

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

REPORT ON CONSULTATIONS UNDER ARTICLE XII:4(b) WITH FINLAND

1. In accordance with its terms of reference the Committee has conducted a consultation with Finland under Article XII:4(b). The Committee noted that the previous consultation with Finland under the same provisions had been held in November 1968 (cf. BOP/R/28 and BOP/86). In conducting the present consultation the Committee had before it a basic document supplied by the Government of Finland (BOP/101) and a paper containing background material, dated 22 January 1970, supplied by the International Monetary Fund, as well as the Fund's Executive Board Decision of 20 February 1970 concerning Finland.

2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation took place on 19 March 1970. 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 International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with this consultation with Finland. In accordance with the agreed procedures the representative of the Fund was invited to make a statement concerning the position of Finland. The statement made was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of February 20, 1970 taken at the conclusion of its most recent Article XIV consultation with Finland and particularly to paragraphs 2 to 5 which read as follows:

'For some time following the devaluation of the markka in October 1967, the level of economic activity in Finland remained depressed. For the second consecutive year there was a decline in real investment. Real gross domestic product rose by only 2.8 per cent from 1967 to 1968, about the same as in the previous year. On a seasonally adjusted basis unemployment reached a peak in the summer of 1968. During the course of 1968 and 1969, however, foreign demand strengthened and its effect on the economy was reinforced by the strong growth which took place in fixed investment. Real gross domestic product is estimated to have risen by 8 per cent from 1968 to 1969.

'After some decline in 1968 the volume of imports of goods and services increased strongly in 1969 and the surplus on the current account of the balance of payments, which amounted to \$64 million in 1968, deteriorated in 1969. In both years gross long-term foreign borrowing was comparatively large. Foreign exchange reserves increased by \$170 million in 1968 but in 1969, owing largely to unrest in foreign currency markets in Europe, there was an adverse shift in terms of payments and only a slight reserve gain. At the end of 1969 gross official reserves amounted to \$359 million, the equivalent of 2.2 months' imports.

'Since the devaluation the main emphasis of policy has been to restrain the increase in costs and prices. Wage rates rose more moderately in 1969 than in 1968 and a new agreement suggests that the rise will again be comparatively modest in 1970. However, some increase in unit labor costs has occurred. Partly as a result of the introduction of price control, however, the rise in the cost of living index since the middle of 1968 has been moderate. The Government, in formulating the budget for 1969 and 1970, limited the increase in expenditure to the smallest possible extent. The financial surplus of the Central Government (prior to loan transactions) in 1969 is estimated at Fmk 464 million, compared with Fmk 356 million in 1968 and a further slight increase is foreseen according to the approved budget in 1970. An agreement has been reached under which enterprises will place funds in a countercyclical investment fund, part of which will be deposited in the central bank to be drawn upon in a cyclical downswing. This should appreciably strengthen the hands of the monetary authorities which, already toward the end of 1969, took steps to limit the increase in bank lending. The Fund believes that it is of the utmost importance that all possible steps be taken to ensure that strains on productive resources do not become excessive in 1970 and hopes that price controls will soon be eased so as to avoid the emergence of distortions in the economy.

'Further steps have been taken to liberalize trade and payments by more liberal licensing of imports and the abolition of restrictions on payments for tourist travel. The Fund welcome the steps taken to reduce reliance on rigid bilateralism in payments relations with some State-trading countries and hopes that further progress in this direction will continue.'

"At the present time, the general level of restrictions of Finland which are under reference does not go beyond the extent necessary to achieve a reasonable rate of increase in its reserves."

Opening statement of the representative of Finland

4. In his opening statement, the text of which is contained in the Annex, the representative of Finland gave a brief description of the major developments in the Finnish economy and in the Finnish external financial position in recent years. Following the devaluation of the Finnish markka in 1967, and owing to the relative levels of economic activity in Finland and in Finland's major markets, imports declined and exports increased rapidly, which brought about a sizeable trade surplus for 1968, and the current account as a whole improved substantially, resulting in a doubling of gold and foreign exchange reserves. In 1969, while substantial unemployment persisted and wages and prices rose only moderately, economic activity reached a buoyant level in Finland. As a consequence, imports grew by 27 per cent, considerably overtaking the 21 per cent rise in exports. The trade account in general was in deficit, although the current account technically produced a surplus owing to a non-recurrent special transaction. The tight international capital market rendered long-term borrowing more difficult. Net gold and foreign exchange reserves stood at Fmk 1,080 million by the end of 1969 which represented the value of merely six weeks' imports at the current rate. The prospects for 1970, however, appeared encouraging, although high and rapidly rising import demand was likely to place a heavy burden on the balance of payments. A trade deficit of Fmk 500 million and a current account deficit of between Fmk 200 million and Fmk 300 million were expected.

