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SUBSIDIES

Notification Pursuant to Article XVI:1

FINLAND

The following complete notification on industrial and agricultural subsidies pursuant to Article XVI:1 has been received from the Permanent Mission of Finland.

For years 1986-1989 the figures shown are figures from the Government accounts and for 1990 budgeted amounts in the budget statement or the estimated amounts.

INDUSTRIAL SUBSIDIES

- I. Promotion of export marketing
1. Nature and extent of the subsidy
 - (a) Background and authority

The Ministry of Trade and Industry promotes the internationalization of Finnish industrial enterprises by granting support for export marketing activities. These incentives have benefited especially small and medium-sized enterprises.

The legal provisions are laid down in the following decisions:

- Decision of the Council of State on grants to small and medium-sized firms for employing export personnel (769/79, amendment 797/83).
- Decision of the Council of State on loans for preparing a tender for an export project (650/77, amendments 716/81, 181/87). This law was in force until 31 December 1989.

- Decision of the Council of State on grants to preparing a tender for an export project (210/90). This law is in force from 1 March 1990.
- Decision of the Council of State on loans for the promotion of marketing export products (78/82, amendment 180/87).

(b) Incidence

Grants and loans are paid to exporters or organizers of export promoting activities. Grants are maximum 50 per cent and loans 75 per cent of total expenditure. Grants are given for purposes of promoting marketing of export products, for participation in foreign fairs and exhibitions and for export campaigns arranged jointly by several firms.

For loans for the promotion of marketing of export products the maturity period ranges from 0 to 6 years and the grace period from 0 to 3 years. The rate of interest is 2 per cent below the base rate of the Bank of Finland, and at least 5 per cent.

For loans of preparing a tender for an export project the maturity period is from 0 to 5 years and grace period from 0 to 2 years. The rate of interest is the base rate of the Bank of Finland, at at least 7 per cent.

(c) Amount of subsidy (million FIM)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Grants	112.6	129.2	153.5	150.0	133.3
Loans	30.6	27.0	61.8	32.2	39.0

(d) Estimated amount per unit

A common characteristic of the subsidies is their general purpose. They are not designed to promote a specific product or category of products. It is not feasible to break down the total amount of a subsidy by purpose of production.

2. Effect of subsidy

These general measures of export promotion have stimulated the small and medium-sized firms and helped them in their own marketing programmes. However, the impact of grants on total export cannot be calculated but is assessed to be marginal.

II. Investment subsidies for the use of domestic energy sources, new energy production technology and for energy conservation

1. Nature and extent of the subsidy

(a) Background and authority

The Ministry of Trade and Industry promotes the production of domestic energy conservation by granting subsidies for the building of plants using domestic energy sources, for investments aiming at energy conservation and from the beginning of 1989 for utilization of new energy production technology.

The legal provisions are laid down in the following law:

- Law on grants for investment subsidies for the use of energy sources and new energy production technology and for energy conservation (1137/88).

(b) Incidence

The grants are intended for firms and communities, e.g. municipalities and municipal energy production plants. The maximum grant is 20 per cent of total investment costs, and maximum 40 per cent of total investment costs for plants involving new technology.

(c) Amount of subsidy (million FIM)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Grants	24.0	19.0	46.4	42.6	69.0

(d) Estimated amount per unit

In the 1980s the subsidy has been on an average 10 per cent of total investment costs.

2. Effect of subsidy

(a) Background and authority

The subsidy is not directed to productional investments, such as the use of fuels as raw materials in production, but towards a more efficient use of domestic energy for heating and power purposes. The effect of the subsidy on investment activity has not been calculated.

III. Interest rate subsidy for investments aimed at energy conservation, new energy technology and promoting the use of domestic fuels and natural gas

1. Nature and extent of the subsidy

(a) Background and authority

The Ministry of Trade and Industry grants interest rate subsidies for investments aimed at the conservation of energy and promoting the production and use of domestic fuels as well as investments in the use and distribution of natural gas. From the beginning of 1989 subsidy can be given also for new energy technology in general.

The legal provisions are laid down in the following law:

- Law on the specific interest rate subsidized loans granted by credit companies (1015/77, amendment 1040/89).

