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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 31.7.2007  
COM(2007) 459 final

**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 Finland pursuant  
to Commission Decision 2002/404/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 Finland to grant long-term national aid to ensure that agricultural activity is maintained in northern regions. 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 62<sup>nd</sup> 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/km<sup>2</sup>), 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 area covers a total of 1 417 000 hectares of UAA, which corresponds to 55.5% of Finland's total UAA in year 1994.

The Commission shall submit to the Council one year after accession and subsequently every fifth years 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 from the Finnish authorities and 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 market organisations. The limitations of authorised production volumes per sector are set at total level while regional limits 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.

Based on available national statistics with regard to quantities, the reference period for setting the different quantitative limits for agricultural production was based on the years 1991–1993 before accession. The total aid was calculated on the basis of the differences between prices in Finland and those in the Community (indirect supports) in 1993 as well as on the basis of the difference between the direct aid financed from the national budget and the amount of direct aid available from the common agricultural policy (CAP).

By Commission decision the maximum aid levels are defined for the Nordic aid by product and sector. The aid for all plant products is granted per hectare. For livestock production, aid is expressed per livestock unit (LU) for bovine animals, equines, ewes, goats, swine, poultry and per head for reindeer. Aid to milk is granted per kilogramme. Aid is also granted for the storage of fruit and vegetables. For young farmers (under 40 years of age), provision is made

for a flat-rate aid per hectare used for growing grass and cereals. 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**

The Finnish Nordic aid region comprises five sub-regions, i.e. C1, C2, C2 North (including all the islands of the C1 and C2 areas), C3 and C4 (Figure 1). This subdivision makes it possible to modulate support for agriculture by taking account of the special features of the regions' agricultural economy and the severity of the natural handicaps.

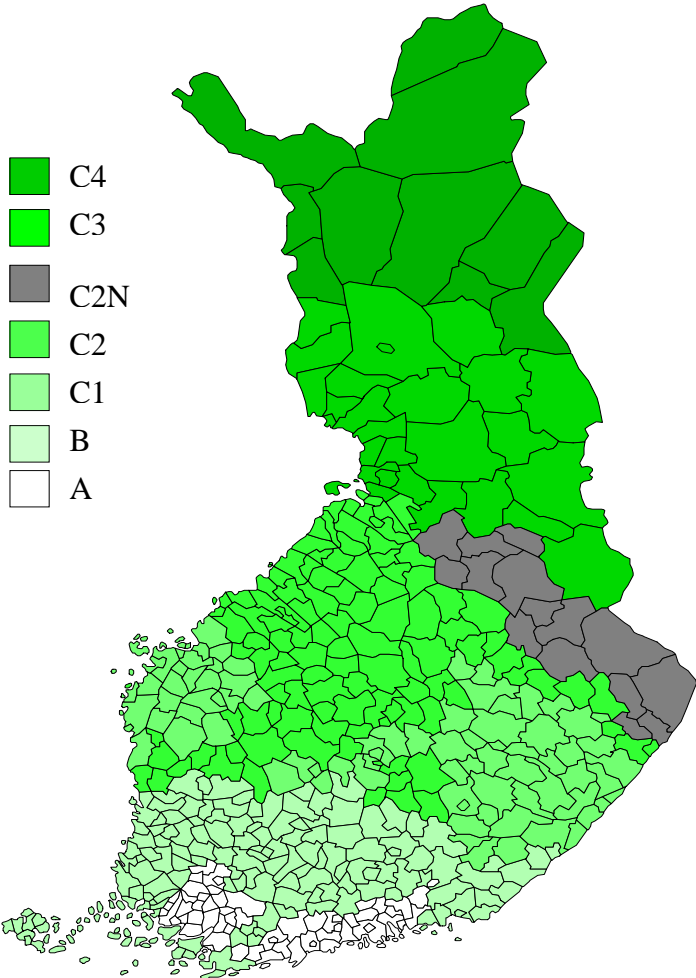


Figure 1 – Agricultural aid areas (sub-regions C1 to C4 are included in Nordic aid)

**1.4. Administration and controls**

Fifteen regional Employment and Economic Development Centres (EEDC) operate as regional organisations for the administration of agriculture.

