

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/4165
21 March 1975

Limited Distribution

Original: English

FINLAND - TEMPORARY SPECIAL IMPORT LEVY AND IMPORT DEPOSIT

The following communication, dated 14 March 1975, has been received from the permanent mission of Finland.

Finland was one of the few countries within the OECD area that maintained a relatively strong rate of economic growth during last year (the preliminary GNP-growth estimate is 5.4 per cent). The general development within the OECD countries turned towards the end of the year even considerably more gloomy than originally expected.

This quite clear difference in the relative cyclical position compared with other countries was of course reflected as a strong weakening of Finland's balance-of-payments position. Imports of goods increased by 7.1 per cent in volume terms at the same time as the volume of exports decreased by 0.8 per cent despite the quite rapid increase in trade with the Soviet Union. Foreign trade prices were inflated by more than 40 per cent (exports by 42 per cent, imports by 44 per cent) and the deficit on the balance of trade increased from approximately Fmk 2 billion in 1973 to about Fmk 5 billion in 1974. This deficit also meant that the net external indebtedness of the country increased by about a half during 1974.

The trade deficit in the period January-February of 1975 was in excess of Fmk 1,700 million. The gold and convertible foreign exchange reserves of the Bank of Finland have declined from Fmk 1,722 million by the end of 1974, to Fmk 1,203 million on 11 March 1975. The corresponding change in the non-convertible exchange reserves was from a debtor position of Fmk 388 million to a creditor position of Fmk 116 million (mainly owing to advance payments received by the shipbuilding industry).

It has been emphasized consistently from the side of the Finnish Authorities in various international contexts that our ability to follow an independent growth policy requires possibilities for reasonable financing of the considerable foreign trade deficit that necessarily follows from such a policy. Since Finland did not directly benefit from oil money reflows and as the import of long-term capital had generally become more difficult, a major part (four fifths) of last year's deficit had to be financed by short-term credit and by foreign exchange reserves. This meant that the structure of the country's external indebtedness weakened and that the vulnerability of the external situation grew considerably.

Since the middle of last year the demand outlook for Finland's main export products has deteriorated sharply and exports of forest products have turned into a marked decline. Although the rise in total production is forecast to slow down to 3 per cent during this year and unemployment is expected to increase, the deficit of the current account will, according to official estimates, rise to Fmk 5 billion, i.e., more than last year. In preparing this forecast, the Ministry of Finance emphasized that it is based on such a high level of foreign financing that it is doubtful whether it can be realized considering the present outlook of the international financial markets.

As the trade deficit for the first two months of the year already exceeded Fmk 1.7 billion there is a danger that the overall deficit would rise to an even higher amount than forecast. The international business outlook and the economic policy that has been pursued in the major OECD countries does not give reason to expect any noticeable revival of the growth rate of exports before 1976. This, among other things was made quite clear in the early March meetings of the Economic Policy Committee of the OECD. The possibilities of financing the deficit with short-term capital movements and foreign exchange reserves are quite limited in the light of last year's unfavourable development. In these circumstances Finland now is forced to adopt a restrictive economic policy. To limit the trade deficit from what has been forecast by the Ministry of Finance, fiscal and monetary policies will be kept parallel and strongly restrict the growth of domestic demand.

It would not have been possible to achieve sufficient effects quickly enough by means of general monetary and fiscal policy measures designed to affect the internal economic development. In addition, there have been clearly speculative pressures influencing imports.

In view of the situation the Finnish Government adopted, on 11 March 1975, certain general guidelines for their future economic policy. The Government's aims are to decrease the current account deficit, to safeguard the foreign payments position and to improve the conditions for a balanced economic development. The general guidelines are the following:

