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REPORT FROM THE COMMISSION TO THE COUNCIL

**2001–2005 report on the implementation of the long-term national aid scheme
for agriculture in the northern regions of Sweden pursuant
to Commission Decision 2004/291/EC**

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1. INTRODUCTION

1.1. Background

Pursuant to Article 142 of the Act of Accession to the European Union of the Republic of Austria, the Republic of Finland and the Kingdom of Sweden, the Commission has authorised Sweden to grant long-term national aid to ensure that agricultural activity is maintained in the northern regions. This aid, referred to as the Nordic aid is granted in particular to maintain traditional primary production and processing naturally suited to the climatic conditions, 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.

The regions covered by the Nordic aid scheme 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 following factors have been taken into consideration when determining the areas; low population density (maximum 10 persons/km²), Utilised Agricultural Area (UAA) as a proportion of the total area (less than 10 percent) and agricultural area used for the cultivation of crops intended for human consumption as a proportion of UAA. The current area covers a total of 355 017 hectares of UAA, which corresponds to 11 % of Sweden's total UAA¹.

The Commission shall submit to the Council one year after accession and subsequently every fifth year a report on the authorisations granted and the results of the aid granted under such authorisations according to Article 143. Previous reports were made in 1996 and 2002.

This report is based on information provided by the Swedish authorities. Conclusions are not drawn on whether the objectives of the scheme have been met. The Commission has commissioned a separate study to address this point.

1.2. General principles

The Nordic aid is differentiated by regions and granted on the basis of production units, taking into consideration the restrictions established by the common organisations of the market. The limitation of the authorised production volumes are totalled on national total level while the regional levels are set for the purpose of clarity. Aid may not be linked to future production or bring about an increase in production or an increase in the level of combined aid in relation to the aid granted during a reference period.

Nordic aid has been disbursed to agricultural and horticultural producers for cow's milk, pigs, goats, piglets, eggs, berries and vegetables. In addition, support is granted for the transport of cow's milk between the place of production and the collection centre or the place of first processing. Aid is granted either for the number of animals or for the number of hectares. In the case of subsidies for milk production and transport, the aid is provided for quantities of milk (kg) supplied and collected.

¹ Due to changes in the definition of UAA this figure has decreased from previous report. Only farms with more than 2 ha are included in the UAA.

The levels of support as well as the production quantities were calculated based on the available national statistics of 1994 for cow's milk production and the production of berries and vegetables. This period was considered to be unaffected by consequences of the future accession and at the same time represented the situation in Sweden after the reform of the agriculture sector in the beginning of the 1990ies. This year was also the first year in which support was granted for berries and vegetables. 1993 was chosen as the reference period for the other sectors of production. Aid can be disbursed to a producer who (or whose spouse) is at least 18 years of age and not more than 65 years of age. Aid recipients must be in possession of at least three hectares of arable land or at least half a hectare under horticultural cultivation.

1.3. The sub-regions

Sweden is spatially divided into sub-regions for implementing the agricultural policy supports and programmes. The Swedish northern region comprises of four sub-regions, i.e. 1, 2a, 2b and 3 (Figure 1). The regions reflect the different severity of the natural handicaps and production conditions.

