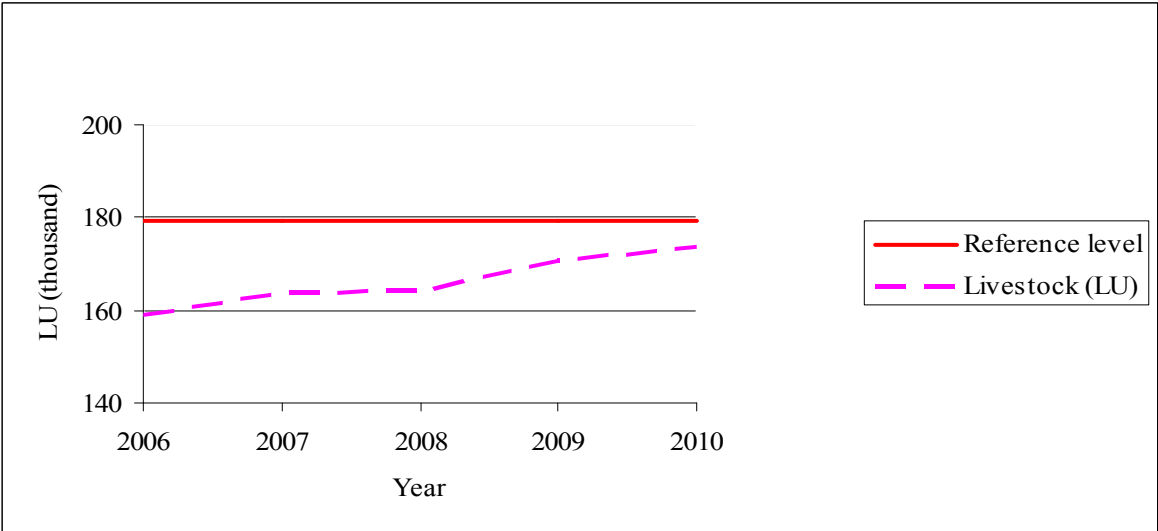


Figure 3: Development of ruminant production in 2006-2010 in the Finnish Nordic Aid area

Pigs and poultry

Pig and poultry production had increased substantially already before this five-year period and exceeded the reference level by 50-70% during several years. Pork meat production is concentrated in cereal producing areas in the most southern Aid sub-regions. In 2006 pork production was 90.9 million kg and continued to increase in subsequent years reaching 93.6 million kg in 2010. Also poultry production is concentrated in the most southern Aid areas. The production has grown almost constantly, from 34.6 to 40.4 million kg from 2006- 2010. The aid to this group was decoupled from production as of 2009, and the aid level was frozen at that of 2007. Additionally, the Decision provides for an upper limit of production in the farms receiving decoupled aid fixed at the 2007 level (139 200 LU). Production in 2010 was 135 066 LU, 97% of the fixed 2007 level.

Horticulture

Horticulture production is a small niche production in Finland, with a limited number of greenhouse enterprises. It accounts for about 6% of the Aid and 72% of the production takes place in region C1. The annual horticulture production area varied between 207 and 211 ha in the five year period, slightly exceeding the reference level of 203 ha (by max. 8 ha or 4% of the reference level).

Crop production

Nordic aid for crop production comprises "general hectare based aid", "young farmers' aid", and "aid for certain crops", as defined in the Decision. As regards "general hectare based aid", the UAA supported in the Aid region has remained very stable during this five-year period (630 000-650 000 ha), although the reduction in UAA compared with pre-accession reference level has been substantial (30%). For "young farmers' aid" there is no maximum level of eligible production factors set in the Decision and no comparison can be made. As regards "aid to certain crops", the area covered exceeded the maximum number of eligible production factors in 2010 by 60%. This production peak of "certain crops" was due to a change in the market situation, which led to increased interest for oil seed production in 2010. Wheat accounts for 35-45% of the production area and remained stable during this five-year period.

Other aid

Reindeer production remained fairly stable, varying from 151 589 to 154 971 animals during the five-year period which is 10% below the maximum number of eligible production factors set in the Decision. The remaining part of the other aids is not directly linked to production.

