1. In accordance with its terms of reference, the Committee has conducted the consultation with Finland under Article XII:4(b). The Committee had before it: (a) a basic document prepared by the secretariat; and (b) a document provided by the International Monetary Fund. In conducting the consultation, the Committee followed the "plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 9 July 1959. The present report summarizes the main points discussed during the consultation.

Consultation with International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Finland. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its last consultation with Finland. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Finland. This statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from the last consultation with Finland under Article XIV of the Fund Agreement, which consultation was concluded on June 25, 1959.

"With respect to Part I of the Plan for Consultations, relating to balance-of-payments position and prospects, and also with respect to Part III, relating to system and methods of the restrictions, the Fund draws the attention of the CONTRACTING PARTIES to the results of its 1958 consultation with Finland under Article XIV of the Fund Agreement and particularly to paragraph 4, which reads as follows:

\[1\] 3. \textit{Spec(59)138}

English only/Anglais seulement
4. The Fund welcomes the introduction of non-resident convertibility by Finland, the strengthening of the balance of payments and of the reserve position, and the measures taken to reduce restrictions and the level of discrimination. The Fund urges Finland to take further steps which would progressively remove restrictions and eliminate discrimination, including those arising from bilateralism.

"With respect to Part II of the Plan, relating to alternative measures to restore equilibrium, the Fund draws attention to the results of the last Fund consultation with Finland. The Fund has no additional alternative measures to suggest at this time."

Opening Statement by the Finnish Representative

3. The full text of the opening statement of the representative of Finland is attached to this report as Annex I. The following is a brief summary of the statement:

4. The devaluation of the currency of Finland in September 1957 permitted considerable liberalization of the quantitative restrictions. This action had a healthy effect on the economy and helped induce domestic industries to increase their productivity and to improve the quality of their products. The risks undertaken when the liberalization measures were introduced had been well justified. On the other hand, increased competition from external sources as a result of liberalization, contributed to a further decline in production, particularly of industries supplying the domestic market. The uncertain external market prospects and the relatively large stocks of raw materials in the wood processing industries, aggravated the situation with the result that unemployment reached 7 per cent of the labour force in March 1959.

5. There had been a modest economic revival since the end of 1958, mainly in the sales and inventories of consumer goods. This upward trend was expected to strengthen. A substantial increase in exports
was unlikely during 1958, since measures undertaken to increase economic activity had been directed mainly towards stimulating investment.

6. Efforts had also been made to develop a capital market. Now foreign capital, including the $37 million loan from the World Bank, was expected to be sufficient to meet the urgent development needs of the wood-processing industries and to contribute to the expansion of their exporting capacity.

7. As a result of devaluation, the competitive position of Finnish exports lessened the effect of the generally weakened foreign demand. At the same time, lower domestic demand led to a substantial decrease of the volume of imports. The result was an export surplus in 1958.

8. The representative of Finland informed the Committee that the revival in economic activity which had taken place since the end of 1958, had not been felt in foreign trade and in the balance of payments. Although foreign exchange reserves had continued to increase, they corresponded only to about three months' imports. It was anticipated that the increasing domestic economic activity would further subject the reserves to considerable strain. This, together with the weakening terms of trade and the increased marginal imports, caused by a rise during 1959 in the gross national product, was sufficient to remove the surplus of 1958 in foreign trade.

9. The representative of Finland agreed that with the introduction of non-resident convertibility, the technical differences between imports from the dollar area and from countries which introduced non-resident convertibility had disappeared. He emphasised, however, the necessity of proceeding with caution in the removal of the remaining restrictions. Dollar imports were now excluded from only seven of the thirty-two global quotas, and liberal licensing procedures from dollar imports had been considerably extended.
10. In concluding his statement, the representative for Finland assured the Committee that it was the intention of the Finnish Government to proceed, as far as circumstances and reserves permitted, with the gradual removal of remaining restrictions from all sources.

