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TRADE POLICY REVIEW MECHANISM

FINLAND

In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the initial full report by Finland is herewith submitted.

NOTE TO DELEGATIONS

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TRADE POLICY REVIEW

Report by Finland

A. TRADE POLICIES AND PRACTICES

(i) Objectives of trade policies

Finland is a small trading nation with only 5 million inhabitants. Given the fact that the domestic market in Finland can generate only a limited demand for goods and services, the trade policy of the country must be externally oriented. A small country must also be able to ensure that its goods benefit from equitable competitive conditions in export markets in order to maintain and expand profitable production at home. Due to limited natural resources, imports of raw materials, intermediate goods and machinery are also required on a large scale to maintain and develop production activities.

Accordingly, since the Second World War, Finland has consistently pursued a trade policy with the aim of establishing and expanding trade relations and removing obstacles to economic interaction on as wide a basis as possible. For this reason Finland has always supported, and continues to support the open, multilateral trading system with effective rules.

Initially, Finland's post-war foreign trade was to a considerable extent regulated and concentrated on traditional trading partners and traditional products. Since then, however, a remarkable expansion of Finland's trade relations in all directions has taken place.

The rapid change in the country's production pattern together with a deep-going social change - a dramatic shift from an agricultural society to an industrial one - gave a strong impetus to this development. A new dimension, especially in the 1970s was the drive to diversify exports to new areas beyond the traditionally dominating forestry industry and heavy metal and engineering industries.

A strong motive in this development was, of course, also an effort to make the national economy less sensitive to fluctuations of world trade of those commodities.

Finland's dependence on foreign trade is reflected in the fact that, for instance, in the 1980s exports and imports represented between 25-30 per cent of the gross domestic product (GDP). The share of foreign trade in the GDP has, however, slightly decreased in recent years. This trend is due to rapidly increased domestic demand during the latter half of the 1980s and also to the lack of competition in the so-called closed sector of the economy. It is likely that this will change in the future, and that the rôle of foreign trade in the national economy will again increase.

The opening up of the foreign trade régime has taken place at a pace corresponding to the general liberalization in world trade. Some restrictions have nevertheless been maintained in respect of a few individual sectors.

A natural starting point in the general liberalization orientation has been the close and far-reaching economic co-operation with the neighbouring countries in line with Finland's general foreign policy objectives.

The West European countries (EFTA, EC) are Finland's most important trading partners. In 1989, they accounted for 64 per cent of exports and 63 per cent of imports. Having joined the European Free Trade Association (EFTA) as an associate member in 1961, Finland became a full member in 1986. The free trade agreements which the EFTA countries concluded with the European Economic Community (EEC) and the European Coal and Steel Community (ECSC), entered into force in 1974.

The free trade in industrial goods achieved between twelve European countries has proved to be a very successful and important factor for the development of the Finnish economy. Especially the intra-EFTA trade has contributed strongly and positively to the country's structural adjustment.

In 1989 the EFTA countries and the EC agreed that this regional integration should further be intensified and broadened to cover new areas in order to reach free movement of goods, services, capital and manpower, thus creating the so-called European Economic Space (EES). In this context Finland has consistently emphasized that this valuable and important co-operation must not become any hindrance to the wider, global liberalization of world trade. In the view of Finland, regional and global processes should reinforce rather than hamper each other.

Another important element contributing to the relaxation of trade barriers is Finland's trade with the Soviet Union and the Eastern and Central European (Bulgaria, Czechoslovakia, Hungary, Poland, earlier also the former German Democratic Republic) countries. Trade is since 1960 based on duty-free arrangements with the Soviet Union, and correspondingly with those other countries mentioned above since the mid-1970s on the basis of bilateral agreements concerning reciprocal removal of obstacles to trade.

The new situation in Eastern Europe is understandably giving reason to believe that trade policy and other economic co-operation in Europe could take place on a wider basis than hitherto. Finland would welcome this development as well as a closer integration of these countries into the global multilateral trading arrangements.

Within the overall expansion of her trade relations Finland intensified, especially in the 1980s the economic links with developing countries. As a result, some fifteen agreements on economic, industrial and technological co-operation were concluded between Finland and individual developing countries in the course of the 1980s. Since 1972

Finland has granted GSP treatment to developing country exports with the exception of some agricultural and textile products. The Finnish GSP scheme is based on simple principles: total exemption from customs duties is granted for all products covered by the scheme and no quotas or ceilings are applied. During its existence, the scheme has been continuously improved by the inclusion of new beneficiary countries and the extension of the product coverage. A revision of the current GSP scheme's coverage is in process, and it is anticipated that as a result of that revision the least-developed countries will benefit from further improvements in their market access to Finland.

The traditional Nordic co-operation is extensive and far-reaching also in the field of trade and economy. It has led to strong interlinkages between the economies of these countries. The harmonization of national legislations in many areas, and in particular, the creation of a common labour market, has led to a situation where economic operators can carry out their activities in the other Nordic countries under the same terms as in their home market.

Finland acceded to the GATT in 1950 and has strongly supported all the negotiating rounds ever since as important means for strengthening and further developing the multilateral trading system. Finland is, therefore, seriously concerned over the current difficulties facing the functioning of the GATT system of rules and disciplines as well as the ongoing Uruguay Round, which, if successful, would serve to resist and curb protectionist pressures, grey area measures and bilateral and unilateral actions which are not in conformity with the spirit and objectives of the GATT. A successful round would also help to integrate developing countries, newly industrialized countries and former centrally planned economies better into the multilateral trading system and the world economy as a whole.

Finland joined the OECD in the late sixties and has since then taken part in all the activities of the organization.

(ii) Description of the import and export system

Imports to Finland are free from restrictions with the exception of two sectors, namely agriculture and textiles, where there still are restrictions, including quotas and licensing arrangements. It should be noted, however, that for instance, in the case of agriculture the product coverage subject to licensing has gradually been reduced. As of 1 July 1991, imports of crude oil, oil products and coal, which earlier had been regulated due to bilateral trade arrangements with the Soviet Union, were also liberalized. Some licensing requirements primarily for surveillance purposes remain in effect.

Exports from Finland are also unrestricted with one exception of some economic significance: export licence is needed for exports of scrap metal including ships.

The Government has no other direct intervention in imports or exports, which are carried out by economic operators only. There is no

discrimination between domestic or foreign owned companies in export/import transactions.

As regards voluntary export or import restraints, there is only one such government-to-government arrangement in force, namely an arrangement covering exports in the steel sector.

The average tariff level in Finland is low, around 7.7 per cent. Approximately 83 per cent of total imports already enter Finland duty free. Practically all (99 per cent) of the tariffs for industrial products are bound. In the agricultural sector the share of total imports falling within GATT-bound items is 88 per cent. Specific duties or variable levies are generally applied to imports of many agricultural products.

(iii) The trade policy framework

According to the Constitution Act, the president of the Republic is in charge of foreign policy questions, including trade policy. Consequently, treaty-making powers are conferred to the President, who formally authorizes signature as well as ratification or other approval of international treaties. Parliament must be consulted i.e. it must approve treaties containing provisions that fall under Parliament's legislative and other powers. Parliamentary approval is always sought before ratification, accession or approval of a treaty.

The President of the Republic acting in co-operation with the Council of State (government), may submit to Parliament any time new laws related to trade relations of the country. The implementation of the laws takes place in the form of a decree issued by the President. Central authorities, various ministries, etc. may also give instruction in relation to the decrees issued.

There are no permanent mechanisms or procedures for a regular trade policy review on the domestic level. It is customary, however, that the government presents special reports or declarations to parliament on various trade policy issues as well as on other matters. After discussion such reports can be put to a vote of confidence if the government so wishes. Furthermore, the government submits annually to Parliament a comprehensive report on all its activities, including the main steps taken in the field of trade policy.

Several ad hoc committees and working groups have been nominated to monitor important ongoing international negotiations and discussions (EES, GATT, development aid). These consultative bodies do not have decision-making powers but may give advice to the government.

A special advisory committee composed of various authorities has been nominated to give advice to the National Board of Customs on questions related to the practical implementation of customs legislation, including GSP matters and exemption of duties and protective actions required in market disturbance situations.

(iii)(a) Domestic laws and regulations governing the application of trade policies

The Finnish legal system

In addition to her Constitution (the Constitution Act of 1919 which contains general stipulations on the organization of the State), Finland has a number of parliamentary acts, which have constitutional status, i.e. they can be changed only through the procedure of constitutional amendments.

According to the Constitution Act legislative power shall be exercised by Parliament in conjunction with the President of the Republic. Supreme executive power shall be vested in the President of the Republic. In addition, for general government of the State, there shall be a Council of State (government). Judicial power shall be exercised by independent courts of law with the Supreme Court and the Supreme Administrative Court as the final instances.

In the field of legislation the President decides on government bills to be submitted to Parliament and on the confirmation of laws (acts) passed by Parliament. He is also empowered to issue decrees on the implementation of laws. The President makes his decisions in the present of, and ordinarily in accordance with, the opinion of the government.

International treaties in the Finnish legal system

In order to ensure internal applicability of international treaties, Finland follows the dualistic doctrine according to which treaties and agreements have to be incorporated into internal legal order by an act of legislation. By far the most commonly used method of incorporation is enactment in blanco, meaning single article acts and/or decrees which simply state that the treaty concerned is to be applied according to its terms.

There are no formal restrictions concerning the direct applicability of treaty provisions or the right of traders or citizens to invoke them before the courts. It is for the court, however, to determine, whether a particular treaty provision in fact confers legal rights to private subjects of law rather than obligations on the contracting State.

Import and export legislation

Finland has in 1974 introduced a separate law (The Act on the Protection of Foreign Trade and Economic Growth in Finland (157/1974)), which entitles the government to regulate foreign trade if this is warranted by the economic situation in the country.

This Act has been enacted by a separate Decree on Market Disturbance issued by the Council of State (946/1974).

On the basis of this Act, necessary steps may be taken in order to secure undisturbed operations in foreign trade, balanced economic growth,

full employment, production and the balance of trade. Moreover, in order to put into effect the bilateral and multilateral agreements on duties and other aspects of foreign trade that Finland has entered, as well as in order to secure an undisturbed operation of these agreements taking into consideration Finland's international contractual obligations, the import and export of goods as well as foreign payment transactions may be restricted and other measures may be resorted to.

By way of the above Decree, imports and exports may be restricted, duties reduced under the agreements referred to above may be raised up to the customs tariff at the maximum; a provision of special payments to be collected in connection with importation may be enacted or any other contractual measure may be taken in the following cases:

- (1) to protect the balance of payments of the country;
- (2) whenever there is a serious disruption or difficulty of an economic nature, showing a sharp decline of the economic state of some area;
- (3) whenever agreements and other measures between companies, either by intention or as a consequence, prevent, restrict or thwart competition in the production and trade of goods or whether the dominant market position of one or several companies is misused within the territory of Finland and a state which has an agreement with Finland or on an important part of that territory, or whether the support provided by some country favours certain companies or fields of production, causing or threatening to cause distortion of competition.

Furthermore, the Ministry of Finance may decide that a special countervailing fee be collected on imports whenever the growth of imports of a certain article causes or threatens to cause serious handicap to production, and this growth is due to the total or partial elimination of duties or taxes.