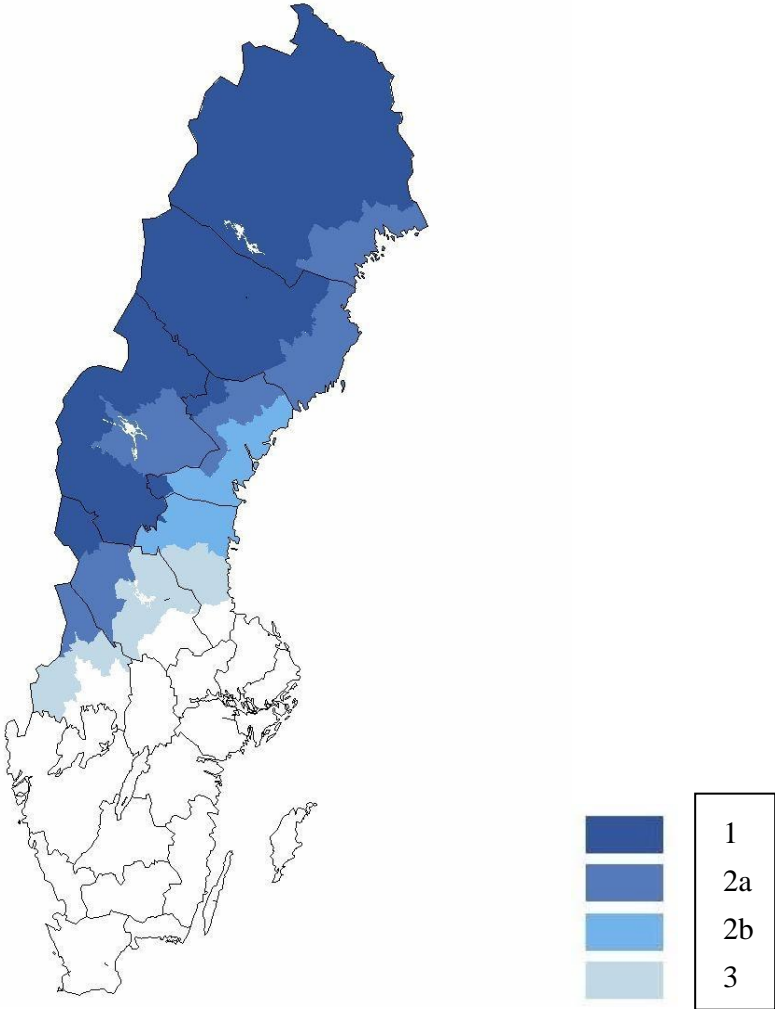


Figure 1 – Agricultural aid areas (sub-regions 1 to 3 are included in Nordic aid)

1.4. Administration and controls

National support for milk, pigs and egg production is administered, reviewed and decided upon by the Swedish Board of Agriculture. Checks that beneficiaries meet the conditions that apply to the subsidy are conducted under the CAP payment system. IACS and its associated sanction system are used for the checks. The Swedish Board of Agriculture is responsible for the co-ordination of the checks performed by the county administrative board. Checks are carried out on at least 10 % of the applications concerning the animal-based subsidy and at least 5 % of the area-based subsidies. The inspection anomalies have been large due to the limited number of total beneficiaries, which give rise to uncertainties about the statistical significance of the findings.

Sweden has to forward to the Commission an annual report on the effects of the aid granted and in particular on the trend in production and the related means that are qualifying for the aid, the trend in the economy of the regions concerned and the effects on the protection of the environment. On basis of this report and other available information the Commission verifies the compatibility of the implementation with the relevant provisions.

2. IMPLEMENTATION OF NORDIC AID 2001–2005

2.1. Commission decisions

The Swedish Nordic aid scheme was approved by Commission Decision 96/228/EC of 28 February 1996. This decision has been amended three times.

During the first reporting periods the amendment 97/557/EC corrected some material errors, allowed aid for milk at farm level to be paid to the total amount of milk in accordance of Article 2(1) of Regulation (EEC) No 3950/92 and increased slightly the aid for pig meat (as a result of more accurate data).

The amendment, 2000/411/EC, transferred part of the aid for milk to transport aid, hence reducing the total aid to milk though still retaining total budget neutrality. The reference levels for fattening pigs, sows and laying hens were merged in terms of comparing reference levels and results.

In Decision 2004/291/EG, which entered retroactively into force the 1 January 2003, the total reference level was increased to 318.67 MSEK. The support to piglets was increased in all aid areas and the support to milk production and goats was increased in aid area 1. The reference levels for production in terms of kilogram or heads were abolished, and from this date on only one reference level in million SEK per year is valid for the Swedish decision.

2.2. Aid disbursed in Sweden

Table 1 shows a summary of the Nordic aid granted in 2001 and 2005 compared to the reference level. At the end of the period 92 % of the authorised aid was used. In all sectors the granted aid amount has been under the permissible aid. The exception is support to the egg production, which has been exceeding the levels in 2003, 2004 and 2005. This is a response to the increased aid levels that were introduced in 2002. The excess is however diminishing and was in year 2005 only 10% (*Table 1*).

