TRADE POLICY REVIEW MECHANISM

FINLAND

Report by the Secretariat

In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the Secretariat submits herewith Volume A (Text) of its report on Finland. Volume B (Tables and Appendices) is presented in document C/RM/S/20B.

The report is drawn up by the Secretariat on its own responsibility. It is based on the information available to the Secretariat and that provided by Finland. As required by the Decision, in preparing its report the Secretariat has sought clarification from Finland on its trade policies and practices.

Document C/RM/G/20 contains the report submitted by the Government of Finland.

NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
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SUMMARY OBSERVATIONS

1. The Finnish economy is currently undergoing a severe recession, after many years of high growth rates. The slowdown in world economic growth has coincided with a decline in the Soviet market for Finnish goods and increasing competition within a new European context. The creation of the European Economic Area, generating nearly half of world trade, will require greater flexibility and competitiveness from Finnish industry and commerce. The unilateral decision by the Finnish Government in June 1991 to peg the markka to the ECU, at the existing rate, will also force price and wage adjustment if Finland's economy is to regain competitiveness.

2. Finland's industrial structure is a mixture of highly competitive and highly protected sectors. Certain Finnish industries - such as paper and board, shipbuilding, industrial machinery and high-technology electronics - appear to be efficient producers on a world scale. Food manufacturing is sheltered by the high protection given to agricultural inputs. Others, such as clothing and footwear, have until recently been protected from world market developments by the guaranteed market for their output provided by Finland's stable trade links with the Soviet Union. These industries have both to absorb the effective loss of the Soviet market and to restructure into higher quality, more internationally competitive forms of production if they are to survive.

3. Finland's agriculture is, like that in other Scandinavian countries, highly protected. A high level of domestic support is backed up by border measures which effectively prevent imports of many competing products. Subsidized export surpluses in dairy products and eggs in particular contribute, if in a relatively small way, to the depression of world markets. Finland, like many other European countries, is facing up to the need to redefine its aims in the area of agriculture and food security.
4. On a dollar basis, Finland's per capita GDP is near the top of the ranks of industrialized countries; however, in purchasing power parities, the income of the Finnish citizen is less enviable. Finland is one of the most expensive countries in Europe and the declining cost competitiveness of industry has become an important constraint to export growth. In recent years, tight labour markets have put upward pressure on wages and labour costs and have significantly eroded competitiveness.

(1) Finland in World Trade

5. Throughout the 1980s the growth of Finland's economy, propelled by industrial output, exceeded the OECD average. Productivity of capital and labour increased more rapidly than in Finland's major trading partners.

6. Finland accounts for 1 per cent of world trade. In certain product markets (such as furs, paper-making machinery, high-quality papers and icebreaking vessels) it has a dominant position in world exports and as such is a potential price setter. Imports are dominated by raw materials, oil and metals, and machinery and equipment.

7. Although merchandise exports account for a lower share of Finland's GDP than in many other small economies, over half the net value of industrial production is exported. Expansion of overseas production and sales by Finnish-owned companies have contributed to further internationalization of Finland's industrial sector.

8. The Soviet Union was, until recently, Finland's largest export market. Currently, Finland's major trading partners are Western European neighbours; over 60 per cent of trade takes place with EFTA and EC countries. In the first half of the 1980s, bilateral clearing trade arrangements guaranteed substantial exports of industrial goods in exchange
for oil from the Soviet Union. In the second half, while the decline in the world price of oil caused a fall in the value of exports to the Soviet Union, a boom in markets for wood and paper products sustained economic activity.

9. The liberalization of exchange regulations and financial markets by the Finnish authorities in the 1980s led to an upsurge in foreign investment-based expansion abroad by Finnish companies. While this also contributed to industrial growth and diversification in Finland, unprecedented levels of private foreign debt were built up. Inward investment grew more slowly, although in the last few years some major firms have been acquired by foreign investors. Regulations still limit foreign ownership, particularly in natural resources, property, and certain service sectors. In practice, policy towards foreign investment has been liberal in recent years and the legislation is being revised.

10. The cumulative effects of declining exports to the Soviet Union, increasing competition on world markets for pulp and paper products, recession in major export markets and the 1989 revaluation of the Finnish markka took their toll on export and economic growth and in 1990 the economy slowed to a halt. With a contraction in domestic demand, imports have fallen and the trade balance has improved. Yet the current account deficit and the high level of foreign debt remain of concern.

11. Forty years ago, Finland was predominantly an exporter of timber. Since then, its industrial structure has undergone considerable transformation. Paper and paperboard have displaced less processed products of the forest industry. Exports of the metals and engineering industries now exceed those of forestry. In engineering, Finland is a world leader in paper-making machinery and has established viable industries in telecommunications and other high-technology areas. The chemicals industry has likewise diversified, expanding from oil refining and fertilizer production into a broad range of chemical-based products.
12. Imports of agricultural products (primarily fruits, vegetables, and tropical beverages) represent less than 5 per cent of total imports. Finland is, overall, a net importer of agricultural products but has (in relation to its own output) considerable subsidized exports of surplus agricultural production, mainly grains, meat and dairy products and eggs.

(2) Institutional Framework

13. The Republic of Finland is a parliamentary democracy with a legislature of 200 members, elected every four years by direct proportional elections. The President, elected every six years, holds the executive power and has ultimate responsibility for foreign relations, including trade relations. Together, the President and the Council of State form the Government.

14. Numerous laws govern international trade. All GATT obligations form part of Finland's domestic legislation and may be invoked directly in the courts by individuals. The Act on Safeguarding Foreign Trade is a cornerstone of domestic trade legislation, permitting the imposition of restrictions and the safeguarding of domestic industry. In applying the Act on Prevention of Dumping and Subsidized Imports, Finland adheres to the principles of the Tokyo Round Agreements.

15. Trade and foreign policy are essentially the domains of the Ministry for Foreign Affairs; however, the Ministries of Trade and Industry, Agriculture and Finance take part in policy-making, in addition to their regular duties of supervising the implementation of trade legislation. A number of other Ministries and agencies are engaged in regulatory work with a bearing on trade.
16. At the level of implementation, the National Board of Customs is in charge of the assessment and collection of tariffs and excise duties on imports and domestic goods as well as the turnover tax on imports and the import equalization tax. The Export and Import Permits Office, reporting to the Board of Licensing under the Ministry of Trade and Industry, operates the import licensing régime. The Agricultural Marketing Council makes decisions regarding imports and exports of agricultural products.

17. A Committee system is central to the work of both Parliament and the Government. The Committee for Foreign Affairs, a permanent Ministerial Committee, meets regularly to discuss foreign policy matters. The permanent Customs Advisory Committee assists the Ministry of Finance in its customs-related duties. Committees are also frequently set up to study specific issues or act as advisory bodies in the reform or preparation of legislation.

18. Policy decisions are preceded by informal consultation between the Government and organizations representing management and labour, political parties and business leaders. While there is no formally established independent body that reviews trade policies, the Government presents an annual report on its activities, including trade policy, to Parliament.

19. Legislation and regulations affecting Finland's external economic relations have recently come under intensive review, pending Finland's participation in the European Economic Area. One recent and far-reaching outcome of policy reform in Finland has been the strengthening of competition policy, leading to reduced regulatory barriers to both domestic and foreign competition.
(3) Trade Policy Features and Trends

(i) Recent evolution

20. Industrial goods and some processed agricultural goods from other EFTA members and from the Soviet Union have entered Finland duty-free since 1967. Since 1977, the same has been true for industrial imports from the European Communities and, since 1985, for a wide variety of products imported from Bulgaria, Czechoslovakia, Hungary and Poland. Between the first half of the 1970s and the second half of the 1980s, the share of imports of EC and EFTA origin in total Finnish imports increased by 10 per cent, while the share subject to m.f.n. treatment declined. Today, trade with the European Communities and EFTA accounts for nearly two-thirds of Finland's merchandise trade.

21. In 1972, Finland implemented the Generalized System of Preferences, granting duty-free and quota-free treatment to eligible imports. In 1988, GSP origin imports represented 7.5 per cent of total imports, but nearly one-third of agricultural imports. Since the inception of the scheme, the Government has expanded the list of beneficiaries, added products of special interest to least developed countries and undertaken an annual review of the GSP Scheme.

22. Subsidies to manufacturing are lower than in either the European Communities or other Nordic EFTA countries, amount to roughly 1.5 per cent of industrial value added. Regional aid, to promote small businesses and reduce regional differences in unemployment is the largest component of state aid to manufacturing. Industrial subsidies in Finland include grants and loans to promote export marketing, interest rate subsidies on export credits, investment and interest rate subsidies promoting the use of domestic fuels and energy conservation and loan guarantees. Grants and loans to promote research and development in the corporate sector have risen in the last decade, yet the share of public financing of corporate R and D remains well below the OECD average.
23. Agricultural production receives substantially more assistance and border protection than does industry. Assistance as a proportion of production has risen over the years and is considerably higher than the OECD average, at a level comparable to those in Switzerland and Norway. Eighty-five per cent of support operates through the price system; remaining income support is mainly paid through regional subsidies.

24. Agricultural policy has aimed at self-sufficiency and the provision of an income level for farmers commensurate with other sectors of the economy. Self-sufficiency has long since been achieved and, indeed, exceeded in some agricultural commodities. Export subsidies are substantial, representing the largest single component of State expenditure on agriculture and exceeding the world market value of exports in 1990. Producer levies, applied on feed since 1980, and more recently introduced on fertilizers, milk, pork and wheat, have helped to reduce the public sector's share of export costs.

(ii) Type and incidence of trade policy instruments

25. With some exceptions, Finland's trade régime for industrial products is relatively simple, stable and transparent. The level of m.f.n. tariff protection for most industries in Finland is moderate, although slightly higher than in other Nordic countries. GATT-bound duties cover m.f.n. imports of nearly all industrial goods, with one-third of these bound at zero.

26. In industry, there is evidence of m.f.n. tariff escalation. Industrial raw materials enter duty-free, whereas the average (1988) m.f.n. tariff on finished manufactures was 9.4 per cent. Such tariff escalation is most pronounced in rubber, footwear and clothing, in which alternate duties come into play and substantial tariff peaks occur, sometimes over 25 per cent.
27. In practice, nearly 90 per cent of imports of industrial products enter Finland duty-free. In addition to preferential zero tariffs on imports from European free-trade partners and GSP beneficiaries, "industrial" rates of duty are available for inputs and capital goods for processing industries; in some of these cases, the absence of domestic production is the condition for the granting of the concession. Temporary duty concessions also lower the price of imported inputs for the food-processing, chemicals and plastics, textiles, metals and machinery industries. These concessions place m.f.n. suppliers of such goods on a more even footing with preferential partners but increase effective protection of final output against imports from non-preferential trading partners.

28. Import prohibitions are in effect for dangerous goods or products hazardous to consumer or environmental health. Import permits are required for live animals, arms and ammunition, explosives, ores and concentrates for generating nuclear energy, radiation equipment, pharmaceuticals and narcotics. Export licenses are required for radioactive substances, narcotics, scrap metal and ships.

29. By contrast, a complex and non-transparent combination of tariffs, discretionary and global licensing restrictions, variable import levies and State-trading provisions affects trade in agricultural and food products produced in Finland. Regional preferences, while applying to some products in this sector, are not the rule. Import licensing affects 60 per cent of agricultural and food products while variable levies are often the binding constraint. Global quota levels depend largely on the need to meet shortfalls in domestic production; bilateral quotas apply to cheese imports from the EC and Switzerland.
30. Not only are average tariffs higher on agricultural imports than on industrial imports, but the share of bound duties is considerably lower. Specific, alternate and seasonal duties apply to a number of agricultural imports. Seasonal duties raise the level of protection during the local growing season. The effect of specific duties is more restrictive on lower-priced imports. In the case of alternate duties, the specific duty is the minimum rate applied and is often higher than the ad valorem rate. These combine to create uncertainty for traders and high protection for local producers.

31. Since the quantity of imports of goods subject to variable levies is limited both by the incidence of the levies themselves and by licensing restrictions, revenues from import levies are minor: customs duties on imported agricultural products in fact provide three to four times more revenue than levies. Variable levies on grains imported by the Finnish Grain Board are waived. Furthermore, some agricultural products, imported under "industrial rates of duty" used for further processing, are exempt from duties and levies.

32. The protection of domestic agriculture spills over into the food-processing industry. An excise duty is applied to over 200 food products, with an ad valorem incidence on imported food of 27 per cent in 1989. Domestic producers of foodstuffs sold in Finland deduct from the excise tax payable the difference between the domestic and the world prices of raw materials used. Excise duties are also waived on exported foodstuffs, which are in addition eligible for price compensation on the domestic raw material component.

33. Price compensation is widespread in the food processing sector, covering processing costs in cereal and flour products, vegetable oils and refined sugar. The refund on turnover taxes on milk and meat is higher than the standard tax, suggesting that payment made to the food industries covers more than the cost of raw materials.
34. The food, beverages and tobacco industry is considered to be the most highly protected industry on the basis of non-tariff barriers, according to an expert survey taken in Finland. Lending credibility to this assessment is the price level of foodstuffs which (in 1985) was two to three times higher than in the European Communities. The prices of some domestically produced foodstuffs, such as rye flour, meat and milk, have risen faster than the overall consumer price index and prices of such imported goods as rice and coffee have fallen.

35. Excise duties are levied not only on foodstuffs but on a number of consumer goods. Fiscal duties on fuels and taxes on motor vehicles and alcohol provide a significant amount of State revenue. Taxes on motor vehicles double the landed price of passenger cars. Since there is virtually no local production, the tax acts both as an import barrier and reduces consumer welfare.

36. A public monopoly governs trade in alcohol. The stated rationale for this monopoly is to discourage consumption; one means of achieving this objective is maintaining high prices. Alcoholic beverages are more expensive than anywhere else in Europe; the tax rate rises to as high as 80 per cent of the retail price.

37. Technical, health and sanitary regulations in Finland are largely harmonized with those of Nordic or other Western European countries and, according to official sources, do not discriminate against or among imported products where similar conditions exist in exporting countries. Sanitary certificates are required for goods that are suspected of bringing infectious or contagious animal or vegetable diseases into the country. Since January 1986, wood products from North America, Japan and China have been banned subsequent to the discovery of pinewood nematode in a wood chip shipment from the southern United States. The Government has made it clear that trade measures will be applied with due consideration to environmental protection goals.
38. Finland applies the principles of the Government Procurement Code and is involved in the current negotiations to broaden its coverage. While it has been alleged that procurement practices have acted as non-tariff measures, and the Government acknowledges that local authorities tend to order from national firms, the share of imported goods purchased by the public sector as a whole is between 20 and 25 per cent of total purchases, higher than in some other developed countries.

39. Rules of origin serve to apply preferences on imports and to administer restrictions on clothing. For goods not wholly produced in the originating country, rules of origin are based on the criterion of sufficient working or processing. In general, products qualify for originating status if non-originating materials have undergone a change of tariff heading or if the share of non-originating materials used is below a specified percentage limit. For textiles and clothing imported from the EC, the product must undergo enough processing to change tariff headings twice. For clothing imports under MFA agreements, a certificate of origin issued by the competent authority in the exporting country is required. Certain consumer goods imported for retail sale must indicate country of origin.

(iii) Temporary measures

40. The 1974 Act on Safeguarding Foreign Trade and Economic Growth in Finland allows for the imposition of an additional duty for a maximum of one year on imports which cause or threaten to cause market disruption. This surcharge is calculated on a basic price which should not exceed a representative export or domestic price of similar Finnish goods. The basic price acts as a signal to traders and an additional duty, notified under Article XIX, has been applied only once in recent years. This Act also permits Finland to raise the level of concessional tariffs to their m.f.n. level in order to safeguard domestic industry.
41. Other temporary measures taken by Finland in the past to safeguard domestic industry included the application of non-automatic import licensing to imports of flat steel bars from Romania between May 1988 and May 1989 and the suspension of GSP treatment on imports of tents between 1 November 1985 and 31 October 1986.

42. Anti-dumping duties have been used sparingly. Most investigations have involved imports from State-trading countries and, in several cases, have been terminated at the request of the applicant. In some cases, the exporter agreed to price undertakings and in only two cases were anti-dumping duties imposed. Countervailing duties have never been applied.

43. Finland maintains a voluntary restraint agreement on certain steel products sold to the United States; the current arrangement extends through March 1992. Finland is participating in negotiations on a proposed International Consensus for trade in steel products.

(iv) New initiatives

44. Finland is continuing the process of opening up its market, both through the Uruguay Round negotiations and in the context of the European Economic Area.

45. In the Uruguay Round market access negotiations, Finland has offered to reduce its tariffs by one-third on a formula basis. On tropical products, provisional offers, in effect since mid-1989, reduce the previous average tariff level by 50 per cent. In the negotiations on agriculture, Finland has offered to cut export assistance by 60 per cent from the 1986 level by 1996, and to reduce protection to processed foods at the same rate as that to be applied to industrial products. With regard to protection of intellectual property rights, Finland will have adopted a system of product patent protection for pharmaceuticals by 1995.
46. In July 1990, import licensing requirements were removed from a number of agricultural products, including several varieties of fish and fruit and vegetables, both fresh and processed. In order to prevent abuse of market dominance in the sugar industry, imports of refined sugar may be liberalized in the near future. In the spring of 1991, the Government issued a Decision aiming to increase the availability of import licenses and adding flexibility to quotas in order to keep domestic prices from rising under supply constraints.

47. In the last few years, renegotiation of bilateral MFA agreements has resulted in the enlargement or removal of quotas.

48. The dismantling of semi-barter clearing trade with the Soviet Union in 1991 removed the need for import licensing to monitor the bilateral exchange of goods. As a result, licenses for oil imports and other fuels may be issued to all applicants. Furthermore, transition to the use of convertible currencies in bilateral payments has led to the elimination of local content requirements on exports to the Soviet Union. As a result, the share of imported inputs in certain sectors has risen strongly, suggesting that import prices for comparable products are lower.

49. Under the most recent Farm Income Act, export support for agricultural commodities will be lowered annually until 1994 with the farm sector assuming an increasing share of the responsibility of exports. Target prices for certain commodities have been frozen and product-specific price support has been replaced by direct income payments.

50. Policy objectives of the present Government include increasing the contribution of the "open" sector to GNP, and broadening the range of goods available to the consumer. While Finland has to date provided little public support to industry in the form of direct subsidies, the current economic programme aims to increase the financing of export marketing and increase the international competitiveness of industry.
51. By pegging the markka to the ECU without devaluing, Finland has chosen to realign its relative price level towards those of its European trading partners. Given the high-cost structure of Finland's economy, a considerable adjustment effort will be required.

52. Finland is also conscious of the need to increase competition practices in its own economy. At present, the ten largest Finnish manufacturers account for over half of exports; four of these are state-owned companies. Resulting market dominance and monopolistic practices have been identified in both private and public enterprises. Exclusive arrangements operate throughout the forest industry and high concentration in the distribution trade for consumer goods has not been conducive to competition. The Office of Free Competition has already begun to lower barriers to entry for both domestic and international competitors, by revising regulations and dissolving exclusive arrangements.

(4) Trade Policies and Foreign Trading Partners

53. A Contracting Party to the GATT since 1950, and a signatory to all but one of the Tokyo Round Agreements, Finland strongly supports multilateralism and the broadening and strengthening of GATT rules. At the same time, as an EFTA member and now part of the European Economic Area, Finland participates extensively in regional and bilateral trade agreements.

54. The Finnish Government has approached the Uruguay Round with substantial offers and a strong commitment to the multilateral system. Along with other Nordic countries, it advocates the strengthening of GATT disciplines particularly on anti-dumping and subsidies and the extension of GATT rules to new areas. Nevertheless, support for Finland's agriculture remains complex, discretionary and expensive.
55. The immediate priority for policy makers in Finland today is the European integration process. National technical regulations will be harmonized and mutual recognition of regulations and acceptance of test results will be adopted. Harmonisation of competition laws will alter cartel and state aid practices. More rigorous control of mergers may bring about changes in the structure of large Finnish conglomerates. Offers for tenders by public entities in EFTA countries are now advertised in EC publications and EC directives for public procurement are being adopted. If EC subsidies to the shipbuilding industry have in the past placed Finnish industry at a disadvantage, future alignment of rules on industrial aid will be positive for Finland.

56. Finland has chosen to pursue bilateral trade disputes through consultation, in most cases successfully. In the few cases where Finland has been a defendant in GATT dispute settlement, it has implemented the panel recommendations.

57. On the whole, market access for Finnish exports has not been a problem, especially since the majority of its trade takes place under free-trade agreements. Under the agreements on the reciprocal removal of obstacles to trade concluded with certain Eastern European countries, Finland benefited from preferential access. This recently became more significant following reform of the trade regimes in Eastern Europe. Finland has, however, faced problems in some specific areas where its industries have comparative advantage. Examples of these are, at present, dumping charges on exports of transformers to Australia and on coated paper to the United States; in addition, Finland's shipbuilding industry has been effectively blocked from exporting icebreakers to the United States because of "Buy America" rules.
58. Finland's trading policies, particularly in agriculture, should become less restrictive as a result both of European integration and of the Uruguay Round. However, maintenance of the policy of food self-sufficiency on the basis of present support policies places a considerable burden on the consumer and keeps the overall level of costs in the economy high. Reductions in, and further bindings of, m.f.n. tariffs and other barriers to trade, combined with greater integration in the European market, would enhance the stability and predictability of Finland's trade régime. This would benefit industry and consumers alike and help to re-establish Finland's competitiveness in world markets.
I. THE ECONOMIC ENVIRONMENT

(1) Major Features of the Finnish Economy

1. Finland, covering an area of 338,000 square kilometres, is one of the northernmost nations of the earth, lying between 60 and 70 degrees latitude. Its small population, just under 5 million, makes Finland, after Iceland and Norway, the most sparsely populated country in Europe. In addition to an 1,100 kilometre coastline on the Baltic Sea, Finland shares common land borders with Sweden, Norway and the Soviet Union.

2. Almost two-thirds of the country is forested, mainly birch and conifers, and one-third lies within the Arctic Circle. Thousands of shallow lakes cover one-tenth of Finland's surface and less than 8 per cent of the land is arable. Apart from timber, Finland's "green gold", the country's other natural resources include metals and minerals such as copper, zinc and nickel.

3. GDP per capita was US$28,060 in 1990 (Table I.1). In purchasing power parities, it was slightly below the OECD average. Throughout most of the 1980s, Finland maintained a 4 per cent annual rate of economic growth, well above the average of OECD Europe.

4. Services account for 70 per cent of Finland's GDP and 60 per cent of employment; industry for 24 and 31 per cent respectively. As in most other developed countries, the share of agriculture (including forestry) in Finland's GDP and employment is low (6 and 9 per cent respectively), although, as noted below, agricultural policy is an important feature of Finland's economic policies. For the last thirty years, Finland has pursued a strategy of export-led growth demanding adaptability to international markets. Manufactured exports provide over half the net value of industrial output.

5. A relative latecomer to industrialization, Finland's industrial output and productivity have risen steadily in the last decade. Productivity growth, on a par with that of Japan, has been fuelled by technology policy and growing R&D expenditures. Unlike most OECD countries, where the average productivity of capital actually fell during

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2 Europa Publications (1989), The Europa World Year Book; p.159.

3 In 1982, the Government established the broad outlines of technology policy and set the target of increasing research expenditures from 1.2 per cent of GDP to 2 per cent by 1990. Over 90 per cent of business sector R&D is industry financed.
the Eighties, Finland's experienced positive growth. Labour productivity growth has also been high: 3.8 per cent per annum for the 1979-1989 period compared to the OECD average of 1.6 per cent. However, unit labour costs, and inflation since 1987, have been consistently above the OECD average. In contrast, unemployment rates (4.9 per cent on average between 1980 and 1989) have tended to be lower than some other European countries. The ageing and shrinking of the labour force, combined with shortages of skilled labour have led to tight labour markets and put upward pressure on wages. Historically, Finland's labour market has been flexible and responsive to changes in output, although in more recent years this appears no longer to be the case. The general policy of both labour and management was to cooperate with the Government in its attempt to curb inflation and maintain the competitiveness of Finnish products on world markets.

6. The use of stabilization agreements in wage settlements, accompanied until recently by exchange-rate devaluations, maintained the international competitiveness of Finnish industry. Although, over the past ten years, Finland's price competitiveness has deteriorated (Chart I.1), other indicators of "real" competitiveness, including such factors as product quality, differentiation and marketing efforts, have developed positively.

7. A striking feature of the Finnish economy is the relatively recent and rapid transition from a predominantly agricultural and primary product economy to one in which high-technology industries flourish. Construction and manufacturing contribute 6 and 24 per cent respectively to GDP. While employment in manufacturing has been decreasing, the sector still employs 22 per cent of the labour force. Today, agriculture employs 9 per cent of the labour force. As in other developed economies, services predominate in terms of overall employment and economic activity (Table I.1).

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5 The incomes settlement includes a clause linked to the changes in the terms of trade so that the consumer price index is adjusted by one-quarter of the percentage change in the terms of trade upwards or downwards.

6 Highly unionized, Finland's labour markets operate on the basis of a negotiated "incomes policy system", whereby wages, prices and social security benefits are negotiated between Government, employers and unions.

8. The public sector (mainly local government services) has been the sole creator of employment in the last decade, yet the Government's financial balance remains in surplus and gross public debt as a percentage of GDP has been kept at levels significantly below other industrialized countries. Public consumption and investment have, however, slowed in the last few years (Table I.3). In 1988, gross public debt was estimated at 17.7 per cent of GDP, compared to neighbouring Sweden's 58.5 per cent and Italy's 94.2 per cent.

9. Direct taxes are lower than in other Nordic countries; on the other hand, indirect taxes, mainly the turnover tax and excise duties, generate over one-third of annual State revenues (Chart I.2). Recent changes in fiscal policy have concentrated on simplifying, and enhancing the neutrality of, the corporate and personal income tax system. Through deductions and exemptions, the corporate tax burden has been unevenly divided between enterprises so that the effective tax rate decreased as the company size increased. A new imputation system (avoir fiscal) was

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introduced in 1990 which, inter alia, changed the tax treatment of corporate dividends. These had previously, because of tax deductions, represented a significant loss to State revenue. Marginal income tax rates for individuals have been lowered but capital gains taxation has been increased and interest income made subject to a 10 per cent withholding tax.

Chart I.2
Finland’s budgetary revenue, 1989


10. Two industries dominate Finland’s industrial and export structure: metals and engineering, and forestry (broadly defined to include paper, printing and publishing) (Charts I.3 and I.4). Other important industries are chemicals (11 per cent of industrial value added), foodstuffs (linked in fact and in policy to Finland’s agriculture) and textiles.
Chart I.3
Value added in Finnish industry by branch, 1989

Total industry: 112.6 billion FIM

- Total forest industries: 19.7 billion FIM
- Total metal and engineering industries: 38.1 billion FIM
- Mining, quarrying, electricity, gas and water: 12.4 billion FIM
- Chemical industry: 10.8 billion FIM
- Food manufacturing industries: 11.5 billion FIM
- Textile, wearing apparel and leather industries: 4.1 billion FIM
- Other manufacturing: 15.0 billion FIM

Source: Table I.4.

Chart I.4
Sectoral shares in Finnish exports, 1989

<table>
<thead>
<tr>
<th>Sector of Industry</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metal products and machinery</td>
<td>32.8%</td>
</tr>
<tr>
<td>Paper, printing and publishing</td>
<td>32.6%</td>
</tr>
<tr>
<td>Basic metals</td>
<td>9.2%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>8.9%</td>
</tr>
<tr>
<td>Wood</td>
<td>7.4%</td>
</tr>
<tr>
<td>Textiles, clothing and leather products</td>
<td>3.6%</td>
</tr>
<tr>
<td>Food, drink and tobacco</td>
<td>1.8%</td>
</tr>
<tr>
<td>Agriculture and forestry</td>
<td>1.4%</td>
</tr>
<tr>
<td>Other products</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

11. The metal and engineering industries, including such principal sub-sectors as shipbuilding and paper-making machinery, account for nearly 40 per cent of value added in industrial production. Metals and engineering, covering shipbuilding, steel production, mechanical engineering and electronics, account for one-third of industrial value added (Table I.4) and employ one-third of the industrial work force. In the 1980s, output and productivity growth of the engineering industry was high both by international standards and relative to other sectors, and exports of the metal and engineering industries grew more rapidly than any other amongst the manufacturing industries (Chart I.5). Automation has grown in heavy industries; the stock of industrial robots, used mainly in welding and materials handling in the metal products and machinery sector, rose from 257 to 671 between 1985 and 1989. Finland is also a world leader in the use of FM (flexible manufacturing) systems in manufacturing industries.

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### Chart I.5
**Average changes in volume and price of Finnish exports of goods and services, 1984-89**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Average annual percentage change, 1984-89</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and forestry</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Food, drink and tobacco industries</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Textile, clothing and leather product industries</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Wood industry</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Paper industry, printing and publishing</td>
<td>3.2%</td>
</tr>
<tr>
<td>Chemical industry</td>
<td>3.5%</td>
</tr>
<tr>
<td>Basic metal industries</td>
<td>2.2%</td>
</tr>
<tr>
<td>Metal products and machinery industries</td>
<td>5.0%</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Based on data from Ministry of Finance, *Economic Survey 1987 and 1990.*

12. After Canada, Finland is the world’s second largest exporter of paper and board and it is fourth after Canada, Sweden and the United States in exports of chemical wood pulp and sawn goods. While the share of forestry products in exports has been halved since the 1950s, the degree of processing has greatly increased (see Chart I.6). Value added in the Finnish forest industries is notably higher than it is in Sweden, one of Finland’s main competitors, where pulp and other less processed products account for a larger share of forest industry exports.

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Chart 1.6
Finnish forest industry exports by main product group as per cent of export value, 1950-90

Source:
13. State-owned production of fertilizers and oil refining are the oldest sectors of the chemicals industry. Oil refining capacity is over 10 million tons a year, and more than adequately satisfies domestic demand. Plastics production began in the early Seventies. Other typical products of the Finnish chemical industry are those based on cellulose by-products of the wood processing industry. The industry is characterized by a high level of domestic and international integration. Direct investment abroad by the chemicals industry accounted for most of direct investment by total industry over the period 1985-1987.

14. A typical small, open economy, Finland's merchandise trade accounts for one-fifth of GDP. Nevertheless, in comparison with other small countries, the share of overall foreign trade in the Finnish economy is somewhat lower, due to its narrow resource base, geographical location and minor role in services trade. In the last decade, the tradables or open sector of the economy has diminished and the non-tradables sector grown as domestic demand and investment have replaced exports as the main stimulus to growth. Since the drop in the oil price in the mid-1980s and a period of supply constraints in the pulp and paper industry, Finland's terms of trade have been appreciating. As can be seen from Chart I.7, import volumes, particularly in recent years, have considerably exceeded exports and the trade balance remained in surplus until 1989 only due to more favourable terms of trade.

13ETLA, op. cit.; p.63.
Chart 1.7

(a) Volume of trade in Finland, 1980-90

(b) Finland's terms of trade, 1985-90

Source: Union Bank of Finland, UNITAS 90:4.
(2) Recent Economic Performance

15. In the last few years of the 1980s, the growth of Finland's domestic demand exceeded that of production (Table I.3) and the economy was in danger of overheating. The liberalization of financial markets (see Chapter III) improved credit availability and stimulated spending. Investment activity surged, manufacturing investment alone growing by 30 per cent in 1989. Import volumes rose considerably in 1989, reversing the surplus in the merchandise trade balance. Domestic demand replaced exports as the engine driving the economy; meanwhile, capacity constraints and accelerating inflation, which weakened cost competitiveness, reduced export performance.

16. As can be seen in Table I.4, the growth of industrial value added slowed in the latter half of the Eighties in a number of sectors and exports followed suit. Industrial production began to fall off precipitously towards the end of 1989 (Chart I.8). Following a period of strong international demand for forest products, the slump in the construction sector slowed domestic demand for wood and, in international markets, pulp prices in 1990 dropped some 40 to 50 per cent, spurred by excess global capacity, the weak dollar and the recession in the United States.

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14 Ministry of Finance, Economic Survey 1990, Helsinki, September 1990. N.B. Some of this may be ascribed to the changes that occurred in business taxation. A major business tax incentive was the investment reserve (a premature deduction for future investment) whose maximum was reduced by one-half to 30 per cent in 1989; the maximum deductions of other reserve provisions (the inventory and operation reserves) were also reduced.
17. Output of the metals and engineering industries also peaked in 1989, but in 1991 orders for ships picked up. The leading company in the shipbuilding industry, Wärtsila, went bankrupt in 1987 as orders from the Soviet Union dried up and Finland could not compete with subsidized industries in competitor countries. Wärtsila was reorganized under temporary State ownership, sold to a Norwegian company early in 1991 and is now profitable.

18. In 1990, the Bank of Finland applied tight monetary policy in order to check inflation and reduce the current account deficit. Domestic demand weakened rapidly, as interest rates rose, investment and trade plummeted and economic growth came to a halt. In the Spring of 1991 short term interest rates rose steeply on speculation that the markka would be devalued. In June, the markka was pegged to the ECU in order to stabilize money markets and rates dropped (see Chapter III).

19. The central incomes agreement for 1990 failed to curb wage inflation and unit labour costs in manufacturing rose by 8.5 per cent in 1990. The decline in Finno-Soviet trade has had a serious impact on employment in Finland, cutting total employment by 3 per cent in the second half of the
In the 1980s, unemployment started to rise significantly towards the end of 1990 and may reach 6.5 per cent in 1991.

In 1990, the volume of imports dropped sharply. The value of imports fell by 2 per cent and that of exports rose by 2 per cent, shrinking the trade deficit. After appreciating for several years, the terms of trade deteriorated as the price of oil rose during the Gulf crisis and export prices of forest and metal products fell. The recession in many of Finland's principal export markets was an added negative factor, although the reunification of Germany boosted export volumes in the metals and chemicals industries.

The current account deficit, which had been widening since 1986, increased further to 4.5 per cent of GDP. Mounting interest payments, following financial market liberalization leading to increased external borrowing by the private sector, and a worsening services balance were the main contributory factors. The servicing of foreign indebtedness (net foreign debt at the end of 1990 was 21.6 per cent of GDP) is viewed by the authorities as a serious problem and explains some of the reluctance to devalue the markka. Instead, fiscal policy will become yet more contractionary and the burden of adjustment will focus on prices and incomes.

Trade Performance

Commodity pattern of trade

In the 1950s, Finland was a net exporter of raw materials and a net importer of manufactured goods. Today, the reverse is true. In 1990, raw materials, including metals and minerals and crude oil, made up over 50 per cent of imports; the chemicals and metals/engineering industries accounted for three-quarters of raw material imports. As its manufacturing sector has grown over the preceding decades, the commodity pattern of Finland's exports has become more diversified.

