Committee on Balance-of-Payments Restrictions

DRAFT REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS
ON THE CONSULTATION UNDER ARTICLE XII:4(b) WITH FINLAND

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/60), a Finnish publication entitled "Import System of Finland as applied from 1 January 1966", and documentation supplied by the International Monetary Fund.

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 30 November 1966. This report summarizes the main points made in 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 customary procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Finland. The statement made was as follows:

"With respect to Parts I and III of the Plan for Consultations, the Fund invites the attention of the CONTRACTING PARTIES to the Executive Board Decision of June 8, 1966 taken at the conclusion of its most recent Article XIV consultation with Finland. At the end of June 1966 the gold and net foreign exchange assets of the banking system amounted to $182.5 million, $42.2 million less than at the end of December 1965 and $126.9 million less than at the end of December 1964. At the present time the general level of restrictions of Finland which are under reference does not go beyond the extent necessary to stop a serious decline in its monetary reserves.

1 Reproduced in Annex I to this Report."
"With respect to Part II of the Plan for Consultations, the Fund again invites attention to the decision taken at the conclusion of its most recent Article XIV consultation with Finland. The Fund has no additional measures to suggest at this time."

Opening statement by the Finnish representative

4. In his opening statement, the full text of which is reproduced in Annex II to this report, the representative of Finland recalled that at the last consultation with his country it had been clearly stated that Finland faced a serious balance-of-payments crisis. Events had proved this prediction all too accurate, and Finland now had to report the loss of over half of its net foreign exchange assets since the beginning of 1965. In response to this situation, the present Government had prepared and submitted to the parliament an austerity budget best described as restrictive but balanced, characterized by severe tax increases and designed to give support to a tight monetary policy.

5. It was the hope of the Government that, in this way, notwithstanding the prospect that borrowing possibilities would remain tight on the international capital market, it would be possible to overcome the current crisis by slow-working measures affecting total demand without resort to easy but at the same time harmful measures of import restrictions. Some diminution of the current account deficit, as a result of these measures, was already expected in 1965. An easing of international capital markets would be of great assistance to Finland in this effort, as it was difficult to see how a current account deficit of the magnitude of Fmk 600 million (i.e. 1965) could be managed with reserves now totalling no more than Fmk 400 million unless Finland had somewhat greater access to long-term loan capital than in 1965 and 1966 when only about Fmk 160 million could be raised each year abroad.

6. In spite of these very real difficulties Finland had made continued progress in the reduction and elimination of import restrictions. Not only had bilateral payments agreements with Turkey and Greece been terminated, but also there had
been discussions between the Colombian and Finnish authorities resulting in an expectation that their bilateral payments agreement - the last between Finland and another Fund member - would be eliminated in about a year's time. With respect to remaining quantitative restrictions, fifteen quotas embracing 174 tariff items and sub-items were removed at the beginning of 1966 and it is intended to remove, at the beginning of 1967, thirteen more quotas covering 144 tariff items and sub-items and accounting for a trade of some Fmk 135 million in 1965. This movement had been and would continue to be accompanied by enlargement of quotas on products still remaining under the global quota system. If the plan was realized, there would remain after the beginning of 1967 only twenty-one enlarged quotas with a trade value of some Fmk 300 million and Finland hoped to be able to abolish a substantial part of those residual quotas at the beginning of 1968.

**Balance-of-payments position and prospects**

The Committee thanked the representative of Finland for the information which he had provided and congratulated Finland for its bold pursuit of policies designed to deal with its immediate difficulties in a manner which appeared to conform closely to accepted principles for restoration of equilibrium. The reports on reduction and elimination of specific quantitative restrictions and on avoidance of new restrictions were much appreciated, especially in the context of having been accomplished in the face of severe and still continuing balance-of-payments difficulties.

A first group of questions put to the representatives of Finland concerned the efforts which Finland was making to expand and diversify its export trade by promotion of new export industries; the Finnish representatives were also asked whether it was mainly loan capital or also equity capital which was being sought from abroad. In reply, the representative of Finland said that very intensive measures had been taken with a view to developing an "export-mindedness" among Finnish producers. This effort was thought of as a long-term project and it might
take a long period of years if Finland was to catch up with other Nordic
countries in this respect; it aimed especially at the development of new
exports which would supplement the exports of forest products now making up
some 70 per cent of Finland's export trade. Special funds had been made
available for financing export trade; tax regulations had been amended to
make export market research expenses deductible for tax purposes; the
Government was also contributing to market research work in other ways.
Certain measures which might otherwise have been contemplated, such as export
subsidies, or tax relief measures, had been dropped as contrary to Finland's
various international obligations. But within existing limitations considerable
progress had been made, thanks in part to Finland's favourable location with
respect to very good markets in Sweden and other European Free Trade Association
countries.