Table 1 – Summary of the Nordic aid amounts, 2001–2005

Product	Total aid granted 2001, MSEK	Total aid granted 2005, MSEK	Permissible Nordic aid 2005, MSEK
Milk*	265.29	256.97	275.87
Fattening pigs	11.96	12.63	14.17
Sows	1.43	1.85	4.40
Laying hens	1.80	2.64	2.40
Goats	0.99	0.96	1.20
Transport of cow's milk	17.48	16.51	18.60
Berries and vegetables	1.05	1.25	2.03
TOTAL	300.00	292.81	318.67

* including milk with direct sale quota

2.3. Community aid

Agriculture in the support areas of the Nordic aid scheme is also benefiting from instruments financed by the EU, for example the two pillars under the common agricultural policy. Of the second pillar measure, supports for less-favoured areas (LFA) and agri-environmental measures (AEM) are of particular importance for the agricultural sector in the support areas. These subsidies have increased by 10 % from 2001 to 2005 (Table 2).

Table 2 – Summary of LFA and AEM supports in 2001 and 2005

Year	Compensatory allowance, LFA, MSEK	Agri-environmental payments, MSEK	Total MSEK
2001	292.66	372.32	664.98
2005	305.88	428.2	734.08

2.4. Supported production volumes

The produced volumes of milk have declined, which also affects the level of transport aid. Goat production as well as sows and piglets face the same development. The production fattening pigs and laying hens has gradually increased from 2002. The supported acreage with fruit and berries has also increased, implying increased production, but is again far under the reference levels.

Table 3a – Summary of the total volumes in 2001 and 2005

Product	Number of animals/ha with subsidy, 2001	Number of animals/ha with subsidy, 2005	Reference levels 2005
Milk (t)*	458 670	437 496	NA
Slaughter pigs	97 940	99 691	NA
Sows	3 706	3 235	NA
Laying hens	208 256	243 522	NA
Total LU pigs, sows and hens	13 100	13 472	16 532
Goats	2 299	2 090	2 577
Berries and vegetables	387	445	750

Table 3b – Transport aid paid 2001 and 2005

<i>Product</i>	<i>Paid transport aid, 2001, MSEK</i>	<i>Paid transport aid 2005, MSEK</i>	<i>Reference levels 2005</i>
Transport aid, cow's milk	17.48	16.51	18.60

3. DEVELOPMENT OF THE AGRICULTURAL ECONOMY IN THE NORDIC AID REGIONS

The results are based on information from the Swedish authorities pursuant Article 143(2) of the Act of Accession.

3.1. Supported volumes

The total production volumes decreased in the support area up till 2004, when the development reversed. Milk production evened out and production of slaughter pigs and fruit and berries increased. However, the total production volumes decreased in 2005 compared to the previous year mainly due to a decrease in milk production.

3.2. Development of key production in sub-regions

Milk

The key agriculture product in the Swedish northern regions is milk with a share of 70 % of the total agricultural production value in the area. Table 4 shows the development of the milk production volume (t) in the different sub-regions. Production is in total declining slightly, mostly due to smaller producer leaving the sector. The support area's share of Sweden's total milk production is 14 %. An area adjustment carried out with effect from 1 January 2005 changed the area affiliation for a number of parishes, where these were transferred from 2b to 2a. This led in turn to the reference level in subsidy area 2a in 2005 being breached by MSEK 7 million, which equals 2,6 % of the total milk production in the support area. This re-designation of areas explains the variations in production in 2a and 2b (*Table 4*).

The decrease in milk production has been much less than the decrease in the number of farms, which reflects the structural adjustment process that has been going on over the period in both the region as well as in the country as a whole. During the reporting period the number of milk farms in the region has declined from 2 225 to 1 662 farms, which equals 25 % of the farms in the region compared to a decline of milk farms by 28 % for the country as a whole. If comparing farm size as average cows per farm, the size development is faster in the country as a whole than in the region. Productivity statistics are not complete, but the productivity in the sector in the support region is estimated to have decreased despite increased production efficiency.