The legislation referred to above is the basis for safeguard measures - except for anti-dumping measures - taken by Finland if needed. It is also the domestic legal basis for the remaining quantitative restrictions applied by Finland mainly to imports of certain agricultural products (Decree On Quantitative Restrictions Applied in Foreign Trade, 1301/1989).

Customs and tariff legislation

The provisions concerning customs duties and other duties and taxes levied on importations are adopted by Parliament in the form of laws. The legal basis for customs procedures is laid in the Customs Act and the Customs Decree of 1978 including subsequent amendments. The main provisions relating to customs activities and the collection of customs duties and other taxes levied on importation are the following:

- the provisions concerning exemption from customs duty (or duty reduction), for example, in cases of temporary importation, special cases of duty refund etc., are included in the Customs Taxation Act and Decree;
- customs duties applied on importation are based on the Customs Tariff Act which, in the case of GATT-bound duties, is based on the Finnish Schedule XXIV of GATT bound duties;
- duty exemption resulting from the Free Trade Agreements which Finland has concluded with the EFTA, the EEC and the ECSC as well as from the Agreements of similar effect with the Soviet Union, Bulgaria, Hungary, Czechoslovakia and Poland, is an integral part of the laws, by which these agreements were adopted and entered into force in Finland;
- the provisions concerning duty-free imports from developing countries under the Finnish GSP System are included in the Act on Customs Preferences for Goods Originating in Developing Countries;
- rules for regulating market disruption cases are contained in the Act on the Prevention of Imports by Dumping and Export Subsidies and in the Act on Safeguarding Foreign Trade and Economic Growth in the country;
- excise duties (thirteen different duties which are collected on both domestic and imported goods are included in respective laws whereby these taxes were implemented in Finland;
- turnover tax and import equalization tax are likewise collected by virtue of laws of their own;
- customs reliefs based on industrial relief and e-rates duty are provided for in the Customs Tariff Act and a Decision of the Council of State. E-rate of duty is lower than the general duty, or an exemption from that duty. In principle it applies to separately defined products falling under headings in HS Chapters 84 and 85 and which products are not manufactured in Finland on an industrial scale. T-rate of duty is granted for selected raw materials and semi-finished goods, which are not manufactured in Finland and which are used in industrial production.

Customs valuation

The Finnish regulations on customs valuation are based on the Agreement on Implementation of Article VII of the GATT. The regulations entered into force on 1 January 1981, the same date as the Agreement, by virtue of Decree of Implementation of the Agreement (1102/80).

The regulations are contained in:

- The Agreement on Implementation of Article VII of the GATT (No. 83/80, published in the Series of International conventions accepted by Finland);
- Customs Valuation Act (906/80), amended in 1986 (9/86).
- Decision by the Board of Customs by virtue of Section 5 of the Act on Customs Valuation (906/80).

The Board of Customs has also issued guidelines for the declaration of customs value of goods imported in Finland.

Technical regulations and standards

Finland is a party to the GATT Agreement on Technical Barriers to Trade since 1980.

Finland is also participating in a number of other international arrangements and recognition schemes/conventions established under the auspices of EFTA, aimed at eliminating technical barriers to trade.

Public procurement

Finland acceded to the Tokyo Round Agreement on Government Procurement in 1979, the rules of which are implemented through the corresponding domestic legislation (Decree 1070/1979, and the decision by the Ministry of Trade and Industry of 20 July 1989). The EFTA rules concerned (Article 14 of the Convention) are also observed.

All central government agencies are covered by the public procurement regulations. Local government entities have their own rules which are similar to the government procurement procedures. It is foreseen that the scope of the coverage will be widened beyond the current GATT arrangements in the context of the negotiations concerning the European Economic Area.

Anti-dumping and countervailing actions

Finland is a party to the Agreement on Implementation of the Article VI of the GATT (Anti-Dumping Code). The regulations of the code are also in this case incorporated into domestic legislation (Act 387/1980).

Finland has herself initiated relatively few anti-dumping investigations. Finnish exports, on the other hand, have been hit more regularly by such measures especially in areas which are important to the national economy and where the competitiveness of the industries concerned is quite high.

Other legislation

There are also other rules and regulations based on legislation not explicitly related to foreign trade. These regulations are mainly related to human, animal or plant health or to national security. Examples of the legislation containing restrictions which have or may have an impact on foreign trade transactions include the following:

- imports of toxic materials are strictly controlled;
- production, imports and sale of pharmaceuticals and narcotics are regulated under health legislation.
- product safety legislation regulates the sale and use of various industrial products;
- on the basis of legislation concerning production and use of foodstuffs, e.g. the use of food additives is regulated.

On the export side there are special regulations and procedures as regards exports of war material including chemicals, which may be used for production of chemical weapons, and material and equipment used by nuclear industries.

(iii)(b) Trade policy formulation and review

As explained earlier in point A.(iii) the President of the Republic has a central rôle in the formulation of Finnish trade policy, but the approval by parliament is needed in matters which are linked to domestic legislation. Thus all laws concerning the imposition or change of tariffs, duties or taxes are to be decided by Parliament.

Some trade policy decisions can be taken also by the government, or in the case of the practical application of laws by ministries, including the Ministry for Foreign Affairs, the Ministry of Trade and Industry and the Ministry of Finance. There are also other authorities that are involved in the formulation and/or implementation of trade policy. The division of labour between them can be described as follows:

The Ministry for Foreign Affairs, Department for External Economic Affairs, headed by the Minister for Foreign Trade, is in charge of the overall co-ordination of the trade policy. The proposals on trade policy issues are normally presented by this ministry to the government.

The Ministry of Trade and Industry is dealing with trade and industrial policy matters on a broad basis including structural adjustment, development and financing of industries. Moreover, public procurement, State-owned companies, tourism, energy and funding of export promotion (in collaboration with the Finnish Foreign Trade Association) as well as export and import restrictions fall under the responsibility of this ministry.

The practical implementation of licensing requirements is given to the Export and Import Permits Office working under the supervision of the Ministry of Trade and Industry.

The Ministry of Finance deals with matters relating to customs and taxation legislation, anti-dumping and countervailing duties, subsidies and safeguard measures. In executing these functions it is assisted by the National Board of Customs, which is responsible for the administration of the Finnish Customs Service. In addition to ordinary customs control and surveillance of movements to and from Finland, the Customs is in charge of the following main functions:

- taxation of imported goods; collection of excise duties on domestic goods;
- compilation and fabrication of foreign trade statistics;
- promoting and safeguarding the interests of domestic industry in cases of market disruption;
- control and examination of foodstuffs and other products for purposes of consumer protection;
- administration and implementation of customs-related international agreements (for example free trade agreements) as well as participation in international co-operation.

Within the Board of Customs there also operates a permanent body appointed by the Council of State - the Customs Advisory Committee. It is composed of high ranking civil servants and representatives of main economic and trade organizations and interest groups. It serves as a body examining and preparing proposals for legislation in matters relating to customs policy, i.e. customs duties and other taxes levied on importation, customs nomenclature, the Finnish GSP scheme, and measures in cases of market disruption.

The Ministry of Agriculture is responsible for agriculture and food policy, forestry, fishery, matters concerning fishing and hunting and as well as for sanitary and phytosanitary issues. It is assisted by two other authorities, namely the National Board of Agriculture and the National Board of Forestry, which both have an extensive field organization in the country. The National Board of Forestry is also in charge of the government-owned land and forests.

The Agricultural Marketing Council is in charge of monitoring the implementation of the agricultural legislation and the annual price agreement concluded between the government and the producers organization. It is not a decision-making body but may only make recommendations to the government which normally takes decisions on the matters concerned. The Council makes, however, decisions concerning exports and imports of certain agricultural products.

The Ministry of Transport and Communications also deals with trade policy issues, especially in the field of both domestic and international transportation and telecommunication services.

The Ministry of Environment is responsible for the preparation of legislation and rules concerning environmental policies, including the implementation of international agreements.

(iii)(c) Multilateral, regional and bilateral trading agreements

The United Nations

Finland has ratified and acceded to many international agreements concluded under the auspices of the United Nations. Agreements dealing with trade policy issues are listed in Annex 2. It contains also information on other similar multilateral agreements.

IMF

The International Monetary Fund was set up in 1945 to maintain the stability of the major international currencies and to promote their convertibility. Finland joined the IMF in 1948.

GATT

Finland acceded to the General Agreement on Tariffs and Trade (GATT; Annecy Protocol) in 1950. Subsequently, Finland has ratified all amendments made to the GATT Agreement and she is also a signatory to the following Tokyo Round arrangements:

- Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the GATT (Subsidies Code);
- Agreement on Implementation of Article VI of the GATT (Anti-Dumping Code);
- Agreement on Implementation of Article VII of the GATT (Customs Valuation Code);
- Agreement on Government Procurement;
- Agreement on Technical Barriers to Trade;
- Agreement on Import Licensing Procedures;
- International Dairy Agreement;
- Arrangement Regarding Bovine Meat.

Finland is also a signatory to the Arrangement Regarding International Trade in Textiles.

GATT obligations have been incorporated into the internal legal order in their authentic version and thus have a status identical to Finnish laws. GATT obligations, the approval of which has necessitated the consent of Parliament, have been incorporated as Acts of Parliament. All other GATT obligations have been incorporated by Decrees.

OECD

Finland has been a member of the OECD (The Organization for Economic Co-Operation and Development) since 1969. When joining the OECD, Finland also became a party to the Code of Liberalization of Current Invisible Operations, an instrument for the liberalization of trade in services among the OECD countries. Finland is also a member of the Code of Liberalization of Capital Movements, an instrument for the liberalization of capital transactions and thereby promoting international capital mobility and effective economic co-operation.

European Free Trade Association (EFTA)

The European Free Trade Association (EFTA) was established in 1960 upon the initiative of those European market economy countries which were not able or willing to join the EEC, founded a few years earlier. They wanted, however, to intensify economic integration among themselves after the more broadly based Western European free-trade project (the Maudling Round) had been dropped.

Because of the importance of her trade with these countries also, Finland joined EFTA in 1961, first as an associated member but with the same rights and obligations as the full members. There were, however, two exceptions to the terms applied by the other EFTA countries: Finland was authorized to implement a slower schedule for tariff reductions and had the right to maintain quantitative restrictions for imports of oil products (fuels) and fertilizers.

The goals of EFTA (Article 2 of the Convention) are (a) to promote, in the area of the Association and in each Member State, a sustained expansion of economic activity, full employment, increased productivity and a rational use of resources as well as financial stability and a continuous improvement in living standards; (b) to ensure that trade between the Member States is taking place under fair competitive conditions; (c) to contribute to a harmonious development and expansion of world trade and to the progressive removal of barriers to trade.

The main objective of EFTA - free trade in industrial goods between the Member States - was reached in 1966, three years earlier than stipulated by the schedule for tariff reductions. Duties in trade between Finland and other EFTA countries were abolished the following year.

The EFTA Convention covers agricultural products only to a limited extent (mainly processed products) and separate bilateral agreements have been negotiated to enhance trade in this sector as well. In the case of Finland, such agreements have been concluded with Austria, Norway, Sweden and Switzerland.

As of 1 January 1986, Finland has been a full member of EFTA, and thus the situation which had de facto prevailed for quite a long time was then formally consolidated. The agreement has an unlimited duration.

Participation in EFTA has had a decisive impact on the opening up and development of Finnish foreign trade as well as on the diversification and on the structural adjustment of the national economy. The EFTA group has also been able to play a balancing rôle in the wider European co-operation and it has contributed actively to the GATT negotiations as well.

