

# GENERAL AGREEMENT ON

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### TRADE POLICY REVIEW MECHANISM

#### FINLAND

#### MINUTES OF MEETING

Chairman: Mr. B.K. Zutshi (India)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN

1. Opening the discussion, the Chairman recalled the objectives of the Trade Policy Review mechanism, as decided by the CONTRACTING PARTIES on 12 April 1989 (L/6490). The Council was to base its work on two reports: one by the Government of Finland (C/RM/G/20) and the other by the GATT Secretariat (C/RM/S/20 A and 20B). An addendum to the Secretariat report featured salient developments in the trade policies and practices of Finland since then.

2. One contracting party (Australia) had given advance notice in writing of points it wished to be raised during the meeting. The points had been passed on to the Finnish delegation in Geneva. It was understood that these points would not in any way limit the scope of discussion in the meeting.

3. The Chairman thanked H.E. Mr. Jesús Seade and Mr. Finn Theilgaard who had agreed to contribute, in their personal capacities, as discussants to the meeting. He suggested the following two main themes for discussion:

(i) General economic environment and objectives in relation to trade policies, including the evolution of Finland's economy; its policy approach toward regional and multilateral trade liberalization, including the development of trade and trade-related policies in the context of the Uruguay Round, the European Economic Area, trade relations with the Russian Federation, with the Baltic States, with central and eastern European economies and with developing countries benefiting from GSP.

(ii) The use of trade measures and policies as well as regulatory barriers to entry which act as substitutes for trade policy, including tariffs and other import charges, import licensing, public and private monopolies, technical standards and product requirements and pricing and marketing arrangements. In discussing these instruments, the Council might also discuss how these instruments are used to achieve specific sectoral trade objectives, including self-sufficiency goals in agriculture, and the promotion of selective industries.

4. The Chairman invited the representative of Finland to give his introductory statement, followed by the two discussants.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF FINLAND

5. I wish to thank you for your introductory remarks which certainly form a useful basis for our discussion. I also welcome this opportunity to discuss and evaluate Finland's trade policy in the context of the agreed trade policy review mechanism.

6. Let me start my own introductory statement by thanking the Secretariat for well-prepared and comprehensive background documentation. The amount and the quality of the information contained in it is very impressive indeed. On the other hand, there seems to be need for some minor clarifications which will be provided in writing at a later stage.

7. The reports in front of us are mainly based on information which was available in the middle of 1991. There have been some new developments as regards the Finnish economy, foreign trade and institutional arrangements. Let me go through some major issues very briefly, even if this information is reflected to some extent in the Secretariat's addendum dated 21 February 1992.

8. After a long period of strong growth during most of the 1980s, the Finnish economy is experiencing its deepest slump since the Second World War. The Central Statistical Office has confirmed that the GDP by volume shrank by as much as 6 per cent in the year 1991, whereas manufacturing output fell by 11 per cent. A fall in production of that magnitude in one single year is large by any standards. The factors behind this development are both structural and cyclical ones. Speaking in simple terms, the most imminent reason is an unfortunate coincidence of several short term factors including the collapse of the trade with the former Soviet Union and the weakness of demand in other export markets.

9. The crisis set in very rapidly and it will not be an easy task to restore sustainable balanced growth. Growth will be limited by Finland's external debt and the consequent need to reduce the current account deficit. The sharp rise in unemployment (from 3.7 per cent in 1990, forecasted to be 10.2 per cent this year) means a particularly serious economic policy and social challenge. The Finnish economy is likely to start to recover only during the second half of this year.

10. As regards the foreign trade, contracting demand in Finland and in our traditional markets led to a sharp decline by 17 per cent in volume of imports and by 9 per cent in exports. Consequently, the trade balance showed a surplus of close to US\$1.2 billion which is an improvement of US\$1.6 billion compared to the previous year. An exception to this trend of falling imports and exports was our trade with developing countries which increased in both directions.

11. Concerning the basic principles of the Finnish trade policy, I wish to recall the first chapter in the national report. On the one hand, the domestic market in Finland can generate only a limited demand for goods and services, and on the other hand, Finland's economy is heavily dependent on imports. Furthermore, a small country must be able to ensure that its products benefit from equitable competitive conditions in export markets. Thus, Finland has tried to pursue 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, taking into account the pace of general liberalization in world trade. I think this reflects in brief our basic thinking on trade policy issues also in the future.

12. Turning now to institutional arrangements, I would like to take up first Finland's relationship to the EC. The negotiations between the EC and EFTA countries concerning the Agreement on a European Economic Area are well explained in the reports. These negotiations have been completed recently and we expect that the signing of the Agreements can take place in the not too distant future. As regards possible membership in the EC, I can inform you that the Government of Finland has decided that it will apply for membership of the European Community, provided that Parliament approves a governmental communication to that effect. Parliament will discuss this issue from 16 to 18 March.

