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 basic document for the consultation (BOP/42), together with an annexed Finnish booklet entitled "Importation System in Finland - as applied from 1 January 1964", and a document supplied by the International Monetary Fund as mentioned in paragraph 3 below.

2. In conducting the consultation the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was completed on 4 November 1964. The present report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. 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. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's document concerning the position of Finland. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a background paper on Finland dated 23 October 1964.

"The Fund is soon to conduct a consultation with Finland under Article XIV of the Fund Agreement and expects to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available."
Opening statement by the Finnish representative

4. In his opening statement, the text of which is annexed to this report, the representative of Finland described the principal developments in the Finnish economy since the last consultation in June 1963 and recent action to reduce import restrictions, notably the addition of more items to the free import system on 1 January 1964 and the increase in the size of global quotas. It was noted that boom conditions again prevailed in the Finnish economy, that exports of sawn timber and paper products were rising and that exports of metal and engineering products had declined much less than in the previous year and an upturn is expected. Domestic investment spending had recovered and there was a small rise in private consumption expenditure in spite of the general purchase tax reform at the beginning of 1964 which at first did curb spending. Attempts were now being made to produce budget policy which aims both at fiscal stability and economic growth. Of serious concern to the authorities were the development of wages and prices, which recently had been rising.

5. A boom-based balance-of-payments deficit had been developing; the trade deficit had now amounted to FM527 million in the first eight months of 1964 as against FM211 million in the corresponding period in 1963. The increase in certain imports could be attributed to trade liberalization (imports of motor cars, for example, rose by 80 per cent, and were responsible for extra expenditure exceeding FM100 million, in the first eight months of 1964). In spite of the mounting trade and current account deficits, reserves had been rising. This was due to the inflow of long-term capital, made possible by exceptionally favourable conditions on the international capital markets. There was, however, no assurance that Finland's possibilities of floating long-term foreign loans would continue at the present scale in future years. The balance-of-payments position remained structurally weak, and called for a reasonable degree of caution.

6. This cautious attitude notwithstanding, the Finnish Government had proceeded to relax and remove import restrictions. The measures taken early in 1964, for example, covered nearly 200 tariff items or sub-items, representing an import
value of FM100 million (1962 basis). In conclusion the Finnish representative
drew attention once again to the persistent trade deficit which was currently
alarmingly large and was still on the increase. This clearly counselled against
any overly accelerated rhythm in the liberalization of imports.

Balance-of-payments position and prospects

7. Members of the Committee thanked the representative of Finland for his clear
and informative statements and welcomed the progress which had been made by
Finland in relaxing and reducing its import restrictions. Some members commented
on the concluding remarks in the statement and thought that the Finnish
representative was unduly pessimistic in relating the possibility of liberalization
directly to the trade balance. They pointed out that it was rather the overall
balance of payments, comprising both the current and capital accounts, which should
be the relevant criterion. The favourable balance-of-payments position and the
increase in reserves clearly warranted a more bold attitude and justified further
action in the liberalization of imports. In reply to these comments the represen-
tative of Finland recalled his remarks concerning the structural nature of Finland's
external financial difficulties. The trade deficit showed every sign of being
persistent and growing. If the reserves were being added to at present, this was
mainly due to the favourable conditions on the capital market. Long-term capital
was indeed flowing in at a comfortable rate; yet there could be no assurance that
this would continue, at any rate not at the annual rate of the first half of 1964,
which was some FM560 million. Although the reserves were at a relatively high
level in comparison with the past, they represented no more than the value of three
months' imports, which by Western European standards is a fairly low ratio. Con-
sequently, the rate at which liberalization could be pursued in the near future
would have to be decided upon with considerable circumspection.

8. Members of the Committee expressed the hope that the balance-of-payments
position of Finland would continue to improve and provide more unmistakable
indications of strength. They had no doubt that the Finnish Government would
liberalize imports as far as the balance-of-payments position permitted.
9. The Committee then discussed with the representative of Finland various elements in the balance of payments. Concerning Finland's export earnings, it was noted that exports of pulp and paper rose strongly in 1963 and again in 1964. Asked to comment on the future prospects of these and other exports, the Finnish representative explained that although exports of paper products and sawn timber had been increasing, sometimes even markedly, future prospects were limited by the supply of raw timber. A continued decline in the export of timber was expected, as annual fellings were already exceeding natural increment (in 1963/64 total fellings were estimated at over 50 million cubic metres, while increment was no more than 43 million cubic metres as against 46 million cubic metres in the mid-1950's). Exports of metal and engineering products had declined in 1963 and remained stagnant in the first half of 1964. The long-term economic projection recently formulated for the Economic Council of Finland indicates that the balance-of-payments difficulties will continue during the late 1960's.