Conclusions related to production volumes

In conclusion, total production of the supported sectors increased in the Aid area during this five-year period, and it exceeded the maximum number of eligible production factors for milk, horticulture and "certain crops". This production overrun was minor for milk and horticulture (1-4% over the period), but substantial for "certain crops" in 2010 (60%). The reported production increase can not be allocated to the Aid only, as the aid levels per unit were reduced *pro-rata* in those sectors where the maximum number of eligible production factors was exceeded.

4.4. Development of the agricultural economy in the Nordic aid region

There were 62 300 farms in Finland in 2010 of which 58% in the Aid area; a drop of 9% from 2006 both nationwide and in the Aid area. The UAA remained the same, while the number of ha/farm increased, indicating a structural adjustment. The lowest farm size is in the northernmost Aid region. Preservation of production has been achieved although it appears more challenging in the northernmost areas, despite the higher aid levels both for livestock and plant production.

The Aid is important for the generation of farm income in the region; nearly two thirds of farm holders' income derives from it. The amounts of aid/farm have been increasing, particularly for livestock production. The reason for this is above all structural development. The amount of livestock production grew in the north; it accounted for more than 80% of the agricultural sales revenue.

The ratio Nordic aid/farm net value added (FNVA) varied between 0.41 and 0.52 during 2006-2010. The FNVA per annual work unit (FNVA/AWU) in the region increased with almost 15% from 2006 to 2007, but fell again after 2008 to reach in 2010 a level 3% higher than at the start of the period.

In certain parts of the Aid region, the depopulation has been >4% during the review period, and 76% of municipalities has experienced a fall in population compared to 44% in southern Finland. The proportion of jobs in agriculture in the north is more than 3 times that of the south, and has decreased less. Overall there has been a positive change in employment but jobs are created in the main towns and not in the more rural areas.

Continuation of agricultural production in the Aid area has maintained many environmental services and the open agricultural landscape, which is a scarcity in the region. The farmers estimate that making their activities more environmentally-friendly has been the biggest change in their activities in recent years. There is a slightly greater emphasis in the Nordic aid region than in the rest of Finland on measures affecting pesticides and airborne emissions; in the northernmost region, diversity and preservation of the landscape are strongly emphasised.

5. NORDIC AID IN SWEDEN 2006-2010

5.1. Authorisations granted

In the beginning of the five-year period, Decision 96/228/EC (as amended) authorised Sweden to pay SEK 318.67 million/year (EUR 35.41 million). The Decision also specified aid and eligible production factors permitted per sub-region (not shown). From the 1 July 2010, Decision C(2010)6050 authorises Sweden to pay aid as shown in Table 4 below.

Table 4: Aid authorised/year in accordance with Decision C(2010)6050

	Max average aid/unit ¹⁷	Unit	National aid ¹⁸ mSEK /year	Max eligible production factors
1. Milk sector			295.67	450 000 t
– Cows milk	0.73	SEK/kg		
– Goats ¹⁹	500	SEK/head		

¹⁷ Aid/unit may be differentiated by region within the limits of the maximum average

¹⁸ Max aid allowed: 318.67 mSEK

– Transport aid cows milk	0.039	SEK/kg		
2. Pigs, poultry ²⁰	1 350	SEK/LU	20.97	16 532 LU
3. Soft fruit, vegetables	2 800	SEK/ha	2.03	750 ha

5.2. Aid disbursed

Nordic aid

The total annual amounts paid as Aid varied between SEK 263.29 - 289.89 million (EUR 29.25-32.21 million) during the period (Table 5). The aid disbursed had reached its lowest level in 2009, but increased in 2010 after the revision of the Aid scheme.

Table 5: Nordic aid by sector, mSEK

Sector supported	2006	2007	2008	2009	2010
Milk	274.22	257.46	249.66	248.27	264.36
Pigs, poultry	14.51	14.09	12.75	13.97	14.70
Soft fruit, vegetables	1.16	1.12	1.14	1.05	1.04
Total	289.89	272.67	263.55	263.29	280.10

In conclusion, the annual Aid granted in Sweden always respected the maximum aid allowed by the Decisions.