While Finland accounts for less than 1 per cent of world exports and imports, it is a leading exporter of forest products, with 10 per cent of the world market. It is also a world leader in certain specialized engineering products (e.g. paper-making machinery). Forestry products (wood, pulp, paperboard and paper products) whose inputs are mainly domestic, remain the principal source of export earnings. In 1990, exports of the broadly-defined forest industry totalled FIM 38.1 billion.

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accounting for 38 per cent of merchandise exports and more than 50 per cent of net export earnings. In this sector, the domestic content of exports is just under 80 per cent and has even risen in the latter half of the 1980s, due to a favourable shift in the terms of trade.

24. Metals and engineering recently outstripped forestry products as the leading export group, amounting to 42 per cent of total merchandise exports. An important contribution to this growth has come from high-technology products, especially communications equipment, while the proportion of basic metals and heavy machinery in exports has diminished (see Chart I.9).

Chart I.9
Structural change in Finland's metal and engineering industry exports, 1970-90

<table>
<thead>
<tr>
<th>Year</th>
<th>Metals</th>
<th>Metal goods</th>
<th>Machinery</th>
<th>Electrotechnicals and instruments</th>
<th>Ships</th>
<th>Other transport equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>24.4</td>
<td>9.1</td>
<td>23.1</td>
<td>13.9</td>
<td>24.0</td>
<td>5.5</td>
</tr>
<tr>
<td>1975</td>
<td>17.0</td>
<td>10.9</td>
<td>23.4</td>
<td>14.2</td>
<td>24.5</td>
<td>10.0</td>
</tr>
<tr>
<td>1980</td>
<td>23.6</td>
<td>12.6</td>
<td>25.3</td>
<td>19.9</td>
<td>8.4</td>
<td>9.8</td>
</tr>
<tr>
<td>1985</td>
<td>21.0</td>
<td>8.4</td>
<td>25.4</td>
<td>20.5</td>
<td>14.0</td>
<td>10.7</td>
</tr>
<tr>
<td>1990</td>
<td>18.5</td>
<td>8.2</td>
<td>28.9</td>
<td>27.9</td>
<td>5.1</td>
<td>11.2</td>
</tr>
</tbody>
</table>

Source: Ministry of Trade and Industry.

25. In relation to other OECD countries, while still low by the mid-80s, Finland's "revealed comparative advantage" in high-technology had tripled from the level of the early Seventies. Finland continues to be a net importer of high-technology products, but its export-import ratio for this

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17 The ratio of the share of Finnish high-technology exports relative to the share of total Finnish exports in OECD exports.

sector has risen from 0.38 to 0.49 between 1982 and 1989. Between 1982 and 1987, Finland gained significant export market shares in office machinery and electronic components and has become a net exporter of consumer electronics.

26. The share of chemicals in merchandise exports rose from 4 per cent in 1970 to over 12 per cent in 1990. A substantial part of Finnish-produced chemicals are included in other exports, particularly paper products. Dependence on imports of raw materials has helped to spur rapid growth in the internationalization of production activities. In many branches foreign sales by far outweigh direct exports.

27. A growth industry in the 1960s, the textiles and clothing sector has been contracting for the last several years. Competition from lower-cost countries has led to lower exports of both textiles and clothing and higher imports of clothing; clothing imports doubled between 1985 and 1990. Restrictions on imports from Asian producers and the lifting of trade restrictions within Europe have boosted imports from Italy in particular. Finland is the world's largest exporter of mink furs, although the popular movement towards animal protection caused fur exports to drop by 50 per cent between 1987 and 1989.

28. The structure of Finland's imports is quite diversified. Machinery and transport equipment is by far the largest import category for Finland and is an important capital goods input to the manufacturing industries (Chart I.10). Leading imports in this product group are specialized and industrial machinery and motor vehicles. Imports of road vehicles have been particularly buoyant (Table I.5).

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21 Machinery is the largest component of project exports and re-exports.
Chart I.10
Finland's merchandise imports and exports by SITC sections, 1989

<table>
<thead>
<tr>
<th>Description</th>
<th>Chapter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and live animals</td>
<td>0</td>
</tr>
<tr>
<td>Crude materials, inedible, except fuels</td>
<td>2</td>
</tr>
<tr>
<td>Mineral fuels, lubricants and electric energy</td>
<td>3</td>
</tr>
<tr>
<td>Chemicals</td>
<td>5</td>
</tr>
<tr>
<td>Manufactured goods classified chiefly by material</td>
<td>6</td>
</tr>
<tr>
<td>Machinery and transport equipment</td>
<td>7</td>
</tr>
<tr>
<td>Miscellaneous manufactured</td>
<td>8</td>
</tr>
<tr>
<td>Other products</td>
<td>1,4,9</td>
</tr>
</tbody>
</table>


29. Finland is a net importer of agricultural products but surpluses in milk, eggs and grains have been continuous for the last two decades (see Chapter V). Fruits, vegetables, coffee and tea account for two-thirds of agricultural imports. Raw sugar imports have more than doubled since 1984, as have exports of refined sugar. In 1990, Finland imported twice as much food as it exported but imports had declined from 1989 and exports of foodstuffs rose by 23 per cent; exports of dairy products and meat rose by 50 and 70 per cent, respectively.

(ii) Regional pattern of trade

30. Regional patterns of trade are normally determined by geographical and sometimes historical ties. Until recently, Finland's largest single

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trading partner was the Soviet Union; a glance at a map will show that Leningrad is closer than Stockholm to Helsinki, the nation's capital. In 1989, Sweden was the largest market and Germany the largest supplier (Table 1.6).

31. Finland has been the Soviet Union's second largest trading partner in the West after (West) Germany. Finland's share in total imports from the West into the Soviet Union have fluctuated between 10 and 15 per cent but have been declining during the Eighties. In 1986, Finland's market share amongst OECD exporters in the Soviet Union was 16.2 per cent; by 1989, this share had dropped to 11.8 per cent. As an indicator of the impact of the Soviet Union on Finnish economic activity, exports to the Soviet Union as a percentage of GDP fell from 6.6 per cent in 1983 to 3.2 per cent in 1988.

32. Until 1991, Finno-Soviet trade was conducted on a semi-barter clearing basis whereby a balanced exchange of goods was fixed annually on the basis of the dollar-rouble exchange rate. Finland exported machinery, ships, forestry products, clothing and footwear and foodstuffs in return for Soviet oil, priced on world market terms (see Chart I.11). The value of Finnish exports was thus a function of the dollar value of oil.

33. While this "guaranteed" export market helped to develop Finland's shipbuilding industry and Soviet oil imports buffered Finland from the oil price shocks of the 1970s, the share of the Soviet Union in Finnish exports has steadily declined from 20 per cent in the mid-1980s to around 6 per cent in 1990. Ship exports in 1990 were one-fifth of their peak value in 1985 and exports of clothing and footwear have fallen by one half.

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24 Ibid.

Chart I.11
The structure of Finland's trade with the Soviet Union, 1980-90

Source: Trade data furnished by the Bank of Finland.
34. The decline in Soviet purchasing power, due to the lower price of oil and the deterioration of the Soviet economy is also a major explanatory factor for the fall in Finnish exports to Eastern Europe. Lower oil production in the Soviet Union will force Finland to resort to other sources of supply; only for natural gas, which provided 6.4 per cent of primary energy consumption in 1989, is Finland dependent on Soviet deliveries.

35. Finland's energy requirements are high, given its harsh climate and the energy-intensive industries such as pulp and paper. While the Soviet Union supplied over 90 per cent of Finland's oil imports as late as 1989, its share had fallen below 60 per cent in 1990. However, with Finland's strong focus on environmental protection, already much of the energy input for the pulp and paper industry is derived from its own recycled wastes; the forest-based industries are now 60 per cent self-sufficient in energy. Recent legislation on environmental norms limits the amount of high-sulphur crude which can be refined in Finland. This alone forces a change to suppliers of light crude.

36. With the shrinking of the Soviet Union as Finland's largest single export market, exports, particularly of the engineering industry, to Western Europe have been increasing. EFTA and the EC account for approximately 20 and 40 per cent respectively of Finland's exports and imports (Chart I.12). In both cases, intra-industry trade occurs particularly in chemicals and machinery. The structure of exports to the EC is less diversified than that to other EFTA countries with the EC taking a significantly larger share of forestry exports. Amongst EC members, Germany is Finland's largest source of imports and in 1990, following reunification, overtook the UK as Finland's largest export market. Amongst EFTA trading partners, Sweden continues to be Finland's largest single export market and accounts for two-thirds of Finland's EFTA imports. Finland maintains a small trade surplus with developing countries overall; Taiwan and the Republic of Korea are the leading suppliers to Finland.

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(4) Outlook

37. With the collapse in trade with the Soviet Union and reduced global demand in the metal and forest products industries, Finland has experienced a full-blown recession in 1991. For the year as a whole, manufacturing output is expected to drop between 5 and 6 per cent and GDP to fall by 2.5 per cent, the first decline since the Second World War. Unemployment may rise to an estimated 10 per cent in 1992 while inflation will subside. With the lowering of income tax rates and the economic recession, the Government will incur a deficit in 1991. Public debt is expected to double in the next few years. 27

38. Forest industry product prices are declining due to substantial growth in capacity in the paper industry in a number of countries. Recession in major export markets and lower investment in the domestic forest industry as well as rising labour costs may reduce employment in this sector by 10 per cent in 1991. 28

39. Total merchandise exports are not forecast to grow; imports are expected to contract (by 8 per cent in volume terms) once more with the result that the trade balance will move into surplus and the current account deficit will be reduced to 3.5 per cent of GDP. The rise in the value-added content of Finnish exports, decreasing their dependence on simple price competitiveness may, however, give a boost to industry later in the 1990s.

40. As the Soviet economy moves away from centralized planning and towards a more flexible trade régime, Finnish exports to this important customer will face continued competition from the West. With the changeover from a semi-barter clearing agreement to trade in hard currency, considerable uncertainty will pervade trade relations exacerbated currently by foreign exchange shortage in the Soviet Union. As European integration proceeds, Finland’s competitiveness will be crucial to sustaining export and economic growth. With the markka now pegged to the ECU, devaluation is no longer an option; wages and prices will need to bear the burden of adjustment.


II. TRADE POLICY REGIME: FRAMEWORK AND OBJECTIVES

(1) General Framework

41. After 600 years under Swedish rule, Finland was annexed to Czarist Russia in 1809 becoming an autonomous Grand Duchy. Following the October Revolution in Russia, Finland declared independence on 6 December 1917. In 1919, Finland adopted its Constitution which has remained in force ever since. The Constitution established a republican government in which the principles of the parliamentary and presidential systems are combined. The two most important constitutional laws are the Parliament Act of 1906 (amended in 1928) and the Constitution Act of 1919.

42. Like other Nordic countries, the Republic of Finland is a parliamentary democracy. The Finnish Parliament is a unicameral legislature made up of 200 members, elected every four years by direct proportional election. The political system incorporates the principle of collegiality based on the equality of all ministers.

43. Until 1988, the President was chosen every six years by an electoral college itself elected by universal suffrage. In 1988, under a new law, the President was elected for the first time by direct popular vote.

44. The President appoints a Council of State, or Cabinet, consisting of at least 12 of the 18 ministers and led by the Prime Minister. The Council of State also includes the Chancellor of Justice who is the highest guardian of the law. The President of Finland and the Council of State together form the Finnish Government.

45. The President has supreme executive powers and has the right to dissolve Parliament and order new elections. The Council of State, the highest executive and administrative body in Finland, is responsible to, and must enjoy the confidence of, Parliament.

46. The most important duty of Parliament is the preparation of legislative Acts. Parliament also takes decisions regarding the national budget and taxation, including the imposition or change of tariffs and duties. According to the Finnish Constitution, significant proposals, such as a tax reform, need at least a two-thirds majority to pass into permanent legislation. Legislation and regulations are published in the Statutes of Finland.

\[1 \text{Finland was the first European nation to grant women the vote, in 1906.}\]
47. The President participates in the legislative process by issuing decrees on a) matters previously governed by decree, b) the detailed implementation of acts of Parliament, c) the organization of administrative authorities and public institutions and d) ratifying new Acts of Parliament, which is a condition for their entering into force. The President can refuse to ratify once; if Parliament nevertheless keeps the Act unchanged it will become effective.

48. The Council of State participates in the legislative process by preparing the Bills that the President gives to Parliament and Decrees issued by the President.

49. The Council of State has three permanent Ministerial Committees: the Committee for Finance, the Committee for Foreign Affairs and the Committee for Economic Policy. These Committees are parallelled in Parliament.

50. Decisions by the President are not subject to appeal, although appeals against the legal decisions of the Council of State may be lodged in the Supreme Administrative Court.

51. For regional administration the country is divided into twelve provinces. The general administrative authority in each of the twelve provinces is the provincial board, led by a governor appointed by the President. Local administration is the responsibility of municipalities of which there are 461; local administrations collect taxes but a part of municipal income is provided as grants from the State budget. Regulations concerning local government are given in the Local Government Act (1976) prescribed by Parliament.

(2) Structure of Trade Policy Formulation

(1) Legislative and Executive branches of Government

52. The President has final responsibility for the relations of Finland with foreign powers including trade policy relations. Issues of foreign policy are discussed in the Committee for Foreign Affairs in both the Government and Parliament.

53. International treaties require parliamentary consent if they contain provisions which pertain to domestic legislation. Finland, as do other Nordic countries, follows the dualistic doctrine of law, according to which international treaties and agreements have to be incorporated into the legal order by an act of legislation. The commonly used method is enactment "in blanco". This means passing an act consisting of one article saying that the treaty appended to the act shall be in force "as agreed" and giving the date for the entry into force. At the same time, Parliament gives the President its consent to ratify the treaty. When domestic
legislation needs amendment in order to avoid conflict with international agreements, Parliament prepares a Bill to this effect.

54. GATT obligations have the status of Finnish laws, incorporated either as Acts of Parliament, when requiring parliamentary approval, or as Decrees issued by the President. As a result, there are no formal restrictions barring traders from invoking GATT rules before national courts; there have, however, been no such cases in the history of Finnish jurisprudence.

55. The Ministries most directly involved in the formulation of trade policy are the Ministry for Foreign Affairs and the Ministry of Trade and Industry. The preparation of decisions concerning foreign and trade policies is handled by the Ministry for Foreign Affairs, which is also responsible for trade negotiations. The Ministry of Trade and Industry is represented in the Committee for Foreign Affairs when appropriate, and is a regular participant in the Committee on Economic Policy. The Ministry of Trade and Industry implements trade policies and is directly responsible for trade and industrial policies involving public procurement, State-owned companies and export promotion. Under the supervision of this Ministry, the Export and Import Permits Office carries out the implementation of licensing requirements. The Ministry of Finance deals with matters relating to customs and tax legislation, anti-dumping and countervailing duties, subsidies and safeguard measures. The National Board of Customs is in charge of the taxation of imports and collection of excise duties on domestic goods and in general assists the Ministry of Finance in carrying out its customs-related duties. The Agricultural Marketing Council makes decisions concerning exports and imports of the agricultural products within its purview.

(ii) Advisory and Review Bodies

56. The Committee system occupies a central position in the work of Parliament; set up to study certain issues or act as advisory bodies in the reform or preparation of legislation, there were 385, of which 315 were permanent, committees in 1986.

57. For example, the Customs Advisory Committee is a permanent body appointed by the Council of State. The Committee is chaired by the Director General of the Board of Customs and includes civil servants representing relevant ministries and government agencies. The Committee presents proposals to the Ministry of Finance regarding import taxation, the GSP scheme, measures in cases of market disruption and other matters

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presented to it by the Ministry of Finance. Recently, several ad hoc advisory committees and working groups have been set up to monitor and advise on EEA and GATT negotiations. At a more detailed level, a committee was established to review import licensing policies and procedures.

58. One recently created advisory body is the Office of Free Competition, under the supervision of the Ministry of Trade and Industry, which as part of its mandate to promote competition has directed its efforts at the lowering or elimination of trade barriers. Ministries must submit proposed regulations for review by the Office regarding their possible restrictive effects on competition. Although the Office has no direct decision-making powers regarding foreign trade, its investigations have led to market opening actions (cf. Chapter IV). Further, it has been proposed that its governing body, the Competition Council, be given judicial status.

59. As in other market economies, continuous and informal consultation takes place between the government and organizations representing management and labour, political parties and business leaders concerning various aspects of trade policies before final decisions are made. The Government presents a report to Parliament on all its activities, including trade policy matters, on an annual basis.

60. There are no formally established bodies which regularly review Finland’s trade policies.

(3) Trade policy objectives

(i) General trade policy objectives

61. In light of its small domestic market, Finland has long recognized the strategic importance of promoting external economic relations. Removing obstacles to economic interaction including barriers to trade will serve the goal of sustained economic growth.

62. Finland has already achieved substantial regional liberalisation of trade in manufactures since its membership in EFTA and the conclusion of its free trade agreement with the European Communities. In addition, given its policy of neutrality and its close relationship with the Soviet Union, Finland, unique amongst Western countries, has further promoted trade expansion through trade liberalising agreements with former COMECON countries. Within the guidelines of its economic programme, the new Government, in power since the spring elections of 1991, plans to continue its trade and economic cooperation with the Soviet Union and will intensify its cooperation with other Nordic countries and the Baltic states.

63. At present, the priorities of Finland’s policy makers in the trade arena concern the European integration process and the multilateral Uruguay Round negotiations. In addition, following the demise of "guaranteed"
trade with the Soviet Union and the current state of its own economy, Finland is pressed to improve its international competitiveness and seeks to reduce its relative cost level. The new Government has stated that it intends to increase the contribution of the open sector to GDP while reducing the deficit on the current account. Financing of export marketing, particularly for small and medium enterprises, will be increased. The authorities also aim to lower the domestic price level and broaden the range of goods available to the consumer. Trade measures will, however, be applied with due consideration given to goals of national security policy and environmental protection.

(ii) Sectoral trade policy objectives

64. In spite of a professed ideology favouring liberal trade, certain areas remain sacrosanct for Finland. The principal one of these is agriculture, where the legislated goal of maintaining domestic farm incomes at the same level as wage-earners, and a long-standing aim of food self-sufficiency, demands restrictive trade policies. Nevertheless, strong consumer outcry and awareness on the part of the authorities, as well as the process of European integration and commitments being made in the Uruguay Round, may loosen import control. Already, the Government is shifting more of the financial burden for export subsidies on to the private sector, in particular agricultural producers.

65. In the energy field, now that oil is no longer imported exclusively from the Soviet Union, the state import monopoly accompanied by licensing has become redundant and the importation of energy products is being liberalised.

(iii) Objectives in the Uruguay Round

66. Finland coordinates its negotiating position with other Nordic countries (Iceland, Norway and Sweden) in the Uruguay Round. In Finland's view, trade liberalisation must be extended to such areas as subsidies, countervailing measures and the improvement of the functioning of the rules of the trading system. Finland has also been active as regards new areas: services, trade-related intellectual property and trade-related investment measures.

67. In negotiations on market access, Finland's offer on tariffs is assessed to reduce tariffs by one-third; in tropical products, conditional reductions, already in place since mid-1989, will reduce the average tariff level by 50 per cent.

68. As a signatory to all but one of the Tokyo Round Codes, Finland has encouraged the clarification of rules embodied in the Codes and in all negotiating areas seeks to strengthen GATT rules and disciplines and to promote greater transparency through regular notifications.

69. In the negotiations on agriculture, the Nordic countries have been extremely active in the Working Group on Sanitary and Phytosanitary Measures lobbying for greater international harmonisation and acceptance of test results. In terms of reducing Government support to the sector, the Finnish Government has proposed to cut export subsidies by 60 per cent from the 1986 level by 1996. Such cuts are estimated to reduce production of major commodities by less than 10 per cent. Finland's offer submitted in September of 1990 includes freezing total support at 1986 levels. The Nordic countries, given their relatively high rates of inflation, have argued that reduction targets must be quantified in real rather than nominal terms and that ceilings on overall support be sector-wide and not product-specific. Furthermore, regional subsidies and other measures to achieve non-trade objectives are considered outside the scope of negotiable measures of support.

70. In the course of the current trade negotiations, Finland has joined those contracting parties requesting a new mandate for the GATT Working Group on Environmental Measures and International Trade which was established in 1971 at the behest of EFTA countries.

(4) Trade laws and regulations

71. Finland's principal trade legislation is incorporated in the Law on Safeguarding (Protecting) Foreign Trade and Economic Growth, (157/74), the Customs Act, the Customs Taxation Act, the Act on Protection from Dumping and Subsidized Imports and numerous Decisions and Decrees which have been issued over time to implement trade laws. Amendments to legislation will undoubtedly be required in the course of European integration and the coming into force of the EEA treaty.

72. The Act on Safeguarding Foreign Trade and Economic Growth allows under certain conditions, the imposition of restrictions on imports and exports, the raising of customs tariffs from "concessional" levels, i.e. duties applied under free-trade agreements can be raised to the m.f.n. level, or the collection of other special taxes. The subsidiary Decree on Quantitative Restrictions on the Foreign Trade of the Country (1301/89 as

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4 Finland has not signed the Agreement on Trade in Civil Aircraft.

5 GATT Secretariat estimates.
amended in 1990) specifies the products subject to import licensing; products cannot be removed from or introduced to the licensing system without legislative approval. Article 4 of the Act allows for a "countervailing fee" when border prices of inputs in the exporting country are lower than in Finland. This Article has never been invoked, however.

73. GATT obligations have been incorporated into domestic legislation. In general, this required only the issuing of a Presidential Decree since the existing legislation was sufficient to implement the GATT rules and obligations. However, the Protocol of Accession to the GATT and the adherence to the Anti-Dumping Code, the Standards Code and the International Dairy Arrangement required parliamentary approval and have the status of Acts in the Finnish legislation.

74. The Act on the Protection from Dumping and Subsidized Imports (375/68) was revised in accordance with the provisions of the Tokyo Round codes in 1980. In 1986, a supplementary Article 6a (implementing Article 15 of the "Subsidies" Code) was added to the Act setting out alternative means of determining the normal value of a product (if it cannot be ascertained in the exporting country) by using a country of comparison.

75. Finland's Customs Valuation Act (906/80) came into effect on 1 January 1980. The Tokyo Round Agreement on the Implementation of Article VII (the Customs "Valuation" Code) was adopted through presidential decree (1102/80) and became part of domestic legislation.

76. Domestic legislation covering government procurement is contained in the Decree on Government Procurement (1070/79). Public enterprises are, however, governed by the Act on Public Enterprises; the State Railways, the State Computer Centre and Post and Telecommunications have their own non-discriminatory procurement practices. The Tokyo Round Agreement on Government Procurement was incorporated in the national legislation by Decree 1103/80. The amendment to the Agreement reducing the threshold value was incorporated into domestic legislation (120/88) on 15 February 1988. Further amendments to the Decision 1071/79 were made effective 1 September 1989 (708/89) concerning provisions on negotiated and

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6 GATT, L/5640/Add.6/Rev.2, 8 November 1990. Since 1972, all contracting parties have been invited to notify information on their licensing systems annually. Finland is also one of 27 signatories to the Agreement on Import Licensing.

7 See GATT document, ADP/1/Add.5, 24 March 1980.

8 See GATT document, ADP/Add.5/Suppl.2, 10 September 1986.
direct procurement in order to harmonize with the Nordic trade law of 1987.

77. The import, and often export, of products which represent a potential health or safety hazard are regulated by a number of Acts. New or revised regulations concerning technical, health and safety standards, which will directly or indirectly affect trade, are issued regularly and published in the Statutes of Finland. Such standards are regularly notified to the GATT Committee on Technical Barriers to Trade.

78. General competition legislation and policy, which emphasized publicity and registration, have been on the statutes in Finland since 1957. The underlying principle of Nordic legislation has concerned "abuse" of market dominance rather than outright prohibition. The Nordic view recognises that market dominance may be the result of superior performance and/or technological conditions (e.g. natural monopolies). It therefore permits market dominance but prohibits its abuse by monopolistic pricing and other anti-competitive behaviour.

79. In the last few years, Finland's competition legislation has been reformed and policies have been strengthened, particularly in light of current international trade negotiations. On 1 October 1988, the 1973 Law on Promotion of Economic Competition was replaced by a new Act on Restrictive Business Practices (709/88) which constituted a clear step away from regulation towards effective competition. The coverage of the Act was broadened to apply to banking, insurance and farming, but excluding the basic agricultural products governed by the target price system and excluding incomes policy agreements.

80. The Council of State may decide that the Act be applied to "a restraint of competition concerning foreign countries, if it is stipulated in an agreement concluded with a foreign State, or if it is otherwise in the interest of Finnish foreign trade". The main objectives of present competition policy include to secure free market entry for potential competitors, whether domestic or foreign and to promote free trade and free access by foreign investment.

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9 GATT document, GPR/14/Add.18, 31 October 1989.

10 Competition rules are an area of EEA negotiations. Article 15 of the EFTA Convention prohibits agreements and forms of cooperation between companies as a result of which the advantages of free trade are nullified. It also prohibits the misuse of dominant market positions. According to the Government, Finland's strengthened rules on competition are more liberal than those of the EC (Report to Parliament, pp. 30-31).
81. The Act prohibits collusive bidding and resale price maintenance and defines the terms of market dominance and its abuse. Finnish law does not actually limit mergers or acquisitions, nor are companies intending to merge required to notify their acquisitions after the fact. A dominant firm is one that is able to affect the price level or conditions of delivery of a commodity. Predatory pricing and refusal to negotiate are examples of abuse of a dominant market position. Although import cartels are considered "inherently harmful" by the Finnish authorities, cartels in general are not specifically outlawed (although their prohibition is an eventual possibility). Companies may not be directly fined if found guilty of enforcing a price cartel. Like previous legislation, the current Act requires that any arrangements restricting business or affecting prices be notified to the Office of Free Competition.

82. Upon introduction of this new legislation, the Office of Free Competition, subordinate to the Ministry of Trade and Industry, replaced parts of the National Board of Trade and Consumer Affairs and the Office of the Competition Ombudsman as the competition authority. The Act on the Office of Free Competition gives the Office general powers to promote competition. One of its main aims is to remove entry barriers caused by regulation and import protection in particular.

83. The Office of Free Competition receives notification of regulations, practices or arrangements which may restrict competition. If the Office of Free Competition deems a restrictive practice to have detrimental effects it first takes recourse to negotiations with the parties concerned or refers the matter to the Competition Council. So far only one case has had to be taken up by the Council. The Competition Council, has under the new Act, been authorised to set maximum or minimum prices, for not more than six months, if pricing behaviour of a dominant firm is considered unreasonable.

84. On 24 November 1989, the Government launched an action programme on promoting competition. In May 1990, a Working Group was set up to draft

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12 The office investigates and monitors competitive conditions on various sectors and thus acquires information on restrictive practices. It also receives petitions for intervention and investigation.

13 A price list set by the electrical wholesalers' organization.

14 The elements of the action programme included:

(1) gradual deregulation;
(2) taking competition policy into consideration in trade policy;
(3) the removal of unnecessary public barriers to competition and restrictive practices of companies;

(Footnote Continued)
a proposal on reforming Finnish competition legislation. The Working Group proposed that horizontal agreements on prices or market division, as well as boycotts, be prohibited. Furthermore, it suggested that exclusive selling or purchasing agreements by a dominant firm be regarded as abuse of market dominance and heavy administrative fines (which follows EC practices) should be introduced. The proposal is now before Parliament.

(5) Trade Agreements and Arrangements

(i) Multilateral agreements

85. Finland joined the GATT in 1950. Following the Tokyo Round, Finland became a signatory to all the MTN Agreements and Arrangements except for the Arrangement on Trade in Civil Aircraft.

86. Finland is a member of a number of international commodity agreements.

87. Finland became a member of the Organization For Economic Cooperation and Development (OECD) on 28 January 1969.

(ii) Regional agreements

(a) EFTA

88. Finland became an associate member of the European Free Trade Association (EFTA) in 1961 and a full member in 1986.

89. The treaty governing the activities of the Association is known as the "Stockholm Convention". The Convention provided a framework for the creation of a free trade area in industrial goods and laid down a series of obligations for that purpose. These included timetables for the reduction of tariffs to zero, the abolition of quantitative restrictions on trade and provisions to ensure that trade between the members took place in conditions of fair competition and access to supply of raw materials. Trade in agriculture between EFTA countries has generally been excluded

(Footnote Continued)

(4) keeping consumers better informed about prices. Two elements of this programme should be mentioned. The programme requested Ministries to produce surveys of regulations restricting entry and to obtain the Office of Free Competition's opinion prior to issuing any rule or regulation which might restrict competition. As affects trade policy, the programme stated that policy-making and negotiations must take into account the goal of more efficient competition. Specifically, reference was made to changes in the criteria for determining export subsidies on foodstuffs and import licensing.

15 e.g. on sugar, coffee, cocoa and wheat.
from the free trade arrangements, however trade in fish and fish products was liberalized on 1 July 1990.

90. The Stockholm Convention states that Member States shall not maintain or introduce trade distorting measures such as direct export subsidies, export-related tax concessions, subsidized export credit guarantees and credits, and, in general, any aid which has the main purpose or effect of being a substitute for tariffs or quantitative restrictions on trade between Member States.

91. Under the Association Agreement, Finland was allowed to adopt a slower pace of tariff reductions on some goods as well as maintain quantitative restrictions on a limited number of goods, mainly petroleum products. In point of fact, Finland accelerated the pace of its tariff reductions and had eliminated duties on industrial imports by the end of 1967, two years ahead of schedule.

(b) **The Nordic Council**

92. The creation of EFTA effectively precluded the establishment of a Nordic common market. However, the Nordic Council of Ministers, which Finland joined in 1955, is an inter-governmental body for Nordic cooperation on economic and political issues. Between the Nordic countries, there is a common passport union and free movement of labour.

(c) **Finland-EEC**

93. The Free Trade Agreement between Finland and the EEC and the Finland-ECSC Agreement entered into force on 1 January 1974. Joint Committees, meeting twice a year, were established to administer the implementation of the Agreements and to act as a forum for information and consultation procedures.

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16 Fish and marine products have been covered by the Convention since 1 July 1990, with certain transitional arrangements being applied until 31 December 1993. (See GATT (1990), Trade Policy Review - Sweden, Geneva).


94. According to the FTA, as in other bilateral agreements between EFTA members and the Community, tariffs were to be reduced in equal cuts of 20 per cent over a four and a half year period. The agreement between Finland and the EEC contains a Protocol listing certain fuels and fertilizers for which Finland may retain quantitative restrictions. Finland did not include, as did the other EFTA countries, an "evolutionary clause" to widen the scope of the agreement to other areas. The accession of Spain and Portugal to the European Communities on 1 January 1986 necessitated transitional measures; tariffs, tariff quotas and quantitative restrictions were to be dismantled over the course of seven years. In the case of certain textile products originating from Portugal, a temporary system of administrative cooperation, including a consultation clause, similar to the Protocol agreed in Portugal's Act of Accession to the Community, was adopted.

(d) Finland-ECSC

95. The European Coal and Steel Community creates a common market in coal, iron and steel products. In addition to the gradual removal of duties and quantitative restrictions, Finland, like other EFTA countries except Switzerland, decided to apply the ECSC provisions on prices and transport rates, according to Article 20 of the ECSC Treaty, to iron and steel products. In a bilateral agreement which entered into force on 1 January 1975, these provisions were extended to trade on the same products between Sweden and Finland. The Agreement permits Finland to retain quantitative restrictions on coal and solid fuels manufactured from coal, as well as coke and semi-coke of lignite or peat. Apart from these and the quantitative restrictions on imports of fuels and fertilizers into Finland, since 1 January 1985 customs duties and quantitative restrictions have been eliminated on trade in industrial goods between Finland and the EC.

(e) European Economic Area

96. On 9 April 1984, the EC and EFTA issued the Luxembourg Declaration which laid down the joint goal of creating a dynamic European economic area. According to the blueprint for European integration, the European

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20 EFTA (1976), op. cit., p. 82.
21 These are set forth under the terms of Protocol 5 to the EEC-Finland Agreement and Protocol 1 of the ECSC-Finland Agreement.
Economic Area will unite EFTA and EEC countries in an agreement to ensure free movement of industrial goods, capital, services and labour.

97. Since the start of discussions and negotiations on European economic integration, various agreements have been concluded between EFTA and the EC. Customs procedures have been simplified by the introduction of a uniform customs document and standardized procedures for transit goods in 1988. Other areas of trade liberalization between EFTA and the EC have included the elimination of quantitative export restrictions except for iron and steel products and an agreement to allow for the exchange of notifications concerning technical regulations and the reciprocal recognition of inspection results.

98. Negotiations on the European Economic Area were officially launched on 20 June 1990. The EFTA countries agreed that the objectives could best be achieved by taking EC legislation and the prevailing interpretation of it as the legal basis for the EEA. Ministers decided in principle to create an independent court for EEA issues, comprising five judges from the European Court of Justice and three judges to be nominated by the EFTA countries. The EFTA members declared their readiness to introduce into their national legislation provisions securing that, in the event of disputes, EEA rules prevail over national law.

99. From the start, the Finnish Government's goal has been to support cooperation within the EFTA framework. However, Finland is currently involved in a political debate regarding its application for EEC membership. The Government invited representatives of all political parties in Parliament into the consultative committee on integration matters and all the main organizations and interest groups are involved.

100. One of the Government's main goals is the creation of uniform competitive conditions. This implies giving up the application of anti-dumping rules on trade within the EEA and harmonizing regulations on State aid affecting the competitive position of companies. Finland wants to proceed in its currency deregulation at its own pace and to retain restrictions on foreign ownership.

101. In Finland's view, technical barriers still remain an important obstacle to trade. As stated by the Minister for Foreign Trade in an

23 "Finland and the Western European Integration Process" (1988), Report to Parliament by the Council of State Concerning Finland's Attitude Towards the Western European Economic Integration Process, 1 November 1988.

address to Parliament on the integration process, "regulations are often so
different that separate versions of the same product have to be made for
different countries. This, with the fact that the product has to be
inspected separately in each country, naturally raises the price."

102. The EEA arrangement calls for the acceptance of three basic
principles:

- essential safety requirements must be harmonised;
- in the case of unharmonized regulations, national regulations
  must be recognized;
- test results must be mutually accepted between countries.

The principle of mutual recognition of national regulations need not
however be followed when an exception is justified to protect human health
or safety.

103. The EEA Treaty was finalized on 23 October 1991, and is expected to
enter into force on 1 January 1993 at the same time that the Communities
completes its Internal Market process.

(iii) Bilateral agreements

104. The trade agreement concluded on 1 December 1947 between Finland and
the USSR established most-favoured-nation treatment between the two
countries. The customs agreement of 24 November 1960 granted duty-free
entry to goods originating in the Soviet Union.