Free Trade Agreement with the European Economic Community and the European Coal and Steel Community

The first enlargement of the EEC in the early 1970s changed the existing trade policy set-up to such an extent that Finland had to react to it in order to protect her own interests. The positive experiences from free trade within the framework of EFTA facilitated Finland's decision to conclude a Free Trade Agreement (FTA) with the EEC in 1974 in order to establish free trade in industrial goods. A separate agreement was concluded with the European Coal and Steel Community in 1975 to cover trade in products under its authority. Both agreements are of unlimited duration.

The formal goals of the FTAs are (a) to develop economic relations between the parties concerned in a harmonious way and to promote economic development in Finland and in the EEC by expanding mutual trade, to improve standards of living and working conditions, and to increase productivity and financial stability; (b) to ensure fair terms of competition for trade and (c) to contribute to a harmonious development and expansion of world trade by removing barriers to trade.

Also in the case of FTA, agriculture is left out with the exception of a variety of processed products. A separate agreement concerning trade in cheese has been agreed upon between Finland and the EC.

The agreement with the EEC has had a very positive impact on Finnish foreign trade. The FTAs, concluded simultaneously by all the EFTA countries have created essentially the same kind of free-trade area - comprising a total of eighteen countries and a market of 350 million people - that was discussed in the Maudling Round.

When Spain joined the EC, a separate protocol was agreed upon to amend the FTAs between the EC and the respective EFTA countries. Correspondingly, a protocol amending again the FTAs between the EC and EFTA countries when Portugal (a former party to the EFTA Convention) became a member of the EC.

A new phase aiming at further broadening of relations between the EFTA countries and the EC was launched by the Declaration of the EFTA meeting held on a prime ministerial level in Vienna in 1977. That was followed by a joint EFTA and EC Ministerial Declaration in Luxemburg in 1984. This Declaration provided guidelines for the intensification of the existing co-operation as well as for its extension to new areas not covered by the FTAs.

A wide-ranging process of negotiations has been initiated since then, and the joint EFTA/EC Ministerial meeting at the end of 1989 decided to start final negotiations with the aim of creating the European Economic Area where goods, capital, services and persons could move freely. The EEA Agreement should also strengthen and broaden co-operation in a number of other areas covered by the Community's actions and reduce economic and social disparities between the regions. At the joint Ministerial meeting in December 1990, the two sides expressed their desire to see the EEA Agreement enter into force at the beginning of 1993.

Multilateral Commodity Agreements

Finland is a party to several commodity agreements which are listed in Annex 3.

Bilateral Agreements

A list of bilateral trade agreements concluded by Finland can be found in Annex 4.

Soviet Union

An important development as regards trade policy was the conclusion in 1947 between Finland and the Soviet Union of a trade agreement which included the most-favoured-nation clause.

Since 1950 the bilateral trade between Finland and the Soviet Union was carried out on the basis of five-year trade agreements, which were completed by annual indicative protocols on the exchange of goods. Moreover, financial transactions were implemented through the clearing-payment system, e.g. without using convertible currencies. All exports and imports were also subject to licensing requirements in order to control the domestic content of products traded.

The trade agreement of 1947 was given an unlimited duration. In 1960 Finland concluded a separate customs agreement with the Soviet Union. That agreement grants duty-free entry to goods originating in the Soviet Union. Also this agreement was given an unlimited duration. Subsequently, both these agreements have been applied so that Soviet products have received the same treatment as the one granted by Finland to any third country or economic association.

The bilateral trading system was abolished completely as of the beginning of this year. Consequently, all trading transactions are now taking place under ordinary terms and only convertible currencies are used for payments. Also licensing requirements applied to bilateral trade have been abolished for Finnish exports as from the beginning of this year and for imports from the Soviet Union as from the beginning of July 1991.

It can be said, that the trade with the Soviet Union gave a strong stimulus to Finnish foreign trade in the post-war decades because it provided a basis for the diversification of exports. Furthermore, this trade has been important to Finnish raw material and energy management and supply.

Free Trade Agreements with Bulgaria, Czechoslovakia, Hungary and Poland

Between 1974 and 1978 Finland concluded separate Agreements on the Reciprocal Removal of Barriers to Trade with the countries mentioned above. These agreements grant imports from those countries free trade treatment similar to that accorded by Finland to the EFTA countries and to the EEC.

They differ, however, from Finland's agreements with the EFTA and the EEC in that those Eastern or Central European countries which did not have effective customs tariffs were committed to taking internal measures to provide Finland with reciprocal trade concessions in their own markets. These agreements are of unlimited duration.

(iv) The implementation of trade policies

(iv) (a) Trade policy measures and their implementation

Tariffs

Finland is a medium-tariff country - the average duty, weighted against all imports, is 1.4 per cent. The corresponding figure for dutiable imports is 7.7 per cent. The share of duty-free imports of total imports is 83 per cent.

The Board of Customs publishes annually a Customs Tariff Manual which is based on the Customs Tariff Act. The applicable six-digit Harmonized Commodity Description and Coding System, adopted 1 January 1988, has been extended, when necessary, by adding the seventh and eighth digits for customs tariff and national statistical purposes.

Taxes

Import Equalization Tax

The import equalization tax has been in force since 1971 and it constitutes a part of the turnover taxation system. The tax is levied on manufactured products imported into Finland. The Import Equalization Tax Act has been prolonged annually, the latest prolongation being to the end of 1991 (1163/90).

The hidden tax included in production costs of domestic industrial products is mainly caused by the structure of the turnover tax system.

The cumulative hidden tax burden in different stages of the production chain causes an extra amount of tax included in the production costs of the finished domestic product. This hidden tax comes in addition to the turnover tax on the final product. The total tax burden on domestically manufactured products thus consists of direct turnover tax and hidden tax. The equalization tax compensates the latter.

The Finnish turnover tax system thus consists of two elements; firstly the direct turnover tax of 17.5 per cent on the end product and secondly a hidden tax burden on domestically manufactured goods. The average amount of the latter for all manufactures is 2 per cent. The 17.5 per cent turnover tax is levied also on imported goods. The purpose of the import equalization tax is to compensate for the hidden tax burden and thus to put imported products fiscally in the same position as domestic products. Most of Finland's trading partners apply a value-added tax system, where no hidden tax burden for domestic producers arises.

The import equalization tax, presently varying between 1.0-4.6 per cent, is levied on goods classified in chapters 11-96 of the HS tariff. Goods subject to import equalization tax are mostly manufactured products.

The new Turnover Tax Act which will enter into force in October 1991 reduces the hidden tax burden. Due to this change also the rates of the import equalization tax will be decreased by 0.3 per cent units. After this change the average tax rate will be about 1.65 per cent of the import value.

The possibility of gradual abolition of import equalization tax is linked to Finland's future decisions concerning an eventual adoption of a value-added tax system. In the absence of a final decision no time-table can, however, be presented at the present moment. A decision has already been taken to remove raw materials, investment goods and production inputs used by the industry from the coverage of the tax. It entered into force as from the beginning of July 1991.

It is estimated that the revenue for the tax will be FIM 300 million in 1992, whereas it was FIM 1 billion in 1990.

Other taxes on importation

All other taxes or duties (HS Chapters 25-99) are levied equally on imported and domestically manufactured products. These taxes are as follows: excise duty, turnover tax and tax on cars and motorcycles.

Finnish Generalized System of Preferences

The Finnish Generalized System of Preferences entered into force 1 January 1972. Thereafter, the provisions of the system have been revised several times, most recently in 1987. The product coverage has been extended on a number of occasions, it is currently reviewed annually. The

system was technically adapted to the new Finnish Customs Tariff Nomenclature based on the Harmonized Commodity Description and Coding System in 1988.

The Finnish GSP provides for duty-free entry for all products covered by the scheme. There are no quota provisions in the scheme. Nor are there any quantitative ceilings or stipulations concerning prices.

The country coverage is broad. All countries that have declared themselves developing countries are eligible to make use of the scheme, provided that the Finnish National Board of Customs has been notified of the authority empowered to issue certificates of origin and that documents are in order. The list of least-developed countries is the same as that issued by the United Nations.

As a rule, the Finnish GSP does not discriminate between eligible developing countries, apart from the special and differential treatment given to the least-developed countries. In addition, a few countries, Hong Kong and Macao have not been granted GSP treatment for all products when becoming eligible for the scheme.

Quantitative restrictions and licensing

As mentioned earlier, Finland maintains quantitative restrictions in the framework of a licensing system based on the Act on the Protection of Foreign Trade and Economic Growth (157/1974) and on the subsequent Decree on Quantitative Restrictions on Foreign Trade (1301/89).

The detailed product coverage of the licensing, which is divided into two categories, e.g. global licensing of quotas and individual (discretionary) licensing, is given in Annex 7. It should be noted, however, that by virtue of the decision of the Council of State licences for imports of the products in HS Chapter 27 (oils, fuels, gasoline, etc.) shall be granted to all oil companies operating in Finland according to the import needs.

According to the guidelines given by the Council of State on the principles of granting and distributing licences for agricultural commodities, the primary purpose of the restrictions and licensing shall be to safeguard the domestic agricultural production in accordance with the objectives set forth in the Act on Agricultural Income (736/89). However, when the need of imports is assessed, licences shall be granted to so many importers and in such volumes that the prices of the imported products do not rise due to the licensing practice. Accordingly, the coverage of agricultural products subject to global and individual licensing was reduced in July last year (notified to GATT, document NTM/W/6/Rev.5/Add.4).

The operation of the system has been notified annually to the GATT Committee of Import Licensing.

VER and OMA arrangements

Finland has concluded one voluntary export restraint agreement (VER) with the United States. It covers exports of steel products. The Finnish authorities are not aware of any ordinary marketing arrangements (OMA).

Agriculture

In Finland agriculture proper accounts for only 3 per cent of the gross domestic product and employs approximately 7 per cent of the employed labour force. Finnish agriculture is based on privately owned family farms, averaging 13 hectares of arable land. Finnish agricultural production is mainly based on livestock; the share of cattle production is 52 per cent of the total return to agriculture. About 15 per cent of arable area is used for crop production for human consumption. Finland is self-sufficient with respect to most animal products and grains. Thereby imports, of which fruits, vegetables and coffee are the most important, account for less than 20 per cent of domestic food consumption on a calorie basis. Around 15 per cent of the total value of agricultural inputs are imported.

The objectives of the Finnish agricultural policy are related to self-sufficiency in food commodities due to food security considerations, safe guarding the income level of farmers, maintaining the retail price of agricultural products at a reasonable level, improving the structure of agriculture, and maintaining the viability of rural areas. To meet these requirements, the price policy for major commodities is implemented under the Farm Incomes Act. Administered prices are set in negotiations between the Government and farmers organizations. The resulting domestic prices are sustained through export subsidies and border measures such as quantitative restrictions, variable import levies and import licensing.

The Government has nominated the Agricultural Marketing Council, which is responsible for the achievement and maintenance of the desired price level. The Council makes decisions concerning exports or imports of certain agricultural products. Imports of target price products are generally restricted as long as there is sufficient domestic production to meet demand, and as long as prices on the domestic market stay within defined limits. These imports are mainly subject to licences (see Annex 7) which are granted by the Import Export Permits Office (under the jurisdiction of the Ministry of Trade and Industry).

A monopoly on the imports and exports of grains has been granted to the Finnish State Granary. This Government agency is also responsible for holding of reserve stocks and for supporting the domestic price of grains (see point: State Trading Enterprises).