5. Import liberalization in the industrial sector having been completed in 1968, there now remained restrictions only on certain agricultural and fishery products, mineral fuels, petroleum products and some precious metals. Only about 5 per cent of Finland's imports from her multilateral trading partners were now subject to restriction. In Finland the proportion of agricultural population remained high and agriculture faced structural difficulties, for which solutions were yet to be found, and further liberalization in the agricultural sector would aggravate the unemployment problem.

6. There had been significant moves in the direction of more flexible arrangements for clearing under bilateral payments agreements. The bilateral trade of Finland comprises on the import side mainly fuels and raw materials. This trade had permitted a greater degree of liberalization of multilateral imports to Finland than would otherwise have been possible for balance-of-payments reasons.

7. In conclusion, the representative of Finland pointed out that the Finnish economy was particularly susceptible to cyclical fluctuations which required vigilant application of remedial measures of stabilization and continuous watch on wages and prices. Even though the counter-cyclical measures might be effective, a wider margin of reserves had to be available to meet the inevitable fluctuations in external payments. These considerations, together with the unfavourable conditions on the international capital market, had counselled against any fundamental change in the import control system and the import restrictions at the present time.

Balance-of-payments position and prospects

8. Members of the Committee expressed gratification over the sustained improvement in the Finnish external financial situation. In the course of the discussion it was noted that the improvement in the trade balance in 1968, while it was made possible by the devaluation, was also attributable to the successful domestic stabilization policies and measures as well as the strong demands for Finnish exports. The easing of the financial market abroad in 1968 also contributed to the strengthening of the country's foreign exchange reserves. Under these conditions the prospects for 1970 would seem to be generally favourable but, having regard to the uncertainties in the Finnish economy at present, market conditions abroad and the capital market, it would be interesting to know how the Finnish authorities viewed the prospects for the future and the adequacy of the present reserves. Specifically it was asked how they envisaged the prospects of long-term capital imports in 1970.

9. In reply, the representative of Finland recalled the points made at the opening statement of his delegation (Annex II). As had been noted there, there was at present full utilization of the country's economic resources and, consequently, import demand was unlikely to abate and no significant changes were envisaged in the invisibles. As regards the inflow of long-term capital, while the prospect for 1970 was still uncertain it was not expected that any inflow would be of the same magnitude as last year. The drawing down of reserves, failing an inflow of short-term funds, might be difficult to avoid. As regards the adequacy of the reserves, owing to the various considerations mentioned in the opening statement above, a reserve level equivalent to the value of about six weeks' imports was by general consensus much too low for a country such as Finland. In response to the suggestion by a member of the Committee, the representative of Finland agreed that the equivalent of about three months' imports would be a more sufficient level of reserves, which, through strengthening confidence in the Finnish economy, would also help to facilitate international borrowing.

10. A member of the Committee enquired whether there were contemplated any changes in Finland's bilateral trade arrangements with the USSR, and if there were a change or if the current trade agreement between the countries were left to lapse at the end of the year, what effects would this have on Finland's payments prospects, bearing in mind the importance of the Soviet market for Finland's exports. The representative of Finland explained that a new "frame agreement" on trade between Finland and the USSR to be valid for five years, had been signed last August which provided the basis for an expansion of trade between the two countries by approximately 30 per cent as compared with the previous five-year agreement. As for 1970, a trade protocol for the year had also been signed in November 1969. It was not expected that the trade basis between Finland and the USSR would be modified in any significant manner.

11. Members of the Committee discussed with the Finnish delegation various questions relating to the domestic economic situation and outlook. In the course of this discussion they pointed out that appropriate internal policies and measures might strengthen the economy sufficiently to alleviate the pressures on the balance of payments, and to reduce the need for restrictive measures on trade. Members of the Committee commended the Finnish authorities for the various measures of this nature that it had taken and expressed satisfaction over the level of stability achieved. Specifically, they asked what steps were contemplated to ensure that the strains on productive resources would not become excessive in 1970, and what were the prospects for easing price controls. The representative of Finland pointed out that with a change of Government after the recent election there might naturally be some changes in domestic economic policy although the basic objectives were likely to remain unaltered. The Finnish authorities were fully aware of the importance of the kind of measures indicated. As for the measures already taken, the stabilization agreement had provided a framework which had placed certain limits to the authorities' freedom of action. Consequently, reliance had to be mainly on credit policy. As noted in the background documentation before the Committee, there had been restrictions on bank loans, a counter-cyclical deposit scheme aimed at reducing liquidity and a revision of the investment fund policy. If these disinflationary measures should be found inadequate, other measures were also available for any desired further tightening of credit.