105. For forty years, Finland had a special trading relationship with the
USSR under a bilateral trade and payments agreement whereby the two
countries' exports and imports were meant to balance through a clearing
account over five-year periods. The clearing currency was the Soviet
rouble and the value or volume of commodities to be exchanged was fixed
annually by protocol.

106. Exports to the USSR had to be of essentially Finnish manufacture.
During 1956-65, the Soviet Union paid annually a certain amount of
convertible currencies to Finland in compensation for the components and
raw materials included in Finnish exports to the Soviet Union which had
been purchased with convertible currencies.

25 Information supplied by the Bank of Finland, Bilateral Trade Department.

26 Holopainen, Kari, (1983) "The System of Payment between Finland and the Soviet
Union", in Mottola, K. (ed.) Finnish-Soviet Economic Relations, The Finnish Institute of
International Affairs.
107. Frontier or border trade, which comprises all of Finland and 19 provinces of the Federation of Russia, the Baltic States and certain autonomous republics, has been of the barter type. Such frontier trade, however, accounted for only 2 to 3 per cent of trade between Finland and the USSR.

108. The current bilateral agreement, signed in October 1989, extends from 1991 through 1995. In contrast to the past, primarily at the request of the Soviet Union, payments will be made in convertible currencies. Already in 1989, however, a fifth of exports, mainly food industry exports, to the Soviet Union had been paid for in convertible currencies obtained from oil exports.

109. Even prior to the changeover to trade in convertible currencies, various amendments were made to the trade and payments arrangements in light of the uncertain state of the Soviet economy. In 1988, the two Governments signed a protocol concerning amendments to the framework agreement for 1986-1990. Exports could no longer be restricted unilaterally in case of payments imbalance. Provisions were included to afford protection from changes in the external value of the rouble and the use of export credits was introduced. As a result the number of export guarantees on exports to the Soviet Union rose rapidly and accounted for a significant percentage of total exposure (See Chapter IV). In November 1990, the Finnish Guarantee Board stopped issuing export guarantees on credits to the Soviet Union. Balances on the clearing account were no longer allowed to accumulate. The agreement was amended so that, from 1990, once the outstanding balance exceeded RUB 200 million, the debtor was obliged to pay off the excess each quarter in convertible currencies and pay interest on the excess above RUB 100 million. However, the Soviet Union has accumulated arrears of FIM 1 billion and total claims of Finland on the Soviet Union amount to FIM 7 billion.

110. The clearing system was abolished on June 30, 1991, through a closing account designed for payments for 1990 trade. Under the new agreement, quantities or values of deliveries are not included in the agreement and commodity lists are merely indicative.

111. Export licensing and local content requirements for exports to the USSR were terminated at the beginning of 1991, although export control declaration continues to be applied. Licensing governing fuel imports was liberalized on 1 July 1991. A new provision on market disturbances and prohibiting dumping was introduced.

112. Negotiations on a trade liberalization agreement began in the fall of 1990 aiming to maintain the exemption from customs duties when an effective customs tariff comes into force in the USSR.

113. Between 1974 and 1978, Finland concluded bilateral trade agreements with various other CMEA countries: Hungary, East Germany, Bulgaria, Czechoslovakia and Poland. Their objective was the reciprocal removal of trade obstacles with internal measures being taken by countries without a tariff régime. Since 1 January 1985, trade in industrial goods among the partners has been exempt from customs duties. The clearing arrangements have all been dismantled during the 1980s.

(iv) Other agreements or arrangements

114. In 1972 Finland adopted a system of customs preferences within the guidelines of the Generalized System of Preferences. Goods included in the product coverage of the Scheme are imported free of import duties and import levies. No import quotas, ceilings or quantitative restrictions are applied.

115. Provision has been made for a safeguard clause under which GSP treatment may be suspended for one year for a product the imports of which cause or threaten to cause serious injury to domestic industry. Such a clause was put into practice from 1 November 1985 to 31 October 1986 suspending GSP treatment for tents.

116. In 1982, the decision was taken to extend the application of the Scheme for another ten years and to carry out an annual review.

117. In the early 1980s, by tariff line (4-digit CCCN), 30 per cent of agricultural products were included in the GSP Scheme and 58 per cent of industrial products. Since then, the product and country coverage has been expanded although no calculations have been made for the number of tariff lines eligible for GSP treatment. The details of the GSP scheme are included in the Finnish Customs Tariff, Annex 2. List 2 gives the agricultural products eligible for GSP treatment. A narrow range of industrial products excluded from GSP treatment are listed in List 3; certain goods originating in Hong Kong or Macau are excluded from GSP treatment.

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28 The original Decree No. 974/71 was amended by Decree 1064/88 and 534/89.
118. Originally, the number of beneficiaries was 92 subsequently expanded to 135, as of 1989, and to 138 in 1990. However, only 88 countries have notified the Finnish Board of Customs of the names of the authorities empowered to issue GSP certificates of origin which is the condition for affording GSP treatment to products of the beneficiary country. The number of least developed countries eligible has also increased and products of special interest to these exporters have been added.

119. In the context of negotiations on tropical products, certain rubber products have been eliminated from the list of products not eligible for GSP treatment.

120. In the 1980s, Finland concluded more than a dozen bilateral arrangements on economic and technical cooperation with developing countries.

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III. TRADE-RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

121. Finland's exchange policy is guided by the Foreign Exchange Act, renewed at the beginning of 1991 and in force until the end of 1993. Under the Act, the Council of State has the power to define the basis for setting the exchange rate and any fluctuation limits. The Bank of Finland, the central bank, is responsible for maintaining the currency within any limits defined by the Government. Since 1 January 1991, virtually all foreign exchange transactions have been free from restrictions (see Figure III.1 for the principal changes which have taken place in Finland's foreign exchange and investment regulations since 1982).

(1) Exchange Rate Policy and Trade

122. Already in the early Seventies, Finland adopted a basket pegging system and was among the first countries to define the exchange rate régime in terms of a currency index. In 1977, an amendment to the Foreign Exchange Act formalized this practice and pegged the external value of the markka to a trade-weighted basket of currencies. At that time, the Soviet rouble accounted for 20.3 per cent of the index.

123. On 1 January, 1984, the Soviet rouble was removed from the index. In recent years the Swedish krona and the German mark have carried the heaviest weights. In November 1988, in order to add flexibility to monetary policy, the fluctuation band of the currency index was widened from 4.5 to 6 per cent without changing the mean value.

124. Like those of its Scandinavian neighbours, Finland's exchange rate policy was, until the early 1980s, designed to ensure the external cost competitiveness of domestic production. Thus, until 1982, Finland's policy-makers pursued a path of export orientation supported by devaluations against the United States' dollar and, subsequently, against the basket. Since then, nominal exchange rate stability has become the central policy objective, with monetary and other macro-economic policies adjusting to maintain the targeted exchange rate.

125. Following in the footsteps of its neighbours, Sweden and Norway, Finland pegged the markka to the ECU, the currency unit of the EC member countries, on 7 June 1991. This alignment was again carried out without changing the external value of the markka or its fluctuation range. Around

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1 The Bank of Finland has ultimate authority over all transactions involving foreign exchange. In practice, the central bank delegates operational authority to the authorized commercial banks.

2 Index weights were adjusted quarterly based on the average trade shares over the previous two years.
85 per cent of the currency basket against which the markka had previously been valued was already composed of currencies included in, or linked to, the ECU (Table III.1).

126. There were only small variations in the real effective exchange rate (REER) between 1985 and 1988. (Chart III.1) As the terms of trade improved with higher world prices for leading exports, upward pressure was exerted on the real exchange rate. High interest rates, maintained to curb inflation and dampen domestic demand in the late Eighties, together with the liberalization of Finland’s exchange controls, also increased the attractiveness of the markka and led to considerable capital inflows, particularly of portfolio investment and into the banks. Restrictive monetary policy could not sufficiently counteract overheating of the economy; in March 1989, in an unorthodox stabilisation move, the currency band was shifted downwards. Interest rates rose further and the markka appreciated by about 4 per cent in the ensuing months.

Chart III.1
Effective exchange rates of the Finnish markka, 1985-1990

127. The price competitiveness of Finland’s manufactured exports, measured in terms of relative unit labour costs, has been declining since 1979, and particularly rapidly since 1987. The 1989 revaluation, predictably, further exacerbated this trend. At the same time, excess global capacity for forest products began to develop, while Finland’s exports to the Soviet Union began to decline. The volume of “cheaper” imports continued to grow in 1989. In 1990 the markka continued to appreciate as domestic
interest rates were kept high and the volume of imports fell as the Finnish economy ground to a halt. While sectors of industry clamoured for a devaluation to promote export competitiveness, the Government chose to pursue an anti-inflationary policy. Devaluation, it was said, would have raised the cost of imported inputs as well as the servicing of the growing external debt.

128. With full capital mobility, market forces exert a dominant influence on domestic interest rates. With the pegging of the markka to the ECU, interest rates fell immediately by 2 per cent. In maintaining a pegged exchange rate, the central target for monetary policy becomes price stability. The targeted domestic inflation rate will be the average rate of inflation in the countries whose currencies are included in the currency index. Hence, linking to the ECU is intended to control inflationary pressures and to pave the way to further economic adjustment in the context of European integration.

(2) Foreign Direct Investment and Trade

129. Along with the relaxation of foreign exchange regulations over the 1980s has come liberalization of Finland's capital markets and foreign direct and portfolio investments. Except for some restrictions remaining on transactions by private individuals, capital markets have been substantially liberalized over a short period of time. As a consequence, foreign borrowing has escalated. This has been aided by the fact that interest rates in Finland have been higher than international rates. Direct investment, both inward and outward, has grown rapidly.

(a) Inward investment

130. The major piece of legislation governing foreign investment in Finland is the 1939 Restriction Act on the right of foreigners and certain foreign entities to own real property or shares. Although this Act has not been rescinded, numerous amendments have been made and revision of the law is in progress.

131. The Commission for Foreign Investments, a permanent body of the Ministry of Trade and Industry, serves as an advisory body for all inward

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3 Inflation in EC countries, notably Germany, has been lower than that in Sweden and Norway whose currencies were previously in the basket.

4 Foreign borrowing by individual and certain corporate entities (notably housing and real estate companies) is still subject to authorization by the Bank of Finland. Limits on foreign ownership of voting shares in publicly traded Finnish companies are still in effect, although the new Government intends to do away with these.
foreign investments. It screens applications on a case-by-case basis. In recent years, all requests have been granted.

132. Until November 1989, foreign ownership of share capital of publicly traded Finnish companies without authorization, was limited under the Act to 20 per cent. With authorization from the Commission, this limit could be raised to 40 per cent through the issuance of "restricted" (non-voting) shares. Foreign investment in natural resource sectors, i.e. the forestry and mining industries, and in certain traditionally regulated activities (railways, airlines, postal and telegraph services and trade in alcoholic beverages) was not permitted. The Government declared in November 1989 that foreign investment in Finnish companies could be approved up to 100 per cent of share capital, as long as the investment was not against a substantial national interest. In practice, now, foreign ownership of Finnish companies may rise to 100 per cent even in the forest industry but purchases of real property and forest lands are still excluded without approval from the Council of State.

(b) Outward investment

133. Internationalisation of production - a main feature of global structural change for some time - is a major factor associated with the growth of Finnish enterprises. To a small economy with large-scale manufacturing industries, the advantages of establishment abroad are obvious. Deregulation of financial markets and the prospect of European integration have accelerated the pace of Finnish industrial internationalization since the mid-1980s. In the years 1984-89, foreign direct investment by Finnish companies has grown by 40 per cent per annum. By 1990, the outward direct investment flow already amounted to FIM 13 billion, some 12 per cent of merchandise exports or 2.5 per cent of GDP.

134. At the end of 1989, the stock of direct investment in Finnish-owned foreign assets was valued at FIM 28.6 billion. Of this, FIM 16.7 billion was manufacturing investment and FIM 7.7 billion investment in the finance and insurance sector. More importantly, the ratio of foreign direct

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5 Overseas Business Report, Marketing In Finland, 1989, p. 29.
investment to industrial value added has risen from 2 per cent in 1984 to 6.8 per cent in 1989. Nevertheless, the ratio of foreign outward investment to GDP remains lower than in most other European countries.

Overseas sales of Finnish-owned manufacturing firms amounted to some FIM 70 billion in 1989.

Metals and engineering account for nearly 40 per cent of Finnish industrial assets abroad followed by the forest and paper industry and chemicals. (See Chart III.2) International sales of Finnish metal and engineering companies abroad rose from FIM 3 billion in 1981 to FIM 34 billion in 1989. Foreign investment by this industry has substantially outpaced the rate of domestic investment and sales by foreign subsidiaries approximate the value of exports of this industry. Most of the growth in foreign investment has taken place in the mechanical and electrical engineering branches.

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10 ETLA, op. cit., p. 59.
11 Ibid.
13 ETLA, op. cit., p. 61.
136. The growth in chemical sales by foreign subsidiaries has been even more dramatic than the engineering sector, rising from less than FIM 1 billion in 1981 to FIM 18 billion in 1989, twice the value of exports of chemicals. A similar though slower trend is evident in the paper industry: between 1980 and 1990, Finnish-owned paper and paperboard capacity located abroad rose from 11 to 26 per cent.

137. Two salient features of Finnish foreign direct investment should be mentioned. First, in line with Finland's overall industrial concentration, the ten largest firms account for almost 80 per cent of the total stock of foreign investment. Second, foreign investment has been mainly in the form of horizontal integration, through acquisitions whereby additional market share was acquired. There has been very little backwards integration, so the impact on Finnish imports has been minimal. However, there is a considerable amount of intra-industry trade in the form of exports from Finland to Finnish subsidiaries. Some 10 per cent of the value of exports

\[\text{Source: Official information.}\]


15 Government of Finland.
by companies with international operations consists of exports to their own manufacturing units abroad. Clearly, when taking foreign subsidiaries' sales into account, the outward orientation of the Finnish economy has increased far more than trade statistics demonstrate.

138. Inward investment has been of much lesser significance and has been concentrated on trade rather than in manufacturing. (see Chart III.3) In the manufacturing industries, the stock of foreign investment is highest in the metals and engineering industry, particularly now that the shipyards are partly foreign-owned.

139. While EC countries have been the principal destination of Finnish overseas investment, they only overtook EFTA in 1987; EFTA countries, primarily Sweden, remain the major sources of foreign investment in Finland.

Chart III.3
Foreign-owned companies stock of investment in Finland, 1989

Total foreign direct investment in Finland: FIM 16.2 billion

Source: Government of Finland.

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16 Bank of Finland, April 1991, op. cit.
Annex III.1
Principal changes in foreign exchange and investment regulations

1982: Foreign banks granted the right to operate in Finland by establishing a subsidiary registered in Finland. They could accept only corporate accounts (no individual accounts), and needed a license issued by the Bank of Finland to engage in foreign exchange activities.

1983: Forward transactions in foreign currencies by Finnish residents permitted; Finnish enterprises allowed to conclude futures contracts or financial futures markets.

1984: Credit card use allowed for purchases abroad, within limits.

1985: Domestic banks allowed to set up branches abroad.

1986: Dividend remittances from non-resident direct investment in Finland permitted without authorization. Banks permitted to conclude currency and interest rate option contracts in foreign currencies. Forward currency market operations expanded. Sale abroad of Finnish bonds and debentures prohibited.

Residents permitted to invest in foreign securities and maintain bank balances abroad.

The penalty surcharge applied to short-term import credits is abolished.

1987: Banks and exporters permitted to use and raise foreign credits to finance long-term export receivables. Restrictions on sale of Finnish bonds and debentures eased. Manufacturing and shipping companies allowed to raise foreign credits with at least five years' maturity.

Non-resident rights to own shares in Finnish companies may be increased, upon authorization, to 40 per cent of share capital.

Foreign loans with a minimum five-year maturity authorized for all enterprises except in the financial, insurance, housing and real estate sectors.

Ceiling for purchases of foreign securities by Finnish citizens and corporations raised from FIM 50,000 to FIM 300,000.


Foreign direct investment in the financial and insurance sectors permitted.

Minimum maturity of foreign loans reduced from five years to one year.

Foreign direct investment freed from the advance authorization procedure.

Suppliers' credits and prepayments of imports were fully exempted from authorization by the Bank of Finland.

1990: Non-residents allowed to issue markka-denominated bonds in Finland.

Newly issued markka-denominated bonds with minimum one-year maturity may be sold abroad with the exception of bonds issued by housing and real estate companies.

Bank of Finland ends application of import deposit system on short-term foreign corporate financing.

Private persons, housing and real estate companies allowed to grant loans of minimum one year maturity to non-residents and to invest overseas.

Financial institutions, in addition to deposit banks, and local government authorities allowed to make foreign loans, grant loans of over one-year's maturity to non-residents and raise foreign loans of over one-year's maturity for financing their own operations.

1991: All remaining foreign exchange regulations, except those regarding the raising of loans abroad by private individuals and comparable corporate entities (housing and real estate companies) are rescinded.

The payments arrangements for trade with the USSR are changed to settlement in convertible currencies. The clearing rouble is quoted for the last time on January 31.
IV. TRADE POLICIES AND PRACTICES BY MEASURE

(1) Overview

140. Finland's average unweighted m.f.n. tariff level, at 7.8 per cent, is slightly higher than other Western European countries. 30 per cent of imports are duty free on an m.f.n. basis. In addition, since Finland participates in a number of free trade agreements, in practice, over 80 per cent of imports enter duty-free due to regional and bilateral preferences. The use of tariff concessions on "industrial" imports further reduces the amount of duty actually collected. Hence, it is no surprise that customs duties per se provide just 1.1 per cent of State revenues.

141. Tariff peaks occur in agricultural products, textiles and clothing. Tariff escalation is also evident in chemicals, rubber and clothing. Duties on fresh produce, mainly fruits and vegetables, vary considerably depending on the season of importation, curbing imports in the local harvest period. The use of specific and compound duties, applied particularly to food and beverages, obscures transparency and raises the level of tariffs. Industrial duty concessions, which reduce or eliminate the duty on inputs to various processing industries, increase the effective rate of protection to leading Finnish industries.

142. Other major price-related measures include variable import levies on agricultural products and an import equalization tax. Imported and domestically produced goods bear turnover tax. Excise duties and motor vehicle taxes are also levied equally on specific products whether produced at home or abroad. Export-oriented industries are favoured with exemption from some or all of these indirect taxes.

143. Import licensing applies to most agricultural products. Import and export licensing to administer bilateral trade with the Soviet Union was abolished at the beginning of 1991. However, in agriculture, quantitative restrictions are more indicative than real and variable levies act as the effective restraint. State-trading companies control the import of grains and alcohol.

144. On 1 July 1990, a number of agricultural imports were liberalized covering certain varieties of fish, several fruits both fresh and processed

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1988 Tariff Study data; according to earlier Trade Policy Reports other simple average tariffs were as follows: Sweden: 4.7; Norway: 5.7; EC: 7.3 per cent.
and some fresh and processed vegetables, some continuing to have seasonal limitations.

145. Finland has used anti-dumping duties sparingly. Where investigations have been pursued, price undertakings are the more usual solution. Only one safeguard action has been taken in the last decade although "basic" prices act as market signals. In the area of technical standards and health and safety regulations, Finland is in the process of harmonizing regulations or adopting mutual recognition of standards and test results with most of its trading partners.

146. An open market economy practising principles of fair trade, all else being equal, will enhance its resource allocation and maximize the welfare of its citizens. Yet a liberal trade régime is not in itself sufficient to ensure economic health, but must be accompanied by appropriate domestic policies in order to remain internationally competitive and maintain its standard of living. In this connection, Government aid can, by affecting relative prices, contribute to distorting the allocation of resources in the economy in favour of certain sectors and may even erode the advantages of a liberal trade régime.

147. The particular attributes of the Finnish economy include a small and very slowly growing population, low population density, a fragile ecosystem, considerable distance from the markets of its major trading partners and a high level of concentration in its industrial structure and distribution and marketing networks. Distance between internal and external markets raises transport costs, while stringent environmental regulations and a cold climate are additional factors which raise the cost of doing business. Furthermore, there exist large regional disparities in terms of climate, population density, industrial development and, hence, income and employment opportunities.

148. Regionally differentiated policies thus play an important rôle in Finland's overall economic development. Regional aid is the largest component of State assistance to industry. Labour market policy also aims to reduce regional disparities in levels of unemployment. In addition, a major objective of agricultural policy is to maintain the wide distribution of the rural population. Some agricultural subsidies are therefore paid on a regionally differentiated basis.

149. With a small population but a highly educated labour force, Finland is in a position to emphasize research and skill-intensive production

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activities. It has therefore focused increased attention on research and technology policy.

150. Since Finland's domestic market is small, its resource base narrow, and its major industries capital-intensive, market concentration has, to a certain extent, been inevitable. However, the predominance of State-owned industries in many major sectors, together with a high degree of concentration in distributive trade, has led to considerable costs in terms of cartelization. With pressure from consumer groups, the Finnish Government has begun to react to the effects of market dominance and entry barriers on competitive forces and price structures, factors which not only distort the structure of production but ultimately affect its international competitiveness.

(2) Measures Directly Affecting Imports

(i) Registration

151. Certain classes of traders (forwarding agents, transporters with their own Customs agency, and large trading or other companies) are classed as "registered persons" with the Finnish Customs service. These enterprises, totalling over 2,000, account for 90 per cent of imports into Finland. "Registered persons" benefit from advantages in customs clearance and duty payment (see Section (ii) (j) below).

(ii) Tariffs

(a) Form of tariffs

152. Finland has applied the Harmonized System of tariff classification since 1 January 1988. Twenty-nine per cent of tariff lines receive duty-free treatment. Of the dutiable 71 per cent, 57 per cent are subject to ad valorem rates. Specific or alternate duties are applied to many agricultural and certain other products. Duties on agricultural and food products may vary on a seasonal basis.

153. For specific duties, the net (metric) weight of the goods, is used. Products subject to specific duties include a large number of alcoholic beverages, tobacco, plants, sugar and assorted other goods ranging from matches to dolls. (The incidence of specific duties by Tariff Study Category is shown in Table AV.2-18)

\[3\] In some cases, for example potted plants, however, the packaging is included in the dutiable weight.
154. Alternate (or mixed) duties are levied on a wide variety of agricultural goods, flowers, tobacco, textiles and clothing. In the case of alternate rates, the higher of the ad valorem or the specific rate is applied.

155. Seasonal tariffs on fruits and vegetables show extremely high fluctuations. For example, the tariff on apples is as low as 6 per cent in the shortest winter months but rises to 50 per cent during the local harvesting season. The effect on trade is that during the summer and autumn months imports of apples are less than half those in the winter months.

(b) Average tariff level

156. According to GATT Tariff Study data, in 1988 the applied simple average m.f.n. tariff on all products was 7.8 per cent; as a whole, agricultural products were subject to higher duties with an average m.f.n. tariff of 11.2 per cent, against an average rate for industrial products of 7.3 per cent (Table IV.1). These data do not, however, incorporate the effect of specific duties which tend to be high in ad valorem terms.

157. Because of the close free-trade area links which Finland has with its neighbours (over 40 per cent of imports in 1989 entered duty-free under such arrangements), the trade-diverting effect of duties in Finland may be higher than the rates themselves may suggest. Imports from suppliers receiving m.f.n. treatment (principally the United States and Japan) amounted to just 17 per cent of total imports in 1989.

(c) Tariff range

158. While zero duties apply to one-third of tariff lines, tariffs in certain product groups can range as high as 50 per cent. Nine per cent of tariff lines (and 6 per cent of 1988 imports) are dutiable at more than 25 per cent. Twelve per cent of agricultural imports and five per cent of industrial imports enter at duties of 25 per cent or higher. Higher tariffs apply particularly to imports of foodstuffs, fruits, vegetables, sugar, beverages, cut flowers and textiles (Table IV.2).

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4GATT Secretariat estimates; 1988-89 imports.

5In 1990, selected AVE's on certain imports were 40.5 per cent on certain manufactured tobacco, 48 per cent on cane sugar and 80 per cent on sparkling cider.

6National Board of Customs, Foreign Trade 1989, Volume 2, Table XI.
(d) Tariff escalation

159. It is clear from Table IV.3 that, as in most countries, tariff escalation (the increase of duties with the stage of processing) also exists also in Finland. Since lower duties on production inputs and higher duties on finished goods increases the effective rate of protection to industrial production (depending on the value added in the industry), it can be assumed that rates of assistance are higher than the nominal tariff suggests. Particularly protected industries are textiles and clothing, rubber and chemicals.

(e) Tariff bindings

160. Ninety-two per cent of all tariff lines are bound in Finland's GATT schedule (Schedule XXIV). Of these, 31 per cent are bound at zero. As in other industrialized countries, tariffs on industrial products are generally bound; in the case of Finland, 98 per cent are fully bound, 15 per cent of these at ceiling duties (i.e. the bound rate represents a maximum above which applied rates may not go). Ceiling bindings occur with above average frequency in hides, skins and leather (21 per cent of tariff lines in the sector) and textiles (52 per cent of tariff lines), tobacco, beverages and spirits (Table IV.4). For agricultural products, the share of bindings is much lower (56 per cent), on a par with that of Sweden but lower than the level of bindings in the European Communities (Chart IV.1).
Chart IV.1
Bound rates of tariffs in Finland, 1988

(f) Tariff preferences

161. As has been mentioned above, m.f.n. duty-free treatment applies to 30 per cent of the Finnish Customs Tariff but, in practice, nearly 90 per cent of imports are duty-free. Industrial goods and some processed agricultural products from other EFTA members have entered Finland duty-free since 1967. At the same time that Finland joined EFTA, it extended the same duty-free treatment to imports from the USSR. The widest coverage of tariff preferences on agricultural imports also applies to EFTA and the Soviet Union.  

162. Since July 1977, all industrial imports (HS Chapters 25 to 97) from the EC have been duty-free, except for casein. Certain processed agricultural products, mainly processed foodstuffs as well as refined sugar, cocoa and flavoured yogurt, are also duty free. Tariff preferences on agricultural imports from Portugal, formerly an EFTA member, are gradually being phased out to regain the m.f.n. levels by 1993.

163. On the basis of bilateral agreements concluded between 1974 and 1978 with Bulgaria, Hungary, Czechoslovakia, Poland and the then German Democratic Republic, tariffs on industrial products were progressively reduced to zero between 1975 and 1985 on a preferential basis. A number of agricultural products originating in Bulgaria, Hungary and Poland are likewise free of duties some on a seasonal basis. For apples and cherries imported in the winter months the duty-free period may be lengthened by official decision. Only a very small number of agricultural products from Czechoslovakia are accorded tariff preferences, although the product coverage was recently broadened to include confectionery, chocolate, beer and white wine. In 1989, FIM 2.2 billion, or 36 per cent of imports (excluding petroleum) from Eastern Europe and the Soviet Union received preferential treatment.

164. Out of 138 countries eligible for duty-free access under the Finnish GSP scheme, 118 traded with Finland in 1990. However, only a small percentage (28 per cent in 1990) of imports from beneficiaries were

7 See Annex I to Customs Tariff of Finland for a complete list of goods on which preferences (other than GSP) are extended.


9 National Board of Customs, Foreign Trade 1989: Vol II (Table IV.7).

10 National Board of Customs, Foreign Trade 1990.
eligible for preferential treatment and over 60 per cent were duty-free on an m.f.n. basis.

165. In 1988, total GSP-origin imports (including petroleum) accounted for 7.5 per cent of total Finnish imports (see Table IV.5). Agricultural imports from GSP beneficiaries, mainly tropical products such as coffee, tea and bananas accounted for nearly one-third of total agricultural imports, the large majority of which are dutiable under m.f.n. treatment. Industrial imports of GSP origin represented less than 6 per cent of industrial imports.

166. Leading suppliers amongst developing countries do not necessarily receive GSP treatment as it will depend on the product composition of their exports to Finland.

167. Both China and Korea were leading suppliers and leading beneficiaries of GSP treatment. However, Hong Kong, Singapore and Brazil received GSP treatment on a much smaller share of their exports to Finland (see Table IV.6). Imports otherwise eligible for GSP treatment do not receive preferences if they do not comply with GSP rules of origin.

168. Leading imports in 1990 which received GSP treatment were consumer electronics (mainly from Korea), bananas and coffee. Coffee does not receive GSP treatment unless imported from a least developed country. Thailand was an important supplier of processed fish and pineapple products. Imports of iron and steel products from Romania and furniture from Yugoslavia and ASEAN countries were also eligible for and received GSP treatment.

(g) Tariff concessions

169. Tariff concessions apply to two classes of imports. A special, reduced rate of duty or exemption from duty may be granted on goods denoted with an "e" preceding the lower duty in the Customs Tariff. This special rate of duty is applied to goods which are not produced in Finland. Most products eligible for e-duty treatment fall into the electric and non-electric machinery product categories. Imports accorded e-treatment represented between 3 and 4 per cent of imports of electrical and non-electrical machinery (HS Chapters 84 and 85) in 1988 and 1989. The

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11 This is 1988 data from the GATT Tariff Study.
12 GATT, Tariff Study.
13 For example, in the case of electronics, if components are made in Japan.
m.f.n. duty applicable to these products ranges from 3 to 20 per cent while the reduced rate ranges from free to 5.5 per cent.

170. Under another and more wide-ranging scheme, tariff reductions or exemptions are available on selected raw materials and intermediates imported to produce certain specific goods, in particular manufactured exports which enjoy duty-free treatment under regional trade agreements. These tariff concessions are known as "industrial" rates of duty or t-duties. The concessional rates also apply to agricultural inputs, for example sugar, starches, fruits and fruit juices, nuts, and to food and beverage products liable to the excise duties. (For the incidence of industrial duties by Tariff Study category, see Table AV.2-18). Imports that enter under industrial duty rates are also free of any other import taxes which might otherwise apply. Judging by imports under t-duty treatment in 1990, concessions appear to favour the food processing industry, chemicals and plastics, textiles, metals and machinery. The concession can be as high as 45 per cent on some alcohols.

171. In order to import and receive t-duty treatment, a decision by the Board of Customs must be presented at the time of clearance, although goods can be cleared and the decision submitted subsequently. In either of the above cases of tariff concessions, the reduction or waiving of the duty is decided following application by the importer, on a case-by-case basis, by the Customs Board, whose decision is valid for an indefinite period. In certain cases imports will receive t-duty treatment only if accompanied by a certificate issued by the Board of Customs proving that the goods are of a kind or class not manufactured in Finland.

(j) Customs valuation and procedures

172. The original of the commercial invoice is required for clearance of goods through customs, as is the original and a negotiable copy of the bill of lading or airway bill.

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14Annex 3 to Customs Tariff of Finland gives the list of products benefiting from t-duties.

15National Board of Customs, Customs Procedures in Finland.

16The invoice must show the following: name and address of the buyer and the seller; number and date of invoice and date of sales contract; number of packages and/or items covered by the invoice; type of packaging (e.g. crate, case, cardboard box, etc.); gross and net weights; marks and numbers on packaging (numbering should be consecutive and a joint symbol or mark should be used); trade description of goods; quantity of goods using a standard unit, e.g. kilogrammes; unit price and total price; any discount and reason for the discount; delivery and payment terms (e.g. f.o.b., c & f., c.i.f.) noting any expenses to the seller (freight, insurance and advertising costs should be itemized, as should cost of packaging materials and packing); country of purchase and origin; and mode of shipment.
173. The National Board of Customs will, upon application, provide advance information on customs duties applicable to particular products, and on other relevant regulations. Such information is generally binding for one year. Some 300-400 applications are processed annually.

174. Finland has accepted the Tokyo Round Agreement on Customs Valuation and uses the valuation methods prescribed therein, based on the "transaction value" of goods.

175. Customs declaration forms must be submitted within 15 days of the date of importation and within seven days from the date of exportation. Goods may be released to "registered persons" before the duty is paid; payment must be made within 15 days of the date of billing by Customs. Duty on the majority of imports by non-registered persons must be paid in advance of clearance through customs. Failure to pay import duties, taxes, and other charges within 15 days of the specified payment date will result in charges for interest and arrears. If payment of import duties is not made within 45 days, goods will be sold at public auction. If the customs clearance forms are incomplete or incorrect, duties may be increased by between 30 and 50 per cent.

176. Claims for the refund of excess duty or tax paid because of incorrect classification of goods may be made to Customs within 90 days after customs handling; claims for excess payments for other causes may be made within one year after date of payment. Appeals may not be made against advance decisions but may be made subsequently against customs treatment based on such decisions. Appeals against other customs decisions or measures may be made within 30 days after receipt of notice of the decision or measure.

177. When the value of goods is established by expert appraisal, appeals from the importer requesting arbitration must be made within eight days after notice of the decision. Appeals against decisions of the District Customs Office (approximately 300 a year) are lodged with the National Board of Customs. Appeals against decisions of the Board of Customs may be made to the Supreme Administrative Court within 30 days after receipt of notice of the decision.

178. Customs clearance procedures between EFTA and EC countries have been simplified with the introduction of the Single Administrative Document on 1 January 1988. This document replaces the use of 60 different customs documents in the EC and standardizes data requirements of customs officials. It also provides a foundation for computerization of customs procedures. At the same time, the Common Transit Convention between EFTA

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countries and the EC established standardized procedures for uncleared goods in transit, avoiding the need for customs checks between origin and destination.

(iii) Other levies and charges

179. Other taxes on imported goods levied by Finland include variable levies (applied to agricultural products), and an import equalization tax. Indirect taxation of goods, whether imported or domestically produced, comprises sales (turnover) tax, excise duties, and an automobile tax.

180. The Board of Customs provides over one-third of annual revenue to the State. The largest component (80 per cent of revenue collected by the Board) is excise duties and sales taxes, while import duties provide a mere 3 per cent.

181. Since 1980, the value of taxes collected by the Board of Customs has grown from FIM 17.8 billion to FIM 42.4 billion in 1989. As can be seen from Chart IV.2, the weight of duties and taxes in the total have changed so that the proportion of revenue collected through excise duties and import equalization tax has dropped while the incidence of sales tax and automobile taxes has risen significantly.

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18 Finland and the Western European Integration Process (1988), Report to Parliament by the Council of State Concerning Finland's Attitude Towards the Western European Economic Integration Process, 1 November 1988.

19 The comparable figure for 1990 is FIM 44 billion.
182. Imports of most agricultural commodities are subject to a variable import levy, based on the difference between the world market price and the domestic "target" price. Products which are subject to import levies are listed in Table IV.7. Few imports of variable levy products actually take place; since 1985, imports have fluctuated between FIM 200 and 300 million, less than 0.5 per cent of total imports. Import levies are not applied, either if the import is for "industrial" use and the industrial rate of duty has been applied (e.g. certain starches and sugars) or if the supplier is a GSP beneficiary for the product in question. Because of these factors, while in relative terms, the incidence of the levy can be high, in absolute terms the amount collected is small (see Table IV.8). The incidence or ad valorem equivalent of the levy varies from year to year depending on the price and composition of imports. Like a specific duty, the incidence of the levy will be higher on lower-priced imports. In 1987, a year of poor harvests, import levies amounted to FIM 132 million on FIM 83 million of imports (an overall incidence of 159 per cent); in 1990, FIM 65 million was collected on FIM 164 million of imports.

