**2001 Country Reports on Economic Policy and Trade Practices**
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# FINLAND

## Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

| | 1999 | 2000 | 2001 | |
|---|---|---|---|---|
| *Income, Production and Employment:* | | | | |
| Nominal GDP (at factor cost) 10/ | 128.4 | 121.4 | 123.2 | 1/ |
| Real GDP Growth (pct) | 4.2 | 5.7 | 2.7 | 1/ |
| GDP by Sector: | | | | |
| Agriculture, Forestry and Logging | 4.2 | 3.8 | 3.8 | 1/ |
| Manufacturing, Construction, Mining and Quarrying | 34.3 | 34.2 | 33.5 | 1/ |
| Electricity, Gas and Water Supply | 2.3 | 1.9 | 2.1 | 1/ |
| Services | 69.9 | 65.5 | 68.0 | 1/ |
| Taxes on products less subsidies | 17.7 | 15.9 | 15.8 | 1/ |
| Per Capita GDP (US$) 9/ | 24,830 | 23,432 | 23,747 | 1/ |
| Labor Force (000s) | 2,557 | 2,589 | 2,603 | 1/ |
| Unemployment Rate (pct) | 10.2 | 9.8 | 9.0 | 1/ |
| *Money and Prices (annual percentage growth):* | | | | |
| Money Supply Growth (M2) | 6.6 | 0.0 | -0.02 | 2/ |
| Consumer Price Inflation | 1.2 | 3.4 | 3.0 | 3/ |
| Exchange Rate (FIM/US$ annual average) | 5.58 | 6.45 | 6.67 | 4/ |
| *Balance of Payments and Trade:* | | | | |
| Total Exports FOB | 41.7 | 45.5 | 24.5 | 5/ |
| Exports to United States | 3.3 | 3.4 | 2.0 | 5/ |
| Total Imports CIF | 31.5 | 33.8 | 18.4 | 5/ |
| Imports from United States | 2.5 | 2.4 | 1.2 | 5/ |
| Trade Balance | 10.2 | 11.7 | 6.1 | 5/ |
| Balance with United States | 0.8 | 0.9 | 0.8 | 5/ |
| External Public Debt | -20.9 | -39.4 | -5.5 | 6/ |
| Fiscal Surplus/GDP (pct) 7/ | 1.9 | 6.9 | 4.1 | 1/ |
| Debt Service Payments/GDP (pct) 8/ | 3.0 | 3.3 | 3.1 | 1/ |
| Gold and Foreign Exchange Reserves | 8.4 | 8.9 | 8.4 | 9/ |
| Aid from United States | N/A | N/A | N/A | |
| Aid from All Other Sources | N/A | N/A | N/A | |

1/ Estimate, Ministry of Finance. September 2001.

2/ Bank of Finland,  August 2000-August 2001.
3/ Bank of Finland, January-August 2001.
4/ Bank of Finland, January-July 2001 average.
5/ Board of Customs, January-July 2001.
6/ Bank of Finland, January-June 2001.
7/ Net financing requirement, percent of GDP.
8/ General government interest expenditures.
9/ Bank of Finland, May 2001.
10/ Declines in Nominal and Per Capita GDP (despite positive growth rates) are due to the depreciating value of the Finnish Mark.

*1. General Policy Framework*

Fueled by the booming Nokia-led electronics industry, Finland has been amongst the fastest growing economies in the European Union (EU) with GDP growth averaging 4.8 percent per annum since 1994. Finland's membership in the EU, Finland joined on January 1, 1995, also helped spur structural changes in key economic sectors. Unemployment, at 9.8 percent in 2000, however, still remains above the EU average.

A key factor in Finland's recovery from its deep recession of the early 1990's was the strong growth in output in the manufacturing industry deriving largely from the success of telecommunications equipment exports. In 2000, exports accounted for more than 40 percent of Finland's overall output. However, weaker international demand has affected exports and production in the forest and electronics industries, and the latter part of 2001 looks bleak for the export industry. After seven successive years of robust growth, total output leveled off in early 2001. Over the January-July 2001 period, total output grew by 1.6 percent on 2000. The volume of Finland's total output fell for the third month in a row, off one percent year-on-year in July 2001. In July 2001, Ministry of Finance slashed its forecast for 2001 GDP growth by a full percentage point to 2.7 percent and lowered its 2002 estimate to 2.5 percent, due to global economic slowdown and the decline in exports, which is beginning to affect industrial production. The Ministry of Finance's next GDP growth estimate is scheduled for early November 2001, and is expected to be significantly lower, reflecting a continued global economic slowdown, exacerbated in part by the September 11 terrorist attacks on the United States.