12. Members of the Committee noted that the increases in exports since the 1967 devaluation had been mainly in certain new lines of production, notably textiles, clothing and furniture, and that there had been a proportional reduction in the traditional exports, particularly forest products. They requested information on any policy or measures designed to extend the range of export goods. The representative of Finland described the studies that had been conducted on the resources and potential in the forest products industry, which showed that the timber resources of the country would set limits to further expansion. While expansion was sought in raising the level of processing of wood products, this could be hampered by the shortage of investment capital, or inhibited by differential tariffs in importing markets favouring less-processed products. In general, efforts at diversification of production had been supplemented by efforts to open up foreign markets - through market studies and export promotion. The association with the EFTA had also been found to be invaluable in this regard.

13. A member of the Committee drew attention to the marked decline in Finland's imports of grains, and enquired whether this trend was going to continue, whether it reflected a deliberate policy of self-sufficiency and how was this related to the general objective of structural adjustments, including the diversion of labour away from agriculture. The representative of Finland explained that the proportion of the population in Finland engaged in agriculture was still among the highest among European countries and that any reduction in the agricultural labour force tended to be more than offset by rises in physical productivity, and a reduction in the size of actual labour force engaged in agriculture had not necessarily resulted in a reduction in agricultural production. Production had

continued to increase in spite of the soil bank and other measures to curtail agricultural input. There was no Government policy encouraging agricultural production; yet there was a mounting surplus production even in wheat, for which export markets were being sought. The decline in imports of wheat was unlikely to be reversed in the foreseeable future.

System, methods and effects of the restrictions

14. Members of the Committee welcomed and supported the steps the Government of Finland had taken during the second half of 1968 and in 1969 to further relax its controls over trade and payments, especially with respect to the removal of quantitative restrictions on imports. However, while import controls had been removed for most industrial products, a number of agricultural products, as well as mineral fuels and related products, (including crude petroleum, coal-tar distillation products, gasoline, petroleum residuals, mineral-tar and coal and coke) remained subject to quantitative restrictions. It was understood that restrictions on mineral fuels, etc. had been maintained in order to leave room for imports from the Soviet Union and other East European countries under bilateral trade and payment agreements. Members of the Committee expressed the hope that Finland would be able to take further steps to liberalize its remaining import restrictions, especially those on agricultural products. In this context, members of the Committee asked about Finland's basic position in regard to these restrictions and whether any measures of liberalization could be expected in the near future.

15. The representative of Finland said that he could give no indication of any such steps for the time being, but reiterated that quantitative restrictions were under constant review and that it was his Government's policy to retain as few restrictions as possible.

16. Referring to the table on page 4 of the basic document (BOP/101), the representative of Finland explained that the 1969 fall of imports under global quotas (from the 1968 level of Fmk 120 million to Fmk 67 million) reflected the fact that certain global quota products (mainly fruit) had been liberalized on a seasonal basis in 1968. The increase in "imports subject to individual licensing" (from Fmk 164 million in 1968 to Fmk 315 million) in 1969 was due mainly to an increase in imports of fuels. Imports of fuels amounted to Fmk 61 million in 1968 and Fmk 196 million in 1969. Fuels and raw materials accounted for more than 85 per cent of Finland's imports from the Soviet Union.

17. In discussing the remaining restrictions on agricultural products, a member of the Committee referred to the seasonal duty-free quotas which Finland had opened for an EFTA country for apples and pears, which appear to discriminate against third countries exporting these products. The representative of Finland said that this arrangement with Denmark had been made in the context of EFTA and was considered by Finland to be consistent with its obligations under GATT as well as under EFTA. The restrictions on these products, as indeed all restrictions in Finland, were subject to constant review.

18. In reply to a further question the representative of Finland confirmed that under the import control system for 1970 imports of wheat were under individual licence, both from multilateral trade countries and from the Soviet Union.