Because of zoosanitary problems, (i.e. foot-and-mouth (FMD) disease and bovine spongiform encephalopathy (BSE)), meat imports from countries under risk of infection are restricted. Imports of crop products are also restricted to countries with a certain phytosanitary status to avoid increasing compulsion to use herbicides and pesticides.

In the context of the agricultural negotiations in the Uruguay Round, Finland has offered to tariffy quantitative import régime restrictions on most agricultural products. Finland has also offered to reduce government expenditures to export subsidies from the 1986 level by 60 per cent by 1996, and to reduce internal support by 20-30 per cent in real value from its 1986 level. Finland is also prepared to freeze the overall support on the basis of 1986. It is estimated that these measures could reduce border protection by 5-10 per cent.

Textiles and clothing

Imports of textiles and clothing products account for about 60 per cent of the Finnish market. Such imports have duty-free access and are otherwise unrestricted when imported from the countries with which Finland has free-trade agreements (EFTA countries, EC, some Eastern European countries - Soviet Union, Bulgaria, Czechoslovakia, Hungary and Poland.

Finland has bilateral agreements based on the MFA with eleven countries. Most of these arrangements are in force until the end of 1993. Quota restriction agreements are applied with the following countries: China, Hong Kong, India, Macao, South Korea, Sri Lanka and Pakistan. MFA-based export licence/import surveillance agreements without quota restrictions are in force with Indonesia, Malaysia, Romania and Thailand. Finland's m.f.n. duties on textiles vary from 0 to 24 per cent and on clothing from 27 to 35 per cent.

As far as quantitative restrictions are concerned, the Finnish Government approved a statement in June 1989 to maintain the objective to continue, in the course of the next few years, and in the foreseeable future, its already established moderate import policies, without radical changes. At the same time Finland maintains the objective of avoiding, as far as possible, entirely new import restrictions. The existing restrictions will be extended only, when the need for protection is beyond doubt, and when the principle of equity with regard to other parties to the MFA so require. The objective is to reduce restrictions in cases, where the need for protection will have diminished or lost importance. Finland supports the integration of the textiles and clothing sector into the GATT on the basis of strengthened GATT rules and disciplines. In the case of Finland this means that the rights and obligations of the contracting parties to the GATT, as far as market disruption situations are concerned, will be clarified in an equitable manner. Finland has signed in August 1991 the continuation protocol to the MFA, which will be in force until the end of the year 1992.

Rules of origin

The general rule for the determination of origin applied at national level is either the statistical notion of the country of origin or the definition contained in national legislation. The former is used when establishing foreign trade statistics and the latter for surveillance purposes.

The country of origin is the country where the goods have been produced or manufactured. When manufactured in two or more countries, the country of origin is the last of these countries. Simple processing operations as packing, sorting or other comparable treatment are not regarded as processing, if the customs tariff heading remains unchanged.

Compulsory marking of origin applies to certain consumer goods mentioned in the Decree on declaration of the country of origin for consumer goods. When determining the origin of these goods, general national rules of origin apply.

In general, no documentary evidence of origin is required on importation. However, if there is reason to doubt the declared origin, a certificate of origin issued by a Chamber of Commerce may be required.

Preferential rules of origin are applied within the framework of free trade arrangements concluded by Finland with the EFTA countries, the EEC, USSR, Bulgaria, Hungary, Czechoslovakia and Poland, as well as under the Finnish GSP-Scheme. On the whole, the rules of origin applied are in principle identical in all agreements. According to them, the criterion for conferring origin is that the product is either wholly produced or sufficiently processed in the country in question. In general, processing is considered sufficient if a change of the customs tariff heading takes place as a result of that processing. Additional conditions are applied to the products specified in the list annexed to the origin rules. The rules of origin also contain provisions concerning cumulative manufacture, direct consignment, documentary evidence and administrative co-operation.

Rules on government procurement and their implementation

All central government agencies are covered by the public procurement regulations through the Decree on Government Procurement (1070/79) and the Decision of the Ministry of Trade and Industry concerning the application of the Decree on Government Procurement and establishing the general terms of that procurement.

However, public enterprises which are covered by the Act of Public Enterprises (Valtion liikelaitokset), e.g. State Railways, State Computer Centre and Post and Telecommunication, have their own non-discriminatory procurement procedures. Also the local government entities have their own rules which are similar to the government procurement.

Systematic statistics for the total value of public sector purchases in Finland have not been collected. However, the following estimations for the year 1990 can be given:

	<u>The State</u> (mrd FIM)	<u>The municipalities</u> (mrd FIM)
Goods	5.5	
Services	4.5	
Total:	10.0	35.0

The share of imported goods purchased by central and local government agencies is between 20 and 25 per cent.

The Decree on Government Procurement and the Decision regulate the public tendering by all government agencies except those covered by the Act of Public Enterprises. The procedures used are open, selective and in certain special cases negotiation procedures. It is possible to move from a selective tendering procedure to a negotiation procedure if the purchase is technically complicated and further negotiations are needed. No threshold values are applied. No preference is given to domestic suppliers.

All government entities are independent in their decision-making. There is a possibility to appeal up to the Supreme Administrative Court, if the entities do not follow the procurement rules.

Finland will, in the context of the EEA, implement the public procurement procedures embodied in the EC-directives. The EEA-Rules affect the publication of tenders, tendering procedures, time-limits concerning tendering, the statistics and the legal remedies for public procurement.

Technical regulations and standards

Finland is a Party to the GATT Agreement on Technical Barriers to Trade. The Agreement has been incorporated into Finnish legislation by an Act (326/80).

A decision by the Council of State (Government) concerning information, notification and an enquiry point has also been issued, and the coverage of this decision is the same as that of the Agreement.

The activities of local authorities and private organizations are fully covered in the decision of the Council of State and any relevant Finnish legislation. However, local authorities in Finland do not issue standards of any significance in international trade. As far as private organizations are concerned, the Finnish Government has drawn their attention to the need to observe the obligations of the Agreement.

The Ministry of Trade and Industry co-ordinates the activities under the Agreement and monitors the implementation of the Agreement in Finland. This Ministry has mandated the Finnish Standards Association (SFS) to maintain and operate the enquiry point in accordance with Articles 10.1 and 10.2 of the Agreement. Generally Finland has made thirty notifications a year and received eighty enquires a year.

National regulations are to a rather greater extent harmonized with other Nordic or Western-European countries. In no case do they discriminate against or between imported products where similar conditions prevail in the exporting countries.

Finland is also a full member of the European standards organizations CEN, CENELEC and ETSI, and consequently European standards have been transposed into Finnish national standards and conflicting national standards have been withdrawn.

As a rule, Finnish standards are based on relevant international standards. Deviations from international standards are mainly due to results in European standardization. Independent Finnish standardization is limited to issues where international or European standards are not available.

Finland is participating in a number of international schemes and conventions established under the auspices of EFTA, aimed at eliminating technical barriers to trade. These are designed to enable national authorities to accept the results of tests and inspections performed in other participating countries.

On electrotechnical appliances Finland is Party in the international CB-system, in the European Cenelec/HAR- and CECC-system, as well as in the Copenhagen Agreement of the Nordic Countries.

The system of health, phytosanitary and sanitary regulations is similar to that of the other Nordic countries. Imported and domestic goods are treated equally, including registration requirements. For animals and plants the prevalence of pest and diseases in different countries is naturally taken into account. Sanitary and health regulations are in Finland generally of high level and applied strictly.

In Finland the marking, packaging and labelling requirements on foodstuffs are given in a specific decree on food labelling. These are based on the corresponding EEC Directive. However, the Finnish provisions also include detailed requirements on allergy labelling.

Safeguard actions

The domestic legal basis for safeguard actions in general is the Act on Safeguarding the Foreign Trade and the Economic Growth of the Country (157/1974), which determines the preconditions and modalities for applying basic prices and additional duties or surcharges.

If the conditions of competition of marketing between domestic and imported like products change due to increased imports or to the prices of imported products so that serious injury is caused or threatened to cause to domestic producers or to domestic employment, the Ministry of Finance can decide to apply a surcharge for maximum of one year.

The amount of the surcharge must not exceed the difference between the basic price and the lowest c.i.f.-import price. The basic price shall not exceed the representative export price of like, corresponding or similar Finnish products, or in the absence of such an export price a representative home market price on the same level of trade.

The complementing Decree on Market Disturbance (946/1974) stipulates the modalities and procedures for filing requests and for determining and applying basic prices and surcharges.

The primary remedy against market disruptions is the establishment of a basic price. That price is an official message to traders about what the authorities consider to be a fair and equitable price, which not only maintains sufficient competition, but also alleviates the serious injury to domestic industry. Establishing a basic price does not automatically imply that a surcharge is applied.

If the establishment of a basic price does not result in the desired increase in import prices the authorities separately consider the necessity of imposing a surcharge. Each case is thoroughly examined by the Permanent Advisory Body on Customs Matters, whose recommendation is usually followed by the Ministry of Finance, which is authorized to decide both on the establishment of a basic price and on the imposition of a surcharge.

A basic price and a surcharge can be in force for one year at a time. After that period the case must be fully reconsidered, but the application of a basic price and of a surcharge can be prolonged by separate decision of the Ministry. In practice, the basic price system has been applied only on a few occasions. Similarly, a subsequent surcharge has been imposed in less than half-a-dozen cases since the entry into force of the legislation.

Anti-dumping actions

Finland has so far applied only a few anti-dumping measures. Most of these cases so far have concerned State-trading countries. In those cases Finland has applied the reference country method set out in Article 15 of the Subsidies Code and in Article 6(a) of the Finnish Anti-Dumping and Countervailing Act.

The home market price of like products either in the exporting country (regarding market economy countries) or in the reference country have been taken as normal value. Finland has not used the constructed value method of third country export prices. Import prices c.i.f. Finnish port have usually been taken as export prices.

For determining the appropriate price level for price undertakings or the amount of anti-dumping duties, Finland has applied in practice the injury price level principle without any explicit provision in law.

As regards the current situation, the latest GATT notification ADP/53/Add.4 of 12 October 1990 explains in detail the actions taken by Finland (imports of polyethylene foil etc. from Poland and Romania).

Countervailing actions

No application for countervailing measures have been filed, and consequently no actions have been taken.

Subsidies

Government subsidies in Finland are focused on three different sectors: (1) to a limited extent to fostering industry and other manufacturing, (2) to regional aid and (3) to agriculture.

Whereas subsidies to agriculture have a relatively long tradition and also statutory regional policies have been practised for over twenty-five years, subsidization of industry has not had similar designed policies in place. In the industrial sector supporting of investments has been regarded as one of the best ways of enhancing the development of the open sector and export-oriented production. The use of investment aids has been regarded necessary in order to safeguard financing in areas of vital importance for the national economy, especially during periods of tight monetary policy. These aids have also given important impetus to the structural development of the economy.

As regards regional policy the emphasis in the 1960s was on industrialization of the development zones. In the 1970s a similar accent was put on equalization of public services and on regional development planning. New emphasis in the 1980s and 1990s include coping with the problems of structural change in industry, local and regional development projects, and support to small-scale enterprises in rural areas.

Information on government subsidies both to industry and agriculture has been regularly delivered to GATT, most recently in the notification L/6630/Add.10 of 9 November 1990.