11. The Committee expressed appreciation for the very clear and frank statement made by the representative of Finland and particularly welcomed the reaffirmation of a policy directed towards the removal of remaining import restrictions. Several members of the Committee expressed admiration for the way in which many of the serious post-war difficulties faced by Finland had been approached and largely overcome. Members felt that the relatively favourable position enjoyed by Finland in 1959 indicated the wisdom and success of the policies followed by the Finnish Government since devaluation. These policies had been responsible to a great extent for the improved competitive position of Finland in world markets, the rise in Finland's foreign exchange reserves and the external convertibility of Finnish currency.
Balance-of-Payments Situation and Prospects

12. The view was expressed that the Government of Finland was perhaps being over-cautious in its approach to the relaxation of restrictions and reduction of discrimination. In the light of the opening statement of the Finnish representative and of the experience of other countries, it did not appear that the removal of dollar restrictions would in fact result in an inordinate inflow of imports. The representative of Finland stated that it was difficult to make such an analysis in the case of Finland, since present internal demand was not considered to be at a normal level and the amount of pent-up demand for dollar goods could not be easily assessed. The Government of Finland realized that liberalization would generally exert a favourable downward pressure on the price level, but its overall effects on the economy would be uncertain. It was the policy of the Finnish Government to apply as liberal measures as possible in that sector of dollar imports which remained subject to restriction. As an indication of this liberal licensing policy, the Committee was informed that no applications for licences covering the importation of dollar investment goods has been refused this year.

13. Members of the Committee noted that in spite of the world economic recession, the level of activity in Finnish export industries appeared to have been well maintained while at the same time the level of activity in industries supplying the domestic market had decreased. Invited to comment on the relationship between the devaluation and these phenomena, the representative of Finland informed the Committee that home market industries such as the building industries suffered partly because accumulated post-war demand had been partially satisfied. The building industry was also affected by the relaxation of rent controls. This situation had still a greater effect on the economy since its introduction was coincidental with devaluation. Home market industries also suffered because of the very strict monetary and fiscal policies introduced prior to devaluation and from the increased competition from imports as a result of the liberalization measures introduced in 1957.
14. The representative of Finland added, however, that the general position was improving. In June 1959, the overall unemployment figure was lower than in June 1958. The contract prices concluded for export sales of Finland's most important exports, pulp and paper, had been lower in the fourth quarter of 1959 than for previous quarters. On the other hand there was some indication of a firming of import prices.

15. In discussing the balance-of-payments prospects, the representative of Finland drew the attention of the Committee to the fact that the surplus on current account realized in 1958 amounted to much less than 5 per cent of total turnover. Taking into consideration the expected increase in import prices and volume and the unlikely increase in exchange earnings, this small surplus could be easily eliminated. The representative of Finland referred to the liberalization of invisible transactions early in 1959 which would also have to be taken into consideration in any examination of Finland's balance of payments since it would eventually involve additional outlays of foreign exchange.
16. As regards Finland's trade with Eastern European countries, the representative of Finland stated that, as was normal for bilateral agreements, its trade with Eastern European countries was supposed to be in balance, and that many of the products exported by Finland to these markets were those which would have difficulty in competing in Western markets. These exports were therefore additional sales which would not otherwise have been made. In the opinion of the representative of Finland, the special structure of imports from the Eastern countries contributed considerably to making it possible for Finland to liberalize many manufactured goods. Under its current arrangements with the USSR, the latter paid Finland $10 million annually in convertible currencies which could be used for import payment to Western countries.

17. In response to a question on Finland's metal industries, the representative for Finland informed the Committee that most of the non-ferrous metals production was at present sold to Eastern area countries. These products for the most part would experience considerable difficulty in the markets of the Western world. However, approximately 25 per cent of the products of these industries were exported to Western markets which represented a considerable increase over previous years. Other products, such as machinery for the paper industry, also find an important internal market in Finland.