19. The representative of Australia referred to a point he had made at the last consultation with Finland in November 1968 (cf. BOP/R/28, paragraph 14) on the problem of non-liberalization of imports of apples during the month of June, and on the difficulty caused for distant suppliers by Finland's practice of issuing import licences for meat for short periods of time with insufficient advance notice to permit participation in the trade by Australian suppliers. His delegation had requested at the time that the provision for a longer period of notice for the issue of such licences be introduced. The representative of Canada associated himself with the request for alleviation of the restriction on apples. The representative of Finland explained that the general principle applied in this regard at present was to restrict imports of apples in the summer so that the Finnish apple-crop, which was picked in August and September, would be assured a market and so as to avoid imported apples being stocked in quantities that could hamper the sale of the Finnish crop. The quota for imports in June was of 3,000 tons, which was sufficient to cover the demand and therefore did not amount to a real restriction. In reply to a question, he said that while there was no periodic announcement of the quota it was generally known to be 3,000 tons. Announcement would be necessary only if this figure were changed.

20. In reply to the question concerning meat, he explained that Finnish production of meat was in surplus and that imports were resorted to only occasionally. It was not possible to forecast when imports would be needed and thus it could not be said in advance when a quota would be opened.

21. The representative of the United States raised questions regarding Finland's motor vehicle tax which had been repeatedly increased since 1962 and which was increasingly weighted against medium and higher-priced vehicles. This tax, on top of other levies, had unquestionably caused severe injury to United States' automobile sales in Finland. At the present time the structure of the tax made the cost of medium and higher-priced vehicles in Finland nearly prohibitive. An additional serious handicap to United States' automobile exports to Finland was the removal in November 1967 of the full exemption previously accorded to automobiles for use as taxi-cabs. The representative of the United States pressed for modification of the motor-vehicle tax in such a manner that it would not be so heavily weighted against medium and higher-priced vehicles. In addition, he recalled that since April 1965, Finland had maintained instalment purchasing regulations which discriminated against passenger cars manufactured in the United States or Western Europe. In March 1969, these regulations had been relaxed but they still retained a discriminatory structure which did not appear to be in accordance with Finland's obligations under Article I of the General Agreement. Specifically, the United States representative asked whether Finland planned to take steps to moderate the impact of the tax on medium and higher-priced vehicles and whether there were plans to eliminate the preferential credit treatment referred to. The representative of France associated himself with the

comments concerning credit conditions for the purchases of cars. The representative of Finland pointed out that imports of United States' cars into Finland had showed an increase in 1969 of 62.6 per cent in value over the previous year (registration of United States' cars showed an increase of 77.4 per cent in 1969). The representative of the United States pointed out that the 1969 increase had been from a rock bottom level reached in 1968, after a steady and rapid decline since 1964. The representative of Finland observed that the 1969 figure was, nevertheless, roughly equivalent to that of 1967. As for the credit terms for instalment purchase of automobiles, he explained that there had been a boom in car imports in Finland and that the matter should also be viewed in the context of Finland's trade with East European countries. The entire matter raised by the United States delegation was also under constant review by his Government and would continue to receive careful attention.

22. It was further asked whether, and in what way, the size of the annual global quotas and the issue of individual licences for multilateral trading countries were affected by the planned volume of imports of the same products from East European countries. The representative of Finland said that the Finnish authorities aimed at reaching a fair distribution in its allocation of quotas and import licences between the Eastern suppliers and the Western countries. Generally speaking, the volume of global quotas allocated had proven to be sufficient and there had been no cases of refusal for increasing any of these quotas upon request.

23. Members of the Committee commended Finland for its efforts towards reducing reliance on rigid bilateralism in payments relations with some State-trading countries such as, for instance, in experimentally placing its payments with Czechoslovakia and Poland on a fully convertible basis.

24. In the course of the discussion the representative of Belgium brought up a problem arising from Finland's agricultural restrictions on which his delegation would like to seek the advice of the Committee. It was explained that under a bilateral agreement between Finland and the Belgo-Luxemburg Economic Union concluded in 1955, Finland had undertaken to provide quotas for the import of certain agricultural products from Belgium. Since then market developments had made the volume of the quotas inadequate and Belgium had made representations to Finland for an increase in the facilities with regard to some of the products. The Government of Belgium considered an increase in the quotas to be necessary and reasonable inasmuch as Finland had increased her quotas for such imports from several East European countries. Finland, on the other hand, had wanted to terminate the bilateral agreement and had contended that the provision of quotas for individual countries might involve discrimination against third countries Members of GATT, and might contravene the provisions of paragraph 2(c) of Article XIII. In the view of the Belgian authorities the position taken by Finland would have implied that the use of bilateral agreements and the provision of quotas for individual countries were inconsistent with the GATT, whereas, in fact, numerous agreements of this nature had been concluded since 1948, many of which remained operative. The application of bilateral quotas for those