10. As regards the development of new exports such as "design products", the Finnish representative pointed out that although their production and exports had expanded remarkably in terms of percentage growth (for example, the export of furniture had expanded by 32 times between 1954 and 1964, and that of some special quality textiles by 37 times) the absolute growth expressed in value remained relatively insignificant, amounting to no more than FM 9.5 million for furniture and FM 11.3 million for textiles during that period.

11. In discussing capital movements, members of the Committee noted the pronounced fluctuations on private short-term capital account, especially the swing from the net outflow of FM 127 million in 1963 to a new inflow of FM 217 million in the first half of 1964. The Finnish representative stated that transactions on this account, the exact breakdown of which is especially difficult to estimate by half-years, consisted mainly of import credits received, advances on Finnish exports, and the banking system's deposits obtained from abroad. It would appear likely that in the periods compared the change was mainly due to import credits increasing with growing import volume; this the monetary authorities could control only in a very limited way. As regards foreign short-term lending to Finnish banks, this mainly took the form of three to six-month bills, e.g., Eurodollars, and their level was generally under control since the commercial banks had to comply with the Bank of Finland's policies.
Alternative measures to restore equilibrium

12. The Committee took note of the various monetary and fiscal measures taken by the Finnish authorities to stabilize the economy. A discussion took place on developments in prices and wages. Noting the increased pressures on both prices and wages, members of the Committee enquired whether the Finnish authorities envisaged any steps to deal with the problem in a way that would safeguard the competitive strength of Finnish exports. The representative of Finland stated that recent developments in wages and prices had not been encouraging. The current industrial collective wage agreements, which had been negotiated at a time when increases in prices had begun to arouse fears of inflation, not only granted substantial wage increases but for the first time since the mid-1950's included a clause providing for cost-of-living adjustments. The increase in wages in the last twelve months amounted to about 10 per cent and was only to a limited extent compensated by simultaneous increase in productivity. Even though their effect on the competitive position of Finnish exports was still fairly limited thanks to certain other factors which served to absorb the rise in production costs of export goods the fact remained that rises in wages in other European countries had been more moderate; e.g., 2.7 per cent only in the Federal Republic of Germany and 2.9 per cent in Sweden over the half-year period between third quarter 1963 and first quarter 1964.

13. In reply to a question concerning the policy of the Finnish Government to diversify production and exports as a means of redressing the trade deficit, the representative of Finland recalled the explanation which had been given by the Finnish delegation in a past consultation. The Government possessed but limited powers to direct investment and production in the new industries, and could achieve desired results only through such means as technical and sales education, market surveys and provision of export credit and export credit guarantees in a limited way. The chronic shortage of investment capital enabled the authorities to exert a certain measure of influence by, for instance, channelling public or publicly-guaranteed foreign loans into various types of industries through financial intermediaries. Also, the Bank of Finland had allocated FM 90 million
recently for financing the domestic suppliers' credit needs of the metal and engineering industry through the provision of rediscount facilities. As regards the branches of industry which might be developed on a long-term basis, the Finnish representative mentioned in particular the production of ice-breakers and pulp- and paper-making machinery. The latter appeared to be particularly promising; Finland was already supplying about 10 per cent of world requirements of paper-making machinery. It was to be hoped that the trend of expanded production in various new branches would continue.

14. A member of the Committee referred to the Finnish Agricultural Price Level Act adopted in August 1962 to afford protection to farm income through subsidies and the regulation of prices and noted that, according to the statistics before the Committee there had been a substantial increase in Finnish exports and an apparent fall in imports of agricultural products in the first half of 1964. The Finnish representative was requested to comment on the effects of the Act, particularly with regard to the question of access for low-cost agricultural imports. In reply, the Finnish representative stated that the legislation in question, in common with similar laws existing in many other countries, was designed to overcome the most important and pressing problem of disparity between farm and industrial incomes. The price adjustment made in pursuance of this law amounted to about 10 per cent this year, which roughly corresponded to the rise in the earnings of workers in industry. The expansion of agricultural exports was mainly due to improved production techniques and increased dairy output. Better import facilities had been provided by the United Kingdom for Finnish dairy products, and new outlets had been opened up through trade arrangements concluded with the Soviet Union. Agricultural exports thus increased despite the unfavourable impact of the CAP regulations introduced in 1962 and this year by the European Economic Community, but had not exceeded the 1960 level. As for future prospects of agricultural exports, the Finnish representative recalled on agricultural legislation in Finland that the extention of the act establishing an Agricultural Marketing Fund which had been discussed during the last consultations was at the present time under consideration in the Parliament and that the
Agricultural Price Level Act of 1962 ought to be renewed next year. Pending the outcome of these legislative proposals it was difficult to predict the direction in which Finnish agriculture would develop in the future.