These efforts to promote exports had appeared more likely to support the
balance of payments than a drive to obtain a larger flow of equity capital.
In fact, most of Finland's capital inflow other than short-term financing, had
been long-term loan proceeds, the result of borrowing from private investors
and banking and other institutions. Because of its remoteness from the centre
of Europe, Finland could not hope to attract much direct foreign investment,
as investors tended to prefer more central locations for industrial ventures.
Even within EFTA, Finland's geographical position was somewhat peripheral.
In any case, Finland's legislation afforded liberal treatment to foreign
investment and the laws were applied in a very liberal spirit in the hope that
foreign direct investment might be forthcoming in larger amounts, but it would
not appear realistic to anticipate such substantial inflows as those which in
some other Western European countries had provided an important contribution
to the balance of payments.
Members of the Committee expressed their appreciation for this account of ways in which export promotion is being helped to find new markets and adequate financing, though they felt that there might also be an additional problem of stimulating and directing production itself into products suitable for "new" export. It was recognized however that bringing about industrial expansion might be difficult at a time when a generally tight money policy was being pursued. The representative of Finland agreed in general terms, but emphasized that the so-called "credit squeeze" in Finland does operate in a selective way, tight as it is, so that the Bank of Finland, for example, rediscounts commercial bank loans which represent advances to finance new exports with good prospects; foreign export bills issued by foreign importers are also rediscounted where this helps to finance new exports. In addition, there is an institution called Export Credit Ltd., which has funds for financing export trade, and also an Export Credit Guarantee Corporation similar to such institutions in other European countries. All in all, much more effort is being required in creating new exports than on promoting pulp and paper exports if the relative marginal export increases are taken into account.

**Alternative measures to restore equilibrium**

The representative of Finland was asked whether the budget to which he had referred as "restrictive but balanced" was expected to be in balance in 1967. In reply the representative of Finland said that this was indeed to be expected. The budget proposal which had been presented to the Finnish Parliament, as shown in one of the background papers before the Committee, showed substantial increases in revenues expected from various taxes and charges that would bear heavily on every resident of Finland in the year ahead. These proposals, which are not likely to undergo any major change, will, when adopted, mean that for the first time in some years fiscal policy will join monetary policy in supporting the painful but necessary process of restoring equilibrium through restraint of consumer spending.
Members of the Committee expressed particular gratification at the news that Finland's last bilateral payments agreement with a country not in the State-trading group is on the way to termination. Whilst recognizing that special circumstances exist in regard to trade under remaining bilateral agreements, they expressed the hope that reasonable steps would be considered to minimize reliance on such agreements, especially those of a strictly bilateral balancing type. In answer to a later question, the representative of Finland stated that he did not know of any element of protection in Finland's import system which either favoured multilateral as compared with bilateral countries or had the opposite effect.

Several members inquired concerning the import régime and internal regulations affecting purchase of passenger cars. As explained by the representative of Finland, the importation of automobiles and spare parts had been freed of restriction and there was no discrimination as to sources. Finnish consumers might have preferences for one make of car or another but that was not a matter in which the Government was concerned. This liberalization represented a voluntary unilateral action on Finland's part, as Finland had exceeded its EFTA commitment considerably. It was true however that taxes on automobiles had gone to high levels and gasoline taxes were also high. Even so, imports recently had amounted to some Fmk 300 million annually or about 6 per cent of total imports and demand appeared to be continuing to increase. The heavier taxation had however tended to a certain extent to slow down the growth of demand for the time being - though Finland hoped that these measures would not be of indefinite duration - and this slower growth of the market might lead to disappointment among foreign suppliers.
In answer to a further question, he added that a slight degree of difference did exist in the hire-purchase arrangements in effect with respect to automobiles from Eastern sources. Terms for instalment purchases of cars from the multilateral area were somewhat less favourable for the purchaser, but he did not think that this matter of trade policy was of great importance. With respect to the manner in which excise taxes on automobiles were applied, about which a question was also asked, he explained that the progressively heavier rate of taxation of more expensive automobiles corresponded to Finland's fiscal and balance-of-payments needs. As of possible interest to suppliers of larger cars, he added that a large group of buyers of such cars in Finland, the taxi-drivers, could continue to purchase their vehicles exempt from the higher taxes, as the tax was refunded when the vehicle was used for professional purposes. This applied also to purchase of vehicles for other professional purposes; ambulances, delivery vans and the like were free of tax. He noted that another feature of the situation which might well account for some decline in sales of more expensive cars was the very high cost of petrol, on which Finnish taxes were now nearly the highest in Europe.

