

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

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## 1976 GATT CONSULTATION UNDER ARTICLE XII:4(b) WITH FINLAND

### Basic Document for the Consultation<sup>1</sup>

#### 1. Legal and administrative basis for the restrictions

##### I. Import licensing

The acts concerning import restrictions are in Finland so-called powers acts which authorize the Government under certain preconditions to undertake specified import restricting measures. The most important of the existing stipulations is the law for safeguarding Finland's external trade and economic growth of 15 February 1974. The provisions concerning import restrictions in this law are the same as the ones discussed in the consultations of 1975 with the exception that passenger cars are exempted from licensing as of 5 November 1975. On the basis of this law the Government is entitled, *inter alia*, to regulate imports of commodities for the purpose of checking the deterioration in the balance-of-payments position of the country. According to the law, when restrictive measures are imposed, account must be taken of the obligations inherent in the international agreements to which Finland is a party.

The Decree of application connected with the above law includes detailed regulations concerning import restrictions. According to the Decree an import licence issued by the Licensing Office is required for imports of goods enumerated in the annex of the Decree. These are mainly agricultural products and fuels. All commodities not mentioned in the annex can be imported free of licence, provided that their country of purchase and that of origin is one of those enumerated in the above-mentioned annex. The practical arrangements relating to import restrictions are handled by the Licensing Office, which is subjected to the Ministry for Trade and Industry.

The Government does not intervene in decisions made by the Licensing Office but it may issue general guidelines regarding the conduct of licensing activities. The Licensing Office is governed by a board, made up of representatives of various ministries and the Bank of Finland.

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<sup>1</sup>Material supplied by the Finnish authorities.

## II. Import deposit scheme

As a result of the serious balance-of-payments deficits experienced in 1974 and the opening months of 1975, the Government presented to Parliament a bill for an Import Deposit Act as a part of a larger programme dealing with the balance of payments. The Act, which came into force on 24 March 1975 is effective until the end of 1976. It authorizes the Government to introduce, for periods of a maximum of twelve months at a time, deposits on imported goods. Notification containing detailed information on the import deposit scheme decreed by the Government on 22 March 1975 was circulated in document L/4165/Add.1.

Unfavourable current account developments have continued during the twelve months ending with February 1976, even though the amounts of the monthly deficits have been diminishing lately. The commodities subject to the lowest rate of deposit (5 per cent) were exempted from the requirement on 15 February 1976. On 15 March 1976 the Government announced a schedule for the prolongation of the scheme and the gradual termination of the requirement by the end of the year. Notification of these relaxations of the import deposit scheme and its abolishment have been circulated in documents L/4165/Add.3, 4 and 5.

### 2 and 3. Methods used in restricting imports and treatment of imports from different sources

#### I. Import licensing

According to the current import policy, imports may be grouped under the following headings: A. Multilateral import treatment; B. Treatment of imports from the USSR; C. Treatment of imports from the Socialist countries, with which Finland has concluded an agreement on the reciprocal removal of obstacles to trade (Bulgaria, Czechoslovakia, German Democratic Republic, Hungary); D. Treatment of imports from the People's Republic of China, Poland and Romania; E. Treatment of imports from other countries.

A brief description of the treatment of imports from different sources is given in the following.<sup>1</sup>

#### A. Multilateral import treatment

Under the multilateral import treatment imports are:

(1) free, (2) restricted by global quotas or (3) restricted by individual licensing.

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<sup>1</sup>Detailed information is given in the booklet "Import System of Finland as applied from 1 January 1976". A copy of this is supplied to each member of the committee.

(1) Free importation under the multilateral import treatment

All imports except those mentioned in the global quota list or appearing on the list of items subject to individual licensing, which together constitute the Finnish negative list, are admitted without licence, provided that the country of purchase and that of origin are included in the list of countries to which the multilateral import treatment applies. This list at present includes 139 countries and ninety territories.

(2) Global quotas under the multilateral import treatment

Imports under global quotas are subject to licensing and are allowed from countries to which multilateral import treatment is applicable. The importers may opt, within their respective shares which are calculated by the licensing authorities on the basis of their previous imports, between the commodities included in each global quota. The importer also has the discretion to select the country of purchase among the multilateral import treatment countries.

(3) Imports subject to individual licensing under multilateral import treatment

Products appearing on the individual licensing list (see under (1) above) are subject to individual licensing. The general policy is to consider the applications individually on their merits. When granting a licence the Licensing Office takes account of the essentiality, price and quality of the product in question as well as the availability of the foreign currency needed. When allocating licences among importers, account is taken of their past imports and the past record of the importers as to the price and quality of their imports.

B. Treatment of imports from the USSR

Imports from the USSR are free of licence, provided that payments are effected as stipulated in the agreement between Finland and the USSR on the exchange of goods and payments in 1976-80 and the country of purchase and that of origin is the USSR. Imports of the following commodities are, however, subject to licensing:

1. Commodities referred to in paragraphs A(2) and A(3) above;
2. Imports within the framework of the trade with frontier areas.