13. After the dissolution of the Soviet Union new trade agreements have been negotiated and signed with the Russian Federation and Estonia. The purpose of these arrangements is to ensure that the political changes, which have taken place in the countries concerned, do not create new and unnecessary obstacles to trade. Similar agreements have been negotiated with Lithuania and Latvia and the agreements will be signed in due course.

14. Preliminary information on the Free Trade Agreement between the EFTA countries and Turkey has already been given in the GATT council. Similar type of agreements are under preparation between EFTA countries and Poland, Czechoslovakia, Hungary and Israel but the negotiations are not yet completed.

15. We are now discussing trade policies in the GATT context. Therefore, let me finally state clearly that the urgent and successful conclusion of the Uruguay Round is one of the most important trade policy priorities for Finland. We are prepared to do our best in contributing to that end.

### III. GENERAL ECONOMIC ENVIRONMENT AND TRADE POLICY OBJECTIVES

#### 1. Statements by discussants

16. Addressing the first theme, the first discussant (Mr. Theilgaard) enumerated some of the challenges faced by Finland. These included a decline in Finland's international competitiveness, a collapse of some of its major export markets, high labour costs and depressed world prices for commodities traditionally exported by Finland. The continuing process of European integration would provide greater market opportunities and increase Finland's exposure to competitive forces. He questioned whether certain aspects of the Finnish economy, such as industrial concentration, State ownership and high levels of support for certain sectors, fostered optimal resource allocation and economic efficiency. He wondered also how regional policies to equalize income and employment opportunities throughout the country could be assimilated into the objective of promoting economic growth and what implications these different priorities might have for Finland's future trade policy.

17. The second discussant (Mr. Seade) noted the high trade dependence of the Finnish economy and its efforts to expand trade relations around the world. Although manufactures represented a large share of exports, further export diversification seemed advisable. Most of Finland's external trade occurred within the structure of preferential trade agreements with neighbouring countries. This suggested that imports from developing countries might have less favourable access to the Finnish market. He sought information on the present and future payments system with the republics of the former Soviet Union. In light of the creation of the European Economic Area and the possibility of Finland's membership in the EC, he wondered what impact this would have on Finland's trade orientation and its traditional suppliers.

18. Turning to trade policy matters, the discussant noted that, whereas market access for industrial products was generally open, border protection and subsidies were the norm in the agricultural sector. In addition, he highlighted certain features of Finland's trade and investment régimes: the lack of an official body which regularly reviews trade policy; remaining restrictions on foreign investment and the continuation of discretionary import licensing. He asked for information on criteria and requirements applied under the import licensing system.

19. He asked for information on what macroeconomic policies were being considered by the Finnish authorities to meet adjustment pressures. Recalling that Finland was the second most expensive country in Europe, he noted that regulatory barriers and monopolistic practices placed considerable upward pressures on prices. He requested details on actions

taken to prevent anti-competitive practices and their effect on improving domestic competition. In particular, he identified the distortive effects of target prices in agriculture and the potential sheltering of State-owned companies. He also asked the Finnish delegation for its views on the management of the markka exchange rate.

20. In conclusion, the discussant noted that both European integration and the Uruguay Round provided Finland with the opportunity to remove obstacles to its exports and liberalize its own market. He praised the Finnish Government for the substantial offers it had tabled in the Uruguay Round, as well as the trend in domestic policy towards deregulation and liberalization of markets, but questioned whether the pace might not be accelerated.

2. Statements and questions by members of the Council

21. The representative of Norway, speaking for Sweden, Iceland and Norway, recognised the importance of international trade to the Finnish economy. This explained its liberal trade policy and participation in international, regional and bilateral trade agreements. The Nordic countries had benefited from duty-free access for their industrial goods into the Finnish market since 1967. On the other hand, while the trade régime for agriculture was restrictive, Finland, like other Nordic countries, had made changes in domestic policies and had offered to reduce export subsidies and internal support in the Uruguay Round negotiations on agriculture. He welcomed the decision to phase out the import equalization tax which, while non-discriminatory, could have a negative effect on imports.

22. The representative of the United States recalled Finland's strong commitment to trade liberalization and its leadership in the Uruguay Round, particularly in the negotiations on market access and intellectual property. He expressed the hope that in the face of the recent shocks to the Finnish economy, Finland's commitment to trade liberalization would not weaken. Closer economic integration with Europe could benefit the Finnish economy but it had to be ensured that the provisions of regional and bilateral trade agreements should not erode trade with third countries. He saw some risk of that happening in the broadcasting sector in the context of the EEA. He also queried how the new trade agreements with the Baltic States differed from the previous agreements and how these could be integrated, once Finland became a member of the European Communities.

23. The representative of Canada felt that Finland faced difficult policy decisions to achieve sustainable economic growth. Further liberalizing trade would, by intensifying competition, improve prospects for prosperity and increase consumer welfare. He asked a number of specific questions

regarding, inter alia, procedures available to and actions taken by the Office of Free Competition; the nature of the new trade agreements with the former USSR and their rôle in the context of potential Finnish membership in the European Communities; and policies to facilitate adjustment to, on the one hand, declining trade with the former Soviet Union and, on the other, future membership of the European Communities.