countries with a substantial supplier's interest was expressly provided for in paragraph 2(d) of Article XIII which contained specific criteria and procedures for the formulation and administration of such quotas. The use of bilateral quotas would be contrary to the GATT provisions only if it involved discrimination against third countries having a substantial supplier's interest in the products in question; it could not be agreed that the granting of bilateral quotas to specific countries constitutes discrimination against other countries which did not ask for quotas because they were not suppliers of products in question. The representative of the Netherlands stated that his Government shared these views of the Belgian Government and referred to a similar case relating to Netherlands' agricultural exports to Finland. In the view of the Netherlands authorities there was an imbalance in Finland's quota allocation to East European countries on the one hand and to the Netherlands on the other, for which the quota in question had been frozen at the 1956 level.

25. The representative of Finland, while confirming the account given by the Belgian and Netherlands representatives of the consultations between the Governments concerned (which had taken place in Brussels in November 1969), stated that in the view of his Government a return to the situation of 1955 in the way desired by Belgium and the Netherlands would involve significant retrogression from the position that had been reached in trade liberalization and multilateralization in Finland. The allocation of special quotas to individual countries would inevitably lead to increased bilateralism. Given the need, for balance-of-payments reasons, to limit the volume of the imports of particular agricultural products, such quotas could be granted only at the expense of other exporting countries. They would also have the effect of curtailing the freedom of importers to choose their sources of supply on purely commercial considerations. In present circumstances, as distinct from the international payments environment of 1955, such arrangements were as unwarranted from the economic point of view as they were untenable on legal grounds. Consequently, the Finnish Government would prefer to terminate the bilateral agreements concerned, which at any rate had been dormant for more than ten years. The fact that the same products figured in the lists attached to trade agreements concluded with certain State-trading countries was no reason why this method must also be applied to trade with other trading partners which enjoyed multilateral treatment. In conclusion, the Finnish representative said that his Government would have no objection to this matter being discussed in an appropriate forum in GATT, if it were generally considered that the problem was of concern not only to Finland and the Benelux countries, but to the contracting parties in general.

26. The Committee took note of these views expressed by the three delegations, and urged that they continue their bilateral consultations with a view to arriving at satisfactory solutions consistent with the objectives and provisions of the General Agreement.

Conclusions

27. The Committee noted that this consultation with Finland took place against a background of sustained improvement in the country's balance-of-payments situation. It commended the Finnish authorities for the steps taken during the past two years to liberalize trade and payments, and for the efforts towards reducing reliance on rigid bilateral trade and payments arrangements with some State-trading countries. The Committee expressed the hope that Finland would be able to take early steps to relax and remove its remaining import restrictions, especially those affecting agricultural products.

28. The representative of Finland said that his delegation had taken due note of the representations and the views put forward at this consultation and would convey them to the appropriate authorities in Finland for consideration.

ANNEX

Opening Statement by the Representative of Finland

At our last consultation I was able to give a fairly bright picture of the balance-of-payments developments in Finland as they appeared one year after the devaluation of the Finnish mark. However, as you may recall, I also emphasized that the devaluation had not eliminated the structural weaknesses of the Finnish economy, and moreover, that our international margin for economic expansion would remain narrow also in the 1970's. The latest developments in Finland's balance of payments and our most recent projections have convinced us that those forecasts were quite realistic.

Before going further into the present situation and the prospects for the Finnish economy let me briefly outline the main economic developments of the recent past. The year 1968 closed with a trade surplus of Fmk 100 million - the first during the decade. On current account the surplus amounted to Fmk 270 million and Finland's reserves of gold and foreign exchange more than doubled. Several factors contributed towards this result. Exports increased rapidly because of growing demand in Finland's major markets. Imports, on the other hand, declined as domestic economic activity remained slack, and also because domestic goods substituted for certain imports as a result of the change in relative prices produced by the devaluation. Unemployment reached its peak at 5 per cent. After the initial adjustment to devaluation, prices and costs were gradually stabilized following the comprehensive incomes policy settlement reached in the spring. Towards the end of 1968 economic activity in Finland gained momentum as private investment revived and exports accelerated. A high level of economic activity prevailed throughout 1969, resulting in an increase in the volume of total production by some 3 per cent. But in spite of this high growth rate structural unemployment remained substantial. Owing to the stabilization agreement of March 1968, which was renewed for another year in the autumn of 1969, costs and prices rose only moderately. Not surprisingly, the acceleration of domestic economic activity sharply increased demand for imports. Thus, the growth of imports by 27 per cent in value during 1969 exceeded the growth in exports at 21 per cent causing a deterioration in the balance of payments.