Table 4 – Sub-regions share of the milk production (t) in 1996 and 2001–2005

Aid area / year	1996	2001	2002	2003	2004	2005	Change 2001–2005 (%)
<i>1</i>	53930	47 179	45 427	43 817	43 253	41 703	– 12 %
<i>2a</i>	209498	216 639	217 719	218 592	220 676	230 181	+ 6 %
<i>2b</i>	118 970	116 050	116 926	114 797	114 299	90 596	– 22 %
<i>3</i>	88 458	78 802	75 136	72 828	71 862	69 017	– 12 %
<i>1–3</i>	470 856	458 670	455 208	450 065	450 091	431 496	– 6 %
<i>Sweden</i>	3 258 000	3 290 000	3 226 000	3 206 000	3 229 000	3 163 000	– 4 %

Fattening pigs and sows

Following dairy and beef, fattening pigs and piglets is the third most important production line in northern Sweden and support to fattening pigs is the second largest aid within the scheme. In comparison with the rest of the country, the level of the production is however small. The number of sows in the support areas amounts to slightly more than 3 % of the total number of sows in the whole country over the period 1995 to 2004. The number of farms for fattening pigs with support is declining from 121 in 2001 to 101 in 2005, but production has increased slightly implying a structural adjustment. Sows and piglet production is however declining, both in terms of number of farms as in number of animals.

Looking at the different sub-regions, the numbers of fattening pigs and sows have substantially decreased in the aid area 3. In contrast, the number of pigs has increased in aid area 1 and 2 over the period. On the whole, the total production has stayed close to the same in the support region (*Table 5*).

Table 5 – Number of fattening pigs and sows with aid, 2001–2005

Aid area / year	2001	2002	2003	2004	2005	Change 2001–2005 (%)
<i>1</i>	883	613	614	1 087	1 390	+ 57 %
<i>2</i>	82 593	77 431	73 119	83 054	86 378	+ 4 %
<i>3</i>	18 170	18 122	15 137	14 646	15 158	– 17 %
<i>1–3</i>	101 646	96 166	88 870	98 787	102 926	+ 1 %

3.3. Development of the land use and farm structure

The agricultural landscape in northern Sweden consists mainly of small farms where animal husbandry dominates. However, as in the rest of the country, a continuous structural adjustment is going on with a reduced number of farms, especially in the milk production sector. Though, this adjustment to economies of scale is slower in the support area than in the rest of the country. In Sweden as a whole, 71 % of the number of farms remains in 2004 compared with 1995. In the support region, a smaller share of the farms remains and the share ranges from 47 % in aid area 1 to 63 % in aid area 3. Approximately a fifth of the numbers of farms are situated in the support areas.

Transport costs within the farms are increasing due to the distances between fields. It is not possible to create large unbroken and unified fields due to layout of nature. The size of the field plots is small and in the same time combined with a relatively small share of agricultural land out of the total surface area.

The reduction in number of farms reversed in 2005 due to the implementation of the CAP reform 2005, which led to an increase in the number of farms as well as area. However, there is no real structural change in the farming sector; the change in figures is a consequence of changed definition of agricultural holdings for what areas fall under the new eligibility rules.

Table 6 – Number of holdings in different sub-regions and in whole Sweden

Area / year	2001	2002	2003	2004	2005	% change 2001–2004	% change 2001–2005
<i>1</i>	1 661	1 537	1 400	1 374	2 106	– 17	+ 26
<i>2a</i>	4 856	4 462	4 093	4 010	5 179	– 17	+ 7
<i>2b</i>	3 498	3 180	2 883	2 786	3 726	– 20	+ 7
<i>3</i>	3 330	3 133	2 886	2 810	3 661	– 16	+ 10
<i>1–3</i>	13 345	12 312	11 262	10 980	14 672	– 18	+ 10
<i>Sweden</i>	74 195	70 914	66 780	65 801	74 863	– 11	+ 1

In Sweden, a tenth of the agriculture land is located in aid areas 1–3. The decrease in agricultural land has been less than the decrease in the number of holdings suggesting that the remaining farms have become larger. In the support region between 6 and 15 % of the agricultural land has been withdrawn from 1995 to 2004. The comparison with 2005 is not useful due to the consequences of the CAP reform as mentioned above.

In the northern regions, both the cost of labour and cost of buildings in agriculture are usually higher mainly due to greater labour input per dairy cow. One of the reasons for the higher labour input is that the stockholdings are smaller and the farm layout and climatic conditions are more unfavourable. This in turn leads to lower crop yields and high labour intensity in the production of fodder on the farm.