18. Members of the Committee noted that with the introduction of external convertibility there remained no payments advantage in importing from one country rather than another. They wished to know the reasons why Finland would not take advantage of this by permitting importers to choose their sources of supply. The representative of Finland emphasized once again that it was the intention of his Government to advance towards full liberalization, but only as quickly as circumstances permitted. He advised that certain products had been placed on the liberal licensing list for importation from the dollar area on an experimental basis but since imports were still at an abnormally low
level, this experiment could not be relied upon for an indication of true magnitude of import demand in more normal circumstances.

19. On the subject of unemployment, the representative of Finland explained that there was both structural and cyclical unemployment. The climatic and agricultural conditions of Finland had contributed to serious structural unemployment. He explained to the Committee that motorization of the logging industry had increased productivity to the point where the same amount of work was accomplished by 20,000 less men. He fully agreed with the member of the Committee who felt that investment should be directed as far as possible to labour intensified industries. Finland's labour force was expected to increase by 550,000 during the period 1956-1971.

20. A Committee member noted that a relatively large portion of the Finnish budget was directed towards relief work for the unemployed. He wondered what effect these short-term measures to assist the unemployed would have on the long-term expansion of the export industries. The representative of Finland informed the Committee that about 10 per cent of total budgetary expenditure was diverted towards relief work. The short-term measures to relieve unemployment were required by law and socially desirable but undoubtedly limited the resources that could be diverted to the long-term solution of the problem.
21. A member of the Committee noted that approximately 55 per cent of total savings in Finland was in the public sector and that more than half of those public savings was loaned to the private sector for housing and farms. Only small amounts had been allocated for investment in export industries. The representative of Finland informed the Committee that the high domestic investment in farms was primarily for social reasons and was not directed towards increasing agricultural exports. He pointed out that the relatively small proportion of Government loans made available to export industries had been purely a question of limited resources. On the other hand, the export levy introduced at the time of devaluation to help curb inflation had resulted in the accumulation of considerable funds by the Bank of Finland. A great part of these funds, amounting to Fmk 8 billion, was earmarked for loans for investment in industry. The granting of these loans would not show up statistically until complete 1959 figures were available.

22. In response to various questions, the representative of Finland explained that the present expansion was for the most part limited to the consumer goods sector. Internal consumption demand had been higher in March and April 1959 compared with the corresponding months in 1958 and industrial production had risen by 4 per cent, comprising an increase of 6 per cent in consumption goods and a decrease by 2 per cent in capital goods. As mentioned above, export industries had not experienced any significant improvement. Although Finland had sufficient labour and internal resources, capital resources were definitely limited. It was a matter of spreading the limited available capital thinly throughout the economy and achieving a slower rate of expansion than was desirable or of increasing foreign capital inflow. There had been very little capital inflow during the past two years and there was little evidence of any important increase during 1959 although the considerable liberalization of the regulations on short-term capital and purchase of shares and bonds by the Bank of
Finland was expected to have a favourable effect. It was the hope of the Government that any expansion of investment would be concentrated where there were economic possibilities for increased production.

23. In answer to a question, the representative of Finland explained that the loan recently obtained from the IBRD were related to nine specific wood-processing projects. The loan would be utilized for purchases within the requirements of these projects, but without limitation as to the sources of supply; the purchases would be made on the basis of competitive international bidding. It was anticipated that the initial investment of the World Bank loan of $35 million would eventually result in a $50-60 million annual increase in net export earnings in convertible currencies. By domestic and other investments, annual convertible earnings were expected to be raised by a total of $100 million. The representative of Finland emphasised that it was the policy of his Government to direct investment as much as possible towards the forest products industries which were fairly competitive in world markets. His Government had great confidence in the long-run prospects for the pulp and paper industry.

System and Methods of the Restrictions

24. The Committee discussed in some detail the import licensing system of Finland. In response to specific questions, the representative of Finland advised that while certain textile products were still completely restricted or subject to global quotas, the greater number were included in the free list or subject to automatic licensing. During 1958, demands for textiles contracted in Finland, as did the overall demand. The figures for January-April 1959, however, indicated that the demand was again increasing.