Enclosed in Annex 8 are summary tables concerning government aid to industry in 1985-1990. Three industrial sectors which are included in calculation are mining, energy and manufacturing. These subsidies do include export promotion and interest rate subsidies as well as other subsidies notified to GATT. They also include some other elements like employment aids and also regional subsidies. In 1989 industrial subsidies amounted to 1.2 per cent of industrial value added. The estimated figure for this year is 1.5 per cent.

Financing of agricultural export subsidies is shared between the Government and the farmers. The Government's share of these expenditures depends on export and production ceilings, which are determined in the Farm Incomes Act. Currently, these ceilings are being reduced annually. Export subsidies due to production beyond these ceilings will have to be financed by the farmers collectively. In addition, according to the present Act funds must be reserved for implementing various supply control measures. Farmers contribute also to these funds. These supply control measures include voluntary contracts to reduce production of certain field crops and livestock. Other supply control measures are i.a. production quotas for milk and eggs and mandatory fallowing.

The financing of the farmers' share of export subsidies and supply control programmes is mainly achieved through various levies and marketing fees. These include i.a. levies on protein feed and fertilizers and export cost charges for milk, pork, grain and large pig and egg enterprises. According to the Farm Incomes Act, farmers share of financing of exports should not exceed the level corresponding to 13 per cent of the total farm income. An increase of this share is currently being considered.

Export assistance

Export credit insurance and guarantees are granted by the Finnish Guarantee Board (FGB). FGB is an independent government agency under the jurisdiction of the Ministry of Trade and Industry. Its operations were started on 1 September 1989. It continues the operations of the Export Guarantee Board (Vientitakuulaitos, VTL) and the State Guarantee Board (Valtioneuvoston takuulaitos, VATA) under respective funds.

All terms and conditions of FGB's export guarantee facilities are determined in conformity with the Arrangement of Guidelines for Officially Supported Export Credits agreed by the OECD member countries, and with other international agreements and understandings. Credit terms supported (maximum credit length, down payment and repayment) must also be consistent with those normally accepted by conventional international practices.

The main criteria for granting cover are satisfactory credit-worthiness of the buyer and the buyer's country. For non-OECD countries, public guarantees are usually required.

Also subsidized loans for exporters are made available by Finnish Export Credit Limited (FEC). The loans are made at fixed rates and they conform to the OECD Arrangement on Guidelines for Officially Supported Credits (the "OECD Consensus").

Foreign exchange regulations

Exchange control in Finland is based on the Foreign Exchange Act, which is enacted for a fixed period. The Act was lastly renewed at the beginning of the current year and is in force until the end of 1993. The validity of the Act was extended so as to retain an opportunity for exchange control, the aim being to facilitate the adjustment of banks and private persons to international competition and foreign risks.

The exercise of exchange control has been delegated to the Bank of Finland. At the beginning of the current year, however, most of the remaining controls were abolished. Only the raising of foreign credit by private persons and comparable entities, notable housing companies and real estate companies whose main line of business is the ownership of dwellings, remained subject to the Bank of Finland's authorization.

The Foreign Exchange Act also safeguards the Bank of Finland's continuing access to data needed for compiling balance-of-payments statistics. Similarly, the monitoring of the foreign risks of the most important financial institutions is based on powers vested in the Bank of Finland by the foreign exchange.

State-trading enterprises

Finland has two State-trading enterprises, i.e. enterprises which the State has granted exclusive or special privileges in purchases or sale, involving imports or exports. A reference is made to the notification L/6629/Add.3 of 7 May 1990, which contains relevant information.

The companies concerned are (1) the State alcohol monopoly Oy ALKO Ab and (2) Finnish Grain Board (State Granary).

The reason for maintaining the monopoly of ALKO is reflected in the Alcohol Act which stipulates that the purpose of the policy concerned is to minimize harmful effects of alcohol. In order to realize these aims a State-controlled monopoly has been regarded as the most effective operator. This way of conducting the policy has been found appropriate also from the point of view of minimizing the conflict between social considerations mentioned above and private profit making aims.

The import and export monopoly of grains (wheat, barley, rye, oats, feed maize) has been granted to the Finnish Grain Board. The basic aim of this system is to ensure the stability of the domestic price level in these products. The Grain Board is also obliged to hold reserve stocks in certain grains.

Private traders have the possibility to import rice, seed grains and malting barley. In the domestic market there is free competition between private traders and the Grain Board.

A.(iv)(b) Prospective changes in trade policies and practices

The ongoing Uruguay Round, if successfully concluded, would bring about a number of important changes to Finnish trade policies and practices. Such new features would pertain, in particular, to areas such as trade in services, agriculture, textiles and clothing, TRIPs etc. These changes would imply, for a country like Finland, both new challenges and new opportunities. Finland also agrees with those who have underlined the importance of improved market access as an essential element in the final Uruguay Round package. In particular, it needs to be stressed that strengthened rules and disciplines are of vital importance to many small trading nations, including Finland, when evaluating the final package emerging from the Round. Any final result that cannot ensure an equitable, unambiguous and predictable framework for international trade and remove the threat of unilateral interpretation and application of multilaterally agreed rules, is of limited value.

If the negotiations concerning the Agreement on a European Economic Area (EEA) will succeed, the implementation (four principles: free movement of goods, capital, services and persons in the EEA area) of that Agreement would necessitate many deep-going changes in Finland's trade policies and practices. The most important changes are related to the fulfilling of the three last principles mentioned above.

The ongoing negotiations between EFTA countries and Hungary, Czechoslovakia and Poland on new institutional trade arrangements could improve trading opportunities on a broad basis. Moreover, EFTA countries have already taken steps to develop a new common framework for their trade relations with some other third countries. Negotiations aiming at such arrangements have reached a most advanced stage in the case of Turkey and Israel.

The newly reacquired independence of the Baltic States as well as the profound political and economic reforms under way in the Soviet Union and in its Republics will require a number of new arrangements on the basis of which Finland's trade and economic co-operation with these areas can be conducted in the future.

B. PROBLEMS IN EXTERNAL MARKETS

High tariffs exist in many markets. In developing countries high tariffs are the rule, in industrialized countries exports are often affected by tariff peaks and tariff escalation. Additional duties and charges form a problem that also Finnish industries often quote.

Quantitative restrictions cover various kinds of merchandise in practically all types of countries. Complex import procedures, especially in connection with licence requirements, represent additional barriers.

Proliferation of investigations of dumping or subsidization has proven to be a major source of problems. Trade can be adversely affected even if at the end of the investigation process it is found that dumping or improper subsidizing has not occurred. The burden of proof that is required in some countries for the consideration or reconsideration of a case involving alleged dumping or subsidization and damage to the domestic industry cannot be considered as reasonable.

Problems created by the inadequate protection and enforcement of intellectual property rights have grown in magnitude and become more common in recent years. On the other hand, processes for protecting domestic industries against infringements of industrial property rights have in some cases proven to form obstacles to trade comparable to those caused by dumping or subsidization investigations.

Finnish export companies face a relatively large number of perceived trade barriers in the field of services. Problems occur both in industrialized and developing countries and involve various sectors. Most of the restricted measures are related to the category of market access. However, restrictions may be found as well, e.g. in establishment of companies, work-permit regulations and currency regulations. The barriers and difficulties affecting the export of services are accordingly largely similar to those found in the trade in goods, i.e. discriminatory taxation, subsidies, quotas, national preference regulations etc.

C. RELEVANT BACKGROUND AGAINST WHICH THE ASSESSMENT OF TRADE POLICIES MAY BE CARRIED OUT: WIDER ECONOMIC AND DEVELOPMENTAL NEEDS, EXTERNAL ENVIRONMENT

(i) Wider economic needs, policies and objectives

The main objectives of fiscal and monetary policies have not changed during recent years. According to the programme of the present Government the main goals of the economic policy are to reduce the deficit on current account, to curb the rising foreign debt, to safeguard employment, to make

public finances more efficient, and to increase the contribution of the open sector to the GDP. Therefore it will be necessary to reduce inflation, increase and diversify exports and raise the savings rate. Likewise, it will be necessary to reduce labour costs, to freeze the level of government expenditure and to dampen the rise in local government spending.

In the Government programme it is also stated that in the negotiations concerning the European Economic Area, the Government is seeking a balanced agreement, within the agreed timetable. Accordingly, the Government will assess internal developments in the European Communities and their possible enlargement from Finland's point of view, and seek solutions which best secure the country's national interest. In the GATT talks, the Government will seek results that guarantee the effectiveness of the multilateral trade system, and lead to a greater openness in world trade. The Government will take part in the negotiations concerning agricultural trade on the basis of Finland's initial offer tabled in October 1990.

C.(ii) The external economic environment

(ii)(a) Major trends in imports and exports

Finland enjoyed high and relatively stable economic growth throughout the 1980s. In the last few years of the decade, however, the growth of the GDP accelerated due to the expansion of domestic demand, and signs of overheating became apparent. The rapid growth of demand, which was boosted by improvement in the terms of trade, led to an expansion of imports in the late 1980s. In 1985-1990 the volume of merchandise imports grew by 33 per cent. During the same period the volume of merchandise exports grew only by 8 per cent. This relatively modest export performance was largely due to sluggish demand in Finland's traditional export markets such as Sweden, the Soviet Union and the United Kingdom. Also the rapid growth of domestic demand limited the scope for increasing supply in export markets. In 1985-1990 Finland's exports to the Soviet Union decreased by 29 per cent. In 1990 the Soviet share fell to 13 per cent of total exports. The price competitiveness of the Finnish industry deteriorated considerably during the 1980s. This has been reflected most clearly in difficulties to shift export deliveries from Eastern to Western markets.

In the course of 1990 the economic climate worsened. As domestic demand slackened and international economic conditions deteriorated, the Finnish economy entered a recession. Output did not grow at all in 1990 and the volume of imports declined by 1.5 per cent. In 1991 the GDP volume is expected to drop by 5 per cent and the volume of imports will decrease by a further 11 per cent. This reflects not only a drop in private consumption and investment but also a considerable decline in industrial production and stock levels due to the deep recession.

The volume of exports, which increased in 1990 by 2 per cent, will decline by 7 per cent in 1991 according to the official forecast. This is mainly due to the 60 per cent fall in exports to the Soviet Union. Increased demand due to German unification was in 1990-1991 a factor

counteracting the general weakening in Finnish export markets. It is expected that exports to the Western markets could recover in the course of 1991 and 1992, as demand growth will pick up and the simultaneous slow-down in domestic demand will create some supply effects. The level of competitiveness has been an obstacle especially due to efforts to obtain new market shares in order to compensate for the slack of domestic demand and the drop in exports to the Soviet Union. However, the price competitiveness of Finnish industry is forecast to improve by 10 per cent in 1991-1992.

Due to the slow-down in the traditional export markets of Finnish industry and to changes in relative prices and costs especially in the late 1980s, there has been a marked change in the structure of Finnish exports. Since 1988 the share of metal and engineering industries has exceeded the share of forest industries in total merchandise exports. Due to the major drop in Soviet trade, the export share of consumer goods industries like textile and clothing industries has declined considerably.

In the traditional structure of Finnish exports, dominated by the forest industries, the share of intra-industry trade was relatively small. Inter-industry specialization was prevalent for trade, and the rôle of domestic raw materials was large. However, it is likely that the share of intra-industry type of trade will increase as a result of the expansion in metal and engineering industries and the deepening integration in Europe.