15. A member of the Committee noted the fact, described in the IMF background paper, that the Bank of Finland possessed no legal means to regulate the cash reserves of the trading banks, and enquired about the prospects of the Bank's earlier proposal to establish such a legal requirement being adopted. The Finnish representative informed the Committee that the proposal according to which the Government would be empowered to request all banking institutions to deposit funds on special accounts with the Bank of Finland in addition to those required under the present cash reserve requirements, was still under examination in Parliament and in fact had not passed the committee stage. Opposition to the proposed measure existed in quarters having vested interests in commercial and savings banking, and it was difficult to predict whether and when the bill would be approved. Other members recalled past discussion they had on this subject in this Committee, and stressed the importance which they had attached to the regulation of reserves as a means of promoting and maintaining monetary and financial stability.

System and methods of restriction

16. In examining the system and methods of the Finnish import restrictions, the Committee took note of the descriptions given both in the background paper provided by the IMF, and the "basic document" prepared by the Finnish authorities and the secretariat (BOP/42). On the basis of this material, questions were put forward by members on a number of subjects, e.g. the criteria used in allocating licences, the use of bilateral trade agreements, the operation of the State-trading agencies, the effect of the import credit restrictions on imports, as well as problems relating to individual products referred to in paragraphs 21-28 below.

17. On the question of allocation of licences, the Finnish representative pointed out that the question arose only with respect to those imports which were subject to individual licensing, which in 1963 represented merely 4.7 per cent of total imports from the "Multilateral Import Treatment" area countries. Although the allocation was said to be based on the individual importers' past records, the principal purpose was not to exercise arbitrary or discretionary powers of
interference or control, but to prevent such abuses as speculative purchase and stockpiling. He also referred to the close contacts existing between the licensing authorities and importers in this field.

18. On the question of bilateral agreements the Finnish representative stated that, apart from those concluded with certain State-trading countries, payments and trade agreements were in force at present only with three countries - namely, Colombia, Greece and Turkey. The agreements with Greece and Turkey both provided for payments through clearing accounts with swing margins, but half of the balances on the accounts were settled periodically in convertible currencies. The agreement with Greece included lists of products, but these were only of an indicative nature, involving no obligation on either side to purchase. In the agreement with Turkey, not even an indicative list was included. In the view of the Finnish representative, these agreements were only "semi-bilateral". The agreement with Turkey had been extended up to the end of January and neither partner felt that the time was ripe as yet to move over to a multilateral basis. However, in principle, the policy of the Government was to convert such agreements to multilateral arrangements as soon as circumstances permitted. The agreement with Colombia, which applied to all Finnish exports to that country but only to Colombian exports of coffee to Finland and provided no swing credit, was being maintained, as it served to assure access to the Finnish market for Colombian coffee, which might otherwise create difficulties on account of the balance-of-payments problems of Finland. On the other hand Finland owed to Colombia a substantial clearing account balance, and the termination of this agreement would depend on ways and means being found for the liquidation of this accumulated debt. At the time of the last consultation with the IMF Colombia had said that she would be glad to terminate the bilateral arrangement, but only provided her exports of coffee to Finland did not suffer. Traditionally, her largest credit balance was with Finland. A member of the Committee recalled the view repeatedly expressed by the IMF that the termination of Finland's few remaining bilateral payments agreements with Fund members was feasible and desirable. The hope was expressed that Finland would bear this in mind in administering its trade restrictions.
19. A member of the Committee, noting the increasing level of Finland's imports from the State trading countries, recorded on page 35 of the Fund document, expressed the view that the circumstances which had led Finland in the earlier post-war years to develop its trade with Eastern European countries had by now largely disappeared, as Finnish industries were becoming more competitive in international markets. Accordingly, Finland should endeavour to discontinue these agreements. Other members expressed the hope that Finland would be able to move in this direction. The representative of Finland replied that the trade arrangements between Finland and East European countries served to keep open traditional markets and should be regarded as an important element of the Finnish foreign trade pattern bearing in mind the balance of payments in convertible currencies. On the whole, the pressures were on the side of Finnish exports, and, consequently, the existence of such arrangements would seem hardly to impair the trading interests of Western countries. Finland would at any rate continue to press forward with the liberalization of imports from the "Multilateral Import Treatment" countries.

20. It was noted by a member of the Committee that the restriction introduced in February 1962 on short-term credit facilities for importers of consumer goods had been announced at that time as a temporary measure, and enquired as to the prospect of its removal. The Finnish representative replied that while the measure had indeed been introduced to cope with a temporary situation, it had been maintained because of the balance-of-payments difficulties. It applied only to certain durable consumer goods and its effect on imports was minimal. The measure was justifiable also on the ground that sales credit for comparable locally produced products was similarly restricted. However, it was not the intention to maintain this measure permanently.