1. A considerable increase in exports is necessary for reducing the foreign trade deficit. Besides safeguarding the financing of investments in the export sector the Government measures will aim at facilitating the supply of labour in the export-oriented industries, improving the international competitiveness of Finnish exports and intensifying marketing abroad.
2. The Government further attempts to reduce the growth of imports by restraining the increase in total domestic demand and by promoting the import-substituting domestic industrial and agricultural production. In order to safeguard the payments position the Government has i.a. presented to Parliament a bill for an import deposit act and introduced a special temporary levy on imports. A comprehensive price surveillance system has been enforced to forestall price increases that otherwise would have been caused by the import deposit scheme. Furthermore, a bill for an act on exceptional price surveillance measures has been presented to Parliament.
3. The Government will pursue investment policies which will efficiently contribute to the balancing of foreign trade. Priority will be given to those productive investments in the manufacturing industries that further the balancing of the current account. Investments related to transport, commerce and other service industries as well as certain sectors of energy production will be curbed substantially. Investment goals set for water pollution control will be reviewed. The Government will consider measures by which resources tied to stocks of industrial raw materials and producer goods could be more efficiently utilized.
4. Substantial savings will be aimed at in energy consumption. This would reduce the burden imposed by energy imports on the country's current account position. This is to be done through combining of electricity production and heating, by improving heating economy and by rationalizing private and public use of energy. To curb unnecessary and uneconomical use of energy the Government will take appropriate legislative action.
5. The growth in total domestic consumption will be curtailed in 1975 and 1976 by reducing the growth of public consumption expenditures and by maintaining administrative costs at the level of 1974. In order to bring the effects of public expenditure on demand and the money market in line with the efforts to balance the current account the financial position of the public sector will not be allowed to deteriorate during 1975-76. With due regard to regional employment criteria a stringent financial policy will be exercised.

6. The growth of local authority consumption and administrative costs should be substantially curtailed through co-operation with these authorities' central organizations. To reach these goals the Government will take steps that reduce expenditures caused by reforms already under way and will refrain from new measures that would increase expenditures.

7. Even in the present aggravated economic situation the Government aims at recurring a reasonable level of consumption for the active population and especially small income groups. The Government further aims at increasing household savings and safeguarding the high saving ratio in the economy.

8. The budget proposal for 1976 will be drafted according to the above guidelines for the economic policy.

9. The Government takes note of the fact that the monetary policy pursued by the Bank of Finland aims at balancing the current account through tight domestic financial markets and by increased selectivity in the credit policy.

In connexion with the adoption of the general guidelines the Government decided to present to Parliament a bill for an import deposit act which would authorize the Government to introduce for periods of twelve months a special import deposit scheme.

The import deposit could be fixed at a maximum of 30 per cent of the import price. The scheme would apply to imports by all importers but the range of goods to be covered by the scheme would be subject to Government decision. The deposit would be collected in connexion with the normal customs clearance procedure and would be refunded upon application after a period of six months or earlier if the Government so decides. The deposit would be interest-free.

The Ministry of Finance would be authorized to exclude from the deposit scheme goods which according to the customs tariff act are duty free. The same would apply to minor import consignments.

To forestall speculative imports prior to the approval by Parliament of the import deposit act the Government adopted on 11 March 1975, a decree imposing a temporary 15 per cent ad valorem special levy on imports.

The decree will be revoked when the import deposit act becomes effective. An unofficial translation is attached.

DECREE ON A TEMPORARY SPECIAL IMPORT LEVY
HELSINKI, 11 MARCH 1975

Article 1

To safeguard the country's balance of payments a temporary special levy on imported goods shall be paid to the State in accordance with the provisions of this decree.

Article 2

Everyone who imports goods shall be liable to pay the special levy.

Article 3

The special levy shall be 15 per cent of the normal price of the goods as specified in the customs tariff act.

Article 4

The special levy shall be collected by customs in connexion with the clearance of the goods through customs.

Article 5

The board of customs shall be in charge of the general surveillance of the payment of the special levy. Payment and refunding of the special levy, appealing and other measures are subject to the relevant provisions regarding customs duties.

Article 6

The Ministry of Finance may decide that goods which are exempted from customs duties according to the customs tariff act shall be exempted from the special levy. The Ministry of Finance may also decide that certain goods for exceptional reasons shall be exempted from the special levy.

Article 7

If necessary, additional instructions regarding the application of this decree are given by the Ministry of Finance.

Article 8

This decree enters into force on 12 March 1975, and shall be applicable to goods imported on that day or later and which are or should be cleared through customs during the period of validity of this decree.