Total support in the Nordic aid area

Agriculture in the support areas in the Aid scheme also benefits from instruments financed by the EU, notably the two pillars under the CAP (Table 6). Of the second pillar measures, support for less-favoured areas (LFA) and agri-environmental (AE) measures are of particular importance. A ceiling of total support to the Aid region is not fixed in the Decision C(2010)6050. Follow-up of the level of the EU aid is carried out *ex post* since 2003.

Table 6: Summary of aid disbursed in Sweden, including Community aid, mSEK

Type of aid	2006	2007	2008	2009	2010
Compensatory payment (LFA)	299	314	309	302	313
Main AE support (open and varied agricultural landscape/ley farming)	270	282	278	276	298
Nordic aid ²¹	290	273	264	263	280
Total	860	869	850	841	891

The total combined support varies from year to year but does not follow a consistent trend and has remained within the same range since 1997.

5.3. Production volumes in the Aid area

Milk sector

The decline in milk production in the Aid region during the period was 11 % (Figure 4), compared to 8% for the country as a whole. The steepest decline was in the most southern Aid area, with 20%. The production is still decreasing, and it is too early to draw any conclusion whether the revised Aid authorisation will have an effect.

¹⁹ Goats for milk production (~ 800 kg milk/goat/year)

²⁰ 1 laying hen = 0.01, sow = 0.33, 1 slaughter pig = 0.10 LU

²¹ Reference level: 318.67 mSEK

The data collected on Aid disbursed to transport milk from the farms to the first collection point is not accurate enough to be reported.

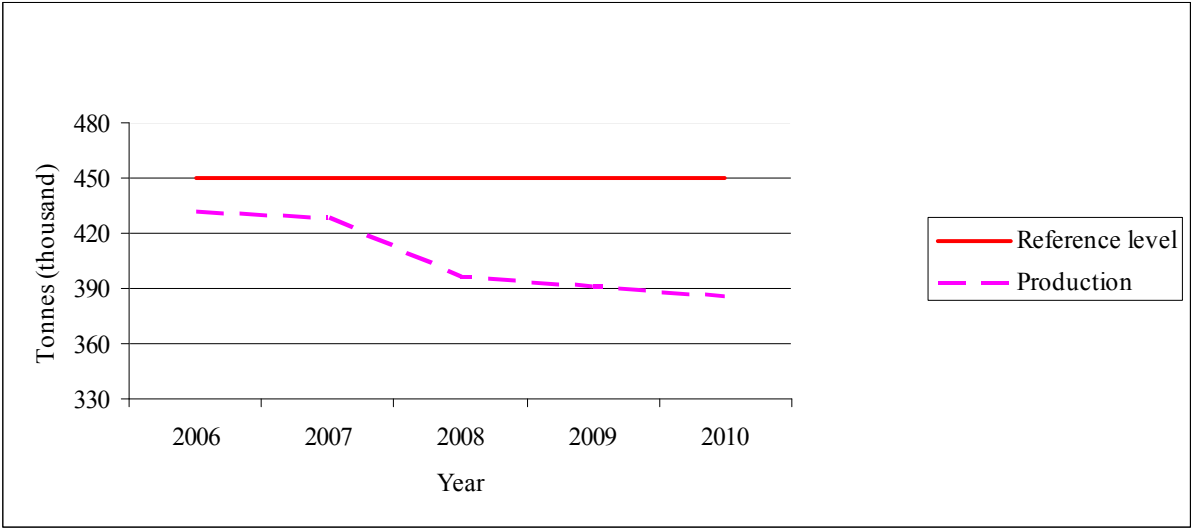


Figure 4: Milk production (including goat milk) with support during 2006-2010 in the Swedish Aid area. The reference level is the maximum number of eligible production factors set in Decision C(2010)6050

Pig and poultry

The production remains fairly stable but much below the maximum number of eligible production factors of 16 532 LU, and also lower than the previous 5-year period where the production was at around 13 500 LU. The number of LU receiving support in the pig and poultry sector was close to 11 500, or around 70% of the maximum.

Soft fruit and vegetables

The supported number of hectares of soft fruit and vegetables production decreased from 414 to 376 ha during the period. The production has fluctuated around these levels during the last 10 years, and is at only around half of the maximum number of eligible production factors.

Conclusions related to production volumes

As regards milk, the production volumes have been decreasing during the five-year period. The other two sectors remain fairly stable even though the production varies from year to year. All sectors are far below the maximum number of eligible production factors.