Note: Most such agricultural products do not benefit from GSP treatment.
imports as a larger share of imports consisted of higher-priced processed products.

(b) Sales or turnover tax

183. Indirect taxation in Finland is based on a turnover tax. The tax is levied at the border on imported goods and at the point of sale on domestically produced goods. The turnover tax has funded some one-third of State revenue in the past five years: in 1990, 43 per cent of total turnover tax revenue was earned from tax applied to imported goods.

184. Finland levies the turnover tax on most imported and domestic goods and certain services. Exports, although not their inputs, and certain domestic goods are exempt from the turnover tax. About 3 per cent of export prices reflect the cumulative turnover tax which thus has a small influence on cost competitiveness.

185. According to the Act on Turnover Tax, certain primary products are exempt from the turnover tax, as are imports of the part of imported foodstuffs made up of such primary products. The most important

21 National Board of Customs, Foreign Trade, Vol. 2 (various issues); Table XI.7.


23 Ministry of Finance.

24 Services performed in relation to taxable goods, e.g. manufacture, alteration, cleaning, repair, maintenance and installation and hotel and restaurant and telecommunications services (IBFD).

25 Tax-free goods are:

1. subscriptions to newspapers or periodicals for at least one month;
2. firewood, reindeer moss, turf sold as fuel and unsawn timber;
3. dirt, sand, gravel and quarried stone, so long as not in resale packages;
4. live domestic animals;
5. aircraft and boats over 10 metres in length, unless meant principally for pleasure or sporting purposes, as well as repair, installation, etc. work for such aircraft and boats.

The importation of natural gas will be free of tax until the end of 2001. On the other hand, selling of natural gas in Finland is subject to tax. Therefore the importer who sells either the natural gas or energy produced by means of the natural gas is entitled to credit the purchase price of the imported gas against his taxable sales. (International Bureau of Fiscal Documentation, Finland, June 1989)

The sale of farm products, fertilizers, feed, fish, game and berries is exempt from tax when sold by a primary producer. Sales of drugs by a licensed producer or distributor are also exempt. The importation of any of these goods is also free of tax. Tax is paid only on that part of the consumer price which exceeds the price charged by the primary producer or distributor (in the case of drugs) or the price paid by the importer (including taxes). The full acquisition cost of industrial machinery and equipment is deductible form taxable sales. Very small businesses are also exempt from the turnover tax on goods and services.

agricultural products which are not exempted from turnover tax include sugar, vegetable oils, some fruit and vegetables, and unroasted coffee. Some raw materials (e.g. milk and meat) incorporated into processed goods receive a refund amounting to more than the actual tax rate. In the case of milk, the refund is calculated on 160 per cent of the target price; for meat, it is 135 per cent of the target price. The refund on agricultural raw materials reduces the average effective turnover tax rate on foodstuffs to 12 per cent.

186. The turnover tax on imports is levied on the c.i.f. duty-paid value plus any import levies, excise duties, equalization tax and motor vehicle taxes which may be applicable. On domestic goods, the turnover tax is paid on the selling price at the wholesale stage and on the sales margin at the retail stage. Until recently, the turnover tax differed from a value added tax in two important respects: (a) the calculation of the tax base which is the sales price including the tax, any other taxes and any additional charges (e.g. freight); and (b) the non-deductibility of the purchase of certain services, fixed assets and other goods not intended for direct incorporation in the production of the goods to be sold.

187. Until recently, the nominal tax rate on imports was higher than that on domestic goods, to compensate for the fact that, in contrast to domestic products, the taxable value of imports did not include the turnover tax itself. The effective tax rate is the same both on imported and domestic products.

188. Fiscal policy makers in Finland are moving towards the adoption of a value-added system (in line with EC practices) by increasing the deductibility of inputs and changing the taxable base so that domestic and imported goods are both taxed on the value excluding tax. Since October 1991 imports and domestic goods have been taxed on this basis at the same 22 per cent rate.

(c) Import equalization tax

189. The import equalization tax, in force since 1971, was designed to compensate Finnish producers for a perceived inequity between Finland's

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27 Ibid.

28 Bundesstelle für Aussenhandelsinformation (1984), Cologne.

29 The turnover tax rate was 16 per cent on domestic goods (19.05 per cent on imports) from June 1983 until 1 June 1989, raised to 16.5 (19.76 per cent) from 1 June to 30 November 1989, and to 17 per cent (20.48 per cent) from December 1989. The tax on domestic goods was raised from 17 per cent to 17.5 per cent and to 21.2 per cent on imports at the beginning of 1991.
turnover tax and the value-added tax applied in many of Finland's major trading partners. Because a VAT system allows for the deduction of a larger share of inputs to production than does the turnover tax system, it was seen necessary to charge a supplementary tax on imports from all sources.

190. In 1989, FIM 57.3 billion out of FIM 84.4 million of industrial imports were taxed at an average 2 per cent. The import equalization tax, applied on the c.i.f value of imported manufactured products (HS Chapters 11-96), was reduced in October 1991 by 0.3 per cent across the board and currently ranges from 0.7 to 4.3 per cent. The import equalization tax does not apply to primary products (HS Chapters 1-10), works of art, certain raw materials, certain tropical products, fuels, electricity, watches and vessels for commercial purposes. Agricultural imports from GSP beneficiaries are not subject to the equalization tax, nor are imports under industrial duty rates (t-duty treatment) (see above). Imported products which could be shown to be used in manufacture or other processing of exported products were exempt from the tax in order to decrease industry's indirect tax burden. Until 1988, the tax was nevertheless payable if there were domestic substitutes for the import. From 1 January 1988, the law was amended so that the tax could be waived whether or not local substitutes existed provided that the exemption was not detrimental to domestic production. From 1 July 1991, all raw materials, semi-manufactures and investment goods used by industry were exempted from the import equalization tax. (See Tables AV.2-16 for the application of the equalization tax.) A proposal has been submitted to Parliament to phase out the system within two years. In 1992, the present tax rates will be applied, in 1993 the rates will decrease by 50 per cent and in 1994 the tax will cease to apply.

(d) Excise duties and other taxes

191. Excise duties are levied on processed foods, fertilizers, fodder mixtures, fuels, matches, mineral water and soft drinks, alcoholic beverages, sugar, sweets and tobacco. Excise duties are imposed on both domestically produced and imported goods; exports are exempt from excise duties.

30 T-duty treatment operates to reduce the duty on inputs for products which are duty-free under Free Trade Agreements.

31 The concept "used by industry" covers not only direct production, but also protection of the environment, waste management, maintenance of machinery, generation of energy and water supply.

32 Ministry of Finance.
192. As Table IV.9 shows, excise duties are levied at a flat rate, either ad valorem or specific, on all liable products except for foodstuffs. By contrast, the excise duty on foodstuffs, which acts in a manner similar to a variable levy, is set to equal the difference between the domestic and the world price of the agricultural raw materials used in production. The excise duty thus raises the price of imports to domestic levels. Under the price compensation system, domestic food processors receive refunds on foodstuffs, sugar and oil seeds, and any other goods liable to excise duty, used in production (see Chapter V).

193. In 1989, FIM 15.1 billion was collected from excise duties. Of this, less than FIM 600 million was generated from imports, one-third of which came from foodstuffs. Excise duties are normally payable on quantity rather than value, except for those on beer and tobacco, which are calculated on the retail price. The incidence or ad valorem equivalent of the excise duty on total imports was 53 per cent in 1989, with the highest incidence on fuels. Rates applying to various product groups in 1989 and 1990 are shown in Table IV.10.

194. All alcohol (other than beer) sold in Finland, which is subject to a State sales monopoly (see below) is taxed at a rate of between 40 and 60 per cent increasing with the alcohol content. This tax is paid monthly by the State monopoly on the basis of total sales. Bottled or canned beer and soft drinks are subject to an anti-garbage duty of FIM 2 or 3 per litre for soft drinks, depending on the packaging, and FIM 1 per litre for beer. These duties are also applicable to locally produced goods.

195. Motor vehicles are subject to a tax of at least 50 per cent of the taxable value or 127 per cent of the c.i.f. value. In 1989, FIM 5.4 billion was collected on car imports at an average ad valorem rate of 107 per cent. The tax collected on a used car imported or a car made up of used parts imported is 90 per cent of the car tax on a similar new car. The tax on motorcycles varies according to the cylinder capacity of the engine. Taxes are equally payable on any domestically manufactured cars or motor cycles.

(iv) Minimum import prices

196. Minimum import prices in order to assess dutiable value are not permitted under the Customs Valuation Agreement and are not used by

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33 This is in conformity with Article 21 of the EFTA agreement.

34 Government of Finland.
Finland. However, "basic" prices are used as a preliminary measure in safeguard action in order to indicate to traders what the Government considers a fair and equitable price (cf. (xix) Safeguard action).

(v) Import controls (prohibitions)

197. A prohibition on importation of coniferous wood from areas where Pinewood Nematode (Bursaphelencus xylophilus) exists has been in effect for several years. This restriction came into effect on 9 January 1985 as an amendment to the Statute on the Prevention of the Spread of Plant Pests in Finland (173/81) and was renewed in 1990. Other items which are strictly prohibited from import are lead-based paints, yellow (white) phosphorus matches and immoral literature.

198. Examples of Acts that allow for import prohibition are the Food Act (526/1941) and Food Decree (408/1952) which entitles the competent authority (the Bureau of Food Products in the Customs Laboratory) to prohibit imports pending inspection, the Animal Fodder and Fertilizers Act (335/1968) which may prohibit import of products presenting health hazards, the Seeds Trade Act (669/1975) and the 1990 Chemicals Act (744/89) which replaced the 1969 Toxic Substances Act. (cf. (xiv) Standards and other technical requirements.)

199. A permit is required for the import of firearms and ammunitions, explosive substances, ores and concentrates for generating nuclear energy, pharmaceuticals, radiation equipment and narcotics. Imports of live animals and most animal products need an import permit issued by the Veterinary Department of the Ministry of Agriculture and Forestry. Additionally, the importation of endangered animal species might require an import permit issued by the Ministry of the Environment. Pharmaceuticals may be imported only by recognized druggists, pharmaceutical manufacturers and wholesalers and researchers and research institutions.

35 Ministry of Finance.

36 This applies to the United States, Canada, Japan and People's Republic of China (RBC/11, 16 December 1987).

37 GATT document, TBT/Notif.90.46, 13 February 1990.


39The legislation on chemicals and medicaments was recently changed, effective March 1991, affecting the import and retail sales of hazardous substances.
(vi) Import licensing

200. Finland uses discretionary (or individual) import licensing to control imports in line with domestic needs of certain agricultural and energy products. This method of licensing is also used for imports from certain sources: countries with whom Finland has bilateral "exchange of goods" trade agreements (currently only Bulgaria, as the semi-barter trade with the USSR was dissolved at the beginning of 1991) or imports from countries to whom Finland does not grant m.f.n. multilateral, e.g. the Democratic People's Republic of Korea and Taiwan. Global licensing is used to administer global quotas on some agricultural and fossil fuel products. Automatic licensing for the purpose of import surveillance applies to certain agricultural, steel and textile products. Products subject to discretionary licensing and global quotas are listed in Tables IV.11 and IV.12.

201. The Export and Import Permits Office, reporting to the Board of Licensing in the Ministry of Trade and Industry, administers the import licensing system. All persons, firms or institutions engaged in foreign trade activities in Finland are eligible to apply for licences.

202. Two weeks is the maximum length of time for processing applications. Applications for automatic licences must be accompanied by a copy of the purchase order; these licences, required for import surveillance purposes only, are issued within a few days. Licences are valid for a period of between three and twelve months. An application for an extension must be made before the original licence has expired or a new license fee will be charged.

203. The largest number of products is subject to discretionary, or individual, licensing. Importation of these goods may be determined on the basis of quotas (Table IV.13) or, in the absence of quotas, allocated on a case-by-case basis. The sole distinction made between discretionary and global licensing seems to be that global licensing is designed for the "administration of quotas" and individual licensing for "the administration of imports according to domestic needs" whereby quantitative limits are certainly implied.

204. On 1 July 1990, a number of agricultural products were removed from the licensing system, including various types of fish, several varieties of fruit, both fresh and processed, and fresh and processed vegetables. In

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40 The licensing fee varies from FIM 50 to FIM 1,000 depending on the value of the product.
1991, the Government issued general guidelines aimed at avoiding unnecessary price increases as a result of overly restrictive licensing.\(^{41}\)

(vii) **Import quotas**

205. Global quotas are applied to a number of agricultural and petroleum products; salmon and other fish, berries and their juices, starches, vegetable oils and motor spirit. In setting quotas, the level of the previous year's quotas and imports, domestic production and importers' requirements (based on licence applications) are taken into account by the Board of Licensing. Where quotas are set, they are more indicative than fixed as they may be increased as the need arises. Information on annual global quotas in quantity or value is published in the official publications of the Export and Import Permits Office.

206. Applications may be made at any time during the year and are examined upon receipt, but licenses are issued only at the start of the calendar year. Importers who use the goods imported in their manufacturing business, or who import foodstuffs for retail sale have priority in the distribution of licences. If demand cannot be satisfied, the allocation is based on past performance with approximately 10 per cent reserved for new importers. Unused allocations may be divided among other importers during the calendar year but are not added to the following year's quotas. Under new guidelines to promote competition issued by the Government in Spring 1991, the licensing authorities are encouraged to distribute licences to new importers and on a wider basis.\(^{44}\)

207. Under bilateral agreements concerning trade in cheese, Finland grants Switzerland an annual import quota of 100 tons of cheese. According to a Mutual Restraint Arrangement dated 23 December 1985 (amended 23 January 1989), quotas are applied to trade in cheese (HS 0406) between Finland and the European Communities. Finland provides annual access for 1,500 tons applying a reduced import levy, ranging from one-sixth to two-thirds of the standard levy, to most types of cheese.\(^{45}\) (See also Chapter V).

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\(^{41}\) "Licences shall be granted to so many importers and in such numbers that the prices of the imported products do not rise due to the licensing practice..."  

\(^{42}\) GATT document, L/5640/Add.6/Rev.2., 8 November 1990.  

\(^{43}\) Ibid.  

\(^{44}\) See Direction by the Council of State on the Principles of Granting and Distribution of Licences, 11 April 1991.  

\(^{45}\) Decision of the EC-Finland Joint Committee, 23 January 1989.
(viii) Import surveillance

208. Automatic licensing is used for import surveillance of some ready-made clothes and some iron and steel products. Applications for automatic licences may be submitted at any time and are issued within a few days.

(ix) State trading

209. State trading governs imports and exports of alcohol and certain grains. Combined with a high level of excise tax, production, import and export of alcoholic beverages is reserved to the State alcohol monopoly, Oy Alko Ab, under the authority of the Ministry of Social Affairs and Health. Restaurants are granted licences to serve alcohol on the basis of needs-testing. The Alcohol Act, implemented in 1969, is intended to minimize the harmful effects of alcohol consumption by pricing alcohol prohibitively. Based on a study comparing price levels in European countries, in 1985, prices of alcoholic beverages were nearly three times the EC average and six times those of Portugal. The retail price for imported alcoholic beverages in Finland is calculated by Alko and on the basis of the import price. The tax on alcoholic beverages is 40 - 60 per cent of the retail price, depending on alcohol content. The turnover tax raises the total tax burden to 60 - 80 per cent.

210. Alko, established in 1932 as the monopoly responsible for the sale of alcohol, has three production plants of its own but private enterprises are licensed by Alko to produce alcoholic beverages. Private breweries and factories produce malt beverages and domestic bitters and liquors for Alko which determines prices and controls sales. In 1989, Alko generated nearly FIM 1.5 billion for the Government.

211. Private companies may also engage in import and export under the supervision of Alko. In recent years, the range of imported products available to the public, particularly wine and beer, has expanded considerably, in some cases as a direct result of tariff cuts negotiated between the EFTA countries and the European Communities.

212. The Finnish Grain Board, formerly the State Granary, has an import and export monopoly for wheat, rye, barley, oats and products of these grains for human consumption, as well as feed maize. Imports of rice, seed grains and malting barley are effected by the private sector.

213. The Grain Board also holds reserve stocks for food security and stabilizing domestic price levels.

214. The 1992 target for reserve stocks is 700,000 tons of grain of which 400,000 should be bread grains, 200,000 feed grains and 100,000 seed grains. Additionally, by 1995, the Grain Board aims to hold 60,000 tons of oilseeds in reserve.

215. Import of grains is carried out only if domestic production does not meet consumption or reserve stocks fall below the annual minimum. Imported grain, liable to variable levies, is sold at domestic price levels although wheat used for exported foodstuffs and rye for domestic mills are sold at the import price, exempt from variable levy. (cf. Chapter V).

216. All trade in radioactive materials is controlled by a special board (the Finnish Centre for Radiation and Nuclear Safety) subordinate to the Ministry of Trade and Industry. According to the Nuclear Energy Act (990/1987), a permit is required for the manufacture, import and export of substances suitable for the generation of nuclear energy. A permit is also required for the import and export of ores and concentrates.

(x) **Import cartels**

217. According to available information, there are no formal import cartels operating today in Finland. An import cartel for citrus fruits among foreign suppliers existed once but was abolished in the early 1980s. However, the high level of concentration in the distribution system (see below) may lead to comparable effects on pricing of imported (and domestic) goods.

(xi) **Countertrade**

218. While Finland does not have any explicit legislation covering countertrade, its close relationship with Eastern Europe and the Soviet Union, economies chronically short of foreign exchange and historically with non-convertible currencies, engendered the use of barter-type trade arrangements since the post Second-World War period.

219. Barter remains the *modus operandi* with Bulgaria under a bilateral trade agreement. Until 1991, when it was mandated that all traded goods

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48 GATT document, L/6629/Add.3; 7 May 1990.

were to be paid for in convertible currencies, trade with the Soviet Union had historically taken place on semi-barter terms (see Chapters I and II). While the Soviet Union, in its moves towards a market economy, officially banned barter trade, the ban was lifted under Presidential decree in early August 1991, in the light of the poor foreign reserves situation, in order to ensure food supplies. Barter has also been the basis for "frontier trade" between Finland and the Soviet Union.  

(xii) Standards and other technical requirements

220. Technical regulations and standards are typically set for reasons of consumer or environmental protection or human health and safety. Article XX(b) of the General Agreement allows contracting parties to use measures necessary to protect human, animal or plant life and health as long as these do not cause discrimination between countries or act as disguised restrictions to trade. The Finnish Government states that national regulations are largely harmonized with Nordic or Western European countries, "in no case do they discriminate against or between imported products where similar conditions prevail in exporting countries."

221. Technical barriers to trade refer to obstacles which may appear when different countries have different requirements, standards and norms regarding product characteristics, markings or inspection. Work to eliminate technical barriers to trade is going on in many international organizations in which Finland is a member, including GATT, the OECD and a number of UN special agencies, particularly the Codex Alimentarius Commission, the International Organization for Standardization (ISO) and the Economic Commission for Europe (ECE).

222. All health and safety regulations are published in the Statutes of Finland. More than a dozen Acts and a number of Ministerial Decisions in Finnish legislation govern the manufacture, use, sale, import or export of products which present potential health or safety hazards. One of the more wide-ranging pieces of legislation, the 1986 Product Safety

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50 See Chapter II for the definition of the coverage of "frontier trade".

51 As a signatory to the Agreement on Technical Barriers to Trade or Standards Code since its inception, Finland has been active and timely in submitting notifications to the Committee. In the four-year period 1987-90, over 100 notifications were circulated to the Committee on Technical Barriers and a number of new national decrees and amendments came into force on 1990 and 1991.

The GATT Code on Technical Barriers to Trade requires contracting parties to notify the objective, rationale and product coverage of technical regulations "whenever a relevant international standard does not exist or the technical content of a proposed technical regulation or standard is not substantially the same as the technical content of relevant international standards, and if the technical regulation or standard may have a significant effect on trade of other Parties...".

52 For a listing of most of these Acts see GATT document DPG. Notif. 90.1.
Act (914/86), which protects the consumer against any hazards that a consumer article may involve for his or her health or property, covers all products not covered by specific legislation.

223. On an ongoing basis, various Ministries and Government agencies are responsible for establishing and revising regulations in their areas of expertise and ensuring that manufacture and trade (imports and in some cases exports) are in compliance. With respect to consumer goods, including foodstuffs and cosmetics, the National Board of Trade and Consumer Interests (reorganized in June 1990 into three organizations: a food office, an office of consumer affairs and a research body for consumer affairs) and the Ministry of Trade and Industry are the principal bodies issuing Decisions and Decrees on new or revised regulations. For foodstuffs of animal origin, the Ministry of Agriculture and Forestry is responsible for issuing health and sanitary regulations. The Ministry of Social Affairs and Health, together with the National Board of Health, supervises medicines and dangerous chemicals.

(a) Standards, testing and certification

224. Through the Finnish Standards Association (SFS), the Finnish Government takes part in the activities of international bodies involved in standards-setting, including the International Organisation for Standardization (ISO) and its European counterpart, the European Committee for Standardization (CEN). The body responsible for electrotechnical standards is the Finnish Electrotechnical Standards Association (SESKO), which represents Finland in the International Electrotechnical Commission (IEC) and the European Committee for Electrotechnical Standardization (CENELEC).

225. Within EFTA, the elimination of technical barriers to trade has been the subject of cooperation since the Association was established. The EFTA countries have not attempted to harmonize product requirements or to achieve so-called EFTA standards. However, since 1964, the EFTA countries have voluntarily notified each other of new draft regulations which may have an influence on trade between the EFTA countries. Effective 1 July 1988, the EFTA Convention was amended to make such notification compulsory. Members have three months in which to comment and, if an obstacle to trade is perceived, another three months in which to pursue consultations.

226. A number of arrangements and conventions on the reciprocal recognition of inspection results have been concluded between EFTA countries, although these are formally separate from the EFTA. These apply to such areas as pressure vessels, ship appliances, gas equipment, agricultural machinery and tractors, lifting equipment, and the control and marking of articles of precious metals and pharmaceutical products. Finland is a participant in three of the above schemes (pressure vessels,
ships' equipment and agricultural machines) and a Party to the two latter conventions. In addition, Finland has concluded bilateral agreements with some countries on the mutual acceptance of conformity assessment procedures: with Japan on pressure vessels and with the United States on foodstuffs. The conclusion of an agreement with the United States, whereby the FDA agreed to accept test results by the Finnish Customs Laboratory on exported foodstuffs, allowed Finland to export foodstuffs to the United States following the Chernobyl nuclear disaster.

227. An EFTA Agreement on Mutual Recognition of Tests and Proof of Conformity entered into force on 1 October 1990. A similar agreement between Nordic countries on all goods covered by equivalent regulations is also in operation.

228. Within the context of the European Economic Area, common goals are to harmonize national technical regulations, to the extent possible, and to adopt the mutual recognition of national regulations and acceptance of test results between countries. An EC/EFTA agreement on the exchange of information on all draft technical regulations entered into force in November 1990.

229. Finland began unilaterally to align its technical standards to those of the EC after the Luxembourg Declaration of 1984. The Government expects that, by 1993, 95 per cent of its standards will be identical to those of the European Communities. The harmonization of product standards represents less of a challenge than does the development of procedures for conformity assessment. In the area of electrical appliances, major amendments to the type approval system are necessary; the approach will entail a change from border controls to internal market control. Finland's type approval system is estimated to cost 0.25 per cent of the retail price and approval takes between one and three weeks.

230. The Finnish Government believes that some of its regulations will need to be tightened, in particular with reference to improving the technical inspection system in Finland. Finland has two internationally accredited test laboratories both in metallurgy. Under bilateral arrangements, tests by other laboratories are accepted. Recent initiatives in Finland have introduced the possibility of inspection of exported products at the exporter's request and the establishment of a test laboratory accreditation system in accordance with international criteria.

231. Finland is particularly committed to environmental protection and conservation and, in 1983, a Ministry of the Environment was created. In a

53Government of Finland.
country with a fragile ecosystem, where acid rain threatens the existence of Finland's most vital resources, its forests, domestic environmental policies are well-developed. As to environmental protection measures with a potential trade impact, Finland and other EFTA countries have stricter limits on toxic emissions from motor vehicles than does the EC but the controls are on a par with limits on emission levels as set by the United States and Japan. Similarly, in the area of chemicals use, EFTA but not the EC has banned the use of cadmium and asbestos. Within EFTA, Finland's programme to phase out the use of ozone-depleting substances is on a faster track than that of the Communities. The use of CFC compounds in manufacturing and their import will be banned in Finland from the beginning of 1995; in the EC the target date is July 1997.

(b) Sanitary and phytosanitary regulations

232. Sanitary certificates are required for goods that may be suspected of bringing infections or contagious animal or vegetable diseases into the country. Goods subject to such regulations include live plants, seedlings, bulbs, roots, tubers, tomatoes, live animals, raw animal products, most processed animal products and textile waste of animal origin.

233. The Customs Laboratory performs consumer protection tests in accordance with regulations issued by virtue of the Food Act and the Product Safety Act. Main reasons for rejection of food consignments have been pesticide residues found in fresh fruits and vegetables and salmonella in spices and seafood. Maximum residue limits are specified in the list of contaminants (Appendix 1 to Decision 756/90). This list is currently under revision to bring maximum residue limits in line with major trading partners.

234. In 1989, an amendment to the Decision on Food Additions, specifying permissible additives (salt is considered a food additive in Finland) in foodstuffs, contained regulations harmonized to comply with those in other Nordic countries (on beverages and confectionery) and with Codex standards (foodstuffs containing fish, cheese, cereals, vinegar). A Decree on Food Additives will enter into force on 1 March 1992; specifications for

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54 Finland has been very active in the Technical Group on Sanitary and Phytosanitary Regulations in the Uruguay Round Negotiating Group on Agriculture and has been responsible for many of the proposals such as notification procedures and product inspections.


identity and purity of additives are based on JECFA(?) specifications or those contained in European or United States' Pharmacopoeias.

235. On 1 January 1992, a new Act on Control of the Quality and Production of Milk and Milk Products will come into effect replacing the Milk Control Act and the Act on Export and Import Control of Milk Products. The Act gives authorization to issue detailed instructions on the hygienic quality of milk and milk products and the conditions under which they are produced. The State Control Office for Dairy Products gives approval for imports and inspects imports and exports. Meat imports from countries with the risk of foot-and-mouth disease or bovine spongiform encephalopathy (BSE) are restricted. There is no prohibition on imports from countries where growth hormones are used in livestock production, although residue control is practised. Potatoes may be shipped only in sacks, crates, and boxes sealed by the plant quarantine authorities of the exporting country and accompanied by the prescribed certificate.

236. A recent amendment to the Decree on Food Contaminants proposes maximum permissible levels of pesticide residues in cereals and potatoes. It is based on a common Nordic proposal and conforms largely to the EC Directive on maximum levels of pesticide residue on cereals.

237. A Decision by the National Board of Agriculture on Quality Requirements for Seeds led to a closer concordance on quality requirements for domestically produced and for imported seeds.

238. Coniferous sawn wood (HS 44.07.10.11-90) when imported from a non-European country, must be accompanied by the international phytosanitary certificate issued by the official plant health authority of the exporting country.

239. The Chemicals Decree includes, inter alia, regulations concerning the sale of toxic chemicals, notification of new substances, export notification of severely restricted chemicals and prior approval of wood

57 GATT document, TBT/Notif.89.251, 6 October 1989 and TBT/Notif.91.225, 31 July 1991.
58 GATT document, TBT/Notif.90.175, 14 June 1990.
60 GATT document, TBT/Notif.89.137, 7 June 1989.
61 GATT document, TBT/Notif.89.115, 16 May 1989.
62 GATT document, TBT/Notif.90.46, 13 February 1990.
63 The substances listed in the European inventory of existing commercial substances (EINECS) are exempt from notification (GATT, TBT/Notif.90.164, 28 May 1990).
preservatives, fungicides for the pulp and paper industry and slimicides (protective chemicals). Advance approval for the manufacture, import or use of such products is required from the National Board of Waters and the Environment and granted for a maximum of eight years.

240. Certain textile and cosmetics imports must meet standards regarding maximum formaldehyde content.

(c) Marking, labelling and packaging

241. Certain consumer goods (fabric, clothing, leather goods and footwear, tableware and cutlery, electrical appliances and consumer electronics) but not foodstuffs imported into Finland direct for retail sale must indicate the country of origin. Marks of origin must be clearly and distinctly stamped or printed on each article, on a firmly attached label or on the retail packaging.

242. In general, any descriptive labelling is prohibited which might mislead the buyer as to origin, quality, quantity, or composition. Finland has a detailed set of regulations governing labelling on retail packaging of food and food products. Labelling requirements are also in effect for medicines, matches, whisky and cognac.

243. According to the Act on Product Safety, the label on consumer goods must include the following information: name of product, name of manufacturer, country of manufacturer and amount of contents. On foodstuffs, in addition, ingredients, in descending order of quantity, and food additives must be listed and on perishable foods such data as packing date and length of storage time. Drugs and food products must list their contents in both Finnish and Swedish; in place of Swedish, Danish or Norwegian may be used. Retail packages of certain edible fats must show the percentage of saturated and mono- and poly-unsaturated fatty acids. Labelling of the nutritive value on the retail packaging of foodstuffs is voluntary unless a nutritional claim has been made on the retail packaging. In line with Nordic norms, the standing Finnish provisions also include detailed requirements on allergen labelling.

64 GATT document, TBT/Notif.90.100, 30 March 1990.
65 GATT document, TBT/Notif.90.165, 5 June 1990.
67 GATT document, TBT/Notif.89.124, 23 May 1989.
244. A new Decree on Labelling of Foodstuffs came into effect on 1 June 1990 with a transition period for manufacturers and importers until the end of 1991. The Decree follows the relevant EC regulations and conforms to a considerable degree to the joint Nordic proposal for harmonized rules. The most significant change from the previous legislation is that ingredients and additives can be stated as a single group instead of separately as before.

245. Regulations for the labelling and packaging of chemicals are stated in the 1990 Chemicals Decree. Labelling requirements for imported and domestic chemical substances are stringent. Warning labels must contain the concentration of hazardous substances, an added precaution which is not required under EC law.

(xiii) Government procurement

246. The Tokyo Round Government Procurement Code, designed to ensure national treatment for foreign products and suppliers in procurement practices covers all procurement above the threshold value of SDR 130,000 (1988-89 value FIM 760,000) reduced from SDR 150,000 on 1 January 1988. To date, the Code does not apply to services contracts (except those incidental to the purchases of goods), construction contracts, national security items, purchases by local government or purchases by any entity not specified as being covered. It also does not apply to energy, telecommunications and transport-equipment procurement.

247. Domestic legislation covering Finland's Government procurement is contained in the Decree on Government Procurement (1070/79) and the Decision (1071/79) of the Ministry of Trade and Industry both of 28 December 1979. Public enterprises (for example, the State Railways, the State Computer Centre and Post and Telecommunications), which have their own non-discriminatory procurement practices, are, however, covered by the Act on Public Enterprises. Twenty-one entities are included in Finland's list under the Agreement on Government Procurement.

248. Provisions of domestic legislation governing Government procurement state, inter alia, that the period for tender should normally be two months and at least four suppliers shall be invited to tender. In addition to price, the awarding of contracts takes into consideration the terms of

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69 GATT document, TBT/Notif.89.312, 20 December 1989.

70 Finland was an original signatory, and remains one of only twelve signatories, to the Tokyo Round Agreement on Government Procurement which entered into force on 1 January 1981. Finland is also actively negotiating on the broadening of the Code under Article IX:6(b).

71 Finland and the Western European Integration Process (1988), op. cit., p.33.
guarantee, the availability and price of spare parts and maintenance services, the need of ensuring uniformity and standardization of models and qualities and the need to promote domestic production and use domestic manpower while maintaining its international obligations.

249. In common with other EFTA countries, Finnish legislation contains one derogation to the Agreement, whereby when a specific procurement decision may impair important national policy objectives, the Government, with the decision being taken at Council of State level, may deviate from the principle of national treatment.

250. In conformity with the notification procedures, annual statistics are furnished by the Government of Finland detailing the value of contracts above and below the threshold value, the value of contracts awarded by the Government Purchasing Centre, the principal government purchasing agency, and the value of total, including foreign, contracts awarded under single tendering.

251. The Government estimates that the Finnish State, municipalities and joint authorities procured goods and services valued at some FIM 45 billion in 1990. The share of imported goods purchased by the public sector is between 20 and 25 per cent. Provincial and local authorities accounted for the largest share of public procurement, FIM 35 billion. The central Government purchased only FIM 5.5 billion of goods and FIM 4.5 billion of services. The value of Government purchases notified to GATT, i.e. eligible goods effected by entities covered by the Code, is a small fraction of all public sector procurement. The total value of contracts awarded by Code-covered entities was SDR 419 million, in 1988, of which SDR 317 million were goods covered by the Code.

252. The central government purchasing agency, the Government Purchasing Centre (Valtion Hankintakeskus - VHK) accounts for at least one-third of total government purchases notified under the GATT Code and the large majority of purchases above the threshold value (Table IV.14). This agency publishes an annual list of commodities and products that must be purchased through it and receives a list of requirements for goods and services above the threshold.

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72 Single tendering is permitted under Article V:15 of the Code e.g. when a product can only be supplied by a particular entity.

73 Information provided by the Ministry of Trade and Industry.

74 In the course of negotiations to broaden the coverage of the Government Procurement Code, Finland submitted an informal list of purchases by other agencies in 1988 which amounted to an additional SDR 237 million.

75 A Committee of Foreign Procurement reviews all purchase decisions above FIM 150,000 if a foreign company is involved in the bidding, whether it is proposed to award the contract to a foreign or domestic company.
services from all State establishments. The Government Purchasing Centre requires suppliers to deliver contracted goods from a warehouse or depot located in Finland and to provide after sales service and spare parts. The GPC prefers to deal with a resident Finnish agent.

253. The Luxembourg Declaration mentions public procurement as an area of cooperation. Within the European Economic Area, EFTA countries will adopt EC directives on tendering, which go beyond the present GATT Code norms. EFTA countries recently agreed to supply tender offers for publication in EC official publications and negotiations aim to cover those areas which are not covered by the GATT Code.

254. Finland acknowledges that municipal and provincial agencies, which have their own procurement rules similar to central government rules, tend to order from national firms. It has been alleged that Finnish procurement practices have acted as non-tariff measures in the case of telecommunications equipment and equipment for State-owned mining and pulp and paper industries.