C. Treatment of imports from the Socialist countries, with which Finland has concluded an agreement on the reciprocal removal of obstacles to trade (Bulgaria, Czechoslovakia, German Democratic Republic, Hungary)

Imports from Bulgaria, Czechoslovakia, German Democratic Republic and Hungary are free of licence as stipulated in the respective agreements on the reciprocal removal of obstacles to trade. The following commodities are, however, subject to licensing.

1. Commodities referred to in paragraphs A(2) and A(3) above with a limited number of exceptions.

D. Treatment of imports from the People's Republic of China, Poland and Romania

Imports from the People's Republic of China, Poland and Romania are free of licence until further notice, provided that payments are effected as stipulated in their respective payments agreements and that the country of purchase and that of origin is the same. Imports of the following commodities are, however, subject to licensing:

1. Commodities referred to in paragraphs A(2) and A(3) above;
2. A limited number of products enumerated in a separate negative list.

E. Treatment of imports from other countries.

Imports from countries not mentioned in paragraphs A, B, C and D above are all subject to licensing.

II. Import deposit scheme

The import deposits, based on the Import Deposit Act of 22 March 1975, were fixed at a maximum of 30 per cent of the import price. Under the schedule for gradual termination of the requirement announced on 15 March 1976 the 20 per cent category was reduced to 10 per cent on 16 March, and the 10 per cent category will be altogether abolished on 1 July. The maximum rate will be reduced to 20 per cent on 1 October 1976 and to 10 per cent on 16 November 1976. The requirement will be terminated on 31 December 1976. The deposits are collected in connexion with normal customs clearance procedures and are repayable after a period of six months. The deposits are kept at the Bank of Finland and do not bear interest.

III. Cash payments system

A cash payment system for certain imports was introduced by the Bank of Finland in June 1973. The main purpose of this system is to support the stringency of monetary policy aimed at restricting the growth of domestic demand. The system covers imports of certain consumer goods and automobiles. These products amount to less than one fifth of total imports.

4. Commodities or groups of commodities affected by various forms of restrictions (country of origin)

	Fmk million c.i.f.		Per cent of total imports		Per cent of imports from various cate- gories of countries	
	1974	1975	1974	1975	1974	1975
Total imports	25,666	27,974	<u>100</u>	<u>100</u>		
Imports under multi- lateral import treat- ment	19,906	22,079	77.6	78.9	<u>100</u>	<u>100</u>
- imports admitted without licence	16,820	18,483	65.5	66.1	84.5	83.7
- imports under global quotas	152	166	0.6	0.6	0.8	0.8
- Imports subject to individual licensing	2,934	3,430	11.4	12.3	14.7	15.5
Imports under treatment described in 2 and 3 B, C and D	5,732	5,875	22.3	21.0	<u>100</u>	<u>100</u>
- imports admitted without licence	1,573	2,098	6.1	7.5	27.4	35.7
- imports subject to licensing	4,159	3,777	16.2	13.5	72.6	64.3
Imports from other countries	27	19	0.1	0.1	<u>100</u>	<u>100</u>

## 5. Imports under State trading

The State Granary, which is operated in accordance with the Act of 30 December 1961 as amended, is responsible for the purchase and storage of grain. Its purpose is to maintain stability in the domestic market and to fulfil certain functions in the field of agricultural policy. The State Granary is the sole agency for the import of wheat, rye, barley, oats and products thereof intended for human consumption. This, however, does not cover seed grain or malt barley or imports of grain in quantities under 50 kgs. The export of grain has taken place also entirely through the State Granary, or with its permission.

The manufacture, trade and consumption of alcoholic beverages are regulated by the Act of 26 July 1968. The exclusive right to import these products belongs to a State-owned company which carries out its purchasing activities according to free market principles, within the limitations imposed by considerations of public order.

These imports represent a very small fraction of Finland's total imports (0.4 per cent in 1975).

## 6. Effects of the import restrictions on trade, and general policy in the use of restrictions for balance-of-payments reasons

### I. Import licensing

There is no statistical nor other evidence indicating any protective effects on domestic industries resulting from import restrictions maintained for balance-of-payments reasons. The restrictions at present in force cover mainly agricultural products and mineral fuels. They are motivated by the heavy import demand inherent in the rapid process of industrialization and structural change in the Finnish economy.

Import licensing for fuels is designed to ensure the continuation and normal development of an important part of Finnish imports, which is of crucial interest to the Finnish economy, since Finland is heavily dependent on imported fuels.

Imports still subject to individual licensing are, as previously, administered with a view to avoiding discrimination and undue protection.

### II. Import deposit scheme

As the balance of payments of Finland worsened in the course of 1974 and 1975 with the current account deficit amounting in 1975 to an estimated 8.3 per cent of gross domestic product, the Finnish Government has found it necessary to continue

the special programme launched in March 1975 in the fields of general economic and fiscal policy as well as the direct and immediate measures to support this programme aimed at restraining the high current account deficit. In considering the options to directly influence imports within the framework of Finland's international agreements, the Government has tried to avoid measures of radical character. As a result of these considerations, the system of import deposit described in paragraphs 1 and 2-3 above was chosen. These measures work in particular through the monetary market. With the present tight monetary policy exercised by the Bank of Finland and the economic programme of the Government, the central point of which is to limit heavily the growth of domestic demand in 1976 and 1977, the system of import deposits has been considered appropriate and effective.