(b) Incidence

The interest rate subsidy is intended for firms and municipal energy production plants, thermal power stations and district heating plants.

The maximum loan is 50 per cent (production and use of domestic fuels) or 60 per cent (energy conservation and natural gas) of the total investment costs.

The interest rate subsidy is 4 per cent of the first four years and 2 per cent for the following four years. No subsidy is paid after the eighth year. In some special cases the maximum interest rate subsidy can be 6 per cent for the first four years and 4 per cent for the following four years.

(c) Amount of subsidy (million FIM)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Grants	0.8	1.1	2.5	6.6	17.0

2. Effect of subsidy

The effect of the subsidy on investments has not been calculated.

IV. Guarantees for small and medium-size industry

1. Nature and extent of the subsidy

(a) Background and authority

The Finnish Guarantee Board is an independent government agency under the jurisdiction of the Ministry of Trade and Industry. It was founded in 1 September 1989 to continue the operations of the Export Guarantee Board and the State Guarantee Board.

(b) Incidence

The guarantees are intended for industrial enterprises, and also to businesses engaged in tourism, fur farming, fish farming, cultivation of garden produce and peat production. Guarantees for industry can be granted to companies which have no more than 500 employees, have no more than FIM 350 million worth of fixed assets, and in which a large company owns no more than one third of its shares. The Finnish Guarantee Board collects a non-recurring premium of 0.75 per cent of the amount of the loans up to FIM 10 million and 0.2 per cent of the exceeding amount. The annual payment is from 0.25 to 3.0 per cent of the amount still due.

(c) Amount of subsidy (the total amount of loans guaranteed) (million FIM)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u> *
Loans	100	181	239	218	240
	(216	(321	(372	(300	(320
	loans)	loans)	loans)	loans)	loans)

* Estimated

2. Effect of subsidy

In 1989, 92 per cent of the guarantees were granted to firms of less than twenty employees. Most guarantees (52 per cent in 1989) are given to the metal and machine industry.

V. Support for technological research and development

1. Nature and extent of the subsidy

(a) Background and authority

The Technology Development Centre (TEKES) supports R&D activity in order to improve the level of technology in Finland and to strengthen the scientific basis of new technology utilization. TEKES is a government agency under the Ministry of Trade and Industry.

The support is intended primarily for the partial financing of development projects involving new technology, applied research and product development aiming at adapting the Finnish economy to international technological development and thus diversifying the structure of Finnish industry. The research and development work is supported by means of grants and loans as follows:

A. Grants for R&D (industrial)

B. Loans for R&D (industrial)

The legal provisions are laid down in the following decision:

- Decision of the Council of State on general conditions of grants and loans for R&D (150/85, amendment: 352/89).

(b) Incidence

Grants are directed mainly to industrial applied research, to industrial joint research, to SMI-companies and to projects in their very initial phases in the innovation chain where the time before economical utilization of results is relatively long. Maximum 50 per cent of acceptable research project costs are paid. Investments are not acceptable. The income directly due to project must be subtracted.

Loans are directed mainly to product development utilizing new technologies where the risks in applying new technologies are especially high. Maximum 75 per cent of acceptable R&D costs are paid. Investments are not acceptable.

(c) Amount of subsidy (million FIM)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Grants	122	130	165	182	212
Loans	120	140	165	180	216

VI. Export credits

1. Nature and extent of the subsidy

(a) Background and authority

In Finland medium- and long-term export credits are financed by Finnish Credit Ltd. (FEC), a limited liability company owned by the Government, commercial banks and industrial companies.

The company finances the export of capital goods and services as well as domestic deliveries by providing medium- and long-term credits.

The terms and conditions of export credits conform with the OECD Arrangements on Guidelines for Officially Supported Export Credits and the OECD Understanding on Export Credits for Ships. Finnish Export Credit also extends non-subsidized export credits on market terms and credits for exports to developing countries on concessional terms (mixed credits).

FEC finances its operations by issuing long-term domestic subordinated debentures and by borrowing on international capital and money market. In the early 1980s the Government replaced its participation in the subsequent debenture programme by an interest rate subsidy scheme.

The reported figures also include interest rate subsidies for domestic ship deliveries.