5.4. Development of the agricultural economy in the Aid region

The Swedish Aid area has low population density, limitations in the potential for economic developments and poor conditions for agriculture. The farm structure is characterized by smaller, more scattered and irregular fields than the average situation in Sweden. This make costs higher, also for transport within farms due to the distances between fields.

The total agricultural production output decreased with 10% during the five-year period. The key agricultural product in the area is milk and the number of producers declined from 1 523 to 1 056; it more than halved since 2001. The Aid area's share of milk producers in Sweden has been around 19% while the share of production was 14% which is reflected in the average

number of cows per farm; 45.2 vs. 62.4 in the country as a whole in 2009. The farm income development of the milk farmers shows important decreases.

Slaughter pig production declined during the period to 67 producers in 2010, only a few remaining in support area 1. The number of farms receiving support for sows decreased from 74 to 60, although the number of sows increased with 20%, indicating a structural adjustment.

In the Aid area, which is dominated by forests, the land in agricultural production contributes to keep the landscape open which favours biodiversity and the scenery. However, the area of land used for ley farming decreased 12% during the five year period; pastures decreased by 40%. The agricultural practices in the support areas are characterised by less intensive production as the main cultivation is grassland and pastures. These normally rely on a low level use of pesticides and fertilisers. Therefore the environmental impact is less than from agricultural activities in other parts of the country.

During the period 2000-2009 the support region's population development was weaker than the rest of the county's, with a 5.5% decrease in the most rural areas. The number of people employed in agriculture decreased with 15.2% in the support area from 2000-2008, while the employment increased in the forestry sector.

6. CONCLUSIONS

This report gives an account of the Nordic aid authorisations granted to Finland and Sweden in the period 2006-2010 and the results achieved. The report was compiled on the basis of data supplied by the Member State authorities in compliance with Article 143(2) of the Act of Accession.

6.1. Finland

As regards the implementation of the Finnish Nordic aid scheme, the Commission notes that:

1. *Compliance with the maximum aid allowed by the Commission authorisations:* the total amounts of Aid paid out, and total support in the Nordic aid area during the period 2006-2010, respected the maximum allowable aid authorised and the reference levels defined in the respective Commission Decisions C(2009)3067 and 2002/404/EC.
2. *Conformity with the maximum number of eligible production factors:* total production in the Aid area exceeded the maximum number of eligible production factors for milk, horticulture and "certain crops". To avoid exceeding the respective total amounts of authorised payments, Finland applied a *pro-rata* reduction of the payment per unit of production factor. While this system ensured that the obligation of the country concerning the maximum total amounts of paid-out aid was always respected, it did not prevent extending the aid, even though at a reduced level, to all production.
3. *Achievement of the objectives of the aid scheme:* generally speaking, Nordic aid in Finland has contributed to maintaining production levels in the area. However, as total production increased in some of the supported sectors, and a shift southward within the Nordic aid area was observed, implementation of the scheme and the criteria applied to differentiate the Aid should be closely monitored.

6.2. Sweden

As regards the implementation of the Swedish Nordic aid scheme, the Commission notes that:

1. *Compliance with the maximum aid allowed by the Commission authorisations:* the total amounts of Nordic aid paid out during the period 2006-2010 have respected the ceiling set for the maximum allowable aid authorised in the Commission Decisions 96/228/EC and C(2010)6050.
2. *Conformity with the maximum number of eligible production factors:* the maximum number of eligible production factors receiving aid was generally respected in all sectors receiving Nordic aid.
3. *Achievement of the objectives of the aid scheme:* the Aid disbursed in Sweden has not maintained production levels. The revised Decision C(2010)6050 could contribute to reversing this trend, but it is too early to conclude on the effects.

For both countries, the continuation of agricultural production contributes to maintain an open, well-managed agricultural landscape in the forest dominated Nordic aid area. Keeping the landscape open is positive for biodiversity and the general impression of the landscape. On the basis of the information provided by the national authorities, the Commission considers that in general the authorities have applied Decision 2002/404/EC and Decision C(2009)3067, concerning Finland, and Decision 96/228/EC and C(2010)6050, concerning Sweden, on aid to northern regions in a satisfactory manner.