The municipalities' administrations receive applications for aid from farmers and record the application data in the IACS system. The administration carries out the aid calculations and sends the aid authorisation to the farmers. Officials from the EEDC exercise control over the

recipients of national aid as carried out for EU aid. Each year 5% of all applications are verified on-the-spot.

Finland has to forward to the Commission each year an annual report on the effects of the aid granted, including the Community aid, 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 the basis of this report and other available information the Commission verifies the compatibility of the implementation with the relevant provisions.

## **2. IMPLEMENTATION 2001–2005**

### **2.1. Commission decisions**

The Nordic aid scheme for Finland was approved by Commission Decision 95/196/EC on 4 May 1995.

During the previous reporting period 1996–2000 this Decision was amended twice by Commission Decisions 97/279/EC and 2000/405/EC. In 2002 the Decision concerning Finland was replaced by Decision 2002/404/EC. The Decision firstly corrected certain amounts of aid due to the exchange rate changes and differences in reference prices. Secondly, certain sectors or sub-sectors were combined in order to simplify the administration. Limitations of the aid levels per unit, total amount of aid per sector and number of units covered by the aid were decided to be sufficient to prevent possible increases of production.

Since then the Decision has been amended by Decision C(2004) 2711 to allow higher investment aid to be paid in certain sectors until 2007 and to allow aid for suckler cows also to be paid for heifers. Second amendment to include the SLOM-amounts for milk and to reintroduce the quota link from 2005 onwards was approved by Decision C(2005) 122. Finally Decision C(2005) 5599 reduced the total aid amounts from EUR 486.69 million to EUR 448.59 million to take into account the nationally financed less favoured areas aid scheme and adjusting to the development of the CAP to abolish certain animal density limits.

### **2.2. Aid disbursed in Finland**

In the beginning of the period the Nordic aid granted increased slightly for each year, from EUR 351 million in 2001 to EUR 385 million in 2004. A decrease to EUR 328.1 million in 2005 is explained by the abovementioned introduction of the nationally financed LFA scheme, which was financed by a reduction of a corresponding amount of the Nordic aid. In the end of the period the Nordic aid amounted to 34% of total agricultural support paid in the Nordic aid regions. Approximately 74% of the payment authorisations available for Nordic aid in 2001–2005 were used.

### **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. Aid from these two pillars, as shown in table 1, has increased by 15 % from 2001. This is to some extent explained by the introduction of direct payments in the dairy sector as a result of the 2003 CAP reform and higher than expected up-take of the agri-environmental payments.

Table 1 – Summary of certain Community supports in 2001 and 2005

Year	CMO payments mio €	Compensatory allowance, LFA*, mio €	Agri-environmental payments, mio €	Total mio €
2001	202	230	133	565
2005	254	234	162	650

\* less-favoured areas

## 2.4. Nordic aid granted by sector

In all sectors the total aid granted has remained under the permissible amounts (tables 2a and 2b). This is mainly explained by the thrift budget discipline and by lower than expected production levels in some sectors.

Table 2a – Summary of the Nordic aid amounts linked to livestock, 2001 and 2005

Product	Total aid granted 2001 mio €	Total aid granted 2005 mio €	Permissible Nordic aid 2005, mio €
Beef	51.1	54.9	91.17
Mutton and goat	2.5	3.25	3.50
Pork and poultry	46	37.03	61.3
Reindeer	2.7	3.49	6.16
Equines	2.1	2.23	2.52
Milk	182.5	158.9	225.22
Transport aid for milk and meat	1.6	2.15	2.27
<b>Total</b>	<b>288.5</b>	<b>261.9</b>	<b>392.2</b>