24. The representative of Switzerland commended Finland for pursuing GATT principles, particularly with regard to its transparent tariff régime. Finland faced not only a general economic slump, but also adjustment pressures necessitated by the political upheavals in one major market. In a short period of time, trade patterns had already begun to change. He hoped the Finnish delegation would elaborate on measures to be taken in light of changes occurring in trade relations, as well as measures and incentives envisaged to broaden the range of goods available to the Finnish consumer. The recent rapid growth of Finnish direct investment abroad was proof of a strong economy. However, the trend for industry to relocate production outside the country was ending in Switzerland as well, and was a cause for some concern. Lastly, he wondered what effect the new patent protection law would have both on the Finnish pharmaceutical industry and the local market for pharmaceuticals.

25. The representative of the European Communities noted that the Finnish Government applied GATT rules satisfactorily. Its level of tariff bindings was high, it was a signatory to nearly all the MTN Codes, Government procurement policies exhibited almost no discrimination and Finland avoided safeguard measures unless absolutely necessary. In the Uruguay Round negotiations, Finland had offered to convert agricultural quantitative restrictions to tariffs, reduce related export subsidies and reduce overall agricultural support. The Government was also developing policies to restructure the agricultural sector.

26. In spite of the slowdown in world trade, it was curious that Finland's trade with developing countries had actually increased. The EC representative wondered why this had occurred. He welcomed Finland as a future member of the Communities and expressed the opinion that distortions arising from the existence of cartels and State-trading enterprises could be resolved in the context of its negotiations for accession. He also commended Finland for maintaining exchange rate stability, which he saw as an essential element for the recovery of economic growth.

27. The representative of Mexico raised the question of how Finland planned to meet the objective of increasing competitiveness and reducing inflation. Potentially distortive practices, in his opinion, included the registration requirement for importers and the small number of distributors. He also pointed to the fact that among the low share of

Finland's imports subject to m.f.n. duties were imports from developing countries not receiving GSP treatment; this disadvantageous situation for developing countries could worsen once Finland joined the EC.

28. The representative of India noted the many commendable features of Finnish trade policy: a moderate level of tariff protection and limited use of non-tariff measures on industrial products, the incorporation of GATT obligations in domestic legislation and active participation in the Uruguay Round. However, he expressed concerns over the excessive dependence of Finland on free-trade agreements which resulted in a decrease in the trade conducted on an m.f.n. basis. It was feared that Finland's membership of the EEC and the proposed formation of the the European Economic Area would result in further contraction of trade conducted on an m.f.n. basis.

29. He commended the authorities for initiating several radical measures to redress the country's current economic difficulties, including some positive measures to correct distortions in the agricultural sector. He expressed the hope that an early and successful conclusion of the Uruguay Round would assist the Finnish authorities in their current endeavours.

30. The representative of Hungary referred to the technologically advanced structure of Finnish industry and the difficulties it faced, in parallel with Hungary, due to the collapse of trade with the former Soviet Union. Current negotiations between EFTA and Hungary on a free trade area should give rise to greater opportunities for trade, especially in agricultural products.

31. The representative of Japan noted that the severe recession affecting Finland was exacerbated by the situation in the previously important export market of the Commonwealth of Independent States. However, there should be considerable potential for renewed growth in Finland, as these economies progressed towards market orientation. He expressed appreciation for the general openness of the Finnish economy, while noting the protection afforded to less competitive sectors such as agriculture and clothing. In the Uruguay Round, Finland had made important contributions, particularly in the area of rule-making. As to Finland's further integration with Europe, he hoped Finnish trade policy vis-à-vis third countries would remain open. In this connection, he wondered how trade in agricultural products would be adapted within the EEA context and what changes in trade policy would be required in the context of accession to the European Communities. He posed two specific questions: firstly, whether the Government intended to take any trade-related measures, such as changes in tariffs or import licensing, to ensure price stability with the markka pegged to the ECU and secondly, what, if any, trade measures were planned as part of the proposal to strengthen Finland's competition policy.

32. The representative of Brazil said that like other developed countries, Finland protected sectors, notably agriculture, textiles and footwear, from competition from low-cost producers, mostly the developing countries. As a result, consumers paid higher prices. Secondly, the share of m.f.n. imports in Finland's trade was falling, and imports benefiting from GSP treatment were particularly low. There could be three possible interpretations: either the Finnish GSP scheme excluded products in which developing countries were competitive, or tariff escalation limited market access, or the existence of regional preferences, with trading partners in close geographical proximity, eroded GSP preferences.

33. The representative of Australia noted the close links between Finland's economy and the rest of Europe. He wondered how Finland's perception of the multilateral trading system might change as a result of its relations within the EEA, the EC and Eastern European economies. More specifically, he asked about the future of barter trade agreements with the former Soviet Union and their relationship to the GATT system.