For these reasons, the trade balance as well as the balance of goods and services turned into deficit in 1969. On current account a small surplus of about Fmk 40 million was nevertheless recorded, due to the partial cancellation, amounting to Fmk 81 million, of a war-time loan given by Sweden. When we correct for this special transaction, the current account shows a deficit of approximately Fmk 40 million.

Because of the further tightening of international capital markets Finland's possibilities of raising loans abroad deteriorated in 1969. New long-term borrowing amounted to Fmk 1,055 million, that is Fmk 190 million less than in 1968.

Net long-term capital imports were only about Fmk 100 million. As short-term capital movements were roughly in balance the gold and foreign exchange reserves of the country increased by some Fmk 150 million to Fmk 1,080 million by the end of the year. This amount corresponds to six weeks' imports only and must be considered low by any international standards.

Nevertheless, the Finnish economy entered the new decade under relatively favourable auspices. According to the present outlook, economic growth will remain high during this year and available resources will be practically fully utilized, resulting in some unavoidable bottlenecks. The stabilization measures, including the collective wage agreements are likely to safeguard a balanced development of wages and prices during the year. Prices are expected to increase roughly in line with those of other countries in Western Europe.

Since the use of fiscal policy measures has been largely determined by the stabilization agreement, a tight monetary policy combined with a new counter-cyclical deposit scheme has been used to reduce the risk of overheating in the economy.

On the whole, prospects for the Finnish economy in 1970 appear rather encouraging - with the notable exception of the balance of payments. Although it is foreseen that exports will continue to grow quite fast and that the international competitiveness of Finnish exporters will be maintained, domestic demand is still growing rapidly, and imports are running high. This is due to the great marginal propensity to import related to well-known structural features of our economy. As we see it now the balance of trade will show a deficit of around Fmk 500 million this year and the current account a deficit between Fmk 200 million and Fmk 300 million. At the same time we expect the tight conditions on international capital markets to continue and to limit seriously our long-term borrowing abroad. Under those circumstances the deficit will probably have to be financed through short-term capital flows and a reduction of gold and foreign exchange reserves.

In her foreign trade Finland has continued to adhere to a liberal policy. A further expression of this is the Finnish membership in the OECD, effective from 28 January 1969. As a result of this membership Finland has liberalized various invisible transactions, such as tourism. After the completion in 1968 of the liberalization of imports in the industrial sector the remaining import restrictions cover certain agricultural and fishery products, mineral fuels and related products and some precious metals. Some 95 per cent of imports from multilateral countries are thus liberalized.

Turning now to the reasons underlying the remaining quantitative restrictions I should like first to mention agriculture.

Finland, like many other countries, is facing structural difficulties in agriculture, which are particularly pronounced since the share of the agricultural labour force still is relatively high. The necessary structural transformation requires time, and meanwhile, restrictions on imports of certain agricultural commodities have to be maintained in order not to upset market conditions, increase difficulties as regards unemployment and, in the last account, unduly burden the balance of payments.

Secondly I should like to refer to the bilateral trade of Finland, which on the import side mainly comprises fuels and raw materials. This trade has permitted a greater degree of liberalization of multilateral imports to Finland than would otherwise have been possible for balance-of-payments reasons. Let me note in passing that the trade and payments agreements of the pure bilateral type have been modified in the case of Poland and Czechoslovakia with which payments for the year 1970 are effected on an experimental basis in free convertible currency. Also in payments with Romania Finland has moved towards a more flexible system.

When assessing our economic situation and prospects one should also keep in mind the cyclical vulnerability of our balance of payments. The present level of reserves is not adequate to carry the country over unavoidable business cycle fluctuations. There is a continuous need for a careful incomes policy as well as other economic measures promoting stability. In order to keep total demand within the margin of our resources countercyclical measures will thus also have to be applied.

Summing up, Mr. Chairman, it is the opinion of the Finnish Government, that these circumstances, combined with the adverse prospects for capital imports, do not for the time being permit any fundamental changes in the present import system without endangering a balanced economic growth in our country.