Another considerable change in the structure of foreign trade is geographical. In 1985-1990 Finnish exports to the EC area grew by 56 per cent, so that the share of the EC in total exports was 46.5 per cent. The change will continue also this year because of the considerable decrease of the exports to the East. In January-July 1991 the share of exports to the Soviet Union was only 5 per cent and the share of exports to the EC was 52 per cent of total export deliveries.

(ii)(b) Developments in the terms of trade and commodity prices

The share of those products, which are most sensitive to cyclical fluctuations, diminished in Finnish exports in the 1980s. In 1980 wood and pulp accounted for 16 per cent of total exports, whereas in 1990 the corresponding share was only 8 per cent. Therefore, the traditional volatility of Finnish exports has decreased. In 1985-1990, according to the unit value indices, the terms of trade in Finland improved by 17 per cent, which is considerably more than in the other industrial countries.

The unit value indices reflect, however, partly also the structural change of foreign trade, which was relatively rapid during the second part of the 1980s. The fact that the rise of unit values has been faster in metal and engineering industries than in forest industries seems to indicate this. One possible interpretation is also that the rapid increase of export unit values is partly a result of domestic cost pressures.

(ii)(c) Important trends in the balance of payments, reserves, debt, exchange and interest rates, and similar issues

During the latter part of the 1980s the external balance of the Finnish economy deteriorated considerably. This reflected the rapid growth of domestic demand, on one hand, and the weak export performance, on the other.

The weakening in the external balance of the economy came to an end in 1990. The current account deficit ceased to grow in relation to total output, since commodity imports fell with the stagnation of domestic demand. The current account showed a deficit of FIM 27 billion, which is 5 per cent of nominal GDP. The trade balance was FIM 2.1 billion in deficit, but improved by FIM 4 billion from the previous year. In contrast, the deficit on the service account grew further. Interest payments on foreign debt is the item which has increased most rapidly in recent years due to the accumulation of current account deficits.

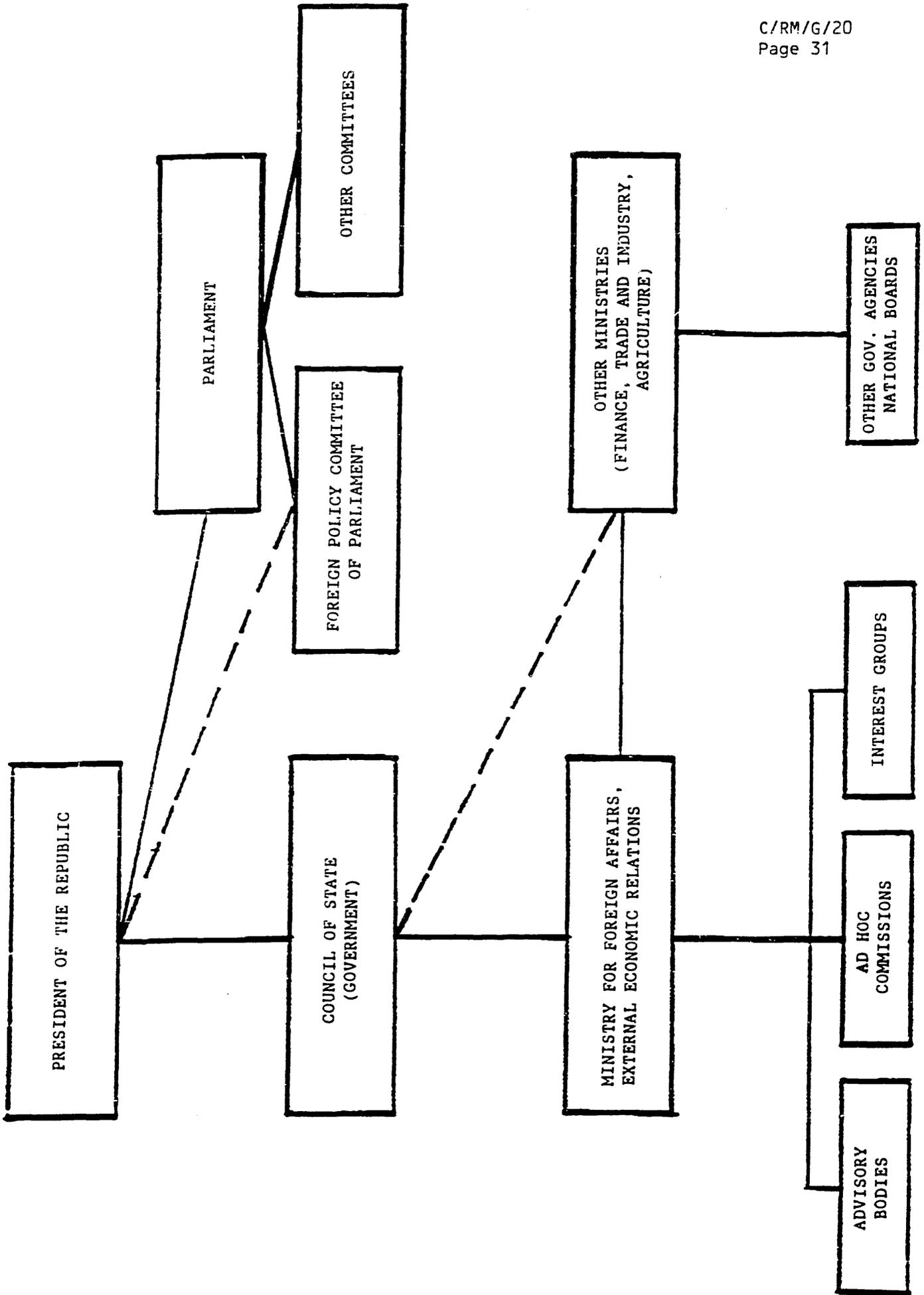
In the course of the year 1991 these trends have continued. The trade balance has turned into surplus, but the burden of interest payments is growing. Thus, the improvement in the current account balance is expected to be relatively slight. At the end of 1991 the net foreign debt will be about FIM 155 billion which is 30 per cent of GDP.

On 7 June 1991 Parliament approved a bill by which the markka is unilaterally linked to the EC's official accounting and currency unit (ECU). This measure does not involve any change in the former fluctuation range of the markka. The margins and midpoint are set to correspond with those of the old currency index. The new midpoint is 4.87580 (FIM/ECU).

(ii)(d) International macroeconomic situation affecting the external sector

The economic growth in Finland's traditional export markets has been sluggish during the past few years. This has largely reflected the economic imbalances and relatively tight economic policy stance in many of these countries. On the other hand, it seems that the German unification and the ongoing European integration have benefited Finnish exports.

The current changes in the Soviet economy have also markedly altered Finland's economic environment. In December 1990, it was decided to dismantle the bilateral trade and clearing system between Finland and the Soviet Union. Consequently from the beginning of 1991, trade between Finland and the Soviet Union has been conducted on the basis of convertible currencies. The considerable decline in Finnish exports to the Soviet Union in 1991 is mainly due to the overall decline of Soviet imports, not to the transitory problems related to the change in payments system.



ANNEX 2

Agreements Concluded under the Auspices of the United Nations

- | | |
|------|--|
| 1950 | Agreement on the Importation of Educational Scientific and Cultural Materials |
| 1952 | International Convention to Facilitate the Importation of Commercial Samples and Advertising Material |
| 1956 | Customs Convention on the Temporary Importation of Commercial Road Vehicles |
| 1956 | Convention on the Contract for the International Carriage of Goods by Road (CMR) |
| 1960 | European Convention on Customs Treatment of Pallets used in International Transport |
| 1968 | Treaty on the Non-Proliferation of Nuclear Weapons (NPT) |
| 1972 | Customs Convention on Containers |
| 1973 | Convention on International Trade in Endangered Species of Wild Fauna and Flora |
| 1974 | Convention on a Code of Conduct for Liner Conferences |
| 1975 | Customs Convention on the International Transport of Goods under cover of TIR Carnets (TIR Convention) |
| 1978 | Protocol to the Convention on the Contract for the International Carriage of Goods by Road (CMR) |
| 1980 | Convention on the Contracts of International Trade in Goods |
| 1987 | Convention on the Simplification of Procedures in Trade of Goods |

ANNEX 3

Multilateral Commodity Agreements and Arrangements

- 1982 The International Coffee Agreement
- 1982 The International Jute Agreement
- 1983 The International Tropical Timber Agreement
- 1986 The International Wheat Convention and the Food Aid Convention
- 1986 The International Cocoa Agreement
- 1987 The International Natural Rubber Agreement
- 1987 The International Sugar Agreement

International Wool Study Group

International Cotton Advisory Committee

International Rubber Study Group

International Nickel Study Group

International Lead and Zinc Study Group

ANNEX 4

Bilateral Trade Agreements/Arrangements

Albania	1986
Argentina	1958
Australia	1923/49
Belgium	1924
Brazil	1931
Bulgaria	1974/89
Canada	1923/48
Chile	1935
China	1982/87
Cuba	1964
Czechoslovakia	1974/89
Denmark	1923/87
Egypt	1930
France	1921/49
Greece	1926/66
Hungary	1925/74
Iceland	1923
India	1967
Iran	1976
Iraq	1961
Ireland	1923
Israel	1950/61
Italy	1924/88
Japan	1924

Note: Some of the agreements are not implemented anymore even if they are formally still in force. If more than one year is given that indicates that the agreement concerned has been modified at least once or a new one concluded.

Korea, Dem. Rep. of	1969
Luxembourg	1924
Madagascar	1964
Morocco	1959
Mongolia	1974
Netherlands	1923
Norway	1930/37
Pakistan	1962
Portugal	1931
Poland	1923/89
Romania	1981
Sweden	1927
Sri Lanka	1923/48
Switzerland	1927/58
Turkey	1929/66
United Kingdom	1923/49
Uruguay	1936
United States	1934/53
USSR	1947/60
Vietnam	1978
Yugoslavia	1929/84

Agreements/Arrangements on Agriculture

1961/69	Denmark
1973	Austria
1974	Norway
1980	Sweden
1985	EC
1987	Switzerland
1989	USSR

Textile agreements have been mentioned in the text concerned.