IV. USE OF TRADE MEASURES AND POLICIES

1. Statements by discussants

34. The first discussant pointed out that a contradiction often occurred in policy-making between a desire to liberalize trade and the use of subsidies to reduce domestic prices. Subsidy wars were not in the interest of smaller countries with limited resources. Finland actively supported improved GATT rules and disciplines; however, at the same time, the level of subsidies to agriculture was well above both the OECD average and the EC level. He wondered if some types of support might be considered more acceptable than others and asked for Finland's view on tied concessional credits for development cooperation purposes.

35. Finland continued to protect certain key sectors from competition, in spite of the recent strengthening of competition policy. He asked whether changes would be required in connection with the European integration process, and requested an explanation as to why Finland's competition laws prohibited abuse of market dominance and not market dominance per se.

36. In the agricultural sector, the aim of self-sufficiency and provision of an income level for farmers commensurate with other economic sectors had led to an inefficient use of resources with a complex and non-transparent combination of trade barriers. The discussant wondered whether Finland could exert the political will to do away with an entire way of life in the name of economic growth and efficiency. Finally, with respect to the environment, he asked whether industry could cope with the strict disciplines imposed by the Government to avoid over-exploitation of the environment.

37. The second discussant noted that Finland's tariffs, while low on average, exhibited tariff peaks and tariff escalation. Tariffs on items excluded from GSP treatment - especially in agriculture and textiles - were particularly high. Furthermore, while many imports were duty-free, most entered under regional and bilateral free trade agreements. A far smaller share entered duty-free on an m.f.n. basis. He wondered about criteria for the application of concessionary rates for industry and the impact of these concessions on the effective rate of protection for final goods.

38. He asked for information on progress made in changes to the domestic taxation system, in particular the elimination of the import equalization tax and the adoption of value-added taxes.

39. Noting that Finland's manufacturing industry was heavily dependent on world markets, he asked how business was adjusting to flagging world growth

and the effects on production and employment on the loss of the market of the Commonwealth of Independent States.

40. With respect to the agricultural sector, he expressed doubts about the validity of pursuing self-sufficiency. The PSE level was extremely high and Finland's export subsidies had small, but distortive, effects on world markets. He asked if there were plans to liberalize products in which self-sufficiency had been achieved, how much of farm income came from price and from income supports, how much agricultural support cost in budgetary terms and what trade policy changes were envisaged to reduce support levels. He requested more detail on the rôle of the State grain monopoly, particularly with respect to exports as well as on the mechanisms applied, and effective protection accorded, to the food-processing industry.

2. Statements and questions by members of the Council

41. The representative of the United States said that many of the points she wished to raise had been brought to the attention of the Council and therefore she would introduce only some additional issues. One was foreign investment policy; the United States encouraged Finland to move forward in lifting restrictions. The other issue concerned the telecommunications sector which Finland had opened up to competition: what problems did Finland foresee in introducing competition in an area largely dominated by public monopolies?

42. The representative of Egypt said that wider coverage of the GSP scheme would be desirable. Tariffs, particularly on some agricultural products might be lowered, while the period of seasonal import licensing might be shortened. His delegation appreciated the fact that Finland accepted FAO standards on levels of chemicals in agricultural products.

43. The representative of Canada informed the Council that he had passed several questions to the Finnish delegation, which involved issues already raised in the Council session. He did, however, wish to raise questions on two matters. First, he queried whether the provisions of Finland's safeguard law were consistent with Article XIX of the GATT, and how Finland ensured its conformity with the General Agreement. Secondly, he expressed the view that a fixed tariff surcharge was a more appropriate instrument to facilitate adjustment than a basic price. The latter may discriminate against efficient producers by eliminating price competition amongst firms exporting to Finland.

44. In relation to anti-dumping cases, he sought clarification on the rôles of the administrative bodies involved in dumping and injury determination and asked whether any mechanism for review of findings

existed. He sought additional information on the use and determination of an appropriate price level in price undertakings. Furthermore, he asked whether the Finnish Government planned to add specific provisions concerning the concept of injury to the broad definition contained in current legislation and wondered how the harmonization of competition law in the EEA would eliminate anti-dumping actions amongst member countries.

45. The representative of Mexico asked whether Finland's current GSP Scheme, established in 1982 for a ten-year period, would be extended. This was relevant to Finland's future membership in the European Communities. For fresh fruits and vegetables, because of seasonal tariffs, preferential treatment was only given at certain times of the year. He asked whether Finland would extend GSP treatment year round. A number of products, including fruits, cut flowers, beer and honey, were excluded from GSP coverage; he wondered whether these could be added. As to industrial products excluded from the GSP scheme, for example, textiles, clothing, ceramics and possibly glass, he asked what was the likelihood of these being included in GSP coverage or even negotiated in the Uruguay Round.

46. The representative of Mexico also wondered what changes the most recent farm legislation had introduced in export subsidies, falling contracts and production quotas. Concerning sanitary regulations and other standards affecting trade in agricultural goods, he asked if these were more stringent than, or equivalent to, international standards.