21. In the course of the consultation, enquiries were made by the representatives of certain contracting parties on measures affecting exports of specific products. In reply to a question concerning the criteria used in the issuing of individual licences for the import of coal, the representative of Finland stated that the
import licensing for this product was maintained in order to enable the Government to fulfil certain bilateral quota obligations which it had undertaken vis-à-vis two traditional trading partners. The representative who raised the question expressed the hope that the Finnish licensing authorities would bear in mind the desirability of keeping open the market for imports from other sources, not only of coal, but of all products subject to restriction applied in connexion with bilateral commitments. This would, among other things, be beneficial in keeping down import prices.

22. The representative of Australia stated that details of the Finnish quotas for imports of apples and pears were usually not available in sufficient time for Australian exporters to accurately reserve shipping facilities. He asked whether Finland would undertake to meet the problem by making known the quotas that would apply to Australian fruit in each year at a date earlier than is at present the case. The Finnish representative stated that imports of apples and pears from Australia would be admitted within the global quotas and the Finnish authorities, in consultation with importers, had in fact taken deliberate steps to facilitate imports of apples and pears from that country and everything would be done to assist Australian exporters. His Government would be prepared to consider any proposals which Australia might present to it concerning the methods and procedures for the publishing of the quotas. He would inform his Government of the importance to distant suppliers such as Australia of the earliest possible publication of the details of import quotas for apples and pears. In this connexion, he understood that their publication not later than the first week in January each year would be acceptable. The representatives of Finland and Australia agreed that the matter could be taken up between the authorities concerned. In answer to a further question, he confirmed that the "Helsinki Club" or "Multilateral Import Treatment" arrangement applied to imports from Australia.
23. One member recalled the discussion at the last consultation concerning the revenue tax on motor cars introduced as a temporary measure at the time of the import liberalization of this product, and wished to know whether and when one could expect its abolition. The representative of Finland informed the Committee that since the last consultation there had been a further increase in motor car imports from the United Kingdom into Finland (17,000 units valued at FM 51 million in the first eight months of 1964 as against 9,000 units and FM 29 million a year ago). The tax had been introduced originally as a means of softening the impact of pent-up demand after liberalization but its removal had been made difficult by the current budgetary and balance-of-payments position. No doubt it would be removed as soon as circumstances permitted, even though its effect on imports, as might be seen from the import figures given above, must be very limited.

24. A member of the Committee enquired whether the Finnish Government agency responsible for the import of grains was making its decisions as to imports strictly on the basis of commercial considerations. The Finnish representative replied that grain imports into Finland were affected by many factors: domestic production must be accommodated; imports of wheat from countries such as Canada depended greatly on the need and demand for particular quality grades; and, finally, the interests of other traditional exporters to the Finnish market had to be safeguarded. The Finnish Government had not lost sight of the criteria of Article XVII of GATT, but in their application account had to be taken of the qualifying factors mentioned above. Since the last consultation Finland had acceded to the International Wheat Agreement and was observing the obligations which it imposes.

25. One member mentioned the difficulties met by his country's exporters in dealing with the Alcohol Monopoly; although imports were said to be no longer subject to restriction, applications for licences had been turned down by the Monopoly on the ground that there was no local demand. The representative of Finland replied that since there was neither licensing nor quota restriction on the import of these products and decisions by the state monopoly were made purely on commercial considerations, he could only suppose that a refusal to purchase a particular product did in fact imply a lack of local demand.
26. One member who represented a developing country, referring to the current discussions at the Action Committee, welcomed the Finnish notification of liberalization of products exported by developing countries. While generally satisfied with the quotas provided, he would submit that such products as hand-woven carpets, being labour intensive, suitable for cottage production and not in competition with established industries in developed countries, deserved special consideration and early liberalization.

27. Two members instanced continuing restriction of certain items of particular export interest to their respective countries. The Finnish representative said that consideration would be given to these products during the next annual review and revision of the Finnish import control system.

General

28. The Committee expressed appreciation of the detailed information supplied by the Finnish delegation in advance and in the course of the consultation. The Committee welcomed the steps taken by Finland since the last consultation in removing restrictions, in including more countries in the "Multilateral Import Treatment" area and in increasing the size of global quotas. Members of the Committee were confident that the Finnish authorities would give special consideration to the comments made at this meeting on the various aspects of the import control system or on the restrictions on particular products. They hoped that Finland would continue to relax and remove restrictions as rapidly as the balance-of-payments position would permit and would make further progress in the removal of discrimination including that arising from bilateral arrangements.

29. The representative of Finland reciprocated the sentiments of the Committee and assured its members that the views expressed by them would be conveyed to the attention of the appropriate Finnish authorities.