ANNEX 5

Bilateral Agreements in the Field of
Economical, Industrial, Scientifical and
Technical Co-operation

1955	USSR
1964	Iraq
1965	Peru
1965	Tunisia
1971	Yugoslavia
1971	Czechoslovakia
1974	Bulgaria
1974	Poland
1974	Hungary
1975	Cuba
1975	Mexico
1976	Romania
1976	Saudi Arabia
1977	Egypt
1978	Turkey
1979	Morocco
1979	Venezuela
1979	China, People's Republic of
1979	Republic of Korea
1980	Argentina
1980	Colombia
1980	Kuwait
1980	Libya
1980	Sudan
1981	Malaysia
1981	Nigeria
1981	Brazil
1982	Algeria
1982	United Arab Emirates
1985	United States
1987	Senegal
1987	Indonesia
1988	Jordan
1988	Thailand
1988	Cameroon
1990	Mongolia
1990	Iran

ANNEX 6

Investment Protection Agreements

1982	Egypt
1985	Bulgaria
1986	China
1987	Sri Lanka
1987	Malaysia
1987	Hungary
1991	Poland
1991	Soviet Union

ANNEX 7

Global licensing (annual quotas)

HS Chapter

- ex 3 Salmon and certain other fresh and chilled fish
- ex 4 Dried milk
- ex 8 Certain berries
- ex 11 Starches
- ex 15 Certain vegetable oils
- ex 17 Glucose and certain syrups
- ex 20 Certain fruit juices and certain prepared tomatoes
- ex 27 Mineral tar, coal tar distillation products, solvent gasoline and petrol, motor spirit and bitumen

Individual licensing

HS Chapter

- 1 Live animals
- ex 2 Meat
- ex 4 Dairy products, birds' eggs, natural honey
- ex 6 Cut flowers (seasonal restrictions)
- ex 7 Vegetables (seasonal restrictions)
- ex 10 Cereals
- ex 11 Products of milling industry
- ex 12 Oilseeds, fodder, sugar beet
- ex 15 Animal and vegetable fats
- ex 16 Meat preparations
- 19
- 21
- ex 17 Sugar and molasses
- ex 20 Certain preparations of vegetables, fruit and other parts of plants
- ex 23 Residues and waste from food industry, processed animal fodder
- ex 27 Mineral fuels, mineral oils and products of their distillation, bituminous substances

ANNEX 8

Government Aid to Industry: Finland, 1985-90
(ECU millions)

Sector	1985	1986	1987	1988	1989	1990
Mining (and quarrying)	11.1	13.1	7.2	10.4	10.7	17.0
Energy	18.9	11.8	13.1	14.5	15.5	20.9
Manufacturing	204.9	196.5	188.9	227.3	263.8	309.1
Total	234.9	221.4	209.2	252.2	290.0	347.0

Government Aid to Manufacturing in Finland, 1985-90
(FIM millions)

Principal types of aid	1985	1986	1987	1988	1989	1990
General aids ¹	58.4	36.9	-5.7	28.2	41.5	62.6
Regional aids	422.4	470.8	494.8	531.2	571.4	642.6
R & D aids	104.7	118.0	148.2	111.9	201.0	219.9
Employment aids	62.4	121.9	90.9	119.4	90.0	151.5
Sectoral aids	0.0	-1.1	-1.0	-2.7	1.3	140.3
Structural adaptation and rescue	0.0	0.0	0.0	0.0	0.4	1.4
Small firm development	17.7	6.7	-0.8	-1.0	12.7	30.2
Firm-specific subsidies	198.5	121.5	124.4	202.5	201.5	118.1
Export promotion	102.7	104.7	116.7	133.4	128.2	140.3
Total	969.3	980.3	957.5	1,122.9	1,248.0	1,506.9

¹Includes interest rate subsidies for pollution control investments and grants for energy research

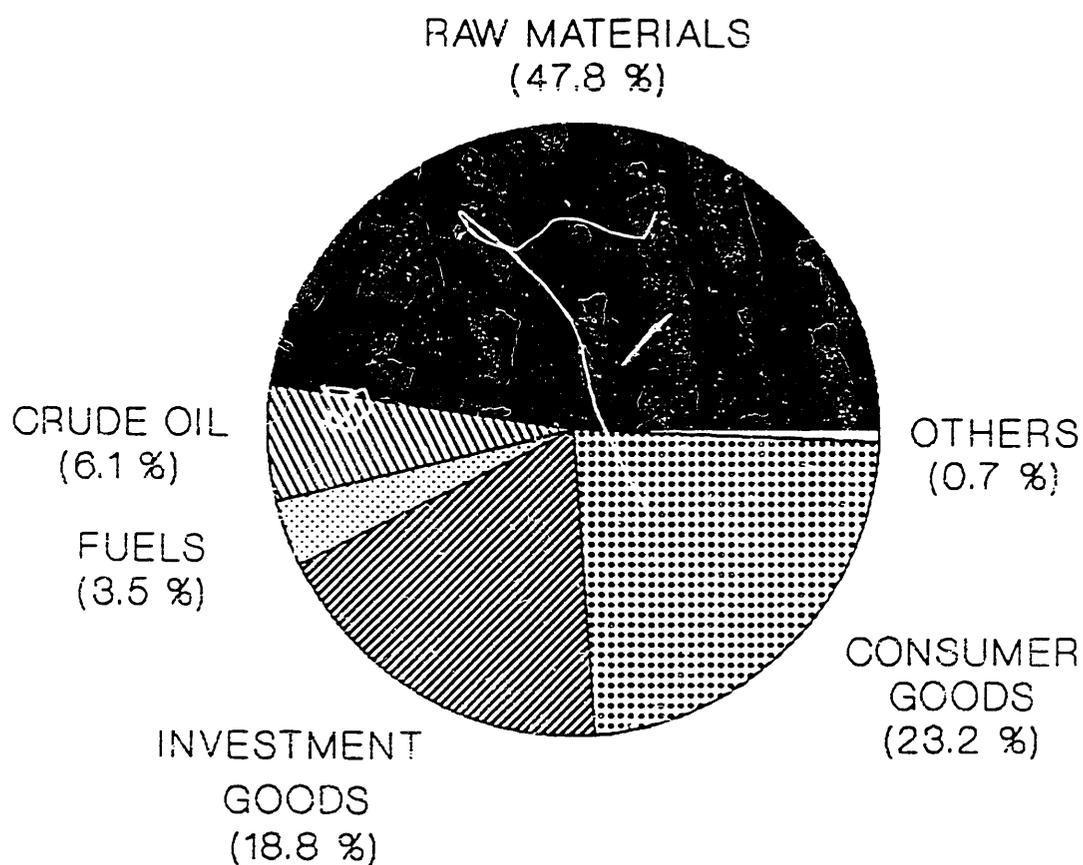
ANNEX 9

NATIONAL BOARD OF CUSTOMS
STATISTICAL DIVISION
30.08.1991

EXPORTS BY INDUSTRIES AND IMPORTS BY USE OF GOODS

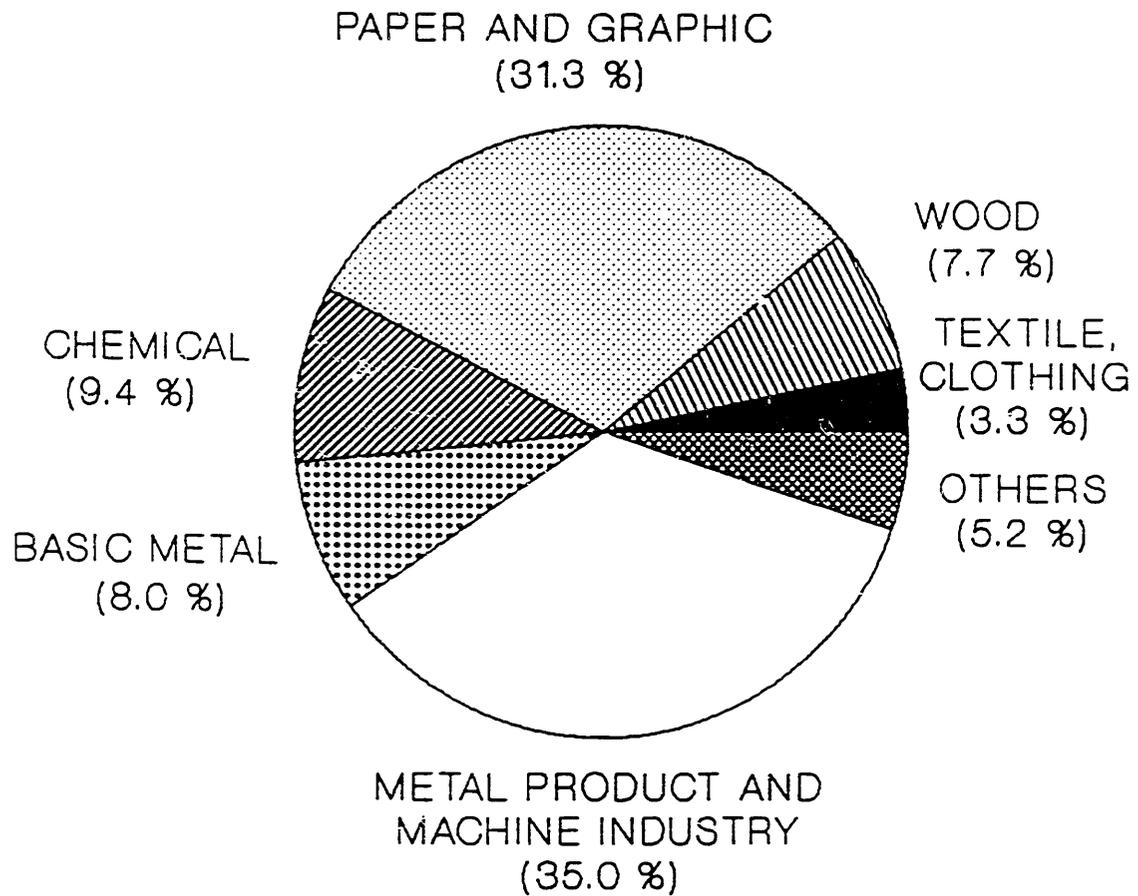
	FIM. Mill.		Change in value% 90/89	Share %		Change in unit value index 90/89 (198C=100)	Change in volume index 90/89 (1980=100)
	1989	1990		1989	1990		
EXPORTS BY INDUSTRIES							
TOTAL	99,782	101,327	2	100.0	100.0	-1	3
1. Agriculture and forestry	1,406	885	-37	1.4	0.9	-22	-20
11 Agriculture	1,144	699	-39	1.1	0.7	-27	-16
12 Forestry	200	152	-24	0.2	0.2	10	-31
2. Mining and quarrying	461	410	-11	0.5	0.4	4	-14
3. Industry	97,862	99,993	2	98.1	98.7	-1	3
31 Food, beverage and tobacco industry	1,824	2,236	23	1.8	2.2	-2	25
32 Textiles, clothing and leather industry	3,617	3,325	-8	3.6	3.3	0	-8
33 Wood industry	7,417	7,810	5	7.4	7.7	12	-6
34 Paper and graphic industry	32,513	31,668	-3	32.6	31.3	-4	1
35 Chemical industry	8,843	9,541	8	8.9	9.4	0	8
36 Pottery, glass and stone processing industry	1,062	1,096	3	1.1	1.1	5	-1
37 Basic metal industry	9,135	8,091	-11	9.2	8.0	-22	13
38 Metal product and machine industry	32,682	35,492	9	32.8	35.0	4	5
IMPORTS BY USE OF GOODS							
TOTAL	105,519	103,027	-2	100.0	100.0	2	-4
1. Raw materials and production necessities	56,845	55,473	-2	53.9	53.8	0	-2
13 For industry	49,716	48,458	-3	47.1	47.0	0	-4
15 For building activity	3,543	3,357	-5	3.4	3.3	2	-7
19 For other activity	2,704	2,785	3	2.6	2.7	-5	9
2. Fuels	3,252	3,571	10	3.1	3.5	6	4
21 Solid fuels	1,107	1,182	7	1.0	1.1	-2	10
22 Liquid fuels	1,488	1,558	5	1.4	1.5	12	-7
3. Investment goods	20,605	19,365	-6	19.5	18.8	5	-10
31 For agriculture and forestry	1,250	1,354	8	1.2	1.3	2	6
32 Transport vehicles	4,345	4,104	-6	4.1	4.0	8	-13
33 Other machines and equipment	15,009	13,907	-7	14.2	13.5	4	-11
4. Consumer goods	24,056	23,889	-1	22.8	23.2	3	-4
41 Foods, beverages and tobacco	3,165	3,303	4	3.0	3.2	7	-3
42 Textiles and garments	4,080	4,502	10	3.9	4.4	1	9
43 Other non-durable consumer goods	5,347	5,730	7	5.1	5.6	4	4
44 Private cars	5,409	4,473	-17	5.1	4.3	4	-21
45 Other durable consumer goods	6,055	5,881	-3	5.7	5.7	2	-5