47. The representative of Hungary, like others before her, asked how Finnish industry was adjusting to the loss of the former Soviet market and how industry was being restructured to produce more internationally competitive goods. Export opportunities in agricultural goods for Hungary were seriously affected by Finland's licensing system, sanitary and phytosanitary regulations and the alcohol monopoly. She expressed the hope that the final outcome of the Uruguay Round negotiations would improve this situation.

48. The representative of Australia, noting the efficiency of many of Finland's industrial sectors, focused on agricultural policy issues, on which his delegation had submitted written questions to the Finnish delegation. These concerned the relevance of the objective of food security through self-sufficiency, particularly given recent world geo-political and strategic changes. He noted the co-existence of the goal of maintaining "reasonable" domestic prices for food products and the reality that Finnish consumers paid twice as much for food than did their EC counterparts. In written questions already submitted to the delegation, he had requested information on the opportunities for new suppliers in products where Finland maintained State-trading monopolies, whether the

grain monopoly would be continued and to what extent export credits were granted on concessional terms.

49. While tariffs and quotas on industrial products were minimal, less obvious barriers to trade in manufactures were not uncommon. High indirect taxation, regulatory barriers, monopolistic practices and high levels of protection persisted in certain sectors. He asked what policy response the Government of Finland contemplated in order to alleviate these constraints, which had contributed to the high cost structure of the Finnish economy.

50. The representative of India expressed particular concern over tariff escalation in textiles and clothing, footwear and travel goods. A variety of these products were also excluded from GSP treatment. The trade-diverting effects of free trade agreements were apparent in the low share of m.f.n. imports in these sectors. He added his comments to those of preceding speakers regarding the high protection in the agricultural sector and hoped that the Uruguay Round would contribute to enhanced competition.

51. The representative of New Zealand, like other participants, commended Finland's trade régime for industrial products, but drew attention to the fact that State aid to manufacturing had grown in real terms in the period since 1985. He asked whether this trend was likely to continue. The import régime for agriculture was complex and non-transparent, including low levels of bound duties relative to industrial products. Overproduction in certain commodities had resulted in excessive, and increasing, export subsidies. Present support policies imposed costs on the consumer and adversely affected other exporting countries. While Finland's stated intention in the Uruguay Round to reduce expenditures on export subsidies by 60 per cent was welcome, more fundamental reform would be required, beginning with the tariffication of quantitative restriction. In conclusion, he recognized the pressures a Government faced in times of economic downturn, but saw the Uruguay Round as providing the perfect opportunity to make the hard choices necessary to improve the efficiency of the domestic economy.

V. COMMENTS AND RESPONSES BY THE REPRESENTATIVE OF FINLAND

52. Addressing the issue of multilateralism, the representative of Finland stated that trade policy changes were easier to carry out when performed in concert with other nations, this being one of the attractions of the multilateral trading system. In a similar vein, while Finland conducted trade within a wide network of free trade agreements, these could co-exist with the multilateral trading system and were duly recognized under the GATT. With respect to future European integration, the EEA, as a free trade area and not a customs union, was not expected to alter Finland's trade policy framework. Accession to the European Communities, on the other hand, implied significant changes in agricultural and trade policy which, for the time being, were matters for negotiation. Regarding trade relations with the Commonwealth of Independent States and the Baltic States, new arrangements, consistent with the GATT, formed Finland's response to support the economic transformations underway in these new nations. Officially sponsored barter trade had been eliminated but, under the new arrangements, could be continued at the enterprise level, without Government involvement, in order to ensure the flow of goods.

53. Concerning economic policies adopted in order to reduce inflation, stabilize the exchange rate and minimize public debt, the Government had taken a number of important steps. These included the devaluation of the markka, agreement on an incomes policy, reduced social security contributions, sales tax reform and the freeing of the investment reserves. As a result, price competitiveness, in terms of relative unit labour costs, had improved by one-fifth. While additional measures were needed, Finland did not plan to resort to further exchange rate adjustments or trade-related measures such as import restrictions or export subsidies. Instead, fiscal policy, competition policy and income policy would be used to cope with the present situation. A VAT system would probably be introduced sometime before the end of the decade.

54. Major developments were taking place in the field of competition policy. Prior to the entering into force of the EEA, Finland planned to introduce new domestic legislation, and would adopt rules similar to those in use in the EC. Cartels and market segmentation would be prohibited. So far, the Office of Free Competition had initiated a number of actions on its own; the new legislation would have a considerable effect on many economic sectors as well as improving market access for imported goods.

55. Regarding increased competition in the Finnish telecommunications sector, while the question raised was more appropriate to the Services negotiations, the representative pointed out that the Finnish market for both basic and value added telecommunications services was one of the most liberal in the world.