(xiv) Local-content requirements

255. Local content requirements were specified in exports to countries with which Finland maintained payments agreements based on clearing accounts (the USSR, the German Democratic Republic and Bulgaria) at a minimum of 80 per cent. In exports to other Eastern European countries with which it had concluded bilateral trade agreements (Poland and the Czech and Slovak Federal Republic) the minimum local content varied between 50 and 70 per cent. Since under the clearing account system Finland could earn no foreign exchange for its exports to the East, limiting the extent of non-domestic content in products exported compensated for the foregoing of foreign exchange earnings. Since 1 January 1991, there are no longer any requirements regarding the local content of exports to the USSR. Under the one remaining clearing system agreement with Bulgaria, exports can be made only against convertible currencies and no local-content schemes apply.

(xv) Rules of origin

256. Any country which operates a number of preferential trade agreements will need clearly defined rules of origin. In general, origin is taken to be the country where the goods have been produced or manufactured. When

76GATT, Practical Guide to the GATT Agreement on Government Procurement.

77Finland and the Western European Integration Process (1988), op. cit.

goods are manufactured in two or more countries or consist of parts manufactured in several countries, the country of origin is the country where the goods, as a result of substantial processing, have received their final character.

257. Since EFTA is not a customs union but a free trade area in which each member continues to operate its own tariff régime in trade with third countries, a system of origin rules is required. In the course of negotiating the Free-Trade Agreements with the EC, EFTA adopted a new system of origin rules (Annex B, Part I of the Stockholm Convention, Protocol No.3 of the FTA). The rules of origin are based on two criteria: the "wholly produced" criterion or the criterion of sufficient working or processing.

258. Products qualify as sufficiently worked or processed when the result is that the goods so produced receive a classification under a different tariff heading. Lists of products which form exceptions to this rule of change of tariff heading are annexed to the Convention and the Protocol. Alternatively, rules permitting maximum percentage shares of third-country materials irrespective of their tariff classification may be applied to engineering products (HS Chapters 84 to 91). Rules of origin on textiles and clothing under the Free Trade Agreements with the EC are based on the two step process, i.e. non-originating materials used in the manufacture must change twice the 4-digit HS heading. For apparel, the rule is "manufacture from yarn" which implies both weaving of fabrics and sewing of garments.

259. Under the GSP scheme, the rules of origin aim at ensuring that GSP benefits are granted only to such goods which can be considered as produced in beneficiary countries. To satisfy the rules of origin, the goods have to be either wholly obtained in the beneficiary country or have undergone sufficient working or processing in that country. The processing criteria will be on the basis of a change of (4-digit) tariff heading or on the basis of the processing list which states the criteria required to obtain originating status. (Annex I to the GSP Scheme of Finland).

260. Under a system of origin rules, the cumulative concept of treatment may be applied. Bilateral cumulation involves only two participating countries and means the use of materials originating in the country to which the final products is to be exported. Bilateral cumulation is applied under the bilateral agreements on the reciprocal removal of obstacles to trade concluded between Finland and Bulgaria, the Czech and Slovak Federal Republic, Hungary and Poland. Bilateral cumulation is not applied to imports of GSP origin.

261. As a rule, regional cumulation of processing stages for origin purposes is possible among members of regional groupings. As a regional economic group, ASEAN countries are given rights of regional cumulation.
under the GSP rules of origin. Between EFTA and the EC, the concept of multilateral cumulation was expanded in June 1988. According to current rules, products can be specified of EFTA or EC origin if sufficient processing or transformation takes place in any of the EFTA or EC countries. The main rule is that only products originating in EFTA or EC countries may be used but as a special concession non-originating products to a value not exceeding 5 per cent of the total value may be used.

262. Documentary evidence of origin is generally not required except on imports from GSP beneficiaries (Form A), Eastern European countries and the Soviet Union as well as on handloom fabrics from India, Pakistan and Sri Lanka. Bilateral textile agreements concluded under the MFA contain the requirement of a declaration or certificate of origin issued by the designated authority of the exporting country.

263. In the case of imports of handloom fabrics from India, Pakistan and Sri Lanka, as well as imports from the Soviet Union, direct transport rules apply. This means the consignment must come directly from the country of origin to Finland. Goods imported from other sources are subject to standard rules allowing for indirect transport as long as the goods have been kept under customs control in intermediary countries and not undergone any further operations.

(xvi) Anti-dumping and countervailing duties

264. Under Finland's anti-dumping and subsidy legislation, measures may be taken when an import of subsidized goods or goods priced at less than the normal value causes or threatens to cause material injury to a domestic industry or material retardation of the establishment of a new domestic industry (Article 8). The anti-dumping or countervailing duty must not exceed the subsidy or the difference between the normal value of the good and its export price.

265. Normally, complaints have been filed with the Ministry of Finance by the industry or trade association. To determine injury, industry is requested to complete an injury assessment questionnaire including data on the last three years' sales, exports, profitability, stocks and employment. The Permanent Advisory Body for Customs Matters screens the complaint and

79 Finland and Western European Integration (1988), op. cit.

80 The export price is the purchase price of the imported goods not including the costs of selling the goods or those incurred in connection with delivering the goods to the place of import. The normal value is the price at which similar goods are sold for domestic consumption in the exporting country, or in a country of comparable economic development, or when exported to a third country. A subsidy is any support measure or premium to the production or export of the imported goods, including any premium paid for the transportation of a specified product.
makes policy recommendations to the Ministry. The Ministry of Finance may act on its own initiative but has never done so.

266. Investigations of dumped or subsidized imports should be concluded within one year unless the Ministry of Finance extends the investigation period. There is no "sunset clause" in the legislation on terminating anti-dumping remedies; duties will be lifted if conditions for their imposition change or cease to exist or if the exporter undertakes to cease dumping or raise export prices. In general measures have been applied for approximately three years. Information concerning private industries involved in dumping cases is to be kept secret for ten years unless the industry grants permission to divulge the facts.

267. Finland has initiated a number of anti-dumping investigations and actions over the last few years, mainly on imports from Eastern European countries. Investigations initiated and actions taken in the period 1985 to 1991 are listed in Table IV.15. Since most anti-dumping investigations have involved State-trading countries, Finland has used the reference country ("country of comparison") method to establish normal value. Finland has normally used neither the "constructed value" (cost of production plus a reasonable amount for administration, selling and any other costs and for profits) nor third-country export prices in determining normal value. Import prices c.i.f. have usually been taken as export prices. Without any explicit provisions in its domestic legislation, in practice, in order to determine injury, Finland applies the principles of Article 3:2 of the Anti-dumping Code to assess undercutting of price levels (e.g. by comparison with prices of like products).

268. Several of the investigations initiated in the last five years were terminated on request of the applicant. Price undertakings have been accepted whenever exporters have offered and agreement has been reached. Voluntary export restraints have not been accepted. In two cases, the final measure applied was a variable duty. The only anti-dumping duty still applied, on imports of plastic foil and sheets from Poland and Romania, remains in effect until the end of 1991.

269. Harmonization of competition law and policy as part of the EEA negotiations are expected to permit the elimination of anti-dumping actions between the EEA countries. Finland will maintain its anti-dumping regulation on trade with third countries.

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81 That is, the price at which a like product is sold in a country of comparison.

82 However, the current investigation on dumping of optical fibre cables by Japan uses the "constructed value" method.
270. Countervailing duties have never been imposed.

(xvii) **Safeguard actions**

271. Article 5 of the Act on Safeguarding Foreign Trade and Economic Growth in Finland (157/74) allows for the imposition of an additional duty, or surcharge, for a maximum of one year on imports which "cause or threaten to cause serious handicap to the production or labour market situation of a similar or competing domestic article". The procedures to be followed are provided for in the Decree on Market Disturbances, market disturbance referring to the term "serious handicap".

272. The primary remedy against market disruptions is the establishment of a basic price; establishing a basic price does not automatically mean that a surcharge is applied but is designed to act as a signal to traders to raise prices. The basic price should not exceed the representative export price of similar Finnish products, or, in the absence of an export price, the representative domestic price. If import prices do not increase to the basic price, a surcharge, not to exceed the difference between the basic price and the lowest landed import price (c.i.f. plus duty) may be applied. The Permanent Advisory Body on Customs Matters recommends to the Ministry of Finance the setting of the basic price and the surcharge. After one year, a prolongation of one or both measures requires a separate decision.

273. Between 1985 and 1987, basic prices were set for plastics, fibreboards and electric motors or generators. From 1988 to 1989, a basic price was applied to cement imports. Some of these became the subject of anti-dumping investigations and subsequent price undertakings (see IV(xviii)). In 1990-1991, a basic price was set for aluminium bars, tubes and pipes. There are currently no basic prices operating on imports.

274. Since 1985, only once has a surcharge or additional duty been applied. The single safeguard action was notified by Finland under Article XIX and concerned imports of porous fibreboard impregnated with bitumen (CCCN 44.11). This surcharge (FIM 2.10/kg) based on the difference between the import price (c.i.f.) and a basic price of FIM 2.30/kg, was in force between 2 June and 14 November 1986. The additional duty was extended to 14 May 1987.

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83 L/6206, 4 August 1986.

84 Information provided by the National Board of Customs, 17 June 1991.
(xviii) Measures implemented in exporting countries

275. Finland maintains a number of bilateral agreements with textile exporters under the extended MFA IV. (See Chapter V). The annual growth rates continue to be below 6 per cent, using the "minimum viable production" clause, which allows countries with small markets to grant growth rates of below 6 per cent for quotas.

276. Until 1989, quantitative targets existed between Finland and the EC (ECSC) on steel products. In 1987, the EEC exported 30,000 tons of concrete reinforcing bars to Finland, causing, in the Finnish view, market disruption. As a result, the EC restricted 1988 exports of concrete reinforcing bars to Finland to not more than 16,000 tons. As of 1 January 1989, steel trade between Finland, along with Austria, Norway and Sweden, and the European Communities, was conducted on the basis of an exchange of letters whereby the parties agree to hold consultations immediately, if it appears necessary to find solutions to deal with market disturbances.

(xix) Free trade zones

277. Most of Finland's ports contain free trade zones. Any operations besides normal warehousing operations and reconditioning necessary for resale require a permit from Customs. Processing activities represent about 1 per cent of trade. Processing activities in Finland include preparing motor vehicles to meet Finnish inspection and dismantling used cars for spare parts. Over FIM 200 million of 1989 imports were domestic products which underwent further processing abroad; leading products are machinery and motor vehicles; outwardly processed goods upon importation are dutiable on the basis of the additional processing and delivery costs only.

(3) Measures Directly Affecting Exports

(i) Export taxes, charges, levies

278. Exported goods (although not imports used in their production) are exempt from the turnover or sales tax. According to the OECD, the cumulative sales tax represents about 3 per cent of export prices and this

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exemption therefore has a small influence on cost competitiveness.  

279. A temporary deposit requirement of 3 per cent was introduced on exports of wood-free printing papers on 1 February 1989 but terminated on 1 May 1989. The collection of export deposits begun in September 1988 on chemical pulp was abolished in February 1990. In November, the Government decided to refund export deposits levied on pulp and wood-free printing papers.

(ii) Minimum export prices

280. As a member of the International Dairy Arrangement, Finland takes part in maintaining minimum export prices on exports of dairy products such as butter and cheese.

(iii) Export prohibitions

281. There is no specific legislation on the export of domestically-prohibited goods.

282. Finland is not a member of COCOM. However, it observes the general COCOM rules. Export certification by Finland is accepted as valid for COCOM purposes.

283. The EEA negotiations aim for a general ban on export restrictions but will exclude the iron and steel products covered by the ECSC agreements.

(iv) Export licensing

284. An export licence is required only for export of certain scrap metal and ships.

285. For exports of agricultural commodities for which export subsidies are paid (cheese, butter, meat and cereals), an export control declaration is needed to prevent misuse of subsidies.

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87 OECD (1989), op. cit. p. 91.
286. An export certificate is issued to the effect that the exporter has given an assurance that the products re-exported do not violate the export control regulations of the country of origin.

287. Export permits are required for the export of radioactive substances and war material including firearms, ammunition and explosives. An export permit for the export of narcotic drugs requires a certificate from the competent authority in the country of importation showing that the consignment can be imported.

288. Licensing of exports to the USSR operative under the old bilateral clearing agreement was abolished at the beginning of 1991.

(v) Export quotas

289. Export (or production) ceilings have been introduced to reduce State expenditure on some agricultural exports, milk, eggs, beef and more recently pork. Exports above these ceilings are not subsidised and the producer must absorb the costs (cf. Chapter V(2)).

(vi) Export cartels

290. The Finnish forest industry is represented in export markets by three marketing organizations: Finnpap, Finnboard and Finncell. A recent EC decision mandated that Finnpap could not require its members to exclusively use its sales and invoicing services.

(vii) Voluntary restraints, surveillance and similar measures

291. An Arrangement between Finland and the United States controlling exports of certain steel products to the United States is in force through 31 March 1992 (cf. Chapter V(3)(ii)).

292. Until 1989, export quotas operated under a voluntary restraint agreement on steel products with the EC (ECSC).

(viii) Export subsidies

293. Export subsidies notified to GATT declined between 1985 and 1989 and then rose sharply in 1990 (Table IV.16). Included in the notification are export credit subsidies and assistance to export promotion activities. The

\[91\text{GATT document, DPG. Notif. 86.7, 30 June 1986.}\]

\[92\text{Government of Finland.}\]
largest component (over half) goes to subsidies on exports of agricultural commodities (which have been falling) and another quarter to refunds on exported foodstuffs (which have been rising).

294. Close to FIM 3.5 billion was spent on export subsidies in 1990. New legislation was passed in 1989 to reduce the Government's share in export subsidies by introducing fixed export subsidies for all agricultural commodities, except eggs. Between 1989 and 1990, State subsidies to beef exports dropped by one-third and those on pork exports by one-quarter. Milk, beef, eggs and pork are subject to export quotas or ceilings. Producers are responsible for the cost of exporting above the ceilings; these are collected through taxes on agricultural inputs and marketing fees.

(ix) **Duty and tax concessions**

295. Exports are exempt from both turnover and excise taxes. Imports destined for export production are exempt from the import equalization tax.

(x) **Export finance**

296. An export credit arises whenever a foreign buyer of exported goods or services is allowed to defer payment. It may take the form of a "supplier credit" extended by the exporter or "buyer credit", where the exporter's bank or other financial institution lends to the buyer (or his bank).

297. Subsidized export credits are granted by Finnish Export Credit Limited (FEC), in which the Government is today the majority (55 per cent) shareholder. Other shareholders are banks and capital goods manufacturing firms. While FEC operates on commercial business principles, the interest rate for financing its lending operations is subsidized and FEC is exempt from income tax.

298. Finnish Export Credit provides financing up to 85 per cent of the export contract value. However, it is the FEC's policy to grant the loan based on the domestic value added of the contract: the contract value must have a minimum 50 per cent domestic content to be eligible for a subsidized export credit and FEC will finance no more than 15 per cent of the foreign share. The FEC also charges a commitment fee on undisbursed loans and a management fee on buyer credits.

\[93^\text{Agra Europe, 23 November 1990.}\]

\[94^\text{GATT (1991), The International Markets for Meat 1990/91, Geneva.}\]
299. Three types of subsidized loans are made by the FEC: officially-supported export credits, export credits for ships and concessional credits for the export of capital goods and services for qualified projects in developing countries. For all of these, Finland conforms to relevant OECD rules.

300. The Finnish Parliament annually sets maximum credit amounts on subsidized loans for the export of ships and concessional credits. In the latter case, the Finnish Development Agency (FINNIDA) acts as the financial intermediary between the Government and FEC. Eighty per cent of a concessional credit is tied to procurement from Finland, although the buyer is encouraged to organise international competitive bidding in order to ensure that Finnish suppliers are competitive.

301. Outstanding credits extended by the FEC, mainly to the shipbuilding and wood-working machinery branches, have nearly tripled in the last five years, rising from FIM 5.1 billion in 1986 to FIM 14.7 billion in 1989. In 1986, FEC began to finance domestic deliveries of ships (and other capital goods); in 1989, the value of export contracts made with the participation of FEC was 8.4 billion, nearly 9 per cent of exports. Between 1986 and 1990, the subsidy component has grown from FIM 34.7 million to FIM 85 million.

(xi) **Export insurance and guarantees**

302. In addition to interest rate subsidies, export credits are supported by State guarantees. Export guarantee operations are based on the Export Guarantee Act and the Export Guarantee Statute and granted by the Finnish

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95 As a member of the OECD Trade Committee, Finland has accepted the Arrangement on Guidelines for Officially Supported Export Credits which is designed to provide for an orderly export credit market and to prevent exporters from competing on the basis of favourable financing. The subsidized terms of credit offered by FEC conform to this Arrangement which sets minimum fixed interest rates, required downpayments and maximum credit periods. Subsidized export credits granted in connection with the export of ships conform to the OECD Understanding on Export Credits for Ships. Concessional credits are made in accordance with OECD rules which specify, among other things, the minimum amount of the grant element.


98 Available information does not make possible a distinction between credits for domestic deliveries and for exports.

Guarantee Board, a government agency under the Ministry of Trade and Industry.  

303. A Supervisory Board appoints the Board of Directors; both Boards include a representative of the Ministry of Foreign Affairs, Ministry of Trade and Industry, Ministry of Labour and the Bank of Finland as well as four representatives from industry and commerce, including two representing small- and medium-sized companies.

304. The Finnish Guarantee Board issues a number of different credit guarantees. The main criteria for granting insurance coverage are the satisfactory creditworthiness of the buyer and the buyer's country. Table IV.17 outlines the main types of guarantees on suppliers' and buyers' credits extended by the FGB.

305. The most commonly used export guarantee is the F-guarantee, on buyer's credits. At the end of 1990, these accounted for 65 per cent of outstanding export guarantee commitments. The second most common guarantee is the L-guarantee, whose share in total commitments was 23 per cent at the end of 1990. Average premiums on short-term guarantees (less than two years) range between 0.3 and one per cent of the credit line; for a three year guarantee between 2 and 4 per cent and for a 10-year between 4 and 6 per cent.

306. In 1989, total outstanding guarantees were FIM 15.5 billion, nearly double the 1986 level. The large majority (73 per cent in 1990) of guarantees cover exports of the metal and engineering industry with exports of the forest industry making up most of the remainder. The geographical distribution of outstanding guarantees of the FGB, at the end of 1990, was 35 per cent to OECD countries, which account for the bulk of short-term guarantees, 29 per cent to the Soviet Union and 33 per cent to developing countries.

307. The Finnish Guarantee Board operates on a self-supporting basis; accumulated premium income is intended to cover payments of claims and administrative expenses over the long run. Surpluses are held in the Export Guarantee Fund; claims that cannot be financed from the Fund are reimbursed through the State budget. The maximum liability, set by Parliament, is FIM 25 billion. In 1986 and 1987 claims paid by the FGB

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100 In 1989, the State Guarantee Board and the Export Guarantee Board were merged to become the FGB, they are funded separately.

101 Government of Finland.

exceeded recoveries (see Table IV.18). The deficit in 1989 can be ascribed to the Wärtsilä shipyards bankruptcy, but in 1990 FGB was successful in recovering Wärtsilä Marine claims and a profit for the year resulted.

(xii) **Export promotion, marketing assistance**

308. The Finnish Government provides grants and loans for the promotion of export products' marketing, for participation in foreign trade fairs and exhibitions and for export campaigns arranged jointly by several firms. Grants are also an incentive to small- and medium-sized enterprises to support export marketing activities. Between 1986 and 1990, annual grants rose from FIM 112.6 million to FIM 133.3 million; loans over the same period, rose from FIM 30.6 million to FIM 39 million.

(xiii) **Free trade zones**

309. In 1989, re-exports amounted to FIM 1 billion, mainly machinery. Goods imported for subsequent re-export are only allowed if domestic production is not adversely affected. These goods which undergo further processing in the free trade zones are subject to a deposit covering import charges which is released upon exportation. Just under FIM 200 million of 1989 exports underwent foreign processing; leading products are machinery, motor vehicles, i.e. sub-contracting of assembly operations and some furs and clothing.

(4) **Measures Affecting Production and Trade**

(i) **Adjustment assistance**

310. As in most post-industrial societies, services in Finland have grown to represent the most important economic activity, concomitant with a decline in the share of agriculture in the economy. As the structure of GDP has changed, employment has followed suit. Over the period 1977-88, total employment in the tertiary (services) sector rose by 29 per cent, while it fell by an equal amount in the primary (agriculture, forestry, fishing and mining) sector and fell by 4 per cent in manufacturing. Jobs created in the 1980s have been exclusively in the public domain, particularly at the local (municipal) government level.

311. Since 1987, the adjustment of the agricultural sector generally has been facilitated by support to start small-scale enterprises in rural areas which can provide an alternative source of income for farmers.

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312. Finnish industry has undergone rather vigorous structural change as the open sectors of the economy have responded to changes in international demand. Although unit labour costs have risen more rapidly than in competitor countries, product differentiation and specialization have maintained productivity growth and competitiveness, aided by devaluations, in export industries. Meanwhile, with increased rationalization and technology upgrading, manufacturing firms have become ever more capital-intensive.

313. Unemployment, which has tended to be lower than in other Western European countries, has been experiencing a rising trend particularly in certain vulnerable industries such as textiles and footwear, much of whose output was previously exported to the Soviet Union. The pegging of the Finnish markka to the ECU will most likely exacerbate this trend where employment and wages will have to take the brunt of the adjustment burden.

314. The Employment Act, which was introduced during 1988, obliges the Government to ensure employment in two main types of cases. First, the law applies to all persons under 20 years of age who have been unemployed for at least three months. Second, it applies to chronically unemployed persons who have been jobless for a year at a stretch or intermittently for the equivalent of one year's time during the preceding two years. Jobseekers may also be eligible for assistance due to regional employment considerations. The public sector has either to find jobs for these persons, or if all else fails, to employ them itself. The Act also provides for State subsidy based on a per diem allowance for salaries paid, for a maximum of six months, to municipalities which provide training opportunities or employment. A 70 per cent increase over the normal subsidy is paid if a youth under 20 or a long-term unemployed individual has been hired. The authorities believe that the law has significantly reduced long-term unemployment and so total unemployment.

(ii) Assistance for research and development

315. The Science and Technology Policy Council, headed by the Prime Minister, sets guidelines on questions of science and technology policy. At the national level, basic research is carried out primarily at universities, often with funds provided by the Academy of Finland operating under the Ministry of Education. The Technical Research Centre of Finland, under the Ministry of Trade and Industry, carries out applied research alongside industry.


316. The Technology Development Centre (TEKES), responsible to the Ministry of Trade and Industry, was founded in 1983 to raise and maintain the level of technology in Finland. TEKES seeks to promote the development of new products and production methods that are of a high standard technologically and internationally competitive. TEKES provides funding for applied research in institutes and universities, for R&D projects in industry and coordinates international cooperation in technology. In 1990, TEKES combined national and international R&D project financing totalled approximately FIM 430 million. Grants and loans to business totalled approximately FIM 430 million.

317. According to a recent GATT notification on subsidies, grants to industry for technological research and development rose from FIM 122 million in 1986 to FIM 212 million in 1990. Loans rose from FIM 120 million to FIM 216 million. Grants are mainly directed at applied research and maximum 50 per cent of research project costs are covered; the average grant covers 35 per cent of research cost. Loans are intended for product development in high-risk technologies and maximum 75 per cent of R&D costs are funded.

318. Finland became an associate member of the European Space Agency in 1987 and a member of CERN (the European particle physics centre) at the beginning of 1991. Like other EFTA countries, Finland has concluded a framework agreement with the EC permitting extensive participation in EC research programmes. Within Europe, TEKES serves as Finland's EUREKA co-ordinator and also as a main co-ordinator with respect to EC programmes and ESA (European Space Agency) projects.

319. Between 1981 and 1989, the proportion of GNP devoted to research rose from 1.2 per cent to 1.8 per cent. In real terms, corporate expenditure on R&D rose about 10 per cent a year in the 1980s.

320. The Science and Technology Policy Council has set as its aim to raise the proportion of R&D expenditures in GNP to 2.7 per cent by the year 2000 while maintaining the current ratio of expenditure between the private sector (60 per cent) and the Government (40 per cent). The Government's share of both total R&D expenditures and its contribution to the business

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106Between 1986 and 1991, total State expenditure on research and development grew by 7.1 per cent annually.

107GATT document, L/6630/Add.10, 9 November 1990.

108Government of Finland.


110TEKES, op. cit.
sector's research expenditure is lower than in most industrialized countries, and industry remains the driving force behind R&D in Finland. It should be noted that there is intensive collaboration between universities and industries, with public institutes receiving research proposals from industry. Since 1987, wages paid for research personnel have no longer been tax-deductible.

321. Throughout the 1970s and 1980s, the percentage of corporate R&D funded by the government has varied between 7 and 9 per cent. At 4.6 per cent in 1987, the percentage of business R&D financed by the Government was well under the OECD average. The percentages, which do not exclude government contracts to perform R&D for government use, range from as high as 32.7 per cent in the United States to 1.7 per cent in Japan. Finland's target is to raise the Government contribution to 10 per cent by 1993.

322. An indicator of the effect of an increased focus and higher expenditures on R&D is the increase in patenting activity in Finland which, in the period 1981-86, was much faster than that in other Nordic countries. Relative strength is demonstrated in the mechanical engineering sector, mining, metal-working and paper-making machinery. However, most of the new knowledge needed in Finland is produced outside the country. Finland contributes only some 0.3 per cent of all new information.

(iii) Production subsidies, tax concessions

(a) Production subsidies

323. In 1990, the aggregate value of support agriculture amounted to FIM 20.3 billion (See Chapter V) Support to agriculture operates through price and direct income support. Eighty-five per cent of support to the farm sector operates through the price system. The remainder is paid as direct income support which aims at equalizing income disparities between different parts of the country and between farms of different sizes, for example, through hectarage subsidies (see Section (v) Regional assistance).

111OECD, information supplied by TEKES.
112TEKES, op. cit.
324. As many farms are small, farm income is insufficient to maintain a satisfactory standard of living. While one of the goals of structural adjustment policy is to increase farm productivity and enlarge farm size, policy objectives also aim to maintain the number of farms through "start money" and other forms of concessional credit distributed through the Agricultural Development Fund.

325. Annual State assistance to industry, 90 per cent of which goes to manufacturing, rose from FIM 1.1 billion to nearly FIM 1.7 billion between 1986 and 1990. This year, on 10 May, the Council of State decided on a package of transfers of approximately FIM 7 billion to the business sector to regain international competitiveness.

326. Industrial subsidies used in Finland include grants and loans to promote export marketing, interest rate subsidies on export credits, investment and interest rate subsidies promoting the use of domestic fuels and energy conservation, and loan guarantees. The GATT notification does not include regional and employment aid. (Table IV.19 shows the breakdown of aid according to industry and activity.) Estimated at 1.5 per cent of industrial value added in 1990, the share of government aid to industry in Finland is lower than in both the EC and in other Nordic EFTA countries.

327. As can be seen from the table, regional aid has consistently been the largest component of State aid to manufacturing; research and development aid has increased most rapidly in the latter half of the 1980s. The Government has stated that aid to industry primarily benefits small- and medium-sized companies which in the whole economy account for the large majority (90 per cent) of enterprises, 20 per cent of value added and 17 per cent of exports. Only a fraction of aid to enterprises under regional aid went to large companies.

(b) Tax concessions and interest rate subsidies

328. Finland does not use differentiated tax rates, but numerous provisions in the taxation of companies tend to reduce the effective corporate tax rate. The tax reform initiated in 1989 set out to smooth the corporate tax burden, reducing bias against small enterprises.

329. Throughout the country, the value of domestic fuels, waste materials and imported natural gas but not oil may be deducted in calculating the sales tax payable by an industrial enterprise. The food-processing

115 Government of Finland.
116 GATT document, L/6630/Add.10, op. cit.
industry may get a break, when an "industrial import" is involved, on excise duties applied to imports of agricultural inputs and will receive a refund of excise taxes on exports. In the development zones, manufacturing (and peat production) are granted free depreciation allowances, essentially a tax deferral, and an investment allowance whereby the taxpayer can deduct part of the acquisition cost of new investments.

330. Investment grants and interest rate subsidies are available for energy conservation, new energy technology and promoting the use of domestic fuels and natural gas. State assistance in this category accounted for FIM 86 million in 1990. Pollution control policies incorporate the notion that the polluter pays, although some financial assistance (FIM 8 million in 1989) in the form of interest subsidies is granted on the purchase of pollution control equipment.

(iv) Pricing and marketing arrangements: competition policy

331. Finland is, after Norway, the second most expensive country in Europe (see Table IV.20 for selected retail prices). Consumer prices are nearly one-third above the average EC level and 14 per cent higher than in Germany, whose per capita GDP is substantially higher than that of Finland. The price level for food in Finland is more than twice that of the cheapest EC country, Portugal. Finland is the most expensive country in Europe for bread and cereals as well as for oils and fats. (Table IV.21 shows price levels relative to the EEC for some of the most divergent product groups) Interestingly, according to the price data presented in the study, fuel and power are cheaper in Finland than in the rest of Europe, with direct benefits to the energy-intensive pulp and paper industries.

332. Until 1988, Finland relied on an extensive system of price controls to check inflationary pressures. Maximum retail prices for the most important foodstuffs were stipulated. In 1986, the obligation to register prices under the price control system was abolished. In early 1987, it was estimated that between 20 to 30 per cent of private consumption goods including prices of public utilities were still subject to price controls. In July 1988, the Price Control Act was repealed and general price control abandoned. Legal provisions governing prices remain in place.

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117 GATT document, L/6630/Add.10, op. cit.
120 OECD (1988), op. cit.; p.53.
on alcoholic beverages, medicines, public transportation and long-distance telephone calls.

333. One effect of the imperfection of a system of price controls is that control on nominal prices in periods of real inflation can lead to a fall in real prices and lead to price-fixing behaviour between companies. In its surveillance activities since the end of 1988, the Office of Free Competition has dealt with more than 100 horizontal cartel arrangements resulting from the previous price control system and has succeeded in breaking up most of the cartels through negotiation.

334. The main rationale for promoting competition is to exert downward pressure on excessive domestic prices. In a competitive environment, the law of one price should, with some qualifications, hold for internationally-traded goods. Adequate competition can not be guaranteed simply by the abolition of trade barriers but requires the dismantling of other government regulations and public barriers; to entry, to exit and to arbitrage.

335. As discussed in Chapter II, market dominance, according to Finnish legislation is defined as the ability to affect prices or conditions of delivery. Pricing and marketing arrangements, horizontal and vertical, are not expressly prohibited and present potential limits to competition.

336. A number of cases of restrictive practices in the export and import-substituting sectors have been identified by the Office of Free Competition. In the major export industries, where State-owned companies predominate, the metals and engineering and forestry industries, have been long protected from competition. In the basic metals industry, a few large companies control production and in the forest industry, cartels operate all the way from the sawn wood market to sales of finished products. Annual agreements are drawn up between farmers and forestry representatives on wood prices. However, in the last year, negotiations did not conclude in a price agreement as forestry owners held out for higher prices and industry turned to cheaper imports for their supply requirements. Other identified restraints to competition in the forestry industry include agreements on regional market shares and proportional buying quotas among firms.

121 Such factors as transport costs, exchange rate risks, indirect taxation and per capita income will induce differences in price levels. Relative levels of income and wages correlate significantly with overall price levels.

122 Outukumpu (57.7 per cent) and Rautaruukki (86.8 per cent) in metals and Enzo-Gutzeit (50.3 per cent) in forestry; figures in parentheses are share of State ownership in 1989.

337. There is a strong correlation between border protection and price levels. With 60 per cent of food and agricultural imports subject to licensing, existing companies in the food-processing industry are protected from competition. Production inefficiencies have accumulated, although with the prospect of coming EEA integration, companies are reviewing their operations. Public support is provided to the food industry through the price compensation system which reimburses industry for use of higher-priced domestic inputs but includes an "industrial element" covering part of processing costs.

338. A sample of price indices provided by the Finnish Consumers' Association shows that domestically produced foodstuffs, such as rye flour, meat and milk have risen faster than the overall food price index while prices of such imported foods as rice and coffee are below 1985 levels (Chart IV.3). Until this year, about 70 per cent of all meat purchases and sales were made by the cooperative slaughterhouse organization owned by farmers. Its purported aim was to keep the margin as small as possible and thus promote domestic demand for meat. However, the retail price for beef in 1988 was FIM 49.32/kg, nearly double the producer price of FIM 27/kg. Whether this margin was in fact reasonable relative to distribution costs will be seen now that former members of the cooperative are operating independently. It is clear that distribution costs are also inflated due to the high tax on commercial vehicles, which raises domestic transport costs.

124 Ibid.
339. Access to distribution channels is a classic entry barrier. Restrictive practices by the State oil monopoly regarding exclusive distribution agreements have been identified and broken up by the Office of Free Competition.

340. Four wholesale companies and their retail chains account for 95 per cent of the distribution system for consumer goods, including household appliances, home electronics, clothing and footwear. Such vertical integration, buttressed by regulatory limits applied by local municipalities on setting up new retail outlets, has segmented national markets, enabled the distributors to capture excess rents by pricing to "captive" markets and impeded the entry of newcomers. This market dominance has been perpetuated also by the use of centralized invoicing by the firms. Centralized invoicing operates implicitly as a price-setting measure; price deviations are discouraged by their visibility. Central companies maintained their exclusive invoicing agreements in two ways: retailers received discounts in the form of deductions from invoicing commissions and independents were required to use the distributors' invoicing services. At the insistence of the Office of Free Competition, these practices have been dissolved. Moreover, the competition authorities will intervene if parallel purchases or imports seem to be precluded by exclusive dealings.
341. Much of the deregulatory action by the Office of Free Competition is directed towards problems of market entry including the elimination or lowering of trade barriers to increase competition. Action by the OFC has opened the domestic market to foreign competition in at least two cases. In 1989, its intervention forced the State-owned fertilizer company, Kemira, with no major domestic rivals, to abandon an exclusive deal it had concluded with the central trading companies. An agreement restricting imports of certain steel products other than from a United States-based subsidiary of Rautarukki, the State-owned metals company, was cancelled in 1990. The Office also proposed that restaurants and retailers be allowed to import top-quality beef, which was in short supply; as a result, licensing was somewhat liberalized. In an export-oriented industry, the Office was instrumental in ensuring that Finnish paper companies could sell on domestic markets (but not on export markets) independently of their sales organization, Finnpap (see Export cartels). The Office has also proposed the abolition of import licensing of oil products and removing import control of sugar and cereals.

(v) Regional assistance

342. Regional policy was first instituted in 1966 and had as its objective ensuring necessary conditions for development in every part of the country. The most recent Regional Policy Act came into force at the beginning of 1989 and remains effective until the end of 1993. The Ministry of the Interior has the responsibility of co-ordinating regional policy and cooperates with the provincial councils. New emphasis in the 1980s include coping with the structural change in industry, local and regional development projects, and support for small-scale enterprises in rural areas. Revised legislation, under the new Government, aims to target support measures more selectively at the least-developed areas and will further encourage business and industries to set up in developing areas.