Table 2b – Summary of the Nordic aid amounts linked to area, 2001 and 2005

Product	Total aid granted 2001 mio €	Total aid granted 2005 mio €	Permissible Nordic aid 2005, mio €
Sugar beet	0.5	0.38	1.34
Starch potatoes	0.9	0.65	1.24
Cereals and other arable crops	9.9	12.90	15.14
Horticulture	21.4	21.43	24.69
Outdoor vegetables and apples	0.8	0.64	0.90
Aid for storage	1.07	1.00	2.86
UAA (pasture, fallow land, etc.)	15.7	16.48	27.87
Young farmers	12.1	12.68	16.66
<b>Total</b>	<b>62.4</b>	<b>66.16</b>	<b>89.95</b>

During 2005 a temporary investment aid has been granted to the milk, beef and sheep and goat sector including support to feed and manure storages and walking pens. 917 projects have received support to an amount of EUR 14.14 million.

## 2.5. Supported production volumes

The Nordic aid decision defines the maximum production volumes to which aid can be granted. During 2001–2005 the maximum production limits have been breached slightly for pork and poultry and for equines during some years and the amounts of aid or units have been

cut accordingly. The number of reindeers for which subsidies have been paid has decreased due to the introduction of a 50-head limitation per applicant.

*Table 3a – Summary of the supported production volumes in 2001 and 2005, livestock*

Product	LU with subsidies 2001	LU with subsidies 2005	LU reference levels 2005	Excess/shortfall 2005, %
<i>Beef</i>	120 344	130 862	167 274	-22%
<i>Mutton and goat</i>	4 740	5 668	5 886	-4%
<i>Pork and poultry</i>	147 764	133 967	139 200	-4%
<i>Reindeer(heads)</i>	185 731	155 254	229 000	-32%
<i>Equines</i>	7 754	5 593	6 000	-7%
<i>Milk (t)</i>	1 848 123	1 825 664	1 759 129	4%

In total for the period the production has stayed under the permissible volumes in all crop cultivation sectors, but has in some individual years exceeded the thresholds slightly (*table 3b*).

*Table 3b – Summary of the supported areas, 2001 and 2005 crop production*

Product	Hectares with subsidies 2001	Hectares with subsidies 2005	Hectare reference levels 2005	Excess/shortfall 2005, %
<i>Sugar beet</i>	2 302	2 034	3 750	-46%
<i>Starch</i>	4 933	4 546	6 580	-31%
<i>Cereals and other arable crops</i>	304 707	315 975	557 700	-43%
<i>Horticulture</i>	216	190	203	-6%
<i>Outdoor vegetables and apples</i>	2 080	1 774	2 095	-15%
<i>UAA (pasture, fallow land, etc.)</i>	421 738	427 022	848 812	-50%

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

The conclusions in this chapter are based on information from the Finnish authorities pursuant Article 143(2) of the Act of Accession.

#### **3.1. Development of main products in sub-regions**

The main agriculture sectors in the Finnish northern regions are milk, beef and pigs. Together they present 72% of the market revenue. The following sections picture the development of the main products in the different sub-regions. The development within the sub-regions cannot be analysed from the available information.

##### **Milk**

The production of milk in the support area represents about 77% of the total milk production in Finland. This relation has basically stayed the same over the period. Except some variation in the volumes between 2000 and 2005 the production volume has decreased by approximately 1.2%, though the changes differ between the support regions.



Table 4a – Milk production (1 000 t) in sub-regions, 2001–2005

Aid area / quota period	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006
C1	527.5	535.5	521.0	512.1	501.1	501.4
C2	1 022.1	1 047.4	1 031.8	1 026.5	1 016.7	1 032.1
C2N	105.4	108.2	107.5	107.3	103.1	104.9
C3	172.6	177.1	178.4	174.4	168.8	170.5
C4	23.0	23.5	23.3	22.4	20.6	20.5
<b>Total</b>	<b>1 850.6</b>	<b>1 891.7</b>	<b>1 862.1</b>	<b>1 842.7</b>	<b>1 810.4</b>	<b>1 829.3</b>

Note: The figures are the total milk production volume in the Northern areas (incl. production without Nordic aid).

