INDUSTRIAL SUBSIDIES

Promotion of export marketing

Nature and extent of the subsidy

(a) Background and authority

The Ministry of Trade and Industry promotes the internationalization of Finnish industrial enterprises by granting support for export marketing activities. These incentives have benefited especially small and medium-sized enterprises.

The legal provisions are laid down in the following decisions:

- Decision of the Council of State on loans for preparing a tender for an export project (650/77).

- Decision of the Council of State on loans for the promotion of marketing export products (78/82, 180/87).

- Decision of the Council of State on grants to small and medium-sized firms for hiring additional export personnel (769/79, 797/83).

(b) Incidence

Grants and loans are paid to exporters. Grants are maximum 50 per cent and loans 75 per cent of total expenditure. Grants are given for purposes of marketing of export products, for individual participation in foreign fairs and exhibitions and for export campaigns (several firms).

(c) Amount of subsidy (million FIM)

<table>
<thead>
<tr>
<th></th>
<th>1985</th>
<th>1986</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
<td>110.0</td>
<td>145.2</td>
<td>136.4</td>
</tr>
<tr>
<td>Loans</td>
<td>45.0</td>
<td>48.0</td>
<td>52.0</td>
</tr>
<tr>
<td>(with repayment obligations)</td>
<td></td>
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</tbody>
</table>
(d) Estimated amount per unit

A common characteristic of the subsidies is their general purpose. They are not designed to promote a specific product or category of products. It is not feasible to break down the total amount of a subsidy by purpose of production.

2. Effect of subsidy

These general measures of export promotion have stimulated the small and medium size firms and helped them in their own marketing programs. However, the impact of grants on total export cannot be calculated but is assessed to be marginal.

II. Investment grants for the use of domestic energy sources and for energy saving

1. Nature and extent of the subsidy

(a) Background and authority

The Ministry of Trade and Industry decides investment grants for the building of plants using domestic energy sources.

The legal provisions are laid down in the law (858/84) concerning the promotion of domestic energy production and energy saving.

(b) Incidence

The grants are intended for Finnish firms and energy production plants. The maximum grant is 20% of total investment costs.

(c) Amount of subsidy (million FIM)

<table>
<thead>
<tr>
<th></th>
<th>1985</th>
<th>1986</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>14.7</td>
<td>34.0</td>
<td>40.0</td>
</tr>
</tbody>
</table>
(d) Estimated amount per unit

In 1986 the grant was in average 7% of total investment costs.

2. Effect of subsidy

Support is not directed to productive investment, such as the use of fuels as raw material in production, but towards a more efficient use of domestic energy for heating and power purposes, eg. peat, wood wastes etc. Effect of the grants on investment activity has not been calculated. Effect on performance of industry is estimated to be nil.

III. Interest rate grant for energy saving

1. Nature and extent of the subsidy

(a) Background and authority

The Ministry of Trade and Industry appropriates interest rate grant for promoting energy-saving industrial investments.

The legal provisions are laid down in the law 1015/77 concerning interest rate grants.

(b) Incidence

The interest rate grant is paid to Finnish firms. The grant is the difference between normal lending rates for investment loans and 5%.

(c) Amount of subsidy (million FIM)

<table>
<thead>
<tr>
<th>Year</th>
<th>1985</th>
<th>1986</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.7</td>
<td>1.8</td>
<td>0.9</td>
</tr>
</tbody>
</table>
2. **Effect of subsidy**

Effect of the support on investments has not been calculated.

IV. **Guarantees for small and medium size industry**

1. **Nature and extent of the subsidy**

(a) **Background and authority**

Government guarantees are appropriated for small and medium size industry to assist enterprises to obtain credits.

The legal provisions are laid down in a law of 4 July 1963.

(b) **Incidence**

The guarantees are intended for industrial enterprises, workshops, tourist branch activities, fur-animal breeding, fish breeding, market gardening and peat production with an annual turnover not exceeding 150 million FIM. It is guarantee of debtors' promissory notes; the State Guarantee Board collects a non-recurring premium of 0.75 % on the loan guaranteed and an annual premium which is normally 0.75 % of the outstanding loan amount.

