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GENERAL AGREEMENT ON TARIFFS AND TRADE

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FINNISH TAXES AND IMPORT RESTRICTIONS

Notification by the Government of Finland

The following communication, dated 19 May 1971, has been received from the permanent mission of Finland.

In 1970, Finland recorded an import surplus of Fmk 1,465 million, corresponding to a deficit on current account of Fmk 948 million. The value of imports reached Fmk 11,077 million and exports Fmk 9,687 million. There has been no improvement of this trend during the current year. According to preliminary data the trade deficit in January-April 1971 had already reached Fmk 600 million, compared to Fmk 385 million during the corresponding period last year. The deficit on current account this year is estimated to grow to the same amount as last year. In 1970 the deficit on current account was financed by capital imports without a reduction in foreign exchange reserves, but this year the persisting deficit has caused a substantial loss of reserves since the beginning of April, and this development will continue.

As a result of present international economic trends, rising cost pressures, and disturbances in the labour market, our economy has reached a cyclical down-turn, and this year gross national product will grow at a much slower rate. In spite of these facts, the growth of the domestic demand and the trend of imports have not shown signs of a corresponding slow-down and thus special measures in support of the current account have become necessary. The short-term objectives set for our economic policy are therefore to dampen the growth of demand, especially for consumer goods, to activate domestic production and to improve its competitive position with respect to imports.

In order to achieve these objectives, the Government, among other measures, on 14 May 1971, presented bills to Parliament for temporary legislation concerning:

1. a supplementary sales tax on certain goods; and

2. an import equalization tax.

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The supplementary sales tax would amount to 15 per cent of the selling price of domestic and imported goods, and is levied on consumer durables. Imports of these goods represent less than 10 per cent of total imports.

Our present sales tax system implies an occult tax burden for domestically produced goods. This occult tax does not burden imported goods competing with domestic products. The need for an equalization tax has arisen since Finland's main foreign suppliers have adopted the value-added tax system. The aim of this equalization tax is to place domestic production on an equal footing with imported products.

The equalization tax will apply to all imports of processed products which, when domestically produced, are affected by the occult tax. Some basic foodstuffs and raw materials such as ores, round-wood, wool and cotton, fodder, crude oil and solid fuels are exempted. These goods represent about one quarter of total imports. The rates of equalization tax have been fixed by calculation to correspond as closely as possible to the occult sales tax affecting domestic manufactures, and range between 1.2 and 5 per cent. For example, for textiles and clothing the tax rate will be 1.8 per cent, for footwear and leather goods 1.5 per cent, for chemicals 3.9 per cent and for basic metal products 3.7 per cent.

To safeguard the balance-of-payments objectives of the bills in question during the period of parliamentary procedures, and in order to prevent any further increase of speculative imports the Government has today issued a decree introducing temporary import licensing for the goods covered by the supplementary sales tax bill. This temporary measure will remain in force until the legislation in support of the balance of payments enters into force, but no longer than one month from the date of the decree.