## Beef

Also in relation to beef do the Nordic aid regions represent about 77% of the Finnish production. Due to stronger market demand the production volume increased in 2003 and 2004. The support regions' share of beef production has changed slightly, though the changes differ again between the sub-regions. It should be noted that the changes in milk and beef follows more or less each other implying a correlation between the productions.

Table 4b – Beef production (1 000 t) in sub-regions, 2001–2005

Aid area / year	2001	2002	2003	2004	2005
C1	19.8	19.9	20.2	19.6	18.2
C2	37.7	38.6	41.6	41.3	38.2
C2N	3.7	3.6	3.9	3.7	3.6
C3	5.4	5.5	6.1	5.7	5.3
C4	0.6	0.5	0.6	0.6	0.6
<b>Total</b>	<b>67.2</b>	<b>68.1</b>	<b>72.4</b>	<b>70.9</b>	<b>65.9</b>

## Pig production

The support area produces 43% of the Finnish pig meat. In 2000–2005 pig meat production in the area grew by about 22%, but its share in pig meat production in the whole country has stayed about the same.

Table 4c – Pig production (1 000 t) in sub-regions, 2001–2005

Aid area / year	2001	2002	2003	2004	2005
C1	47.9	50.1	53.5	55.2	57.9
C2	23.9	25.7	27.9	28.7	28.0
C2N	1.2	0.9	1.1	1.2	1.2
C3 and C4	1.1	1.0	1.0	1.0	1.0
<b>Total</b>	<b>74.1</b>	<b>77.7</b>	<b>83.5</b>	<b>86.1</b>	<b>88.1</b>

### 3.2. Development of land use

In 2005 the utilised agricultural area in the support area covered by the Nordic aid scheme totalled to 1,185 million hectares, which is about 52% of the total utilised agricultural area in Finland. Of the agricultural land in the northern regions 39% is in area C1, 49% in area C2 and 12% in the northernmost areas C2N-C4.

In the whole support region the utilised agricultural area grew by 4.4%, or 50 400 hectares, in 2000–2005 due to clearance of overgrown fields following expectations of the coming CAP reform. The area is still about 16% smaller than the maximum area laid down in Commission Decision 2002/404/EC.

The use of agricultural land has continued, but some of the most remote arable fields in the support area are being excluded from production. There is no willingness to lease the land at any price, because the cost of cultivating the land is too high due to the small size of the parcels and long distances. The average trend in the price of additional land has been quite moderate in the north, even if the prices may be rising more steeply than the average due to competition for land offered for sale or lease close to livestock farms.

In 2005 44% of the UAA was under cereals, 40% was under grass, 6% was under other crops and 10% set aside. Between 2000 and 2005 the cereal and set-aside area increased and the area under grass decreased. This change was mainly caused by the fact that many farms quit livestock production while, especially in the southern parts of the support area, the production of fodder cereals and other crops was continued or the part of the lands were leased to expanding farms.

### 3.3. Trends in the structure, productivity and production methods of agriculture

In the 1990s the structural change of agriculture progressed rapidly in the regions covered by the Nordic aid scheme. The trend continued in the early 2000s, smaller farms quitting livestock production and turning into part-time crop farming or leasing their lands to larger farms. Leasing of arable land has increased in the whole of the support area, and in 2005 about 35% of the arable area of farms that continued their production was leased. About a third of the farms quit production between 1995 and 2005 and the average farm size in the support region grew from 19 to 31 hectares. In 2005 there were 39 650 farms in the support area. The decrease has been slowest in support regions C2N and fastest in support region C3.

*Table 5a – Number of holdings in different sub-regions and in the whole country (2001–2005)*

Area / year	2001	2002	2003	2004	2005	change 2001–2005	% change 2001–2005
<i>C1</i>	18 347	17 720	17 264	16 820	16 281	–2 066	–11%
<i>C2</i>	20 153	19 713	19 257	18 877	18 285	–1 868	–9%
<i>C2N</i>	2 073	2 223	2 152	2 103	1 999	–74	–4%
<i>C3</i>	3 242	3 163	3 075	2 972	2 865	–377	–12%
<i>C4</i>	734	731	710	689	666	–68	–9%
<i>Finland</i>	77 320	75 474	73 714	72 054	69 517	–7 803	–10%

Since 2000 the number of farms having over 100 hectares has more than doubled and their share of the total area has gone up from 6% to 13.6%.