56. On the issue of subsidies and State ownership, the Government did not intend to increase assistance to industry which, in any case, was below the average in Western Europe; furthermore, regional assistance policies were being re-evaluated. As to State-owned companies, which operate under the same rules and regulations as private corporations, the Government would continue with the privatization programme once market conditions improved. In addition, new legislation to be introduced early in 1993 would further liberalize foreign direct investment, including in restricted sectors such as real estate and natural resources. The State alcohol monopoly was in force for well-defined social reasons. In practice, the monopoly did not discriminate between domestic and foreign products, took consumer preferences into account and had widened considerably the range of imported alcoholic beverages, especially wines, available to the public. The question of the sole import and export rights of the Finnish Grain Board was currently under review.

57. Regarding the first discussant's question on the possible conflict between regional policies and economic growth, the representative of Finland stated that reduction of regional disparities was an important consideration for many countries and only trade-distorting effects of such policies mattered.

58. Agricultural policy was continuously under review for both domestic and international reasons. Output, especially where high rates of self-sufficiency had been achieved, had been, and would continue to be reduced. Direct income payments would be of growing importance relative to market price support. Producers would shoulder an increasing share of export costs thus alleviating the taxpayers' burden. However, Finland wanted to maintain a viable agricultural sector, and the necessary adjustments could not take place overnight. Supply control would be continued. In order to participate in the EEA, few changes would be required except for some tariff cuts on horticultural products imported from the Communities and the harmonization of phytosanitary regulations; however, the Agreement did include an evolutionary clause to cover agricultural trade. Looking further ahead, he expressed confidence that, while politically controversial, adjustments to agricultural policy necessary for EC membership would be made. Environmental considerations played an increasingly important rôle in the formulation of Finland's agricultural policy. Imports of products covered by seasonal import restrictions, already accounted for a considerable share of domestic production. While these restrictions would be reviewed, consumption of the affected products was rising, suggesting that imports would also increase.

59. The representative of Finland said that the depth of m.f.n. tariff cuts would depend on the outcome of the Uruguay Round. On anti-dumping, he referred to the description in the Secretariat report of the procedures

followed in a dumping investigation. All interested parties, including importers, were given an opportunity to present their case. Provisions existed for the review and appeal of findings. Price undertakings, commonly used to resolve dumping, were fixed at price levels deemed sufficient to eliminate injury. In the case of safeguard measures, he defended the use of the "basic price" as an indication of the price that would not cause injury to domestic industry. In his opinion, a basic price was a less severe measure than an import surcharge.

60. Finally, addressing issues of particular interest to developing countries, he noted that Finnish policy concerning textiles and clothing limited protection to the most sensitive products. Very few quantitative restrictions were applied; the Government preferred to use the more predictable and transparent tariff. The explanation for the recent increase in trade with developing countries, which still remained small in absolute terms, lay in the need to find new export markets following the sharp decline in trade with the former Soviet Union. The Finnish GSP had been extended for another ten years until 2002; this had recently been notified to the GATT. The scheme had been broadened by extending duty-free entry to almost all imports from least developed countries and the negative list for all other GSP beneficiaries shortened by 40 per cent.

61. Concerning patent legislation, the pharmaceutical industry had been given a transition period of seven years to adapt to the new law effective from January 1995. Amendments to the legislation, if necessary within the context of an agreement on intellectual property in the Uruguay Round, would be made. Finland's export credits were in line with OECD guidelines; a large share of its country's development assistance was made on a multilateral basis.

62. In conclusion, the representative of Finland said that he hoped he had answered all of the questions raised by Council members. If not, would be happy to provide further information in writing at a later date.

VI. FURTHER COMMENTS

63. The first discussant agreed with the statement made by Finland that changes in trade policy were made more readily within the multilateral context. Like the contracting party under review, he believed that free trade agreements were not an aim in themselves but contributed to strengthening the multilateral trading system. With respect to the trade agreements negotiated with the former Soviet republics and Baltic States, he subscribed to the Finnish view, held by other Nordic countries, that these provided an appropriate vehicle to respond to the economic situation faced by this part of the world.

64. Assistance to industry, especially to aid research and development, was certainly a legitimate need in Finland, as in other countries. As to the further privatization of State industry, for which both improved economic growth and outside capital were prerequisites, he wondered if in future there would be a debate in Finland on keeping certain industries off-limits to foreign ownership. He agreed that a country was not governed by economics alone and non-economic factors were a fact of life. Nevertheless, he reminded the Council that subsidies should not masquerade as regional policies.

65. It was clear that the Uruguay Round negotiations on agriculture would have a considerable effect on Finnish agricultural policy. He had noted, though, that Finland intended to continue policies of supply control and asked that the delegation expand on this point. In the context of accession to the EC, he was encouraged by Finland's optimism regarding the process of adjustment that would be required in agricultural policies.

66. He praised the fact that environmental considerations were taking on an increasingly important rôle but reiterated his earlier question as to whether Finland, and Finnish industry, fully subscribed to the premise that economic growth could only take place with due consideration to the protection of the environment.

67. Referring to development aid, he underlined the fact that aid through multilateral institutions, which accounted for nearly half of Finland's development assistance, was, by definition, not tied.

