1. In accordance with its terms of reference, the Committee has conducted a consultation with Finland under paragraph 4(b) of Article XII. The Committee noted that the previous consultation with Finland under the same provisions had been held on 20 June 1972 (see BOP/A/61). In conducting the consultation the Committee had before it a basic document supplied by the Finnish authorities (BOP/132), a Background Paper provided by the International Monetary Fund dated 27 April 1973, and the text of a decision of the Executive Board of the International Monetary Fund taken on 16 May 1973.

2. The Committee generally followed the plan for such consultation recommended by the CONTRACTING PARTIES (see BISD, 18th Supplement, pages 52-53). The consultation was held on 18 June 1973. This 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 the consultation with Finland. Upon the invitation of the Committee, the representative of the Fund made a statement as follows:
"The Fund invites the attention of the CONTRACTING PARTIES to the
Executive Board decision of 16 May 1973, taken at the conclusion of the most
recent Article XIV consultation with Finland, particularly to paragraphs 3
and 5 which read as follows:
"3. The deficit on current account of balance of payments, which widened
exceptionally, under the influence of various special factors, to SDR 339 mil-
lion in 1971, narrowed to SDR 145 million in 1972, the equivalent of 1.2 per
cent of GDP at market prices. As a result of substantial foreign borrowing,
official reserves rose in 1972 by the equivalent of SDR 40 million to
SDR 698 million at the end of the year."
"5. During the last decade considerable progress has been made in
liberalizing trade and payments and the Fund hopes that Finland will persist
in its efforts in this regard. Continued progress would also assist in the
present stabilization effort."

Opening statement of the representative of Finland

4. In his opening statement, the text of which is contained in Annex I, the
representative of Finland outlined the developments in the Finnish economy and in
the balance of payments during the past year. Contrary to the expectations
of the Finnish authorities, the deficit on current account in the 1972 balance
of payments had decreased by as much as 800 million markkas compared with the
previous year. However, it was expected that there would be a deterioration in
the balance-of-payments situation in 1973, and if present trends continued the
deficit might be even larger in 1974. The rise in the trade deficit had come
in the wake of the present rapid cyclical rise in economic activity and, in order
to bring about a tightening of domestic liquidity, the Bank of Finland had very recently introduced a new set of measures. These consisted of a gradual reduction of commercial banks' rediscount quotas, a rise in the discount rate from 7 3/4 to 9 1/4 per cent, partial freezing of medium and long-term capital import proceeds on special accounts with the Bank of Finland, and a cash payments system mainly for the importation of consumer goods including automobiles. These measures were intended to remain in effect until the present period of overheating had passed. The cash payments system, effective from 15 June 1973 covered about one quarter of total imports but was expected to affect the volume of imports only in so far as speculative stockbuilding was concerned.

5. In conclusion, the representative of Finland indicated three basic reasons which, in his opinion, justified the continued maintenance of quantitative restrictions to safeguard the balance of payments. First, the efforts to strengthen the Finnish economy required imported inputs which would exert pressure on the balance of payments. Secondly, Finland's bilateral trade was an important factor in the supply of fuels and raw materials and had permitted a greater degree of liberalization of multilateral imports than would otherwise have been possible; thirdly, the current balance was expected to weaken significantly in 1973 and 1974. Thus, in the opinion of the Finnish Government, no major changes in the present import system could be made for the time being without seriously limiting the possibilities of pursuing a policy of continued rapid growth and high employment.
Balance-of-payments position and prospects and alternative measures to restore equilibrium

6. Some members of the Committee asked for further clarification regarding the present balance-of-payments situation and its future evolution. In particular, further information was requested regarding the current reserves position, and questions were asked regarding the present practice of foreign borrowing and whether Finland would be able to reduce its dependency on this practice in the future. The Finnish delegation was also asked whether it regarded the present deficit level as being an acceptable one. In his reply, the representative of Finland emphasized the clearly worsening trend in the balance-of-payments position. Whilst in 1973 the expected deficit would be covered mainly by imports of long and short-term capital, in 1974 these sources would be insufficient and there would be a decline in foreign exchange reserves. Although it was hoped to gradually reduce the reliance on long-term foreign capital with the increasing diversification of the economy, for the moment the policy was to encourage long-term capital imports.