3.4. Socio-economic impact

In the whole of Sweden, as well as in the support areas, the number of people employed in agriculture is declining relatively quickly. The differences between the sub-regions of the support area are moderate. For sectors other than agriculture, the trend is slightly more negative in the northern areas. The population growth in the northern regions is much weaker than the rest of Sweden. Over the period 1995–2004, the population in Sweden grew by 4 %, at the same time as it declined by 5 % in the support areas (*Table 7*).

The Swedish economic geography is really heterogeneous and there is a large difference in growth patterns between the strongest and weakest communes. The combination of weak population growth and low average wages means relatively weak purchasing power for the interior of northern Sweden. This in turn helps to restrict trade and services, which are often dependent on nearby market. In certain areas, this can be compensated for by high numbers of visitors and tourists, for example in parts of the mountain areas.

Table 7 – Countryside changes in subsidy areas 1–3 compared with the rest of the country

Variables	Subsidy areas 1–3	Rest of Sweden
Population change 1995–2005	–5%	4%
Change in number employed 1995–2004	1%	10%
Change in number employed in agriculture, forestry, hunting, fishing 1995–2003	–19%	–20%
Change in Gross Regional Product 1995–2003	8%	29%

3.5. Impact on state of the environment

The change in the landscape expressed as the change in the area of arable land and farmland over the past few years is perhaps the environmental change that is most tangible and has the greatest significance for people living in Nordic aid areas. Over the period 1999–2003 the area of pasture land in subsidy areas 1–3 fell by 13 %.

The agricultural practices in the support areas are characterised by less intensive production and the main cultivation is grass land and pastures. This, in combination with the geographical situation contributes to a less environmental negative impact than agricultural activities in other areas of the country. The main form in the cultivation is pasture which normally relies on a low level use of fertilisers and pesticides. Also the climatic conditions favour lower use of plant protection use. A relatively high proportion of the land is used for organic farming, i.e. 32.6 % of the total arable land.

Generally, it may be considered that the trend towards fewer and larger units, as also seen in the support region, is not always beneficial to the environment. Modern systems for milk production, which are more common on larger farms than smaller one, are often based on a lower level of pasturing. Pasturing is an important way to maintain the biodiversity and the open landscape.

3.6. Impact on the food chain

The main problem in the Swedish agricultural market is high transport costs due to the long distances and relatively small markets because of the small population. This applies to the northern regions even more notably. In order to improve competitiveness the number of slaughterhouses and dairies in the support region has decreased and production has concentrated. The decreasing number of food industry plants has increased the distances between the farms and the plants, hence also the transport cost.

4. CONCLUSION

This report gives an account of the authorisations granted and the results achieved. It is compiled on the basis of data supplied by the Swedish authorities in compliance with Article 143(2) of the Act of Accession. Based on the report, main features are as follows:

- (1) Regarding most of the sectors receiving Nordic aid, total permissible production levels or aid limits were not exceeded in the assessment period except for egg production (laying hens) where production levels as well as aid levels were exceeded in 2003, 2004 and 2005.
- (2) In general, the structural development of the agricultural sector does not deviate from the development of the sector in the country as a whole.
- (3) The controls carried out by the Member State show some anomalies. However, it should be noted that there is a limited control selection that increases the statistical uncertainty in the results. The required reports have been submitted to the Commission as laid down in the Act of Accession.
- (4) The objective of the Nordic aid scheme is to ensure that agricultural activity is maintained in the region. The verification whether the Nordic Aid has achieved this

objective is difficult as there are other support schemes targeting agriculture that also apply in the region. The scheme, including the payments and individual amounts as well as the designation of the sub-regions, has never been verified after its introduction. The Commission has therefore commissioned a study to obtain a more detailed picture of the scheme and its effectiveness, efficiency and relevance of its implementation during 1995–2005. The study has also to be carried out in the light of the reforms of the common agricultural policy. The results of this study will be available at autumn 2007 and will be used to further develop the Nordic aid scheme.

On the basis of the information provided by the Swedish authorities, the Commission considers that in general the Swedish authorities have applied Commission Decision 2000/411/EC and Commission Decision 2004/291/EC on aid to northern regions properly.