343. For regional policy purposes, Finland is divided into four zones and further subzones, three of which are considered development zones. The development areas cover 88 per cent of the country's area and 47 per cent of the population. The two zones which receive the largest share of aid contain 17 per cent of the population.

344. Nearly half of government subsidies to manufacturing are dispensed under the heading of regional aid (Table IV.19). Regional aid comes in the form of loans and subsidies for company investments, capital formation and


operational development. Tax deferral, through a depreciation allowance on new investments, is also available in the development zones. Under the Regional Aid For Enterprise Act, investment, start-up and development subsidies can be granted. Transport subsidies, subject to minimum distances can be paid.

345. In the agricultural sector, production aids differ depending on the region. Regionally-allocated hectarage subsidies are lowest in southern Finland and highest in the northern part of the country. For example, in the northernmost zone, the subsidy by farm size rises by 50 per cent; the subsidy paid according to number of animals is over ten times that paid in southern Finland (FIM 1,595 vs FIM 140) and the production subsidy for pork can reach 85 pennia/kg in the North compared to a low of 40pennia/kg in the Southern regions. Government subsidies can account for as much as 75 per cent of agricultural income in the most northerly region where production circumstances are most difficult. Transport subsidies are paid to the agricultural sector as well. Regional subsidies paid to agriculture were roughly FIM 600 million in 1989, regional subsidies to manufacturing slightly less.

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V. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Overview

346. In spite of the fact that agriculture contributes only 3.4 per cent to Finland’s GDP and less than 7 per cent of the workforce is engaged in farming, the agricultural sector is heavily subsidized and protected at the border. Assistance as a proportion of production is considerably higher than the OECD average, but about the same level as in Switzerland and Norway. In 1990, the percentage PSE (72 per cent) stood at its highest level since 1979. Aggregate support in value terms amounted to over FIM 20 billion, whereas gross returns from agriculture were FIM 27.7 billion. Surplus production generates significant exports, particularly of dairy products; in 1990, export subsidies amounted to FIM 4 billion.

347. The brunt of the price burden has been borne by consumers, who have subsidized both farm output (since the producer price is carried through to the consumer price) and the domestic food processing industry through the price support mechanism. The incidence of this policy approach can be measured by the Consumer Subsidy Equivalent which, in 1990, on a percentage basis, was 71 per cent - nearly twice the OECD average - and represented a total transfer from consumers of FIM 14 billion (3.5 per cent of GDP). Food prices in Finland are twice the average level for the EC.

348. A complex system of compensation for high domestic prices of agricultural raw materials is available for products used in the food-processing industry. Excise duties apply to both domestic foodstuffs and related products, although these contain the import levy or price compensation element, which raises the price of raw materials used in imported goods.

349. There is growing public dissatisfaction with the high cost of agricultural policy, even though food security and self-sufficiency is ingrained as a necessity in the public mind. In the last few years, Finland’s farm policies have been kept under review, both for domestic

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1 Since the 1960s, the percentage of the labour force engaged in agricultural work has dropped from half to less than 10 per cent.

2 In 1984 the EFTA Secretariat estimated that consumers paid for nearly 80 per cent of the gross costs of agricultural production (EFTA Occasional Paper No. 18).


reasons and in the context of EEA and GATT negotiations. Supply control measures have been intensified, target prices stabilized in some cases and price support partly replaced by direct income payments. Input and output levies, to cover export costs, shifting more of the burden to producers, have been introduced and increased. In 1990, farmers assumed 18 per cent of the costs of export subsidies on agricultural commodities. The effect of export fees is to lower the producer price of farm products. This compensates for the trade-distortive impact of price support as well as reducing the burden on the State budget.

350. Finland's provisional offer in the Uruguay Round includes a 60 per cent reduction in export support from 1986 levels by 1996, as well as other measures which would result in a 20 to 30 per cent reduction in internal support and a 5 to 10 per cent reduction in border protection.

351. Unlike agriculture, Finnish industry is generally outward-oriented; exports account for over half of the net value of industrial production. Finland's industrial structure is dominated by forestry products, metals and engineering, food manufacturing and chemicals.

352. The value added content of exports has risen over the decades, as more paper products and less wood have been exported (see Chart I.6) and high-technology engineering products have replaced metal manufactures (see Chart I.9). Industries in general have undergone considerable structural change, but some may require far more given the decline in bilateral trade with the Soviet Union and coming European integration. Exports to the Soviet Union were already falling from the mid-1980s onwards due to the drop in the price of oil; the more recent deterioration of the Soviet economy has had a severe impact on Finnish industry in most sectors. Nevertheless, in certain products, such as machinery and paper products, Finland has been able to increase its market shares in Western Europe.

353. Ten manufacturers account for over half of Finnish exports and employ 40 per cent of the industrial labour force. These companies also account for nearly 80 per cent of the stock of foreign direct investment. Concentration has increased in spite of the fact that small and medium-sized enterprises (less than 500 employees) have received some State assistance and in 1987 generated 27 per cent of industrial production and 18 per cent of exports.

5The "forestry" industry as defined by Finland includes all downstream production, including paper and wood-based chemicals.

6Finnish Foreign Trade Association.
354. While privatization has occurred through public offerings of shares in State-owned companies, State-owned enterprises continue to play an important rôle in Finnish industry. Four of the ten largest manufacturers are public enterprises: Neste, in oil refining, Outukumpu, in base metals, Kemira, in fertilizers and Enzo-Gutzeit, a forestry products company. In 1989, State-owned companies accounted for 21 per cent of industrial value added, 30 per cent of industrial investment, one-fifth of exports of goods and services and employ 14 per cent of the labour force. According to the Finnish Office of Free Competition, firms exhibiting market dominance were typically public enterprises.

355. Most of Finland's State-owned companies were created either to safeguard the domestic supply of materials or to process indigenous raw materials for the world market. They operate in fields which are characteristically capital-intensive and energy-intensive and industries which exert a strain on the environment. Further privatization is under consideration, although domestic capital markets are small and equity markets, where there is a lack of foreign investors, have been under pressure for some time. Moreover, divestiture leaving less than two-thirds of the equity in State hands requires Parliamentary approval.

356. As in most developed economies, services in Finland generate the largest part of GDP. The Finnish authorities are concerned about the disproportionate growth of the so-called "closed" sector, catering to the needs of the domestic market, which is particularly service-oriented. The closed sector is import-intensive, yet generates no exports. Employment has been steadily increasing while employment in the "open" sector has fallen 15 per cent in the 1980s.

357. Services which provide support to tradables should clearly be available at competitive prices. Regulatory changes have been made in transport and financial services. As of March 1991, road transport licences were no longer granted on the basis of needs testing (an administrative assessment whether there was a need for additional services) but only on the basis of the professional skills of the applicant; this revised practice is in line with EC principles. Resale price maintenance prohibition was extended to services and the banking sector was added to

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7 According to the OECD Committee on Competition Law and Policy, a report by the Office of Free Competition recommends that the point of departure for the fiscal status of public corporations be neutral relative to private operators.

8 Given the drain on capital that outward investment has precipitated and the resulting balance-of-payments deficit, the Government is giving greater consideration to the promotion of outside investment in Finnish industry, promoting the advantages of its skilled labour force and proximity to Eastern Europe.

the scope of competition legislation in 1988. Since the beginning of 1991, foreign banks may now establish branches, as opposed to merely subsidiaries.

(2) **Agriculture**

**Policy objectives and their implementation**

358. Broadly, the goals of agricultural policy in Finland are self-sufficiency, maintenance of an income level for the farm community commensurate with that of other sectors of the economy and keeping the rural areas populated at their present levels. Forty per cent of the population still lives in country districts; farming is the main source of livelihood for the rural population, supplemented by revenues from forestry, fur breeding and non-farm wages.

359. Self-sufficiency has long since been achieved in bread, wheat, potatoes, milk, pork, beef and eggs and for the most part in vegetables. Oversupply of a number of products has existed for several years (Table V.1). Maintaining this level of self-sufficiency has proved expensive. Finland has one of the costliest agriculture policies in the world. Measured by net Producer Subsidy Equivalents, subsidies amounted to 72 per cent of receipts in 1990, 1.64 times the OECD average and significantly higher than in the EC.

360. Within the context of its overall goals, the most important instrument in Finnish agricultural policy is domestic price support. Market price support, paid for by the consumer, accounts for 85 per cent of assistance to the sector. Policies to maintain high domestic farm gate prices are supported by a wide array of border measures (Tables AV.2 to AV.10). The principal trade measures used are quantitative import restrictions, variable import levies, seasonal tariffs, export subsidies to permit export of surplus production at world prices and export refunds on processed foods which use local farm produce. Policies have also been implemented to increase domestic consumption, primarily of dairy products.

361. Numerous income support measures also operate to maintain the level of farm incomes commensurate with that of wage-earners in other sectors of the economy (Table V.2). Since 1956, Farm Income Acts, effective for five-year periods, have provided the framework for price negotiations between the State and farmers' organizations. At the beginning of 1990, a

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10 In 1987, a report by the Agriculture 2000 Committee made recommendations on long-term agricultural and rural policy planning, including incomes policy, production policy and objectives affecting trade, and their implementation. A Working Group was set up in 1990 to update the programme and a proposal should be submitted to Parliament by the end of 1991.
new Farm Income Act came into effect for five years. A major change in the framework is that, under the new Act, the increase in farm income is no longer explicitly tied to wage developments in other sectors.

362. Target prices for main commodities (milk, beef, pigmeat, sheepmeat, eggs, rye, wheat, barley and feed oats) are calculated by the Agricultural Price Council. They provide the basis for calculating farm incomes, import levies and export subsidies. Target prices are reviewed twice a year. On 1 March, in the spring farm incomes settlement, target prices are adjusted to take account of changes in costs, cost increases and actual prices received by producers; and on 1 September a further adjustment for changes in costs is made. Various measures, such as price supplements, additional prices and production premia raise the producer price above the target price, while output levies and marketing fees reduce the producer price. The recent development of target prices for selected commodities can be seen in Table V.3.

363. In addition to setting target prices, an allocation is negotiated with regard to how much of total income transfer to farmers will come directly from consumers and how much from the Government (see Table V.2). Government, that is taxpayers', transfers (price policy support) are commonly in the form of direct and deficiency payments. These include regional and hectarage subsidies and price supplements. (Table V.4 shows the measures used to implement agricultural policies and the amounts dispensed since 1986).

364. Below a defined level of taxable income, hectarage subsidies, favouring medium-sized farms (from 7-8 hectares), are paid according to the farm size, number of animals and graded regionally. Such subsidies decline once a farm is over 19 hectares and stop once a farm is over 30 hectares. In February 1990, it was decided to introduce a general flat rate subsidy of FIM 300 per hectare of cultivated grains, conditional on participation in the fallowing scheme; 15 per cent of arable land had to be fallowed or FIM 1,000/ha. would be collected to cover export costs.

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11Membership includes representatives of producers, consumers and the Government.

12In the first stage, the change in farm costs is established by calculating the changes in prices of inputs since the previous settlement. In the second stage, income increases are calculated based on the preceding three years output quantity and observed producer prices in January and July to the extent that data is available. (OECD, National Policies and Agricultural Trade, Finland, 1989; p.24.)

13State expenditures on agriculture and food industry policy amounted to 1.8 per cent of GDP in 1990.

14The limit for 1991 was FIM 138,000; in the case of a young farmer, under 38, who has been farming since 1984 or later, the limit was FIM 198,000.
365. Other incentives have also been introduced to reduce production. Measures to curtail production were incorporated in the 1983 Act on the Regulation and Balancing of Agricultural Production and the Act on Directing Livestock Production. Funding for such measures is prescribed by the Farm Incomes Act, which requires that an amount equal to 20 per cent of the Government's costs of export subsidies, excluding the export costs of grains, be allocated to supply control schemes. If measures to restrict production exceed the allocation, the individual farmer must pay half the costs. Expenditure on production control, including fallowing contracts, amounted to FIM 810 million in 1990, of which the State paid FIM 680 million.

366. Various measures taken to curb production include:
- a prohibition on clearing of new land;
- fallowing contracts;
- compensation paid to farmers under voluntary contracts who agree to stop production (e.g. buy-out programmes) or to reduce production by a certain percentage (e.g. the milk bonus system); and
- production quotas with fees in the form of marketing fees, output and input levies, which go to finance export charges.

367. In spite of these and other measures, production of most commodities, with the important exception of milk and beef and to some extent eggs, has shown no discernible decline as yet. Absolute and relative amounts of assistance to producers have continued to increase. Between 1979 and 1986, the overall PSE for main agricultural commodities produced in Finland rose from 57 to 70 per cent; from 1985 to 1990 the level of support increased further to 72 per cent. Crops have received the largest increases in support, with PSE rising from 39 to 77 per cent between 1979 and 1986 and to 82 per cent in 1990 (see Table V.5). The State spent nearly FIM 9.7 billion, 5 per cent of central Government gross expenditure, on farm and farm-related support. Over FIM 3 billion went to export subsidies for agricultural products, although the world market value of these exports was close to FIM 2 billion.

368. Finland is, overall, a net importer of agricultural products. However, imports are mainly of products for which there are no domestic

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16 In 1986, fallowed land represented 5 per cent of arable land. The goal for 1992 is to increase the share of fallowed land to 20 per cent (500,000 hectares).
substitutes, such as coffee, tea, fruit, soybeans, or where there is no
goal of self-sufficiency, such as sugar (Table V.6).

369. Non-competing agricultural products are subject to import duties and
not to other trade measures. Alternate or specific duties are in effect
for sugar, plants, fruit and vegetables; seasonal tariffs are also applied
to horticultural products.

370. Most other agricultural imports are subject to variable levies,
discretionary licensing or global quotas. Overall, some 30 per cent of
agricultural tariff lines and between 20 and 30 per cent of imports of
agricultural products are subject to such measures. The share of tariff
lines subject to licensing varies from 30 per cent for foodstuffs to
77 per cent for dairy products and 86 per cent for animals and animal
products. Licences are usually granted only when production does not meet
domestic demand and prices rise above target levels. For competing
imports, the rôle of tariffs is thus largely or entirely superseded by such
other measures, insulating locally-grown products from international price
signals to a considerable degree.

371. Fifty-six per cent of tariff lines for agricultural products are
subject to bound rates of duty. Particularly low levels of bindings are to
be found in dairy products and grains, which are subject to variable import
levies (Table IV.4). According to 1988 GATT Tariff Study data, imports
under bound tariffs accounted for 78 per cent of agricultural imports in
1988, demonstrating two points: imports occur where predictability is
ensured and bindings are made where there is little need for protection.

372. Variable import levies, based on the difference between the import
price and the domestic target price, apply to 14 per cent of tariff lines
and 8 per cent of imports, according to 1988 Tariff Study data. Levies
affect imports of animal and dairy products, grains and some foodstuffs,
e.g. sugar. Agricultural products imported under industrial rates of duty
(e.g. sugar, starches, fruit juices) are not liable to import levies. Levy
rates are reviewed monthly on the basis of available price quotations in
domestic and world markets. Imports of these commodities which are subject
to licensing are minor.

373. In terms of Government revenue, tariffs on agricultural products
imported into Finland are about three to four times as important as import
levies. Over the course of 1986 to 1989, over FIM 1.3 billion of duties

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19 In the case of meat, when producer prices rise 5 per cent above the target price or
when inventories are below 3,200 tons (see IMC/INV/9/Rev.4, 21 April 1989.)
were collected on dutiable agricultural imports (Table V.13); import levies amounted to FIM 403 million.

374. In summary, the simple average tariff on agricultural products of 11.2 per cent cited in Chapter IV is relatively meaningless, given the array of licensing restrictions and variable import levies. Average tariff equivalents of existing import measures in 1989, submitted by the Finnish Government in the course of GATT negotiations on agriculture (listed for selected products in Table V.7) gives a more realistic appraisal of effective protection.

375. Although Finland's exports of agricultural products overall represent a small proportion of world trade in the products concerned, exports account for significant proportions of domestic production of eggs and dairy products; 25 and 30 per cent, respectively. Finland's exports of oats, milk and cream powder and more recently beef, are also significant at world levels (Table V.8).

376. Export assistance operates through direct subsidies to exports of primary commodities and export refunds on processed foodstuffs. The average annual expenditure on export assistance for the period 1986-1989 was FIM 3.2 billion (Table V.9), of which 58 per cent was direct subsidies, 23 per cent refunds on agricultural commodities used in processed food exports and a further 19 per cent export performance-related tax concessions. Over half of export assistance went to dairy products, between one-quarter and one-fifth to crops and the remainder to meat exports. In 1990, export subsidies increased markedly, to over FIM 4 billion, due to higher export availabilities and falling world prices. The producer contribution increased to nearly FIM 800 million reducing net State expenditure to FIM 3.2 billion.

377. The Ministry of Trade and Industry allocates export licences and approves all export sales in order to, for example, ensure compliance with minimum prices under the International Dairy Arrangement. The Ministry also pays the exporter the export subsidy which according to the current system, is a fixed value per unit, adjusted twice a year.

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20 National Board of Customs, **Foreign Trade 1989**: Vol. 2: Table XI 2c and XI 3.

21 1989 exports of oats from Finland in volume terms were 10.6 per cent of world exports (FAO Trade Yearbook 1989).

22 The turnover tax deduction on primary product content of exports.

23 Except in the case of grains, for which the Finnish Grain Board is responsible.

24 In June 1991, fixed export subsidies were FIM 19/kg of butter, FIM 10/kg of pork and FIM 17.50/kg of beef.
378. The Farm Income Act defines ceiling quantities for certain commodities (milk, pork, eggs and more recently beef and wheat, although in the latter case ceilings have never been reached) up to which the Government will subsidize exports. The producer pays the full cost of further exports. These subsidy levels are not commodity-specific. If the ceiling is not reached, the entire farm sector benefits since the Government then takes over a larger share of the subsidization of other agricultural commodities which have exceeded their quota. Furthermore, should imports occur in a certain commodity, the agricultural sector's share in the financing of aggregate export costs is reduced by the amount of import levies received. Thus, import levies also act indirectly to assist exports. Under the Act, farmers' share of export costs cannot, under the Act, exceed 13 per cent of net farm income (FIM 8.8 billion in 1990). In practice, the final distribution of costs between the Government and the farmer does not occur until the end of the year when producer and export prices have been confirmed.

379. The farmers' share of export costs is collected as taxes on feed concentrates (purchased feeds and raw protein content) and fertilizers and output levies on milk, pork and wheat. Taxes and levies increase production costs (which represent approximately 80 per cent of gross return) and reduce the price received by the producer. While in principle this could act as a production disincentive, price support for feed grains acts as a much larger incentive.

380. Over the period 1986 to 1989, farmers financed 9 per cent of total export subsidies on average. In 1986, when a large surplus was exported, farmers financed 22 per cent of costs. In 1990, the farm community paid FIM 770 million, 18 per cent of the cost of FIM 3.4 billion in export subsidies.

381. As noted, the Farm Income Act reduced the share of the Government's share of export subsidies for milk, beef, pork, eggs and cereals from 100 per cent in 1989 to between 67 per cent for beef and 92 per cent for

25 Government of Finland.

26 Taxes have been raised considerably in 1991. For individual commodities see relevant sections in Chapter. The tax on the raw protein content of feed grain was FIM 1.60/kg in 1991. The tax on fertilizers was raised in 1991 to FIM 0.20/kg. and FIM 1.50/kg. for phosphatic fertilizers; this latter is however a measure taken for environmental reasons and does not go to export costs.


28 Kettunen, op. cit., Table 19.
milk in 1990. The ceilings beyond which producers become liable for export financing are to be lowered progressively and the rate of levy increased accordingly (Table V.10).

382. For 1991, export subsidies are estimated at FIM 3.7 billion. Due to decreased production resulting from more stringent supply control measures, the estimates for 1992 predict a 25 per cent fall in export assistance to FIM 2.8 billion, of which the Government's share, FIM 1.5 billion, represents a significant reduction.

(i) Dairy products (Table AV.2)

383. The dairy sector accounts for roughly 35 per cent of Finland's agricultural output. Self-sufficiency ratios have been consistently over 120 per cent for liquid milk and between 130 and 143 per cent for milk fat between 1985 and 1990. Approximately 30 per cent of dairy production is exported as powdered milk or cream, butter or cheese.

384. Dairy is one of the more highly-protected sectors of Finnish agriculture. Net PSE rose from 70 to 77 per cent between 1979 and 1990 (Table V.5). Over half the total FIM 7.3 billion of subsidy in 1990 was paid by the consumer.

385. Licensing and variable levies apply to all imports of dairy products, except casein, which is, however, subject to the import equalization tax. Few imports occur, except for imports of cheese. These have risen by several orders of magnitude, although imports still represent less than 2 per cent of consumption. Current import quotas under free trade arrangements are 1,500 tonnes from the EC, under a reduced levy, and 100 tonnes from Switzerland.

386. Various production control measures have been attempted. In early 1985, individual milk quotas per farm were introduced. Originally set at 30,000 litres per year, the level was raised to 40,000 in 1990. Production, up to quota, for milk delivered to dairies receives the target price (FIM 2.77/litre in 1990). Production over quota receives, in principle, only the world price for milk; in practice a quota fee is charged, equal to about two-thirds of the target price (FIM 2.05/litre in 1991).

387. Up to 1989, milk quotas were not transferable; since then, quotas held by farms which have stopped milk production may be distributed to farms whose production was constrained by the quota level. This may have

limited the effectiveness of the quota system as a production limitation while encouraging consolidation of dairy farms.

388. Since 1988, dairies have also been subject to a quota system, based on the level of milk deliveries in a previous base year (originally 1986, currently 1989). Deliveries above this level are subject to a levy of 50 penni per litre. An additional levy of 4 penni/litre of milk received has been charged since 1 January 1990 to cover the export costs of butter of which 3,000,000 kg. must be paid for by the farm sector. Total exports of butter doubled between 1989 and 1990 to 30 million kilogrammes.

389. On the other hand, price supplements and additional price supports have raised producer incomes. Additional production subsidies have been equivalent to about FIM 0.50 per litre in the past four years. Further supplements of FIM 0.30/litre are paid up to 50,000 litres and 0.15/litre up to 150,000 litres per farm: in 1990, these payments were equivalent to nearly FIM 0.25/litre. Regional subsidies, in addition, range from FIM 0.04 per litre to 0.63 per litre according to region. Other measures of support for dairy products include transfers to dairies to subsidize prices of sales of butter and skimmed milk powder to the food and feed industries, a transportation subsidy for milk delivered to dairies (averaging FIM 2.30/litre in 1989), a storage subsidy for butter and a marketing subsidy for cheese.

390. Throughout the past decade, supply control measures have been implemented. Under the milk bonus system, Government contracts are concluded with farmers to reduce dairy herds. In 1988, this system offered the possibility of giving up production either for five years or permanently, under the dairy buy-out programme, selling the quota to the Government. This offer was so successful that the Government allocation (FIM 120 million) did not cover the demand. As a result, payments per farm were limited, priority was given to older farmers and only buy-outs rather than temporary contracts were negotiated. In November 1990, a further buy-out programme was initiated aiming to reduce production by 300 million litres representing over 10 per cent of current production.

391. According to the OECD, such direct measures have been more instrumental in reducing milk production than has the existence of the quota system. Less milk is actually produced than the sum of all farm quotas permits. In addition, as can be seen from the above, the quota-free level of production has been raised and the production quantity on which the higher price supplement is paid has been increased.

30Milk deliveries have declined by 200 million litres (7 per cent) since 1986.
392. Under the Protocols annexed to the International Dairy Arrangement, minimum export prices are established for skimmed milk powder, whole milk powder, buttermilk powder, anhydrous milk fat, butter and certain cheeses. Some sales by participants are made under derogation at cut-rate prices especially to Eastern Europe. The international butter market has recently been softening, consumption of butter in Finland also dropped somewhat in 1990, and the current economic situation of the Soviet Union (representing 10 per cent of world dairy imports) is likely to incur further below-market sales. Although Finland is a small supplier compared to the EC and New Zealand, it took advantage of the exception decided by the Committee of the Protocol on Milk Fat in December 1990 and will deliver 7,000 tonnes to the Soviet Union at the price of US$1,200 per tonne in 1991.

393. Dairy export subsidies (FIM 1.3 billion in 1991) are equal to about 20 per cent of the domestic price-based value of total milk production at the farmgate. Export subsidies to dairy products are actually greater than the farmgate value of production when valued at world prices. Recent legislation lowered the milk production ceiling up to which the Government will cover export costs from 2,625 million litres to 2,300 million litres in 1990, or by nearly 12 per cent. From 1990, production ceilings are to be reduced annually by 20 million litres (see Table V.10). The lowering of export ceilings corresponds with a falling level of production. Producers' contribution to export subsidies of dairy products was less than 3 per cent, averaged over 1986-89.

(ii) Animals and animal products (Table AV.3)

394. Beef and veal production is concentrated in Central and Northern Finland, while pigmeat and poultry production occurs mainly in Southern Finland. Beef and pork are products included in the Farm Incomes Act for which target prices are set. Finland is more than self-sufficient in beef, veal and pigmeat (Table V.1).

395. Internal support to the meat sector amounted to roughly FIM 6 billion in 1989, one third of total agricultural support. In addition to market price support, livestock and meat producers are paid regional and acreage subsidies. Direct income support is paid by farm size and by number of animals, graded regionally; the subsidy paid according to number of animals in the northernmost zone is over ten times that paid in southern Finland. Regional subsidies are paid for beef, pork and lamb in the form

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31 Given the emergency situation in the Soviet Union, to exempt from minimum export prices sales of butter up to 200,000 metric tons per participant for contracts made prior to 15 January 1991 and for delivery by the end of the year (DPC/PTL/17), 25 March 1991 and DPC/PTL/M/43.

of a production subsidy. In 1990, a total of FIM 187.6 million was paid through this instrument, compared to FIM 152.2 million in 1985. Price supplements graded according to carcass weight are paid on beef and mutton.

396. At the border, quantitative restrictions and variable import levies apply to animals and animal products. Quantitative restrictions are applied to nearly all meat products but were lifted on live animals used for meat processing in July 1990.

397. Meat imports from countries with the risk of foot-and-mouth disease or bovine spongiform encephalopathy (BSE) are restricted. There is no prohibition on imports from countries where hormones are used in animal production, although residue control is practised.

(a) Beef and veal

398. Beef is the second largest farm sector, accounting for 14 per cent of the gross return of the agricultural sector in 1989.

399. Beef in Finland is mainly a by-product of dairy farming. Due to an ongoing programme of reduction in dairy production, cattle numbers in Finland have been declining for several years. In 1985 there were 1.5 million head of cattle (including calves); by mid-1991, there were 1.2 million head. As can be seen in Table V.1, the self-sufficiency rate has been dropping since the mid-1980s; although at present, Finland is more than 100 per cent self-sufficient in beef and veal, but is expected to become a net importer in future.

400. A permit, issued by the local branch of the National Board of Agriculture, is required to establish or expand a production unit of more than thirty head of cattle and the maximum number of animals is 120; in addition, cattle farms must be two-thirds self-sufficient in animal fodder.

401. During the 1980s, the producer price for beef nearly doubled but dropped by 10 per cent in the last year, with the net percentage PSE (after adjustment for feed) dropping from 56 to 54 per cent.

402. Market price support represents 70 per cent of total assistance. The domestic producer price of beef, FIM 28.83 per kilogramme in 1989, is over four times the world average; retail prices are not under price control.

35A permit for more than 120 cars is only rarely granted by a higher office, the Council of State.
and a kilo of beef sold for roughly FIM 49 in 1988, almost twice the producer price.

403. In order to encourage a shift to beef from milk production, various price supplements operate. The beef cow premium is paid to farmers who set aside at least two cows for feeding purposes and agree not to sell calves or cows for milk production. The payment has been raised from FIM 900 per head in 1987 to a current FIM 1,700 per head. A price supplement, also referred to as a supplementary production premium, to increase the average carcass weight of animals, was increased in 1989 and currently ranges from FIM 1.00 to FIM 5.00 per kilogramme depending on carcass weight.

404. The share of internal support to beef paid by the Government (net expenditures) amounted to FIM 657 million (see Table V.11). In addition to the acreage subsidies, paid according to farm size and number of animals, most of which go to meat, mainly beef, State subsidies for beef in 1990 included the regionally allocated production subsidy (FIM 187.6 million), ranging from FIM 0.50 to FIM 96.0 per kg., the price supplement (FIM 321 million) and the beef cow premium (FIM 20.8 million).

405. Finland is a member of the GATT Arrangement Regarding Bovine Meat. Imports, governed by licensing requirements and subject to variable levies, may take place when the domestic producer price exceeds the target price by 5 per cent or inventories are low. Since the producer price exceeded the target in 1988 and 1989, some imports took place: 2,500 tons in 1988. Also, due to action by the competition authorities, higher quality cuts demanded by restaurants were allowed.

406. In 1983, an export ceiling of 14,000 tonnes was introduced. This was subsequently reduced to 10,000 in 1988 and 9,000 in 1989. In 1990, farmers assumed 10 per cent of the export costs up to 5,000 tons and half the costs of the next 3,000 tons. By 1994, these proportions will be based on 3,000 and 5,000 tons; once more than 5,000 tons are exported, exports will receive the world price only.

407. Export volumes have been declining since the mid 1980s. Since in 1988 and 1989, exports were below the ceilings, no producer contribution was made. Average annual export assistance for the 1986-1989 period amounted to FIM 342 million for beef, 24 per cent paid for by the farm sector. As mainly processed beef and veal products are exported most of the compensation came through export refunds.

(b) Pigmeat

408. Pigmeat is the third-largest farm sector in terms of gross return (13.4 per cent in 1989). In 1990, 187,000 tons of pork were produced. Total support for the sector is substantially below that given to beef, although the weight of production is considerably higher. The percentage PSE (55 per cent in 1990) is somewhat lower although, along with those for other livestock products, it has increased substantially over the past decade.

409. Revenues from the pig levy designed to finance export costs, varying from 20 penni to 60 penni per kg. depending on animal weight, amounted to FIM 19.9 million in 1990 whereas net State expenditures amounted to FIM 311 million.

410. Annual export assistance, on an average volume of 13,000 tonnes, amounted to FIM 197 million over the 1986 to 1989 period. Of this, producers contributed 14 per cent. However, in 1990, 23,000 tonnes were exported, exceeding the ceiling by 11,000. Farmers are obliged to cover half the export costs after 7,000 tons; after 12,000 tons, only the world price is received.

411. Export ceilings for pork will be reduced progressively until 1994 at which time they will be 5,000 tons, for which agriculture will pay 10 per cent of the cost and another 4,000 tons for which the sector will pay half the cost. Any additional exports will receive the world price.

(c) Other meat

412. Compared to beef and pork, there is limited domestic production of poultry and mutton. In 1990, 33,000 tons of poultry meat and 1,000 tons of sheepmeat were produced. Market price support for sheepmeat actually declined in the 1979-1986 period. Import policy on sheepmeat was changed in 1988 and in 1989 and 1990, 300 to 400 tons were imported, mainly from New Zealand.

(iii) Grain (Table AV.4)

413. Target prices are established for wheat and rye, known as bread grain, and barley and oats, coarse grain. Barley is the dominant grain
(production was 1.6 million tons in 1989).\textsuperscript{37} As shown in Table V.1, production of all grain exceeds demand with self-sufficiency ratios of up to 177 per cent for wheat in 1990.

414. Five major private or cooperative firms buy grain from the farmer and the Finnish State Granary buys between one-quarter and one-third of annual output. At the end of the crop year, the Finnish Grain Board purchases all of the grain offered to it at the target price. The Grain Board maintains reserve stocks of grain for food security purposes; the reserve target for all cereals was reduced in 1988 from 900,000 tons to 700,000 tons.

415. The Finnish Grain Board has an import and export monopoly for wheat, rye, barley, oats and feed maize. Its imports are effected at the world price, i.e. the variable levy is waived. These are passed on to the feed industry on the basis of world prices. Private firms are allowed to import grain seed, malting barley and rice.

416. Finland has generally been a net importer of rye but has exported surplus quantities of barley and oats over much of the past decade, except following the poor harvest years of 1987 and 1988 (see Table V.8). Generous export ceilings have been legislated from time to time in the 1980s, and in most periods exports have been substantially below the ceilings. The ceiling for wheat in 1988 was 125,000 tons and for coarse grains (barley and oats) 510,000 tons. In 1991, grain farmers will have to absorb the full cost of sales at world prices above 690,000 tons of exports; by 1994 the ceiling will have been reduced to 615,000 tons (see Table V.10). Crop farmers are also liable to a levy on fertilizers, which helps to finance exports. These charges raise the input costs but are not excluded from cost calculations in the incomes settlement.

417. The Government is particularly concerned about excess grain production. As can be seen from Table V.11 assistance to coarse grain nearly doubled in 1990, as exports rose by some 200,000 tons. A record crop in 1991 and surplus stocks will require the export of an estimated one million tons of coarse grain, which will cost roughly FIM 1.5 billion of which the farm sector will have to pay nearly one-third. The State paid an average of some FIM 550 million a year (1986 to 1989) in export subsidies and the farm sector has paid the additional FIM 55 million (see Table V.9). In the 1990 spring incomes settlement, it was decided to freeze producer prices for wheat and rye where self-sufficiency ratios are particularly high; instead a flat acreage subsidy (direct income payment) would be paid to grain farmers conditional on fallowing 15 per cent of

\textsuperscript{37}Yield for oats, wheat and rye were 1.4 million, 500,000 and just under 200,000 tons respectively (Agrifacts 1990).
arable land. This fallowing incentive has had some effect as the acreage designated for growing oats has been reduced by one-quarter. Additionally, in July 1990, a cereals levy, or marketing fee, was introduced to finance part of the increasing costs of export subsidies. In 1990, FIM 161.3 million was collected: the marketing fee alone will not nearly cover the private sector's share of cost export. It has been estimated that these levies will cause a reduction in net producer prices for wheat of 8 per cent and 6 per cent for rye and coarse grains. The increase in the levy for rye planted in the autumn will reduce the producer price by one-quarter.

(iv) Vegetable oils and oilseeds (Table AV.5)

418. Support to rapeseed production in Finland has been provided since 1973. The Act on Domestic Oilseeds Production permits the Government, after negotiations with producers, to establish the price paid by processors for rapeseed and the quantity to which this price applies.

419. The Ministry of Agriculture first establishes the shares of the maximum quantities of rapeseed allotted to the processing industry and then the shares to be allocated to individual firms. The firms then establish contracts with the growers. To the extent that the established price exceeds the c.i.f. price of imported rapeseed, the Government pays price compensation to the crushing and feed industry; price compensation was also paid on wheat and barley used in starch and feed production until 1987. This is in keeping with the practice of compensating the processing industry for using domestic agricultural raw materials based on the difference in world and domestic prices.