FINNISH IMPORTS BY USE OF GOODS 1990



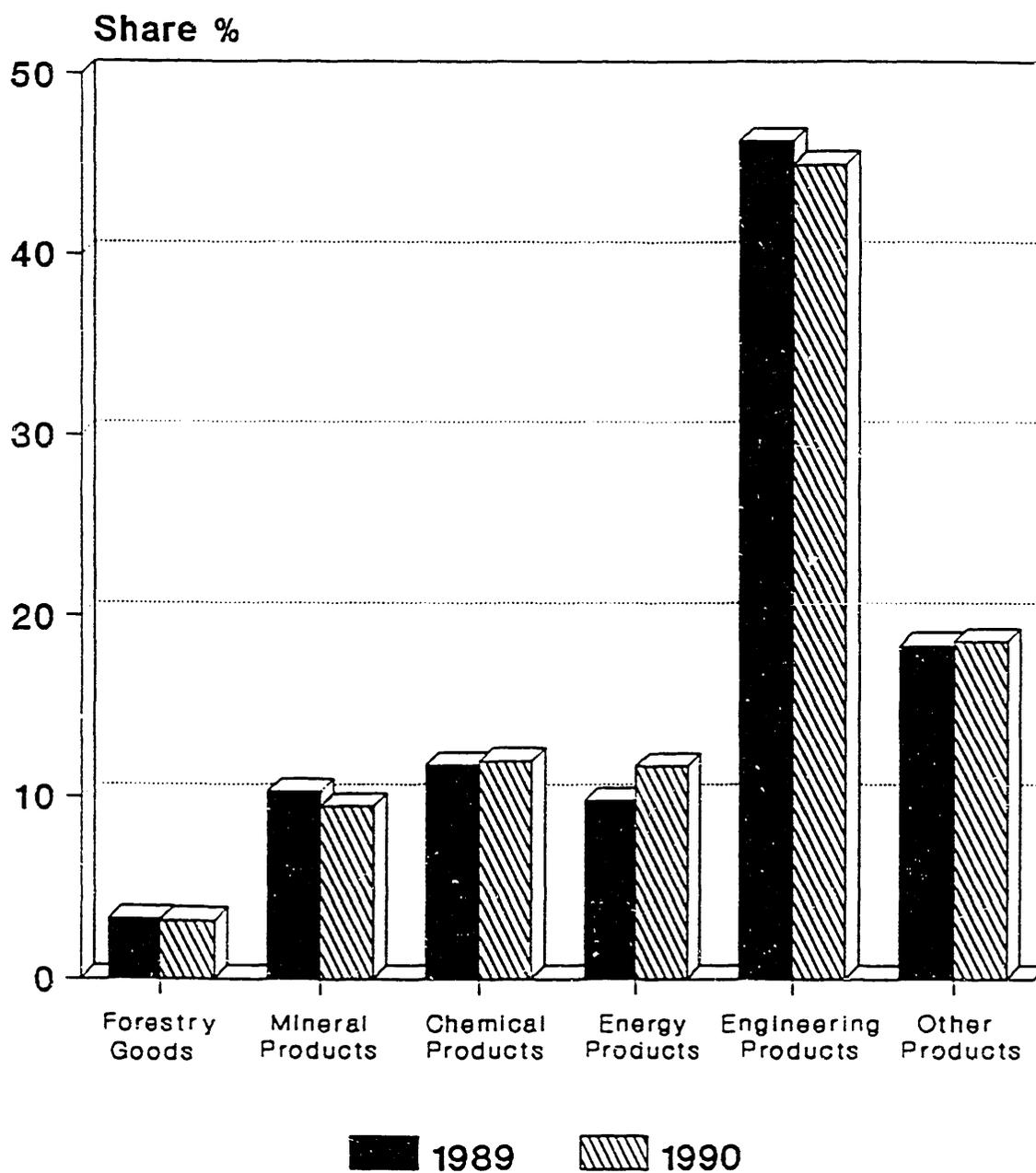
NATIONAL BOARD OF CUSTOMS

FINNISH EXPORTS BY INDUSTRIES 1990



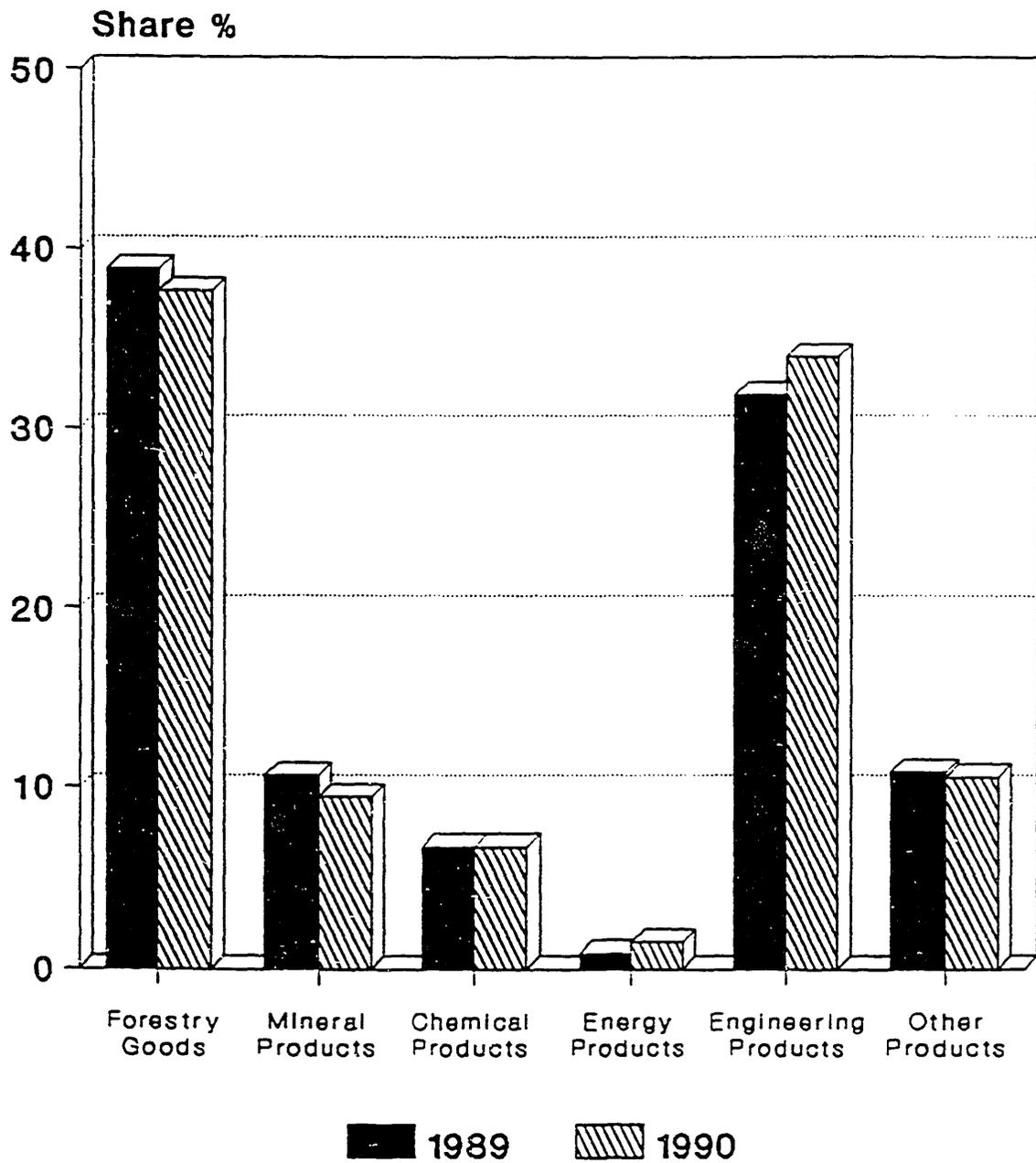
NATIONAL BOARD OF CUSTOMS

FINNISH IMPORTS BY COMMODITY 1989-90



NATIONAL BOARD OF CUSTOMS

FINNISH EXPORTS BY COMMODITY 1989-90

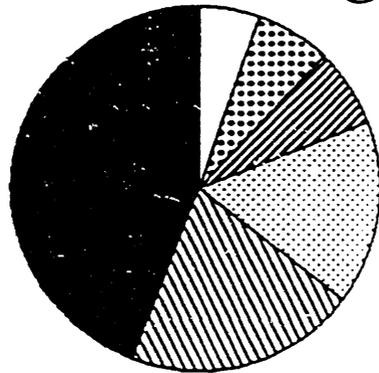


NATIONAL BOARD OF CUSTOMS

FINNISH EXPORTS

1988

EEC (44.2 %)



EFTA (20.4 %)

Other European Countries (16.4 %)

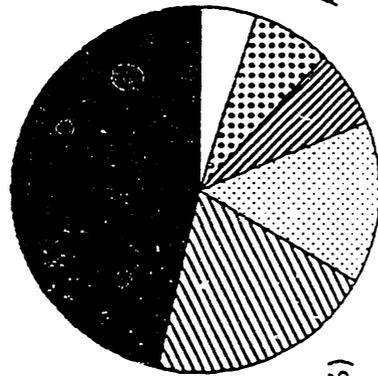
N America (7.0 %)

Asia (6.6 %)

Other Countries (5.4 %)

1990

EEC (46.6 %)



EFTA (20.3 %)

Other European Countries (14.3 %)

N America (6.9 %)

Asia (7.0 %)

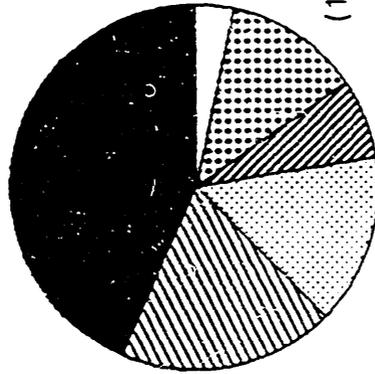
Other Countries (5.0 %)

NATIONAL BOARD OF CUSTOMS

FINNISH IMPORTS

1988

EEC (43.5 %)



EFTA (18.9%)

OTHER EUROPEAN COUNTRIES (15.1 %)

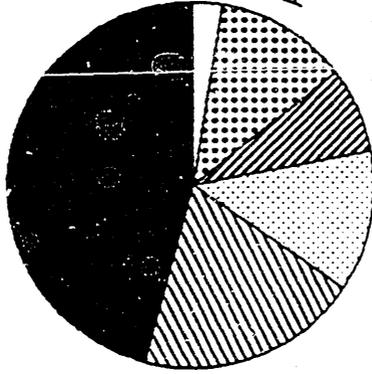
OTHER COUNTRIES (3.5 %)

ASIA (11.9 %)

N AMERICA (7.1 %)

1990

EEC (45.9 %)



OTHER EUROPEAN COUNTRIES (12.5 %)

EFTA (19.6%)

N AMERICA (7.6 %)

OTHER COUNTRIES (2.7 %)

ASIA (11.7 %)

NATIONAL BOARD OF CUSTOMS