25. The representative of Finland replied to a number of questions on import licensing. He advised that liberal licences were granted forthwith and without limitation although applications could only be made by
importers who were normally dealing with the product concerned. Liberal licensing was also applied to certain imports from the dollar area.

26. The representative of Japan referred to the various systems used for importations from different sources. He enquired about the position of imports from countries such as Japan which had not signed the Helsinki Protocol, were not members of the sterling or dollar areas, had no bilateral agreements or other special arrangements with Finland, but were members of the General Agreement. The representative for Finland replied that trade with such countries represents a very small portion of total Finnish foreign trade. He explained that Finnish Law required that free list treatment be granted only to countries which applied liberalization to Finnish exports. Since wood pulp, Finland's only principal export to Japan, was under a very restrictive global quota system, the free list treatment could not be applied to Japanese products. The Finnish Government had nevertheless attempted to treat imports from Japan, which were subject to discretionary licensing, as liberally as possible within the requirements of the law. For 1959, exchange allocations for Japanese imports were to be increased by $1.7 million which represented an increase of 40 per cent over 1958. The representative for Japan agreed that there were certain limitations on imports of wood pulp into Japan, but he added that all countries with whom Japan exchanged most-favoured-nation treatment were free to compete in the wood pulp quota in a non-discriminatory way. He pointed out that while he appreciated the many important problems faced by Finland, he could see no reason why Finland should discriminate in this way against another member of the General Agreement. The representative of Finland felt that the actual treatment accorded imports from Japan had not been as restrictive as the formal situation would seem to indicate since in actual practice, licensing had been liberal. However, he assured the Japanese representative that the
remarks made by the latter would be brought to the attention of
his Government to be considered in the light of its general aim of
removing restrictions on imports from all sources, and thought that
it might be useful if an exchange of views on this question could
take place between Finnish and Japanese authorities.

27. Committee members representing dollar area countries, expressed
the hope that the intention of the Finnish Government to remove all
discrimination applied equally to the dollar area. It was felt by
those members that any licensing requirement presented an obstacle
to trade. In addition, it was noted that the charging of licensing
fees represented an additional element of discrimination against
countries whose exports were subject to the licensing requiremenent
while similar imports from other countries were admitted licence-free.

28. In reply to several specific questions on the various methods
used in restricting imports, the representative for Finland advised
that the availability of particular currencies for payment of imports
had become a lesser consideration since the introduction of external
convertibility. Currency considerations had to be taken into considera-
tion, however, as far as imports into Finland under bilateral arrange-
ments were concerned. As of 1 July 1959, the rules governing the
prescription of currency had been liberalized with the result that
all imports could be paid for in any convertible currency.

29. The representative of Finland agreed with members of the Committee
regarding the effects of bilateral arrangements on the exports of third
countries. It was noted, for example, that bilateral quotas covered
100 per cent of Finland's imports of wheat and approximately two-thirds
of Finland's imports of sugar. In attenuation of this comment the
Finnish representative noted that there were no obstacles to the free
participation by Western countries in the remaining one-third of
Finland's sugar market.
Effects of the Restrictions

30. A Committee member recalled that during the consultation with Finland in 1957, the Committee had been informed that it was the policy of the Finnish Government to issue licences where excessive protectionism was encountered. The representative of Finland advised that this factor was still taken into consideration in the issue of licences. Where the corresponding domestic prices were out of line with world prices, licences were in many cases granted for goods which normally would not be imported.

General

31. The Committee expressed appreciation for the efficient spirit and clear manner in which the representative of Finland participated in the consultation. The hope was expressed that the internal and external problems facing Finland would be overcome thus enabling Finland to make further headway towards a more stable economic position which was a prerequisite for full liberalization. Members of the Committee expressed the hope that in the light of external convertibility, Finland would seriously consider the reduction of the discriminatory elements in its import restrictions. The representative for Finland expressed his thanks for the free and friendly interchange of ideas which had taken place in the Committee and which had given his delegation an opportunity of explaining to the Committee Finland’s policy in the field of quantitative restrictions.