420. The gross PSE on rapeseed has risen from 50 to 92 per cent between 1979 and 1990, with a value equivalent to FIM 470 million in 1990. In the same year, FIM 390 million, FIM 3.61 per kilogramme of rapeseed, was paid in price compensation to the processing industry; the producer price in 1989 was FIM 4.14 per kilogramme. Due to this publicly-funded cost-reducing measure, oilseed meal has increased in importance relative to grains as animal feed.

421. Input levies on different kinds of feed have been applied since 1980. These taxes, which raise the cost of livestock production, have been applied to feed concentrates (grain and oilcake mix) and oilseed meal and

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39 FIM 0.20/kg. for wheat and rye, FIM 0.10/kg. for coarse grains and 0.8/kg. for rye planted in the autumn; after 1 July 1991, FIM 0,50/kg. for wheat and FIM 0,80/kg. for rye.

the protein content of feed excluding grains as a means of financing agriculture's share of export subsidies, most of which go to livestock products.

422. No tax is collected on feed with protein content under 19 per cent or fat content under 5 per cent which automatically eliminates cereals. From the beginning of 1991 the tax has been FIM 1.60 per kg. These are not levied on domestic grains, except those in compound feeds. In 1986 the total amount of levies collected, over half from protein feed, was FIM 282 million. In 1990, the levy collected at the border came to FIM 180 million.

423. Production of oilseed rape was 87,500 tons in 1980 and 125,300 tons in 1989. In spite of increased production of rapeseed, imports of oilseeds have continued to grow throughout the decade, from 92,100 tons in 1980 to 153,000 tons in 1989. A bound customs duty of 19 per cent applies to oilseeds such as soybeans. When used in the manufacture of vegetable oils and fats, soybeans are imported duty-free under the industrial rate of duty.

424. The Government is aiming towards self-sufficiency in rapeseed meal as a replacement for feedgrains. As a result, production of both soybean and rapeseed oil now exceeds domestic demand and surpluses are exported at the world price with refunds to industry paid by the Government. Vegetable oils are not exempt from the turnover tax as are other primary products. Oils, but not oilseeds, are subject to a 2.1 per cent import equalization tax.

425. Over half of oilseeds and vegetable oils are subject to import licensing. In 1990, over 136,000 tons of soybeans were imported but only 82 tons (FIM 775,000) of refined soybean oil. In contrast, no rapeseed was imported but nearly 1,500 tons of refined rapeseed oil (6,000 tons were exported) valued at more than FIM 4 million.

426. For oils and fats, Finland is the most expensive country in Europe with a price level twice the EC average. An excise duty levied on rapeseed oil (FIM 5.79/kg as of March 1991) for human consumption is applied partly in order to link the price of margarine to that of butter.

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41 GATT Secretariat estimates.
42 The indicative quota for rapeseed and soybean oils was raised from FIM 500,000 to FIM 1 million in 1991; for other vegetable oils, FIM 9 million.
43 Wieser (1989), op. cit., p.14
(v) **Foodstuffs (Table AV.6)**

427. The food manufacturing branch accounted for 11.5 per cent of total manufacturing value added in 1989 (see Chart I.2). Gross output of the branch is four times its value added. In addition to the high cost of raw materials, packaging costs are higher than in other countries, due to monopoly conditions. Concentration is high and has grown in the past decade: the five largest food manufacturing companies account for 55 per cent of exports while in 1980 they accounted for 29 per cent of exports.

428. According to a survey made in Finland to assess the impact of European integration, food, beverages and tobacco are the industries with the highest level of non-tariff barriers (Table V.12).

429. As mentioned in Chapter IV (Table IV.21), prices of foodstuffs in Finland are two to three times higher than in EC countries. The tariff equivalent of the combination of duties, import levies and price compensation for foodstuffs can range up to eight times the world price.

430. Foodstuffs, as defined in the GATT Tariff Study, form a diverse category including fruit and vegetables, coffee and tea, spices, sugar, eggs, products of the milling industry and most food preparations. For the group as a whole (Tariff Study category No.24) the average unweighted tariff in 1988 was 16.2 per cent and ad valorem tariffs can be as high as 50 per cent.

431. The underlying principle of support to the food industry in Finland - as for agriculture - is the equalization of domestic and world prices by raising the world price to the domestic level on imports and lowering the domestic price to the world level on exports. To achieve this objective, the domestic food processing industry is entitled to price compensation for higher-cost domestic agricultural raw materials used in the processing industry. This measure is permitted under the Stockholm Convention.

432. The protection of the food industry from foreign competition also extends to some coverage of processing costs. Products where price compensation includes processing costs are mainly in cereal and flour.

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44 **ETLA, The Finnish Economy 1990:4; p. 68.**

45 **ETLA, The Finnish Economy 1990:4, p.67.**


47 **In Finland's Uruguay Round agriculture offer, the part of processing costs covered by price compensation is known as the "Industrial element".**
products, vegetable oils and refined sugar. In the GATT agriculture negotiations, Finland has offered to reduce the industrial protection for processed food products at a rate corresponding to the rate of reduction to be applied to industrial products.

433. The main instrument to effect this price compensation is a variable excise duty, which applies to over 200 foodstuffs. The rate of excise duty is set to equal the difference between domestic and world market prices of the agricultural raw materials used in the prepared foods. Price compensation is carried out by exempting from these excise duties domestic products and any intermediate imports which are further processed in the manufacturing industry. For foodstuffs produced from domestic farm produce and sold in Finland, the price compensation is deducted from the excise tax so that there are no net transfers. Exported foodstuffs are exempt from the excise duty, which is paid as price compensation by district customs offices. Export refunds, as price compensation paid on foodstuffs, export refunds, amounted to FIM 800 million in 1989.

434. Foodstuffs imported for consumption without further processing are liable to excise duty as well as turnover tax. In 1989, imports amounted to FIM 776 million and excise duties collected were FIM 210.7 million, or an ad valorem equivalent of 27 per cent. Since primary products, except sugar, vegetable oils, are exempt from turnover tax, importers may receive a refund on primary products as well as on the primary product component of imported processed foodstuffs.

435. Furthermore, import duties and import levies (e.g. on starch) may be lowered or waived on certain goods used in food processing if the product is accorded an "industrial duty". This raises the effective rate of protection on processed foods (see industrial duties Chapter IV).

436. Some 30 per cent of tariff lines in the foodstuffs category are subject to licensing. According to the Office of Free Competition, 60 per cent of Finland's agricultural and food imports are subject to licensing. Officially, it is acknowledged that licensing arrangements have been used to direct imports to existing traders rather than to promote competition. Further, wholesaling of foodstuffs and consumer goods is largely in the hands of four companies, while establishment of retail outlets is regulated by town planning authorities. The combination of regulatory barriers and an oligopolistic trading structure has not been

48 The corresponding figure for 1990 was FIM 470 million.


50 The tax exemption on primary products reduces the turnover tax on foodstuffs to between 8 and 10 per cent.
conducive to competition. It is the Government's intention to broaden the range of foods available to the consumer. In 1991, the Council of State issued a Decision mandating that licences should be accorded on a wider basis.

(a) Eggs

437. Egg production has exceeded Finnish domestic consumption throughout the 1980s. The self-sufficiency ratio peaked at 162 per cent in 1985 and has been declining since then to 137 per cent in 1990.

438. The level of support given to the egg sector has fallen by half since 1979 and in 1990 represented 2.2 per cent of the total value of support to farmers. As a result, the percentage PSE dropped from 63 to 46 between 1979 and 1990.

439. Although exports have declined from the levels of the early 1980s (see Table V.8) exports still average some 20,000 tons a year. Nearly one-quarter of egg production is exported; export markets are the Soviet Union, Western Europe and the United States. Finland's surplus production continues to have a small, but nevertheless negative, effect on the world market for eggs.

440. Given the oversupply of eggs in Finland, no import licences have been distributed. Had imports occurred, the tariff on eggs is zero but imports would be subject to a levy corresponding to the difference in world and domestic prices.

441. Policies to reduce egg production (output was 76,000 tons in 1990) have included, since 1975, licensing of hatcheries; more recently, establishing or expanding hatcheries has been prohibited. In 1984, special contracts were launched wherein a farmer committed himself to stop production for four years and received FIM 50 per slaughtered hen. A production quota along with a dual price system was introduced in 1986, both lowering the target price and introducing an additional (lower) price for output above a certain quota. Special contracts were made in 1987 which reduced egg production by 9000 tons that year. In May 1990, a new buy-out programme was introduced. It is estimated that this will reduce egg production by 10,000 tons, nonetheless resulting in a surplus of some 10,000 tons.

51 The tariff equivalent for eggs in 1989 (the difference between the internal price (FIM 10.22/kg.) and the external price (FIM 2.04/kg.) was calculated at 400 per cent.
(b) Sugar

442. Support to sugar production and processing (see Table V.5 for PSE and CSE) is established through the Sugar Act. The Act empowers the Government to set a target level of production and pay sugar processors a production fee and transportation compensation. The aim is to maintain a 50 to 60 per cent self-sufficiency ratio in sugarbeet and corresponding processing capacity, although in the last few years the self-sufficiency ratio has been rising and there is significant over capacity in the processing industry, with sugar refining operations active only 50 days a year.

443. A negotiated price for sugarbeet is paid by the processing industry up to a production ceiling fixed in the Sugar Act; quantities in excess of the ceiling receive reduced prices lowered progressively until they reach the world price. Price compensation is provided to beet processors for the cost of using domestic sugarbeet compared to imported raw sugar and includes part of processing costs to industry. Aid at the farm level is passed through the food industry as price supplements for sugarbeet from distant areas, transport compensation and compensation for storage of beet seed.

444. Part of Government expenditure on support to the sugar industry is recovered through a consumption tax on white sugar amounting to FIM 205 million in 1990 (see Table V.4). Retail sugar prices have dropped slightly in the last few years (a kilo of sugar sold for FIM 8 in 1988 down from FIM 8.95 in 1985) but sugar still costs twice as much as in Germany.

445. In 1989, output of sugarbeet was 990,000 metric tons, resulting in an estimated production of 160,000 tons of raw sugar. In the same year

References:

52 Nachrichten für Aussenhandel, 11 December 1990.
53 OECD (1989), National Policies and Agricultural Trade: Finland, p.27.
54 The price paid to the sugar refining industry for refined sugar in 1989 was FIM 6.88/kg (US$1.60). This is composed of the producer price to sugarbeet producers (FIM 0.566/kg) and FIM 2.20/kg. to cover refinery costs. The conversion ratio for sugar beets to refined sugar is 8.27 kg. of beet for 1 kg. of refined sugar so that the domestic price, exclusive of production costs, would be FIM 4.68/kg.
56 Nachrichten für Aussenhandel, 11 December 1990.
57 National Board of Agriculture, Yearbook of Farm Statistics 1989, p.121
58 FAO, Production Yearbook 1989.
Finland imported nearly 84,000 tons of raw sugar (Cuba is the largest supplier) at the average price of FIM 1.16/kg. (US$0.27/kg).

446. Sugar and other natural sweeteners are subject to import licensing; raw sugar is subject to a specific duty of 57 penni per kg. The ad valorem equivalent of the specific duty collected in 1990 on cane sugar was 48 per cent. A variable levy is also applied to most sugar products, but in practice raw sugar imported for refining industry is exempt from the levy.

447. In 1989, Finland imported no refined sugar but did import sweets and sugar-based products. Exports of processed products incorporating sugar amounted to over 30,000 metric tons (nearly 20 per cent of production) at the cost of FIM 115 million or FIM 4.23/kg. in export refunds. Refined sugar is subject to alternate duties, a 50 per cent tariff or a minimum of FIM 3.15/kg. whichever is higher. The 1989 tariff equivalent (the difference between the domestic and world market price) for refined sugar was estimated at nearly 500 per cent.

448. Sugar for domestic consumption is not included amongst the primary products which are eligible for exemption from the turnover tax. All sugar and sweets are subject to an import equalization tax of 3.8 per cent.

449. Sugar is also subject to an excise duty of FIM 1.15 per kg. although this is waived for exports and sugar and other natural sweeteners used to produce yeasts, enzymes, medicaments and forage.

450. Tariffs on confectionery range from 16 to 35 per cent; the excise duty on sweets (sugar confectionery) is FIM 3.50/kg (in 1981 it was FIM 5.20/kg.). Imports under free-trade arrangements, from the EC, EFTA, the Soviet Union and Poland, are duty-free although a variable levy is applied to compensate for the difference in the cost of refined sugar.

451. The 1988 Sugar Act sought to improve competition in the processing industry by abolishing the import monopoly for raw sugar held by the largest processor, Finn Sugar. A price war ensued between Finn Sugar; whose name was changed to Cultor in 1989, and its only competitor. The two companies decided to merge in early 1991, forming the company Sucros. Since this effectively eliminates all competition, new Government measures
are planned: to grant import licences for refined sugar and to change the levy applied.

(c) Fruit and vegetables

452. Fruit and vegetables are generally subject to seasonal tariffs and, in some cases, alternate or specific duties. Ad valorem tariffs on imports during the winter months tend to be low but can range as high as 50 per cent on fruit and 40 per cent on vegetables during the summer and autumn seasons. To cite some examples, the specific duty on tomatoes imported during the summer months (April to August) is over twice the level for imports during the rest of the year.

453. A number of fruit and vegetables remain subject to licensing or quotas, especially during the summer season. Licensing for apples, pears, bananas and other fruit and on certain vegetables imported during the winter months was removed on 1 July 1990. Licensing requirements which operate like a tariff quota remain on soft fruit and potatoes all year round, and on various temperate zone vegetables such as onions and tomatoes during the summer months. Certain types of fruit imported during the winter from Hungary, Poland and Bulgaria are duty-free, although the preferential margin is relatively small.

(d) Products of the milling industry

454. Price compensation is paid to the processing, crushing and feed industries on "products of crop farming", which includes oilseeds, potato starch, wheat and barley. This support amounted to FIM 470.5 million in 1989 compared to FIM 254.6 in 1985. In practice most of this compensation goes for oilseeds to reduce the price to that of imported oilseeds (see Section (iv) - Oilseeds).

455. The Act on the Domestic Production of Starch provides for support to the production of starch from potatoes, barley and wheat. The Government establishes the price of potatoes for starch production applicable to a ceiling quantity. A corresponding price compensation for starch from barley and wheat was in effect through 1987. The average domestic price for potato starch in 1989 was FIM 4.70/kg. In 1990, the price supplement on potato starch totalled FIM 69.8 million or FIM 3.10/kg., price support, thus, covering about two-thirds of the domestic price.

63 Timing of imports is determined by a special advisory group composed of importers, retailers, producers, consumers and the Government.

64 National Board of Agriculture, Yearbook of Farm Statistics 1989, Helsinki, Table 9.5.2.
456. Starch, malt, and flours and meals of cereals are subject to import licensing. An indicative quota of 65 tons of starch in 1987 was raised to 200 tons the following years and has remained at that level; however, in 1990, 845 tons of primarily maize (corn) starch were imported but no potato starch. About 50 per cent of domestic consumption of starch is imported for use by the paper industry.

457. The customs duty on all starches is 10 per cent; the GATT binding on manioc and arrowroot was recently removed and a specific duty introduced. Imports of starch are also subject to import levies. Tariff equivalents of levies and customs duties together in 1989 averaged three and a half times the world price.

458. Domestic consumption of malting barley is considerably below output, representing about 50 per cent of production, and exports have escalated rapidly. A ceiling on subsidized exports of malt, introduced in 1984, was rapidly reduced and in 1987 fixed at a limit corresponding to 30,000 tons of malting barley. In 1989, 36,000 tons of malt were exported. Of average annual assistance to barley exports of FIM 316 million over the 1986 to 1989 period (see Table V.9). FIM 51 million was due to refunds on malt; price compensation was roughly twice the 1989 export price.

(vi) Cut flowers, plants, vegetable materials (Table AV.7)

459. As with fruit and vegetables, an alternate duty is applied, on a seasonal basis, to imports of fresh flowers. Ad valorem duties on imports from March or April until December are 50 per cent, and from December until March (April) they are 25 per cent. However, since the higher of the ad valorem or the specific duty comes into effect, this most commonly means that the specific duty is applied. Ad valorem equivalents on imports of fresh roses varied in 1990 between 29.5 in the winter and 51.9 in the summer months; on gladioli, the rates were respectively 40.7 and 113.6 in 1990. In addition to the doubling of the seasonal tariff, discretionary licensing is applied to flowers imported during the spring, summer and autumn (see Table IV.11). Imports of roses in December, January and February are typically twice the level of imports for the rest of the year.

460. Imports of plants infected with harmful plant pests are prohibited, under the Plant Protection Act (127/81). Imports of orchids from Thailand

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67 Government of Finland.
were found to be infected with *Thrips palmi* and subsequently banned. This plant pest has been added to the list of dangerous plant pests.

461. As a concession in the Uruguay Round negotiations on tropical products, Finland has reduced the duties on some plants, but not on fresh flowers.

(vii) Beverages and spirits (Table AV.8)

462. Both alcoholic and non-alcoholic beverages are particularly high-priced items in Finland. The average price level for alcohol is nearly three times that in the EC. Prices for soft drinks are also the highest in Europe.

463. Finland's alcohol policy aims at reducing detrimental effects on health by controlling, through high taxation, the level of consumption. The State company, Oy Alko Ab, has exclusive rights for production, import and export; private companies operate under licence from Alko. Financial surpluses generated by Alko go to the Treasury; these amounted to FIM 1.2 billion in 1989.

464. Bottled or canned beer is subject to a 44 per cent import duty except when imported from the EC, EFTA member States, the Soviet Union or Poland. Excise duties are levied according to the alcohol content at rates of 30 per cent of the retail price for mild beer (under 4.7 per cent alcohol) and 40 per cent for other beer. The revenue from excise duties in 1990 amounted to some FIM 2.5 billion, approximately the total sales value of beer for domestic production. Less than 5 per cent of beer drunk in Finland was imported, and the ad valorem equivalent of excise duties on imported beer was 206 per cent (see Table IV.10). The excise tax, calculated on the basis of the c.i.f. price, is twice the rate of duty on the domestic price before retail taxes, suggesting that import prices are about half of domestic prices.

465. An additional duty of FIM 1.00 per litre is collected on beer in non-recyclable containers.

466. Wines and liquor are generally subject to specific import duties, ranging from FIM 0.91 per litre on vermouth to FIM 5 per litre on strong

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69 Wieser (1989), *op. cit.*
spirits. The specific duty of FIM 2.35 per litre on wine translates to an average of some 22.5 per cent ad valorem. Wines imported from Austria, France and Spain, bearing certificates of origin, may benefit from reduced tariffs. Bottled wines and spirits are more heavily taxed on import than those in bulk thus assisting through border protection the packaging and bottling industries. Compound alcohol imported for the manufacture of beverages is subject to a 40 per cent tariff; however, most imports take place duty-free under industrial rates.

467. An excise duty of 60 per cent was charged on all sales by Alko of all alcoholic beverages over 2.8 per cent alcohol content. In March 1991, this rate, for beverages under 22 per cent, was replaced by three excise duties of 40, 45 and 55 per cent.

468. Soft drinks (fruit juices, mineral waters, and beverages with less than 2.8 per cent alcohol content) are subject to customs duties of up to 40 per cent. The average for the category in 1988 was 24.6 per cent. Excise duties of FIM 0.27/litre yielded FIM 150 million, or 114 per cent of total sales of FIM 131 million in 1990. Fruit juices may be imported free of import and excise duties for further processing: in 1990, 80 per cent of a total FIM 145 million imports of fruit juices benefited from this concession. The incidence of excise duties on imports of soft drinks, which at FIM 16 million were equal to some 12 per cent of total sales, was thus only 42 per cent, as against a total incidence of 114 per cent.

469. Non-recyclable packagings for soft drinks are also subject to an additional anti-garbage duty of FIM 2.00 or FIM 3.00 per litre, according to the type of packaging.

(viii) Fish, shellfish and products (Table AV.9)

470. Finland has a small fishing and aquaculture industry employing approximately 5,000 people. For many fishermen, fishing is a part-time activity supplementing farm income.

471. In 1988, the value of the catch was FIM 205.6 million; in addition, rainbow trout production amounted to FIM 361 million of which some 20 per cent was exported. Half of the commercial annual fish catch, close to 100,000 tons in 1988, of which Baltic herring accounted for 90 per cent, is destined for human consumption. The remainder is used as feed on fur farms.

Fishing Act, last revised in 1983 but currently undergoing further revision.

473. Government aid to fisheries, through price and transportation subsidies to fishermen and a production subsidy for fish processing, came to FIM 43 million in 1988 or FIM 6,500 per person employed. This latter figure is one-third of the amount spent in Norway.

474. Along with Sweden, the Soviet Union, Poland and the EC, Finland is a member of the International Baltic Sea Fisheries Commission which negotiates annual quotas.

475. Global quotas are in effect, yet 14,000 tons of fish were imported in 1990. Tariffs on fish are fairly low (Table AV.9) and zero duties are applied to imports from EFTA and the Soviet Union. Various fish varieties are eligible for GSP treatment. Fish used in the processing industry is entitled to duty free treatment on the basis of industrial rates.

(ix) Tobacco (Table AV.10)

476. Unmanufactured tobacco enters Finland duty-free, while manufactured tobacco is subject to specific duties of FIM 24 per kg., including packaging. Manufactured tobacco imported from the EC, EFTA countries or the Soviet Union is subject to a much lower specific duty of FIM 0.28/kg; this rate is also applied to imports of certain kinds of tobacco under industrial (t) rates of duty. These industrial imports, in 1990, accounted for approximately FIM 9 million of FIM 215 million of tobacco and tobacco product imports.

477. An import equalization tax of 0.7 per cent also applies to manufactured tobacco products (HS 2402) only, although this is waived when imported for industrial use.

478. The largest share of imports was accounted for by raw tobacco (FIM 160 million) of which nearly two-thirds came from the United States. In contrast, main suppliers of manufactured tobacco are EFTA and EC countries. Since the preferential rate is the same as the industrial rate, it is logical that most manufactured tobacco originates from within the free-trade areas.

479. As was noted in Chapter IV, excise duties apply to a number of consumer products including manufactured tobacco. This duty is levied on the retail price; imports must therefore show the retail price. On
479. As was noted in Chapter IV, excise duties apply to a number of consumer products including manufactured tobacco. This duty is levied on the retail price; imports must therefore show the retail price. On FIM 79 million of imports of tobacco on which the excise duty was levied, the "ad valorem" rate came to 317 per cent in 1990.

480. Excise duties on tobacco products comprise "basic" and "additional" duties both based on the retail price. Since 1989, the total rate of excise duty has been 52.42 per cent for cigarettes, 30.6 per cent for cigars, 36.7 per cent for pipe tobacco, snuff and chewing tobacco and 56.05 per cent for cigarette paper.

(3) **Industry**

481. Tariff protection on industry is generally low. Simple m.f.n. tariff averages by Tariff Study category and other measures affecting production and trade are presented in Tables AV.11 to AV.16. Tariff peaks and tariff escalation occur in various manufacturing branches, particularly imports of textiles (53 per cent of imports are dutiable at 25 per cent or more) and footwear (100 per cent of imports are dutiable at between 10 and 25 per cent).

482. All industrial imports enter under GATT-bound duties (see Chart IV.2). Tariffs on industrial goods are low. Imports of manufactures from the EC, EFTA members and the Soviet Union are free of customs duties. While the average (unweighted) m.f.n tariff on industrial products was 7.3 per cent in 1988, the revenue collected is a much lower share of total imports (1.4 per cent) due to regional free-trade agreements and other preference systems. Free-trade arrangements and other preferences have also served to determine Finland's import pattern; as can be seen from Table V.13, between the first half of the 1970s and the second half of the 1980s, the share of imports from partners with which Finland maintained free trade agreements, i.e. EFTA countries and the European Communities, increased significantly.

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73 Government of Finland.
483. In order to safeguard employment and value added, higher protection against imports from outside preferential areas is typically afforded to processing industries. This is the case not only in agriculture, where the tariff protection (even excluding import levies or the real incidence of specific duties) rises to over 15 per cent on processed agricultural products, but also in a number of manufacturing industries (see Table IV.3). While industrial raw materials enter duty-free, finished manufactures exhibit an average m.f.n. tariff of 9.4 per cent. Particularly high rates on final production are found in rubber, clothing and footwear.

484. The use of duty concessions on capital goods and inputs to selected production processes (e-duty and t-duty treatment), not manufactured in Finland, reduces the rate of protection on industrial inputs but raises the effective protection of finished manufactures.

485. There are few quantitative restrictions or licensing requirements on manufactures, except for import surveillance purposes on bilateral arrangements on textiles and clothing under MFA and iron and steel products within the ECSC Treaty. The licensing régime for coal, petroleum and petroleum products changed on 1 July 1991 to allow any importers to effect imports.

486. While tariffs are generally low and quotas on industrial products virtually non-existent, other less apparent barriers seem to exist. Regulatory barriers, market dominance and a high rate of indirect taxation are identifiable constraints to competition. A study, previously cited in this report, compared relative prices (1985) in Finland with other EFTA and EC countries and found higher prices in Finland in a wide range of economic sectors (see Table IV.21). Since 1985, consumer prices have risen by 27 per cent. The wholesale price index for domestic goods has risen only 15 per cent, but the index for imported goods only 2 per cent. The lower increase for imports is due to the composition of imports dominated by oil and other raw materials whose price has fallen and the increase in the real exchange rate of the markka. However, for machinery, the domestic price has increased twice as fast as the import price.

487. A survey conducted in Finland to assess the competitiveness of sectors in light of forthcoming European integration asked industry to evaluate trade barriers within industrial branches. Sectors where the level of non-tariff barriers were found to be particularly high were food,

74 These included technical standards, public procurement, customs formalities, differences in indirect taxes, transport market restrictions, capital restrictions, implementation of EC law; the barriers most frequently identified were technical and administrative barriers.
beverages and tobacco, construction materials, telecommunications equipment and motor vehicles (see Table V.12).

488. On the assumption that tax differences between countries can affect price competitiveness, one of the barriers used in the evaluation by Finnish industry included indirect taxes. The turnover tax (22 per cent), equally applied to domestic products, and an import equalization tax, averaging 1.65 per cent on all industrial imports, raise the price of imported manufactures. In 1990, 43 per cent of revenue from turnover taxes derived from imports. This is understandable, given that half of industrial output is exported and no turnover tax is charged on exports. The exemption of turnover and import equalization taxes on inputs for export production lowers the price of exports compared to domestic goods, and acts as an incentive to export production. Export promotion assistance (FIM 267 million in 1990) is insignificant in relation to exports of goods and services.

489. Adjustment assistance to manufacturing in the form of State subsidies (1.2 per cent of manufacturing output in 1989) has so far been on a small scale in Finland, both relative to other industrialized countries and to its agricultural sector. However, possibly due to the economic recession and the implementation of the 1988 Employment Act, assistance seems to be rising (see Table IV.19).

490. The Government decided on 10 May 1991 to transfer FIM 6 to 7 billion to the business sector to help the open sector regain international competitiveness. However, these are not extra outlays of the State but rather represent revenue foregone. Over half of this transfer comes from counter-cyclical investment reserves deposited by industry with the monetary authorities. Other measures taken to help industry reduce its costs include cuts in private sector's contribution to social security and pension funds.

491. The cost structure of domestic production is particularly weighty. Raw materials, most of which are imported, make up 50 per cent of industrial production costs. Labour costs are increased periodically through wage negotiations and have been the leading item in Finland's declining price competitiveness. Construction costs, high due to the inclement weather and lack of competition in the building materials

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76 The Finnish Foreign Trade Association is responsible for promoting the exports of small and medium-sized enterprises.

industry, costs of environmental protection in certain industries and transportation costs, due to Finland’s relative distance from markets and the high cost of transport equipment, add to the burden.

492. Since fixed costs are high, maintaining competitiveness often requires the economies of scale that horizontal and vertical integration generate. At the same time, concentration of market power, while generating efficiency gains, can weaken the forces of competition, create vested interests and lead to the abuse of market dominance.

493. The global increase in international investment and acquisitions has blurred the boundaries between trade, investment and competition policies. Regulations limiting access to capital or raising entry barriers can mitigate the welfare-enhancing effects of liberal trade policies.

494. The liberalization of investment and exchange controls in Finland during the past decade has allowed for a tremendous expansion of Finnish industry abroad. Sales of foreign subsidiaries now exceed direct exports in the chemicals industry, and are on a par with exports in the metals and engineering branch. Such horizontal integration, occurring mainly in Europe, improves Finland’s international competitiveness by reducing labour and transportation costs and increasing production and distribution economies of scale.

495. Within the domestic economy, there are strong interlinkages both among industries and between producers and distributors. The machinery industry builds paper machines for the forest industry; chemical production is partly geared towards chemicals for pulp and paper production. Collusive pricing behaviour in export industries has a long history in Finland and has been adopted also on domestic markets. In wholesale and retail trade, similar restrictive practices apply. Pricing guidelines are frequent and profitable retail areas are owned by the major wholesalers.

78 While no exact data exist and such investments vary between industrial branches, it has been estimated that 10 to 15 per cent of forest industry revenues have been reinvested for environmental protection. Environmental protection in Finland is on a very high level. Each industrial plant that is built has to draw up waste disposal plans which the authorities study carefully before they are accepted. Companies also have to obtain a licence before they can discharge waste effluent into the waterways. Finland has significantly reduced the level of noxious emissions into the atmosphere and the waterways during the 1980s.

79 According to the Confederation of Finnish Industries, transportation costs represent 15 to 18 per cent of the c.i.f export price; this is two to three times higher than in the EC.

496. These practices have come under strong criticism from the competition authorities. Legal provisions in Finland regarding competition have been strengthened. Due to public efforts, exclusive arrangements and regulations which limit new entrants, are gradually being dissolved (see Chapter IV(4)(iv) Pricing and marketing arrangements).

(i) Forest industry (Table AV.11)

497. Forests, Finland's single most important natural resource, have been the backbone of export-oriented industry, first as timber exports and over the past decades as wood and paper products of increasingly high quality. The degree of processing in forest products in Finland is higher than any other major exporter. Thanks to its competitive edge in fibre technology, Finland's exports of printing and writing papers account for more than one-third of paper industry exports (Table V.15) and account for one-quarter of global imports (Chart V.1).

498. The industry uses about 50 million cubic metres of timber every year. The three timber species of commercial value are pine, spruce and birch. Legislation ensures that every tree that is cut down has to be replaced. At present, annual fellings are lower than growth of trees but long-term strategy on the part of the forest industry is to increase fellings. Domestic supplies of timber were tight in the late 1980s, although there is abundant supply of lower-grade spruce, and wood prices soared by 60 per cent in 1988.

Chart V.1
Share of Finland's forestry exports in global imports, 1986 and 1989

<table>
<thead>
<tr>
<th>Product</th>
<th>1986</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sawn goods</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Plywood</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Wood pulp</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Paper and paperboard</td>
<td>23</td>
<td>30</td>
</tr>
<tr>
<td>Newsprint</td>
<td>27</td>
<td>24</td>
</tr>
<tr>
<td>Printing and writing paper</td>
<td>28</td>
<td>20</td>
</tr>
</tbody>
</table>


499. Industry owns 9 per cent of forest lands; 64 per cent are privately owned and State and municipal governments own the balance. Of domestic timber used by industry, 80 per cent is purchased from private farms, 11 per cent from the State and the rest is from industry-owned lands.

500. The global recession has slowed demand for paper products and this has been compounded by over-capacity in the international pulp market. Capacity utilization in the Finnish paper industry fell five points to 88 per cent in 1990. Following an investment surge, profits of the leading Finnish forest companies have been falling (losses in 1991 are expected to amount to FIM 1.6 billion). At approximately 60 per cent of sales, indebtedness is considerably higher than the indebtedness of forest companies in Sweden or the United States.

501. As in the farm sector (most farmers supplement their income as lumberjacks and from sales of timber from their farms), target quantities

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82 One-fifth of private farms are part of the estate of a deceased person and fellings require permission of all benefactors.

and yearly prices are negotiated annually with the Central Union of Agricultural Producers. The agreement can be cancelled if export prices exceed a certain limit.

502. Following the expiration of a two-year agreement on wood prices in the spring of 1991, industry requested a price decrease of 12 per cent and no agreement was reached. Almost 15 per cent of timber used is imported, most of it from the Soviet Union. A joint venture between the State-controlled paper company (Enzo-Gutzeit) and the Soviet Union will provide Soviet timber to a Finnish-based pulp mill. This is the first Soviet-Western production joint venture to operate outside the Soviet Union. Soviet birch forests are particularly attractive for the industry, as it takes one-third less birch than spruce or pine to produce pulp, and birch fibres make particularly high-quality papers.

503. The stumpage price accounts for more than 50 per cent of the export price of sawn goods. Transport and handling costs account for about one-fifth of the current prices for forest industry products. The ratio of international transport cost to the value of the product is particularly high for lumber, paper and paperboard compared to other traded goods.

504. Half of Finland's electricity consumption is accounted for by the paper industry. At the same time, by burning the chemical residues of pulp production, the forest industry is 60 per cent self-sufficient in energy generation. The price of electricity is a key variable in operating costs. The turnover tax deduction on electricity use favours the paper business.

505. Investments designed to protect the environment are estimated to have represented between 10 and 15 per cent of industry sales during the 1980s, a percentage which is expected to rise to 20 per cent by the year 2000. Owing to environmental concerns, the share of recycled fibre in paper and board has increased significantly. In some countries, legislation sets a minimum share of recycled fibre in newsprint.

506. Apart from raw timber, mainly imported from the Soviet Union, the forest industry relies very little on imports. The domestic content of exports is 80 per cent. Chemicals for pulp bleaching and wood preservatives are, on the whole, supplied by local industry, as are timber harvesting equipment and paper-making machinery.

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507. As an indication of the growing concentration in Finnish industry, the share of the three largest companies in total sales of the forest industry amounted to 28 per cent in 1980; a decade later the share had doubled. Likewise, the internationalization of paper production is evident in the growth of overseas capacity from 11 to 26 per cent of Finnish production in the last decade. In 1989, sales of foreign subsidiaries amounted to FIM 11.6 billion roughly one-third of direct exports.

508. Cartels have, until recently, operated all the way from the sawn wood market to sales of finished products. Restraints to competition in the forest industry include regional market shares and proportional buying quotas. Forest and paper companies are represented by three sales organizations: Finnboard, Finncell and Finnpap. Finnpap's share of Finland's paper exports in 1990 was 74 per cent; Enzo-Gutzeit and Kymmene, the two largest forest companies, have their own sales channels. In investigating marketing practices, the EC suggested that Finnpap change its rules to allow its member organizations to use other sales and invoicing channels, which Finnpap subsequently did. The rules change also applies to sales on the domestic market.