(c) **Amount of subsidy (the total amount of loans guaranteed)**

<table>
<thead>
<tr>
<th></th>
<th>1984</th>
<th>1985</th>
<th>1986</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>106.2</td>
<td>105.8</td>
<td>328.4</td>
</tr>
<tr>
<td></td>
<td>(236 loans)</td>
<td>(244 loans)</td>
<td>(789 loans)</td>
</tr>
</tbody>
</table>

2. **Effect of subsidy**

In 1985, 73 % of the guarantees were granted to firms of less than 20 employees. Nearly a quarter of all the firms to which guarantees were given were firms barely commencing
operation. Most guarantees (about 40%) are given to the metal and machine industry.

V. Support for technological research and development

1. Nature and extent of the subsidy

(a) Background and authority

The Technology Development Centre (TEKES) supports R&D activity in order to improve the level of technology in Finland and to strengthen the scientific basis of new technology utilisation. TEKES is a government agency under the Ministry for Trade and Industry.

The support is intended primarily for the partial financing of development projects involving new technology, applied research and product development aiming at adapting the Finnish economy to international technological development and thus diversifying the structure of Finnish industry.

TEKES finances also research programmes and projects in research institutes and universities (c).

The research and development work is supported by means of grants and loans as follows:

A. Grants for R&D (industrial)
B. Loans for R&D (industrial)
(C. Grants for applied technological research)

The legal provisions are laid down in the decision of the Council of the State concerning grants and loans for R&D (150/85).

Grants are directed mainly to industrial applied research, to industrial joint research, to SMI-companies and to projects in their very initial phases in the innovation chain where the utilization span is relatively long.

Loans are directed mainly to product development utilizing new technologies where the risks in applying new technologies are especially high.

(b) Incidence

Grants paid to enterprises and other entities: Maximum 50% of acceptable research project costs. Investments are not acceptable, and only a limited overhead on direct wages (60%) can be accepted. The direct income must be subtracted. In long term projects with large scale university and public research institute participation the upper limit of the grant may exceptionally in some cases be 75%.

Loans paid to enterprises: maximum 75% of acceptable R&D-costs. Investments are not acceptable and only a limited overhead on direct wages (60%) can be accepted.
### 2. Effect of subsidy

The effects of financing are very difficult to evaluate. Usually it is considered that a time span of even 5 to 15 years is needed before the results of a technology based financing can be quantified, thus measures describing the quantitative effects of this kind of activity are not yet available. The qualitative aims are outlined above.

### VI. Export credits

#### 1. Nature and extent of the subsidy

(a) Background and authority

In Finland medium- and long-term export credits are financed by Finnish Export Credit Ltd (FEC), a joint-stock company whose shares are held by the Government, major banks, and several industrial companies engaged in exports. FEC's principal sources of funds have been the sale of subordinated debentures to the Government and shareholder banks, and other borrowings in the domestic and international capital markets. In the early 1980's the Government replaced its participation in the subsequent debenture programme by an interest rate subsidy scheme.

FEC's primary purpose is to promote exports of Finnish industrial products by financing medium- and long-term export credits and predelivery costs.

All loans granted by FEC are in conformity with the conditions of the OEDC Arrangement on Guidelines for Officially Supported Export Credits. FEC also provides unsubsidized lending on market terms.

The legal provisions concerning interest subsidy to FEC are laid down in a law of 20 December 1985.
(b) Incidence

Credit will be paid to exporters, foreign buyers and financial institutions. The credit normally covers 70-85% of the export contract value.

(c) Amount of subsidy (million FIM)

<table>
<thead>
<tr>
<th>Year</th>
<th>1984</th>
<th>1985</th>
<th>1986</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22.5</td>
<td>30.1</td>
<td>34.7</td>
</tr>
</tbody>
</table>

2. Effect of subsidy

The effect of the Government support is difficult to quantify. A major beneficiary is metal and engineering industry.