68. The second discussant expressed the view that Finland used GATT instruments appropriately. In addition, its GSP scheme, within which no quantitative restrictions were applied, was, by and large, a generous system even before the recently announced, and very welcome, extension and improvement. Bilateral and regional trade agreements exhibited the openness of Finland's trade régime and were an important way for small countries to participate in the world economy. Finland's potential

accession to the European Community would most likely increase access to its market; its eventual membership should be seen as adding another important voice in favour of liberalization.

69. The representative of Australia wondered what border measures would be necessary to operate supply control. Australia's view was that farming could lead to environmental degradation and that the natural environment required preservation. On the other hand, the European view appeared to be that farming itself safeguarded the environment. In this context, he wondered how Finland saw the link between agriculture and the environment.

70. The representative of Finland saw regional agreements as a contribution to strengthening the multilateral trading system. On privatization, financial markets in Finland were too small and weak at present to embark on a substantial privatization programme. The details of such a programme were still being examined, and it was not yet clear how different industrial sectors might be treated. In response to questions regarding measures to ensure supply control, he mentioned that production quotas had been reduced, that payments were made dependent on fallowing crop land and that early retirement bonuses were given to elderly farmers. As to border measures, as evidenced by developments in the Uruguay Round negotiations, the thinking in Finland was evolving towards the recognition of the fact that the effectiveness of supply control could be underpinned or ensured through a tariff-based system of border protection. Lastly, he agreed that sustainable economic growth depended on adequate protection of the environment, this also included protection from overly intensive farming. However, for Finland, policies were required to maintain a wide distribution of the population in order to properly manage its extensive forestry resources.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

71. The reviews undertaken by the Council in the framework of the Trade Policy Review Mechanism aim to provide a collective evaluation of the full range of individual contracting parties' trade policies and practices and their impact on the functioning of the multilateral trading system. My closing remarks are intended to summarize, on my own responsibility, the salient points emerging from this review. These remarks are not intended to substitute for the full discussion and assessment by the Council. This, including Finland's responses to points raised by the participants, will be reflected in the minutes of the meeting.

72. Participants noted that Finland was currently undergoing a severe recession, after a period of exceptionally high growth. Finland faced strong adjustment pressures coming from a variety of sources. These included a general slowdown in world economic growth, adverse commodity price developments and the collapse of trade with the Commonwealth of Independent States, which was previously a major trading partner. It was appreciated that Finland had not resorted to trade-restrictive measures in addressing these difficulties.

73. Participants commended Finland for its commitment to the fundamental principles of the multilateral trading system. The fact that GATT was part of Finland's domestic law, together with its adherence to all but one of the MTN Agreements and its active participation in the Uruguay Round, provided evidence of this commitment.

74. Attention was called to Finland's high share of preferential trade. While 90 per cent of Finland's overall imports entered duty-free, only 30 per cent entered duty-free on an m.f.n. basis. The recent conclusion of negotiations on the EEA, Finland's announcement of its intention to seek EC membership and its bilateral trade arrangements with central and eastern European economies were likely to increase this share. While some members saw closer regional integration as a contribution to solving Finland's economic difficulties, others emphasised that participation in regional agreements should contribute to furthering the aims of the multilateral trading system.

75. Some members noted that Finland's participation in regional agreements had led to a diversion of trade from other sources. This seemed particularly apparent in products of interest to developing countries, such as textiles, clothing, footwear and some agricultural products, which entered duty-free from regional partners while subject to tariff peaks and escalation in the m.f.n. schedule. Moreover, Finland's GSP scheme provided limited coverage for these products and extended only partial duty reductions.

76. Participants recognized that Finland's trade policy in relation to industrial products was generally liberal and that its trade régime in this area was broadly transparent, stable and predictable. The average m.f.n. tariff was low and few industrial products were subject to import licensing. Finland had not resorted to countervailing measures, and had used other temporary measures such as anti-dumping and safeguards sparingly. The proposed elimination of the import equalization tax was welcomed as a further step in the lowering of trade barriers.

77. From being mainly an exporter of primary products, Finland had developed a strong comparative advantage in sophisticated resource-based and engineering goods. As a small, open economy, highly dependent on trade, Finland pursued an export-led growth strategy. However, over the last few years, Finland's international competitiveness had been adversely affected by factors such as the structure of the labour force, the cost of agricultural policies and the relatively weak competitive structure of the Finnish economy. Questions were asked regarding the macroeconomic and trade policy measures that Finland would use to improve its competitive position. In this connection, some members wondered whether a fixed nominal link to the European Currency Unit was appropriate, while others saw this as an important element of macroeconomic management.

78. Finland's policy regarding agricultural trade was fundamentally different from that towards industry. The farm sector was highly protected by a variety of tariff, non-tariff, and State-trading measures designed to ensure food security. As a result, Finland had the highest food prices in Europe, and the food processing industry was protected by domestic price mechanisms. Subsidized exports of several products contributed to the disruption of world markets. Information was sought on the budgetary burden of farm support. Members queried the strong emphasis on food security considerations, given Finland's present-day situation, and asked what policy recommendations had emerged from the "Agriculture 2000" Committee. It was noted, in this connection, that environmental objectives could also be served by a rationalization of agricultural policy. A successful conclusion to the Uruguay Round would encourage this.