509. On 28 December 1990 a petition was filed with the United States International Trade Commission by the American Paper Institute, alleging material injury due to imports at less than fair value of coated groundwood paper by a number of European exporters including Finland. In June 1991, cash deposits, ranging from 25 to 30 per cent of the import value, equal to an estimated preliminary dumping margin were applied to imports from Finland. A final determination is pending.

510. Export deposits have periodically been applied to exports of wood products, chemical pulp, cellulose and woodfree printing paper. These were released, with accrued interest, at the end of November 1990.

511. Given the export-orientation of the forest industry based on clear comparative advantage, Finland is in the position of being a price setter in international markets. There is little or no export assistance apart from perhaps selective tariff and tax concessions on inputs. However, to

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86 Enzo-Gutzeit, Kymmene and Repola.
89 OECD (1991), Annual Report on Development in Finland (1990), Committee on Competition Law and Policy.
90 Technically, this is known as "suspension of liquidation" in U.S. terminology.
the extent that these reduce the applied m.f.n. duty, they may be more trade-creating than restricting. On the other hand, limiting concessions to products not manufactured in Finland may not be conducive to optimal resource allocation.

512. Tariffs are of little importance in this sector. For phytosanitary reasons, since January 1986, Finland has banned imports of softwood products coniferous timber and woodchips from the United States, Canada, Japan and China. The ban stems from the discovery of nematodes in a 1984 woodchip shipment from the southern United States. Coniferous sawn wood imports are allowed if accompanied by the international certificate proving that "kiln-drying" or heating treatment has been applied.

513. In 1986, a surcharge was applied to imports of porous fibreboard impregnated with bitumen (HS 44.41) and was in force until May 1987. This surcharge was calculated on the difference between a basic price and the import price and notified to GATT under Article XIX.

514. Trade diversion has been above average in the wood and paper products sector. Imports under free trade arrangements have doubled their market share since the early 1970s (see Table V.13). The leading suppliers were free-trade partners the United Kingdom and Germany. M.f.n. imports of pulp and paperboard only represent 10.3 per cent of category imports. Certain paper products are eligible for concessional duty treatment. Imports under t-treatment were dominated by uncoated paper, paperboard, cellulose wadding and webs of cellulose fibres (HS 48.11.90.00); waiving of the 6.2 per cent tariff affected FIM 22 million out of a total of FIM 97 million of 1990 imports. Japan, Finland's third-largest supplier, supplied FIM 26 million and presumably was the recipient of this exemption.

(ii) **Metals and engineering** (Table AV.12)

515. This industry includes basic metals, fabricated metal products, machinery and transport equipment and electrical machinery and electronics. The sector accounted for nearly 40 per cent of industrial value added, one-third of exports and is the country's largest employer of industrial workers. From the raw material stage to finished products, Finland produces a range of metal and engineering products. Some branches are geared towards the domestic market, which absorbs half of output. In the 1980s, the sector has experienced rapid internationalization as well as export growth and has successfully adapted its product mix to changing markets (see Chart V.2). Since the mid-1980s, the share of the

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91The Tariff Study categories included in this sector are Ores and metals (TS 08, Non-electric machinery TS 11, Electrical machines and apparatus TS 12, Transport equipment TS 13 and Professional instruments TS 14).
Soviet Union in sectoral exports has fallen from 25 to 8 per cent while that of the EC has risen from 25 to 42 per cent. Electrical machinery and electronics doubled its share in metal and engineering industry exports in the 1980s.

Chart V.2
Exports of Finland's metal and engineering industry 1980-91

FIM million (1990 prices)

Source: Government of Finland.

516. Imported inputs account for 55 per cent of total inputs used in the metals and engineering sector. The import intensity of the branch has risen with the changing configuration of export markets; previous domestic content requirements on exports to the Soviet Union required the use of local inputs.

517. The highest import penetration ratios are found in machinery and professional and scientific instruments. In these branches, the shares of m.f.n. imports are also higher than the average share in industrial imports. Tariff averages are low, but in the case of ores and metals,

mainly metal manufactures, and electrical machinery, a sizeable share of imports are dutiable at rates above 10 per cent (see Table IV.2).

518. Domestic mines, principally copper ore, are being depleted but Finland still exports small quantities of copper, nickel and zinc. One-quarter of raw materials, i.e. ores, for the basic metals industry is imported; the Soviet Union, Sweden, Norway and Canada are important sources but suppliers are diversified. The leading company in mining and metallurgy has acquired mining interests abroad; recent acquisitions include zinc in Ireland and Australia, copper in Chile and nickel in Australia.

519. Since 1976, trade in steel and steel products between the EC (ECSC) and EFTA countries has been subject to an annual exchange of letters. In general, certain minimum prices and delivery quotas were established for a wide variety of products. Reflecting improvements in the market situation, the letters exchanged since 1989 no longer contain quantitative targets. Exporters are, nevertheless, requested to spread their deliveries over the course of the year, across the product range and throughout the EC. The current exchange of letters aims at ensuring compliance with ECSC rules and contains specific consultation procedures to deal with market disruptions although price complaints are generally raised in the Joint Committees.

520. Exports of certain steel products to the United States are restrained under an arrangement effective through 31 March 1992 (see Table V.16). The restraint is applied as a function of a percentage of U.S. apparent consumption, based on periodic forecasts adjusted for actual apparent consumption. Export authorization documents and certificates are required and shipment must occur within three months of issue. Other conditions of the arrangement include that no more than 60 per cent of a product category may be shipped within two consecutive quarters and that volumes may be offset between product categories and sub-categories by maximum 5 and 7 per cent respectively. The Arrangement also includes the caveat that if any trade action on any of the products is instituted by the United States, Finland may terminate the Arrangement with respect to some or all of the products within 15 days after consultations have been held.

521. To prevent market disruption, Finland introduced non-automatic import licensing on flat steel bars from Romania in May 1988. The appropriate volume of yearly steel imports, including flat bars, had been agreed but increased imports of flat bars had caused serious injury to domestic

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producers. The allocation of licences was not based on fixed quantities. This measure was repealed in May 1989.

522. As can be seen from Table 1.5, engineering products, including machinery, transport equipment, measuring instruments and electronics represent a large share of total imports. Leading machinery imports include office machines, telecommunications equipment and industrial machinery.

523. Production and export of machinery is led by paper-making machinery, in which Finland has a 20 per cent world market share, mining equipment, and materials handling equipment such as elevators and cranes and agricultural machinery. Finland is a net importer of computers, components and consumer electronics, but maintains a trade surplus in communications equipment. The merger during 1991 of Nokia Data, Scandinavia's largest and fast-growing information technology company, with Japanese-controlled ICL, bears testimony to the difficulties of competing with the giant computer companies.

524. Imports of investment goods "not detrimental to domestic production" have been exempted from the import equalization tax since the beginning of 1988. Since mid-1991, all inputs used by industry have been exempted from the tax. At the same time, the turnover tax on machines and construction was eliminated.

525. For non-electric and electrical machinery, average m.f.n. tariffs are low, below 10 per cent. Still mechanical and electrical engineering were considered by Finnish experts to demonstrate high non-tariff barriers, particularly technical barriers. From what can be gleaned from notifications to the Committee on Technical Barriers to Trade, regulations covering communications equipment conform to European norms. One particular case where a national requirement is added to the technical regulation based on an EC Directive is in water meters, where they must be manufactured from materials which do not affect the quality of the water. On the other hand, prices for machinery are only slightly higher than the EC average and for electrical machinery the price level is the same as that of Germany.

97Kajaste (1990), op cit.
98GATT document TBT/Notif.89.263, 3 November 1989.
526. In 1989, the Government of Australia claimed that Finland was dumping power transformers in its market. A GATT Panel has been set up to investigate the legality of Australian claims.

527. A number of process machines not manufactured in Finland may be imported under e- or t-duty treatment, although they represent only a fraction of imports of machinery. This duty concession places m.f.n. suppliers on the same basis as preferential suppliers and may help to account for the larger than average share of m.f.n. imports in this sector. Imports of machinery (HS Chapters 84 and 85), subject to general (m.f.n.) duty treatment in 1989, amounted to FIM 7.2 billion, about 25 per cent of total category imports (Table V.14). Of this value, about 11 per cent (FIM 800 million), received concessional duty treatment.

528. It is not surprising that a leading supplier of one of the most important items receiving t-treatment (HS 85.29.99, video-recording parts, m.f.n. tariff 12.6 per cent) was Japan. Out of FIM 241 million of imports of video-recording parts, FIM 64 million were from m.f.n. suppliers; of these, nearly FIM 39 million received duty-free t-treatment. It is of course not clear that the duty exemption was a definitive factor in the level of imports from m.f.n suppliers but it may well have had an influence.

529. The transport equipment industry includes mainly shipbuilding (icebreakers and custom-made cruise vessels), truck and tractor manufacture and automobile assembly through subcontracting for the Swedish and United States' car industries.

530. With no new orders from the Soviet Union for the last several years and its own merchant fleet having been reduced by two-thirds, Finnish shipyards have had to mount a real turnaround. The challenge for the shipyards has been subsidies paid to shipbuilding in other European countries and the loss, perhaps only temporary, of the Soviet Union as Finland's most valuable client. Reliance on the Soviet Union as a customer for Finnish ships, primarily icebreakers, has reduced exports in 1990 to one-fifth their peak in 1985. In the course of the preceding decade, the labour force in shipyards has fallen to one third its original level. When

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100 GATT document ADP/M/29, 19 October 1990.

101 Imports are also eligible for GSP treatment; Korea exported FIM 6 million to Finland in 1990.

102 Finnish flag ships account for a declining share of Finland's international trade in goods: the share of imports and exports carried by the Finnish fleet was 39 and 30 per cent respectively in 1990. (Nachrichten für Aussenhandelsinformation, 12 February 1991) In fact, this is fairly high for industrialized countries, but ice-bound ports in winter and narrow and shallow channels require expertise in navigating in arctic conditions.
Finland's main shipyard, Wartsila, threatened bankruptcy, the Finnish Government provided rescue capital in 1987 in the form of a tax concession of FIM 500 million and other grants as well. Recently, the turnaround has been completed and the renamed Masa Yards sold to a Norwegian firm. There is some possibility that the Government will provide direct subsidies in order to strengthen the competitiveness of its merchant fleet.

531. While the average m.f.n. tariff on motor vehicles is low (5.1 per cent), consumption taxes double the price (see Chapter IV). As was noted above, these provide a substantial amount of indirect tax revenue to the Government. The proportion of automobile taxes in State revenue collected by the Board of Customs has risen from 7.1 per cent in 1980 to 12.3 per cent in 1989 (see Chart IV.2).

532. Transport equipment prices are substantially above the EC average and three times as high as in Luxembourg where there are no taxes. The real income effects of lower priced passenger cars would be considerable.

533. In 1990, the Vehicle Decree was amended to reduce noise limits in line with EC and ECE regulations and exhaust emission limits, based on U.S. regulations, were to be reduced by 1993.

(iii) Chemicals and energy products (Table AV.13)

534. The chemicals industry, including chemicals, petroleum products and rubber and plastic products, is the fourth largest manufacturing branch and the third largest export sector. In 1989, the share of chemicals in Finland's industrial value added was nearly 12 per cent and the industry employed nearly 40,000 people, 8 per cent of the industrial labour force.

535. Petroleum refining accounts for about one-quarter of the total output of the chemical industry and rubber and plastic products for one-fifth. The gross value of chemical production in 1989 was over FIM 32 billion; sales of foreign subsidiaries were some FIM 18 billion and exports nearly FIM 9 billion (see Tables V.17 and V.18). Internationalization has been particularly rapid in this industry as Finnish companies have acquired plastics, fertilizers and refining capacity abroad. In addition, a substantial part of chemicals are included in the export products of other industries, notably pulp and paper.

103 Nachrichten für Aussenhandel, 12 February 1991
105 GATT document, TBT/Notif.90.334 and 90.338, 16 and 23 November 1990.
536. Average m.f.n. tariffs are highest on processed products such as plastic articles, cosmetics and detergents and can range up to 40 per cent. Some 7 per cent of 1988 imports were potentially subject to alternate duties, most of which apply to plastic manufactures. As can be seen from Table V.14, most imports were duty-free (two-thirds are duty-free on an m.f.n. basis).

537. Although on the basis of trade flows alone, Finland is a net importer of chemicals (Table V.19), adding foreign subsidiaries' sales reverses the picture. Given the degree of internationalization, intra-firm trade may well cover a large part of imports and exports. As such, evaluating import penetration ratios as an indicator of openness of the industry to foreign competition may be misleading. Notwithstanding, import penetration ratios are especially high in organic chemicals, pharmaceuticals, plastics and consumer products such as cosmetics and detergents.

538. State-owned Kemira, dominant in fertilizers and plastics production, had sales of FIM 11 billion in 1989, one-third of the industry's output. The five largest companies employ 80 per cent of the sector's labour force, although there are some two to three hundred companies involved in chemicals many of which are small-scale enterprises.

539. The chemical industry is one that typically can have a highly detrimental impact on the environment. Fifty per cent of the world's chemical industry is based on chlorine whose most important use, after PVC production, is the bleaching of chemical pulp. Chlorine consumption is declining with the trend towards more environmentally acceptable bleaching chemicals and biotechnology-based enzymes. Strict norms on organochlorines in effluents will be in effect by 1995.

540. Finland has had water and air pollution control measures in place for the last two decades. According to the Chemicals Industry Federation in 1989 some FIM 217 million was spent on investments to reduce environmental pollution compared to approximately FIM 2.7 billion in total investment.

541. A new Chemicals Act came into force in September 1990. The Chemicals Act introduced a new class of "substances dangerous to the environment" requiring new information and testing. Permit and reporting procedures now apply to the production, use and storage of all dangerous substances and new requirements regarding labelling and retailing have been introduced. Many of the new rules are based on EC directives including the regulations governing export of banned or severely restricted chemicals.

(a) Fuels

542. Finland is highly dependent on energy imports as domestic supplies, such as hydroelectric power and peat, satisfy less than 30 per cent of energy requirements. In conservation-minded Finland, incentives are
provided to encourage investments to save energy. Grants to cover part of the investment costs and interest rate subsidies on loans for investment in energy-saving technology have risen significantly in the latter part of the 1980s from FIM 25 million to FIM 86 million.

543. Until the dismantling of bilateral trade with the Soviet Union, imports from the Soviet Union supplied 90 per cent of Finland's oil import requirements. In 1990, supplies from the Soviet Union dropped to 60 per cent of imports and imports of North Sea oil rose. Partly this was due to a need to change over to lighter crudes mandated by environmental legislation to reduce sulphur dioxide emissions.

544. Ninety per cent of natural gas supplies originate in the Soviet Union, although this form of fuel accounted for less than 7 per cent of Finland's primary energy consumption in 1989. Coal, imported from Poland and the Soviet Union, provides over 15 per cent of primary energy consumption. The Soviet Union also supplies half of Finland's electricity needs.

545. State-owned Neste is the only oil refiner in Finland with refining capacity of 10 million tons, in excess of domestic requirements. Until the end of clearing trade with the Soviet Union, Neste together with Finnish Petrol had an import monopoly on petroleum and petroleum products. Since Finland is now no longer tied to a principal supplier, a monopoly on imports is deemed impractical and, since July 1991, all oil companies have been allowed to import according to their requirements.

546. Taking advantage of its dominant position in the petroleum products market, a complaint was lodged against Neste for refusing to sell refined products directly to retailers but insisted that they use the services of wholesale distributors. This case involving an independent service station was brought to the attention of the Office of Free Competition which negotiated an agreement with Neste to deliver directly to the retailer. Retailers of petroleum products have also complained that the distributors restrict competition and access to supply by requiring invoicing commitments and offering a less than full product range. The abolition of the import monopoly will prevent restrictive arrangements such as these.

547. Virtually no customs duties apply to fuels, except a 6 p/l specific duty on motor spirit and a 3.8 per cent ad valorem tariff on lubricants.

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106GATT document, L/6630/Add.10, 9 November 1990.

107Le Figaro, 29 August 1991.

548. Excise taxes on fuels, as in most parts of the world, are common in Finland. These taxes provide over one-third of State revenue derived from excise duties. Since these are essentially consumption taxes and apply equally to imports and domestically produced goods, there are no inherent trade effects.

549. Environmental taxes on all fossil fuels were introduced in 1990 and raised in 1991; these are based on the carbon content of the fuel. Unleaded gasoline bears no such tax.

550. In August 1986, all forms of energy became subject to turnover tax, although domestic fuels are exempt. Fuels are not subject to the import equalization tax. The turnover tax on energy used in industrial and agricultural production is deductible from turnover taxes payable. Turnover taxes on imports of natural gas are deductible from final sales until the end of 2001.

(b) Pharmaceuticals

551. The pharmaceuticals industry in Finland had sales of FIM 1.9 billion in 1988; imports well exceed exports and the import penetration ratio is nearly 50 per cent. Most production is either of generic drugs or patented products under licence. Since only process patent protection is afforded in Finland under intellectual property rights, Finnish firms may legally copy imported pharmaceuticals as long as they use a different production process.

552. The largest importer, Glaxo, claims it is losing FIM 20 million annually due to copying by Finnish industry. Both due to the lack of product patent protection and the small size of the domestic industry, drugs developed in Finland are rare. However, in the last decade research and development expenditures have risen, to 13 per cent of sales in 1987 and public funds to the pharmaceuticals industry are in the order of FIM 50 million a year.

553. There are just four members of the Association of Finnish Pharmaceuticals Industry; the largest company accounts for two-thirds of industry sales. Drug distribution is dominated by a few wholesalers and the Government regulates the prices of drugs and medicaments; no turnover tax is paid on pharmaceuticals. Retail sale of pharmaceuticals products requires a licence based on needs-testing. Prices of medical and pharmaceutical products in 1985 were one-third higher than the EC average.

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554. Exports have traditionally been destined for countries without product patent legislation, that is the Soviet Union, Eastern Europe and developing countries. Nevertheless, Finland has increased its exports to the EC from 20 to 30 per cent between 1985 and 1988. While mutual recognition of evaluation reports and inspection of pharmaceutical products exists between EFTA countries, EFTA exports to the EC have to be retested. With registration as a prerequisite for obtaining a sales licence, the unified registration of pharmaceutical products to be adopted in the Single Market, will reduce marketing costs of pharmaceutical exports to the EC.

555. Finland is in the process of changing its patent laws from process to product protection and will adopt product patent protection for pharmaceuticals in 1995. This will make domestic manufacture under licence of foreign patented products less possible or profitable.

(c) Fertilizers and pesticides

556. Fifty-five per cent of Kemira’s output is produced outside of Finland; international sales and exports account for three-quarters of Kemira’s net sales. Fertilizers and pesticides are imported duty-free and are exempt from turnover tax.

557. Fertilizers (there are few imports) are liable to a 20 penni per kilo excise duty or tax to help defray export costs of agriculture. An environmental tax on phosphate fertilizers, introduced at the beginning of 1990, is not included in export cost charges. The tax (FIM 1.00/kg. of phosphorus) was increased to FIM 1.50 by June 1991.

558. Pesticides, most of which are imported, are liable to a 2.5 per cent fee to cover the costs of registration. The Ministry of the Environment has proposed banning pesticides containing mercury by the end of 1991. Finland has not set any target for the reduction of pesticide use but consumption is low compared to many countries.

(d) Rubber and plastic products

559. The average m.f.n. tariff on rubber is higher than the average for all industrial products (see Table IV.1) and on finished goods is over 19 per cent. The same is true for plastic products. While over half of rubber goods are in principle subject to m.f.n. duties above 10 per cent, in fact, the majority of imports originate from preferential suppliers, mainly the EC and GSP beneficiaries, and enter duty-free.

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111 State-owned companies in Finland, 1989.

112 This was raised from 5 penni to 15 penni in the course of 1990 and again in 1991.
560. In addition, various rubber products, including inner tubes used in motor vehicle assembly, may be imported at reduced rates under industrial duties. The incidence of m.f.n. duty collected on dutiable imports of rubber products (HS Chapter 40) was nevertheless 17.4 per cent in 1989.

561. The 25 per cent tariff on inner tubes for motorcycles (ex 4013) and pneumatic tyres for scooters (ex 4011) has been reduced in the course of the Uruguay Round negotiations on tropical products and made eligible for GSP treatment as of 1 July 1989.

562. Some FIM 40 million out of 1990 imports of FIM 538 million of plastic sheets (HS 3920) entered under t-duties, exempting these imports from a 9 per cent tariff and placing m.f.n. suppliers on an equal footing with suppliers eligible for preferences. Plastic sheets were subject to an anti-dumping duty in 1991 when imported from Poland and Romania.

(iv) Textiles and clothing (Table AV.14)

563. Until the mid-1980s, security of access to markets in Eastern Europe sheltered the textiles and clothing sector in Finland from painful adjustment. From 1986 to 1990, the share of the Soviet Union in Finland’s exports of clothing fell from nearly 40 per cent to 25 per cent. In the last five years, the volume of production has fallen by 20 per cent and is forecast to fall by a further 25 to 30 per cent over the next few years. By 1988, output of clothing had fallen below 1973 levels and Finland became a net importer for the first time since the early 1960s.

564. Employment has been cut in half over the course of the last ten years and bankruptcies abound. Domestic production meets 60 per cent of internal demand. The entry of foreign retail clothing chains in 1987 has boosted competitive pressures.

565. Value added in 1989 was evenly distributed between textiles and clothing manufacturing, with the sector accounting for 3.3 per cent of industrial value added and 2.7 per cent of industrial employment. The industry has faced adjustment pressures by reducing capacity, although in sub-sectors like spinning there is continued overcapacity. Capital productivity is low; for instance, the number of hours machines are operating is half that of textile factories in the Far East. In spite of technological change and automation, clothing manufacture remains an area

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114 GATT document, COM.TEX/64, 25 May 1990; p.314.
where the price of labour is critical to competitiveness. Finnish industry has, to a limited extent, reduced labour costs through outward processing, which accounts for some 5 per cent of production in the sector. Trying to stay abreast of market developments, Finnish industry is focusing on high-technology products and the use of flexible production methods to capitalize on rapidly changing market preferences. Finnish firms have also been exporting proprietary textile designs under licensing arrangements.

566. Imports of clothing doubled between 1985 and 1990. While Finland has traditionally been a net importer of textiles, the recent trade deficit in clothing is due to a number of factors. These include the contraction of bilateral trade with the Soviet Union, a once important market for clothing exports; an increase in the market share of lower-cost clothing imports from developing countries by nearly 10 per cent since 1985 and the revaluation of the markka in 1989. However, due to the high cost of domestic production, practically all imports became lower-price imports as compared with domestic prices. Most increases in imports were from EC sources. The share of developing countries of textile imports remained at the 10 per cent level, and clothing imports at 25 per cent.

567. Tariff protection rises quite high in this sector, yet has not been of much help in stemmed the contraction in the industry. Tariffs are higher on textiles and clothing than on most other products and higher than in other industrialized countries. Ad valorem duties rise as high as 40 per cent. Alternate or mixed duties, subject to a minimum specific duty, apply to over half of imports. Ad valorem equivalents have not been included here but judging by the incidence of duty collection on dutiable imports, the ad valorem equivalent is approximately in line with the tariff. The estimated tariff equivalent of tariffs and export restraints was 43 per cent in the early 1980s.

568. M.f.n. sources account for less than 10 per cent of total imports. Two-thirds of imports originate from EC and EFTA countries. To qualify for origin status, imported textile and apparel must be processed enough to pass through two separate four-digit classification of the HS nomenclature. Country of origin markings are compulsory on items destined for direct retail sale. In spite of the exclusion of a wide range of textiles and clothing from GSP treatment, imports from developing countries have been increasing (see Table V.20). The share of clothing imports from the developing MFA members has fluctuated somewhat during the 1980s, representing 25 per cent of clothing imports in 1990, about the same share as in the early 1980s. The share of clothing imports from the EC rose in 1990 from 55 to 60 per cent.

569. On an m.f.n. basis, less than 10 per cent of sectoral imports are duty-free. Under the free-trade agreements with the EC and EFTA, as well as the Soviet Union, Poland, Czechoslovakia, Hungary and Bulgaria, all imports are free from tariffs. The increasing share of imports from Western Europe and the long-term trade-diverting effects of the free-trade agreements is apparent in most products. In textiles and clothing, in the period 1971-1975, imports subject to general duty, i.e., m.f.n imports, represented nearly 40 per cent of sectoral imports; in the period 1986 to 1989, they represented just over one-quarter. According to official sources, more than 90 per cent of textiles and 70 per cent of clothing imports enter without quantitative limit and duty-free.

570. M.f.n. imports may be eligible for duty-free entry under industrial rates of duty. Some twenty products in textiles are eligible for this concession. A leading import which received this exemption in 1990 was bleached cotton from China, on which the normal duty was 20 per cent or 3.54 per kilogramme.

571. Finland maintains selective restraints on a limited range of clothing under MFA bilateral agreements (see Table V.21). In general, items restricted under MFA agreements are not eligible for GSP treatment. A variety of textiles and clothing products, except elasticized, are excluded from GSP treatment; a few items, accessories such as shawls, gloves, hats and baby clothes, when originating from Hong Kong or Macao are also excluded from GSP preferences.

572. Annual growth rates in products under restraint, although somewhat higher under MFA IV than under the previous MFAs, vary between 2 and 7 per cent using the "small market" provision allowing for the maintenance of a minimum viable level of production. Swing between product categories is generally limited to 5 per cent. Carryover, including carryforward may not exceed 11 per cent; carryforward alone not more than 6 per cent.

573. In addition to bilateral restraint agreements, licensing and surveillance mechanisms are in place with a few additional countries (Indonesia, Malaysia, Romania and Thailand). A consultation mechanism is included in the event of market disruption. In the last three years,

117 National Board of Customs, Foreign Trade 1989 Vol. 2, Table XI.3.

118 The bilateral quantitative restrictions take the form of voluntary export restraints applied by the exporting country.

119 Dubbed the "Nordic" clause, signatories to whom this clause applies were allowed to permit import quotas on textiles and clothing to grow at slower rates than allowed for other countries, and could also place limitations on the transfer of unutilized quotas across different product categories.
imports from Malaysia, Thailand and Romania have been liberalized. In the case of Thailand and Romania, export authorization agreements replaced restraint agreements when renewed at the end of 1990.

574. The sector has been no exception to Finnish policy of refraining from direct sectoral adjustment assistance. Some State aid has been provided through regional policy, research and development and export promotion (see Table V.22)

575. Import permits are required for textile waste of animal origin and textiles must meet standards on maximum formaldehyde content.

(v) Hides, skins, furs, leather and footwear (Table AV.15)

(a) Furs

576. Finland is also one of the world's second biggest exporters of farmed furs (mink and fox), after Denmark, and accounts for 65 per cent of the European market. In 1988, the value of fur production was FIM 1 billion and the sector employed 25,000 people. By 1989, production had dropped to FIM 416 million. After a slump in the industry, demand seems to be picking up.

577. The assistance to fur farming is mainly in the provision of feed at world prices. In mid-1990 a temporary price subsidy was introduced to cover production costs of furskins for the 1990/1991 marketing season.

(b) Leather, footwear and travel goods

578. Production of cattle hides is about equal to imports. In 1989, the Soviet Union supplied 44 per cent of imported cattle hides followed by Australia with a 21 per cent import share.

579. In 1985, imports of leather footwear exceeded domestic deliveries and since then local output has been declining and imports have risen rapidly. The share of domestic production in the Finnish market dropped from 59 per cent in 1983 to 32 per cent in 1989. Throughout, Finland has been a significant net importer of non-leather footwear.

580. The share of imports of leather footwear was 68 per cent of total supply in 1989 with Italy and Portugal accounting for 60 per cent of total imports. Between 1984 and 1989, exports were halved, from FIM 786 to

120 Export licences are required by the importing country for surveillance purposes.
FIM 382 million; in 1989, the Soviet Union absorbed the lion's share of exports, 70 per cent.

581. Average tariffs on footwear and travel goods are third highest after textiles and clothing and rubber (see Table IV.1). Tariffs range as high as 20 per cent and on some footwear a minimum specific duty is applicable; all imports in 1988 were in principle dutiable at 10 per cent or more. However, the EC, at least for leather footwear, accounts for 70 per cent of imports, which bear no duty.

582. With a few exceptions, footwear is excluded from GSP treatment; nevertheless imports from GSP suppliers represented over 30 per cent of imports of footwear and travel goods. Imports from m.f.n suppliers were less than 3 per cent.

(vi) Other products (Table AV.16)

583. The mineral products sector, which includes glassware as well as many other items, is subject to high tariff peaks of up to 38 per cent. It is noteworthy that fertilizers, which enter duty free on an m.f.n. basis, have a much higher ratio of imports from non-preferential sources than any other item in this group. In general, for other items in this general category, relatively low levels of duty go along with relatively high proportions of m.f.n. imports, and vice versa.
VI. TRADE DISPUTES AND CONSULTATIONS

584. Finland has been involved in six disputes. Three have been under Article XXIII of GATT, two under the Tokyo Round Agreements and one under the Arrangement Regarding International Trade in Textiles. In three cases Finland has been the complainant: against New Zealand and Australia regarding their imposition of anti-dumping duties on its exports of transformers, and against the United States, concerning the procurement of a research vessel. A GATT Panel decided in favour of Finland in the New Zealand case, while the establishment of a panel has been deferred in the cases involving Australia and the United States. In three cases complaints have been made against Finland by other countries: by Pakistan, regarding emergency action taken by Finland on imports of T-shirts, by the EC regarding certain internal regulations on footwear, and by the United States regarding restrictions on the imports of apples and pears. The Textiles Surveillance Body ruled against Finland in the Pakistan case, while the other two cases were not pursued by the concerned parties.

(1) GATT Dispute Settlement

(i) Articles XXII and XXIII

585. Finland has been involved in three disputes under these Articles. In September 1982, the EC complained against new internal regulations in Finland, which made exports of leather footwear to the Soviet Union subject to a condition that the soles incorporated in such footwear should be of domestic origin. The EC argued that this decision constituted an infringement of GATT Article III on National Treatment and would result in a substantial disruption of the Communities' exports of this product to Finland. Finland justified its decision on the grounds that its trade with the Soviet Union, not a contracting party to GATT, was conducted on a bilateral basis in non-convertible currencies. As such, the restriction was meant to prevent the depletion of its reserves of convertible currency. It was also argued that the restrictions were unlikely to have serious consequences because the total imports of the product from the EEC were insignificant and the restrictions were unlikely to cause a substantial reduction in these imports. A panel was established in November 1982 but the matter was not pursued by the EC.

586. In September 1984, Finland asked for the establishment of a panel to examine a dispute with New Zealand, concerning anti-dumping proceedings against electrical transformers delivered by a Finnish company to a local

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The Panel found no basis to dispute the New Zealand authorities' finding of dumping, but concluded that any material injury that the New Zealand transformer industry might have suffered from increased imports could not be attributed to the imports from Finland, which constituted an almost insignificant part in the total sales of transformers in the period concerned. Furthermore, the threat of material injury was also judged to be insignificant since at the time the New Zealand decision was taken, the Finnish exporter had not attempted to make any further sales to the New Zealand market. Accordingly, the Panel proposed to the GATT Council that it recommend the revocation of the anti-dumping determination and the reimbursement of the anti-dumping duty paid.

In September 1989, the United States requested consultations under Article XXIII:1 regarding the prohibition of imports of apples and pears by Finland during a substantial part of the Northern Hemisphere harvest season. This request was later withdrawn as the United States chose to continue consultations bilaterally. In July 1990, Finland abolished licensing of apples and pears, as well as on a variety of other agricultural products.

(iii) Tokyo Round Agreements

Finland has been involved in two disputes under these Agreements, in both of which it was the complainant. In October 1988, Finland made a request for conciliation under Article 7:4 of the Agreement on Government Procurement and then, on 16 March 1989, for the establishment of a panel under Article 7:7. The reason for the dispute was the incorporation of a "Buy American" provision into the United States' legislation affecting the acquisition or lease of an Antarctic research vessel by the United States National Science Foundation (NSF). The incorporation of the provision had resulted in the cancellation of a world-wide tender and was perceived by Finland to be a violation of the Government Procurement Code. The United States argued that the initial contract was a services contract between the NSF and the United States' company Antarctic Services, Inc. (ANS), for the operation of research programmes in the Antarctic. In performing its services contract for the NSF, ANS had sought to procure a research vessel with ice-breaking capacity. It followed that the contract in question was a sub-contract of a services contract and therefore was not covered by the

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Government Procurement Code. On 14 April 1989, Finland noted that in bilateral consultations between the two Governments, some prospects for a positive development had emerged and it would therefore be willing to defer the establishment of a panel.

589. In April 1989 Finland made a request for conciliation under Article 15:3 of the Anti-Dumping Code, and then in September 1990 for the establishment of a panel to resolve a dispute with Australia concerning anti-dumping duties applied by Australia on power transformers imported from Finland. Since 1979 the Finnish company Stromberg Ltd. had exported a total of 13 power transformers to Australia. The dispute arose because the Australian Customs Service switched, in 1986 from estimating the normal value of transformers by the constructed value method (provided for in Article 2:4 of the Agreement) to a method based on the price of transformers sold on the Finnish market (provided for in Article 2:1 of the Agreement). While no evidence of dumping was found by the former method applied to the earlier exports, dumping was found to have occurred by the latter method applied to recent exports. The essential point of dispute was whether the exported transformers could be reasonably treated as "like products" of transformers sold on the domestic market (in the sense of Article 2:2 of the Agreement). Australia claimed that they could, while Finland disagreed on the grounds that transformers were custom built to the specifications of the individual customer. The Committee on Anti-Dumping Practices agreed in October 1990 to set up a panel.

(iii) Multi-Fibre Agreement

590. Finland has been involved in only one dispute under this Agreement. In March 1982, Pakistan complained to the Textiles Surveillance Body (TSB) regarding an emergency action taken by Finland on imports of T-shirts under Article 3 of the Arrangement Regarding International Trade in Textiles (MFA). From 3 March 1982, Finland made T-shirts subject to import licensing and also asked Pakistan to suspend exports from that date. The TSB ruled that the Finnish action did not strictly follow the requirements of Article 3:3 of the MFA, which specifies the procedure for consultations with the exporting country prior to action being taken. The conformity of the unilateral temporary suspension of licenses with the provisions of Article 3:6, which specifies the procedure for emergency action, was also questioned. The TSB recommended a resumption of import licenses and consultations between both parties as soon as possible. Accordingly,

9GATT document ADP/M/29, dated 19 October 1990.
Finland resumed imports of T-shirts from Pakistan on 25 March. This action was subsequently superseded by a new bilateral agreement, valid between 1 May 1982 and 31 July 1986, which increased the growth rate for imports including T-shirts.

(2) **Other Disputes**

591. In bilateral trade relations, there have been few disputes over trade issues and those that have arisen have been settled through consultation.