Members of the Committee were not entirely satisfied that Finland's system of taxation was entirely equitable. It was felt that in the stringent situation confronting the country, it might be acceptable to impose a straight ad valorem tax rather than a uniform charge irrespective of size of vehicle, but that to impose a higher rate of tax on higher priced vehicles was excessive, especially when this meant that the tax on a vehicle with a c.i.f. duty-paid value of $4,000 was at the rate of 132 per cent ad valorem whilst a vehicle valued at $1,000 on the same basis paid only 80 per cent on its lower value. It did not seem clear, either, that the discrimination in the matter of hire-purchase terms was necessarily of little consequence in the purchaser's decision on choice of vehicle. The representative of Finland was asked to note the points that had been made and to convey to his Government the request that the discriminatory features in these arrangements be modified or eliminated, and he agreed to do so.
With regard to the State trading sector of Finland's system, it was asked how the alcohol monopoly was operated since there were from time to time complaints that it might operate to keep imports out of the Finnish market; this applied especially to beer. The representative of Finland said that the alcohol monopoly purchased purely on commercial considerations and according to consumer demands.

In reply to a question concerning the effects of bilateral payments agreement commitments on imports of wheat from other sources, the representative of Finland said that his country was nearly self-sufficient in wheat so that there was no very large market for imports. There were also certain commitments to purchase from bilateral countries which Finland wanted to fulfill. Beyond that, the policy of the State Granary was based on commercial considerations and the only restrictions in force were the provisions of the bilateral agreements. The representative of Finland was asked to convey to his Government members' interest in the liberalization of these restrictions.

A question was also asked concerning instructions which were believed to have been issued in February 1966 concerning procurement by State institutions. In reply the representative of Finland indicated that this internal governmental circular was a matter which could easily be misunderstood abroad. In fact, the circular had only reminded Finnish State institutions that in their purchasing operations they should always seek bids from Finnish as well as foreign suppliers. So far from requiring that any preference be given to Finnish sources, Finland found that it sometimes happened that Finnish suppliers had actually been overlooked when bids had been sought by State institutions. It was only to require that Finnish sources be asked to bid that the circular has been issued. Now, as before, no preference is accorded to local suppliers. Members of the Committee suggested that if there was need for such a circular, this might suggest need for more publicity for notices that bids were being
solicited. The representative of Finland believed that this had been taken care of, at least for major bids and emphasized that Finland had benefitted substantially from the growing practice of international competitive bidding.

With respect to the future, members asked for somewhat more detail regarding the situation that was expected to prevail as from 1 January 1968; they inquired specifically whether all quantitative restrictions from multilateral countries were expected to have been abolished by that time. The representative of Finland said that this was not the case. The programme of quota elimination which Finland had undertaken within EFTA did not include all quantitative restrictions in force, and it had always been recognized that a hard core of restrictions would remain after that programme had been carried out. Approximately eleven global quotas would probably remain in force after the EFTA liberalization programme had been completed and further consideration would have to be given to the question as to what liberalization measures could be made effective in that sector.

Conclusions

Members of the Committee again thanked the representative of Finland for the full information which had been given and reiterated their appreciation for the very great progress which Finland had made in relaxation of its import restrictions in a difficult situation. They welcomed the arrangement under which Finland’s last remaining bilateral payments agreement with a country outside the State-trading area was expected to terminate within a year or so. They were also gratified that certain other elements of discrimination had been removed from the import régime. They assumed that as Finland moved toward further relaxation and removal of restrictions treatment would be extended to all contracting parties without discrimination among them. Whilst they had asked at a number of points that consideration be given to modification of particular regulations, they were especially anxious that this should not obscure their overall satisfaction with the main line of development of Finnish commercial policy.