7. The representative of Finland gave some further explanations regarding the purpose of the measures introduced by the Bank of Finland on 14 June 1973, particularly the two external measures aimed at complementing the present restrictive monetary policy. The partial freezing of medium and long-term capital imports was intended to postpone some of the liquidity effects of these capital inflows until the danger of over-heating had passed. The cash payments system was also seen as a monetary rather than a balance-of-payments measure, and was designed to prevent the undesirable liquidity effects of
short-term capital inflows. The system covers mainly various types of consumer goods such as foodstuffs, clothing, household durables, and motor vehicles. It was not expected that either of the measures concerned would have any significant impact on the volume of imports.

8. In response to questions regarding the probable effects on the balance of payments of recent exchange rate action by the Finnish authorities, the representative of Finland explained that the recent exchange action was taken in pursuit of Finland's present policy to maintain the value of the markka broadly stable in terms of the currencies of her principal trading partners. The IMF representative confirmed that the Fund had noted the exchange rate action and policy of the Finnish authorities.

9. Invited to comment on the possibilities of carrying out further diversification of exports, the representative of Finland emphasized that there had been a constant trend for a reduction in the share of wood-based products in total exports. The latter now comprised some 50 per cent of the total compared with about 75 per cent in 1950.

System and methods of restrictions and effects of the restrictions

10. A number of questions were posed by different members of the Committee aimed at clarifying the situation in regard to the administration of global quotas under the multilateral import treatment. In general, the representative of Finland emphasized that it was important to see the question of global quotas in its proper perspective as about 95 per cent of all multilateral imports were completely liberalized. One member asked the Finnish delegation
to explain the apparent discrepancy between the figure for the total annual global quota programme of Frk 58.5 million referred to in paragraph 6 of the basic document and the figures for actual imports under this heading which were much higher. Another member asked why certain of the specific global quotas had been reduced for 1973. In reply to these questions, the representative of Finland admitted that on the basis of actual import figures some special quotas had been slightly reduced. However, the figures for the annual global quota programme were purely indicative and in fact actual imports were always much larger due to the fact that extra foreign exchange was allocated liberally for imports under this heading. Thus the indicative figures would in practice have no restrictive effect on imports.

11. Questioned about the reasons for the increase in the percentage share of imports entering under global quotas and individual licences under the multilateral treatment and a relative decline in the share of imports under bilateral treatment, the Finnish representative explained that increasing amounts of items such as oil and sugar were now being imported from multilateral sources. In general he confirmed that bilateral trade was by its very nature much more strictly administered than multilateral trade.

12. One member, commenting on the reduction in imports under bilateral treatment in 1972, asked whether the agreement recently concluded with CMEA might lead to a reversal of this trend. In reply, the representative of Finland pointed out that the agreement constituted principally a framework for the exchange of information, and that it did not replace the trade agreements with individual CMEA members under which bilateral trade was actually implemented.
13. There was some discussion on the question of the import equilization tax. One member of the Committee asked if there had been any changes or modifications to the tax and if there were any definite plans for its removal. The Finnish representative emphasized that the sole purpose of the tax was to prevent domestically manufactured products from being more heavily taxed than imported goods. Whilst noting that several countries had replaced their equilization tax by value-added tax, he could not state at present when the Finnish equilization tax could be terminated. One member stated that his government regarded the equilization tax as being in contravention of the GATT.

14. In reply to a question concerning administrative procedures for imports of flour, the representative of Finland confirmed that import licences would be required and that such imports would be carried out by the State Granary.

15. Another member returned to two questions which he had raised at the previous consultation. One referred to the motor vehicle tax which was progressively weighted against medium-sized and large vehicles and, being levied on a c.i.f. basis, was placing his country at a disadvantage. The second related to imports of canned fruit and juices, in regard to which he wished to know whether import licences would still be granted freely. In regard to taxes on automobiles, the representative of Finland stated that there had been no change in the manner of levying the tax, but this tax system was not intended to be discriminatory. On the question of canned fruit and juices, he confirmed that import licences would continue to be granted liberally.
16. One member drew the Committee's attention to the fact that the licence fee imposed by the Finnish authorities was based on the value of the goods imported, and that this was not compatible with Article VIII of the General Agreement which determines that such fees shall be limited in amount to the approximate cost of services rendered. Commenting on this, the Finnish representative noted that licences for large amounts usually had to be extended several times and this involved extra work.

Conclusions

17. The Committee expressed understanding for the nature of Finland's balance-of-payments problems and the uncertainties attached to the dependency on long-term capital imports to cover the deficit on current account. It was recognized that Finnish restrictions applied only to a narrow range of products, but it was noted that no changes had taken place since the 1972 consultation. The Committee nevertheless hoped that the Finnish authorities would pursue their efforts to liberalize the remaining import restrictions.