79. In addition to these general points, specific questions were raised and clarification sought on:

- the treatment of Finland's existing trade agreements under its plans to become a member of the EC;
- the structure of Finland's new bilateral agreements with the Commonwealth of Independent States and the Baltic States, and the rôle of barter trade in these agreements;

- the scope of exclusions from GSP treatment in high tariff areas and improvements in product coverage within Finland's recently revised GSP scheme;
- operational procedures, specific measures taken and further proposals to dismantle regulatory barriers and to improve competition law and practice;
- possible reform of State-trading provisions governing grains and alcoholic beverages as well as the activities of State-owned companies in the fields of chemicals, petrochemicals, mining and metallurgy;
- the extent to which Finnish standards departed from international norms;
- criteria used to allocate discretionary licences;
- procedures in anti-dumping cases and, in this context, the use of price undertakings;
- developments in trade with developing countries in the last year;
- information on effective rates of protection to industry and the rising trend in industrial assistance;
- information regarding the evolution of Finland's patent legislation;
- conditions for market access in telecommunications, particularly broadcasting.

80. In response, the representative of Finland said that many of the concerns of participants, including those not covered by the existing review process, would be addressed in the context of the Uruguay Round.

81. He did not believe that regional free-trade agreements lowered Finland's commitment to the Multilateral Trading System. Regional agreements also furthered the expansion of trade and Article XXIV was an integral part of the GATT. As a small country, Finland was very much dependent on the multilateral framework for trade.

82. The effect of the EEA on Finnish trade remained to be seen. Rules of competition would be harmonized, eliminating anti-dumping measures. Furthermore, Finland was planning to adopt more restrictive legislation on competition, compatible with EC rules.

83. The m.f.n. principle would be applied to Finland's new bilateral agreement with the CIS. Article XXIV of GATT would apply to agreements with other central and eastern European countries, including the Baltic States. Barter trade at the enterprise level took place, although neither pursued nor promoted by the Government.

84. The objectives of Finland's economic and monetary policies were to reduce inflation and interest rates, maintain stable exchange rates, minimize the public deficit and debt. The markka devaluation and other reforms undertaken in 1991 sought to achieve these objectives. Competitiveness was thought to have improved as a result. Finland would not resort to trade-related measures in pursuing its macroeconomic objectives.

85. The level of industrial subsidies was lower than the western European average. Finland had no intention to increase its expenditures.

86. State-owned companies, including ALKO and the State Granary, operated under normal business rules. The current recession was not a good time to proceed with a comprehensive privatization process, although this was planned once market conditions improved. All foreign direct investment would be liberalized in early 1993. As to State-trading monopolies, no difference in treatment was given by ALKO to domestic and foreign products. The exclusive trading privileges of the State Granary were under review in the light of agricultural and competition policy developments.

87. Regarding regional assistance, the representative of Finland noted that non-economic factors, as well as economic considerations, were relevant. In evaluating such measures, it was important that they should not give rise to trade-distortive effects.

88. Finland's agricultural policy would be affected both by the Uruguay Round and its EC membership. The level of market price support would fall and production levels could also be expected to decline. However, supply controls would still play an important rôle. Finland was increasingly of the view that tariff protection should be the principal supporting measure at the border. Environmental considerations, including the maintenance of population in rural areas, were also of significance to Finland.

89. Tariff peaks and tariff escalation were being addressed in Finland's Uruguay Round offers. Anti-dumping procedures would be eliminated within the EEA to the extent that common rules of competition would apply. Finland had always applied safeguards in conformity with GATT Article XIX.

90. In principle, protection on textiles through tariffs was still necessary. Quantitative restrictions were used sparingly, and only on the highly sensitive products.

91. Finland had already announced that it would extend its GSP scheme to the year 2002 and had notified this to GATT. The coverage of GSP had also been extended. He also indicated that trade with developing countries had recently increased, in part because of the need to find new export opportunities.

92. The Council welcomed the frank exposition of Finland's trade policy. It recognized the considerable economic difficulties currently faced by Finland, and welcomed Finland's commitment not to use trade measures in addressing the present recession. Noting the major share of Finland's trade conducted under preferential agreements, the Council stressed the need for Finland's participation in the European Economic Area and its future membership of the European Communities to contribute positively to the development of the multilateral trading system. Concern was expressed about the conditions of trade available to third countries, in particular developing countries, in sensitive areas; in this context, the reduction of tariff peaks and escalation was necessary. It was recognized that Finland's offer in the Uruguay Round should contribute to this process and that significant improvements were being made in Finland's GSP scheme. Finland's trade policies in the industrial field were recognized as generally liberal. Regarding agriculture, the Council called attention to the high costs and economic distortions caused by Finland's policies in the area, and urged Finland to utilize the opportunities presented by the Uruguay Round and its planned accession to the EC to rationalize its protective structure.