(b) Incidence

The credits are extended either to the supplier (supplier credit refinancing) or to the buyer, his bank or other financial institution (buyer credit).

(c) Amount of interest rate subsidy (million FIM)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Subsidies	34.7	38.1	25.3	60.0	85.0

2. Effect of subsidy

The effect of the Government support is difficult to quantify. Major beneficiaries are metal and engineering industry and wood-processing industry.

NOTIFICATION OF AGRICULTURAL SUBSIDIES

	Year 1984	Year 1985	Year 1986	Year 1987	Year 1988	Year 1989
Form of Subsidy	Million FIM					
1. Regional support for agriculture	542.0	573.6	649.9	588.9	578.4	654.9
2. Export subsidies for agricultural base products	2234.5	2258.1	2296.0	2113.0	1350.5	1626.8
3. Export refund for food industry products	576.3	676.5	672.5	730.7	710.5	764.2

1. Regional support for agriculture

As an annual cabinet decision a regionally differentiated price support on milk is paid through dairies in northern Finland, in eastern districts and in the outer archipelago. The total milk production subsidy was FIM 245.6 million in 1984, FIM 245.8 million in 1985, FIM 249.7 million in 1986, FIM 243.2 million in 1987, FIM 229.9 million in 1988 and FIM 248.4 million in 1989.

A similar regional production subsidy to beef, pork and mutton producers is paid through slaughterhouses for animals in northern Finland, in the eastern districts and in the outer archipelago. The total meat production subsidy was FIM 139.8 million in 1984, FIM 152.2 million in 1985, FIM 164.6 million in 1986, FIM 164.1 million in 1987, FIM 143.8 million in 1988 and FIM 159.9 million in 1989.

Based on the number of domestic animals, a subsidy is paid in northern Finland and in the outer archipelago. This subsidy amounted to FIM 124.2 million in 1986, FIM 127.8 million in 1987, FIM 145.3 million in 1988 and FIM 180.5 million in 1989.

A subsidy on rye produced in northern and central Finland is paid through the State Granary. The amount paid was FIM 4.8 million in 1984, FIM 4.0 million in 1985, FIM 4.7 million in 1986, FIM 3.0 million in 1987, FIM 3.5 million in 1988 and FIM 9.3 million in 1989.

Production subsidies on starch potato, produced far from the factories in northern and central Finland, were paid FIM 6.7 million in 1984, FIM 9.8 million in 1985, FIM 8.9 million in 1986, FIM 8.8 million in 1987, FIM 8.6 million in 1988 and FIM 6.4 million in 1989.

A subsidy on fodder grain produced in central and northern Finland was paid through the State Granary totalling FIM 31.7 million in 1984, FIM 41.9 million in 1985, FIM 42.6 million in 1986, FIM 41.4 million in 1987, FIM 39.6 million in 1988, FIM 42.0 million in 1989.

The total amount paid, for the above-mentioned and some minor subsidies for beet sugar production and transports, was FIM 542.0 million in 1984, FIM 573.6 million in 1985, FIM 649.9 million in 1986, FIM 588.9 million in 1987, FIM 578.4 million in 1988 and FIM 654.9 million in 1989.

2. Export subsidies for agricultural products

As an annual Cabinet decision, export dairies receive through the State budget, an export subsidy for dairy products exported, which enables them to pay the milk producers a price corresponding to the target price of milk annually agreed upon.

A similar support system exists for eggs, veal and beef, pork and grains.

The amount paid for all the above-mentioned export subsidies was FIM 2,234.5 million in 1984, FIM 2,258.1 million in 1985, FIM 2,296.0 million in 1986, FIM 2,113.0 million in 1987, FIM 1,350.5 million in 1988 and FIM 1,626.8 million in 1989.

3. Export refunds

The export refund is paid (a fixed amount per unit) for domestically produced raw materials, which are included in processed food industry products exported. The refund covers in principle, the difference between the yearly fixed domestic price and the prevailing world market price.

The total amount of export refunds was FIM 576.3 million in 1984, FIM 676.5 million in 1985, FIM 672.5 million in 1986, FIM 730.7 million in 1987, FIM 710.5 million in 1988 and FIM 764.2 million in 1989.