Table 5b – Number and distribution of farms in the Nordic aid region, 1995, 2000 and 2005

Distribution (%) and total number of farms in Nordic aid area	Distribution (%) and number of farms			Distribution (%) of land and average farm size (ha per farm)		
	1995	2000	2005	1995	2000	2005
<i>under 20 ha</i>	62.1	48.6	44.2	34.9	20.6	15.5
<i>20–29 ha</i>	20.5	19.8	18	25.9	18.7	14.3
<i>30–39 ha</i>	9.6	12.8	12.3	17.0	16.9	13.8
<i>40–49 ha</i>	4.2	7.5	8.5	9.7	12.8	12.2
<i>50–99 ha</i>	3.3	10.1	14.1	10.8	25.1	30.6
<i>100–... ha</i>	0.3	1.2	2.9	1.8	6.0	13.6
<b>Total / average</b>	<b>58 115</b>	<b>44 326</b>	<b>39 649</b>	<b>19.3</b>	<b>26.2</b>	<b>31.1</b>

The average herd size on dairy farms in the support area grew from 12 to 20 in 1995–2005. At the same time the share of the milk produced in farms with over 50 cows has gone up from 0.3% to 8.5%.

On other cattle farms the average number of animal places has increased correspondingly from 20 to 50. Almost one third of the other cattle farms have more than 50 bovine animals per farm while in 1995 their share was less than a tenth.

Table 5c – Number and distribution of dairy and cattle farms in Nordic aid area in 1995, 2000 and 2005

Nordic aid areas	Distribution (%) and number of farms			Distribution (%), total and average number of animals		
	1995	2000	2005	1995	2000	2005
<i>Dairy farms</i>						
<i>under 10 cows/farm</i>	35	21.3	15.9	19.1	8.7	5.5
<i>10–19 cows/farm</i>	54.9	50.2	44.6	61.4	44.3	33.1
<i>20–29 cows/farm</i>	9.2	21.6	24.8	16.8	31	30.2
<i>30–49 cows/farm</i>	0.9	6.2	12.1	2.4	13.5	22.7
<i>50+ cows/farm</i>	0.1	0.6	2.5	0.3	2.5	8.5
<i>Number of farms</i>	23 442	16 422	12 335	288 456	267 654	240 645
<i>Average number of animals/farm</i>				12.3	16.3	19.5
<i>Other cattle farms</i>						
<i>under 10 bovines/farm</i>	36.8	24.8	22.1	8.9	3.4	2.2
<i>10–19 bovines/farm</i>	27.3	19.6	18	18.9	8	5.1
<i>20–29 bovines/farm</i>	13.7	13.5	11.8	16.2	9.3	5.8
<i>30–49 bovines/farm</i>	13.3	17.5	16.9	25	19.3	13.2
<i>50+ bovines/farm</i>	8.8	24.6	31.3	31	60	73.8
<i>Number of farms</i>	5 436	3 069	2 760	110 353	108 805	137 438
<i>Average number of animals/farm</i>				20.3	35.5	49.8

In 2000–2005 the share of farms owned by farmers, younger than 40 years has decreased from 28% to 24%, but the average size of the farms owned by the young farmers was bigger and it has grown more than for older farmers.

The farms in the support area invested (measured as gross investment expenditure) the most in the purchases of additional land (EUR 97.7 million), followed by dairy cattle buildings

(EUR 75.8 million), setting up farming (EUR 57.0 million) and beef production units (EUR 27.5 million).

Even if the traditional forms of agricultural production continue in the region, growth in the farm size has led to the adoption of production technologies and methods suited to larger farms, which will be reducing the costs in the long term.

### **3.4. Income and profitability development of agriculture**

Because of the unfavourable development of the ratio between the market return and production costs, agriculture in the Nordic aid regions of Finland is highly dependent on income supports paid to agriculture. The ratio Nordic aid/farm net value added (FNVA) varied between 0.4 and 0.5 for the period 2000–2006.

The annual growth in the farm net value added per annual work unit (FNVA/AWU) was in average 1.8% in 2000–2004. During the same period the family farm income per family work unit (FFI/FWU) grew by 1.3% a year.

In 2000–2004 the family farm income varied considerably in the different parts of the northern region. In area C2 the average annual increase in the income was clearly smaller than in the other areas. One reason for this development in area C2 was the increase in the number of small cereal farms with low yields and high costs as farmers have been giving up livestock production.

The growth in family farm income per family work unit is mainly due to structural development in agriculture and improved production efficiency. Expanding the production and improving the efficiency have been the one among the means for family farms to maintain their incomes. The quite high investment aids have also encouraged to expanding the production and improving its efficiency.

The increase of farm size and expansion of production is higher in the milk sector than in the beef sector. The development of producer prices for beef has been weak and increase in the costs has reduced incomes and profitability especially towards the end of the period concerned.

Instead, on pig and cereal farms the benefits of scale are more clearly reflected in the income and profitability indicators, but on these farms, too, the average development of incomes and profitability has been decreasing towards the end of the period.

### **3.5. Socio-economic impact development**

The role of the agricultural and food sector in the regional economies of the support area has been decreasing since 1995. In 2003 agriculture employed 61 150 persons and food industry 13 900 persons in northern Finland. Between 1995 and 2003 the number of people employed in agriculture fell by more than 25%, while the number of people employed in the food industry stayed about the same.

However, in the Finnish Nordic aid region, and especially in the most remote parts of this, farmers represent a significant share of the rural population. The Nordic aid scheme is part of the measures taken by which an effort is being made to retain the population in northern and eastern regions. Long term northern aid has made a significant contribution to controlling the loss of the farming and rural population and alleviating the negative consequences of this.

### **3.6. State of the environment**

One aim of the Nordic aid system is that it shall positively influence the implementation of environmental protection and preservation by tying the disbursement of aid to conditions such as the use of arable land (good farming practices) and livestock quantities (maximum livestock density). Because several different operational programmes have an impact on the environment, the influence of any individual programme is difficult to separate from the whole. Agri-environmental measures under the Rural Development Policy apply to more than 95% of the farms in the region and almost the same percentage of the arable area.

The nitrogen and phosphorus indicators for the state of the environment in the area covered by the northern aid scheme show some improvement in the environmental status. Actions with positive impacts on the environment include the construction of additional manure storage capacity and reduced use of artificial fertilisers. The amount of manure produced in cattle husbandry has decreased as the number of animals has fallen.

### **3.7. Impact on the food chain**

The wholesale and retail trade, processing and marketing situation of products belonging to the Nordic aid system remained fairly stable in the particular area during the period. Among food industry enterprises, the number of dairies and slaughterhouses purchasing raw materials from agriculture has fallen during the assessment period in the support area.

The northernmost areas can be somewhat problematic from the standpoint of processing enterprises operating nation-wide: raw material volumes obtainable from the area are low compared to the overall volumes of such enterprises, transport costs are high and the markets are at a great distance.

## **4. CONCLUSIONS**

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

- (1) Regarding most of the sectors receiving Nordic aid, permissible production levels for production having received aid or aid limits in total were not exceeded in the assessment period. However, the production levels were occasionally exceeded in pig and poultry meat, milk and cereals. The amounts of aid and eligible units have been cut accordingly.
- (2) The controls are carried out by the Member State and according to the national authorities no significant irregularities were found. The required reports have been submitted to the Commission as laid down in the Act of Accession.
- (3) 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 Finnish authorities, the Commission considers that in general the Finnish authorities have applied Commission Decision 95/195/EC and Commission Decision 2002/404/EC on aid to northern regions properly.