In 2000, the central government's finances reached a surplus for the first time since 1990, and rose to 3.5 percent of GDP. After strong growth in 2000, the surplus in central government finances is estimated to decrease considerably this year, especially since business performance is slackening and receipts from corporate income taxes are falling. Inflation reached a rate of 3.4 percent in 2000, becoming one of the highest in the euro zone. This can be explained mainly by higher oil prices, but price increases in housing and the depreciation of the euro has also played a role. The rise in consumer prices slowed down to the euro area average in summer 2001, and with economic growth receding, inflationary pressures are estimated to continue easing in the latter half of 2001. The consumer price index is expected to rise by an average of 2.7 percent in 2001.

State debt is still at a high level, although it dropped from FIM 404.6 ($72.5) billion in 1999 to FIM 376.9 ($ 58.4) billion in 2000, and is expected to total FIM 357.9 ($ 53.6) billion in 2001. The debt-to-GDP ratio is expected to fall only slightly. The overall government debt ratio (ratio of EMU debt to GDP) is predicted to fall from 44.1 percent in 2000 to 42 percent by the end of 2001.

In 2000, Finland's tax ratio (gross wage-earner taxation, including compulsory employment pension contributions, relative to GDP) was up to 46.9 percent from 46.2 percent in 1999. A decrease is expected in 2001 (44 percent) and in 2002 (42.6 percent) due to scheduled tax cuts.

Key fiscal policy aims in the government program are to freeze central government spending at the level of the 1999 budget in real terms, to maintain central government finances in surplus (around 1.5 percent of GDP), and to clearly reduce state debt.

Finnish economic policy is determined to a large extent by consultation and coordination within the EU. EU membership, for example, has resulted in new competition legislation that has helped reduce the cartelized nature of many Finnish industries. Legislation that took effect at the beginning of 1993 liberalizing foreign investment restrictions has helped spur an increase in foreign portfolio investment and hence has contributed to the internationalization of large Finnish companies. In 2000, capital flowed out of the country in the net amount of FIM 55 ($ 8.5) billion, almost equivalent to the surplus in the current account. The net outflow of foreign direct investment was FIM 65 ($10.1) billion. Investment outflows continue to exceed direct investment in Finland. Finland is hoping to capitalize on its location and expertise to serve as a gateway for foreign investors in the newly independent states of the former Soviet Union and the Baltic states. This effort had scored only limited success with relatively few foreign firms establishing production and warehousing facilities in eastern Finland, close to the major Russian markets. The Russian financial crisis in 1998 caused a significant slowdown in gateway activity, although there are now signs of recovery.

### *2. Exchange Rate Policy*

The European Commission reported on March 25, 1998 that 11 EU member countries, one of them Finland, were ready for the Economic and Monetary Union (EMU) and met the conditions to adopt the single currency (euro). The bank notes and coins of the single currency will be put into circulation January 1, 2002. Both euros and Finnish marks will be in dual circulation for a period of two months, January 1-February 28, 2002.

As of January 1, 1999, Finland joined the third stage of the EMU. This third and final stage of EMU commenced with the irrevocable locking of the exchange rates of the eleven currencies participating in the euro area and with the conduct of a single monetary policy under the responsibility of the European Central Bank (ECB). The Finnish mark was pegged to the euro at 5.9457.

### *3. Structural Policies*

Finland replaced its turnover tax with a Value-Added Tax (VAT) in June 1994. While the change has had little effect on overall revenues, several sectors not previously taxed or taxed at a lower rate, including corporate and consumer services and construction, are now subject to the new VAT. The government has kept the basic VAT rate at the same level as the old turnover tax (22 percent). Legislation on VAT was harmonized with the European Union. Foodstuffs are taxed at a 17 percent rate. Medicines, books, passenger transportation, accommodation, TV licenses, admission fees to cultural and entertainment events, cinema performances and use of sporting facilities are taxed at an eight percent rate. Services, including health care, education, insurance, newspaper and periodical subscriptions, and rentals are not subject to VAT.

Agricultural and forestry products continue to be subject to different forms of non-VAT taxation. In 1995, a uniform tax rate of 28 percent took effect on capital gains, which include dividends, rental income, insurance, savings, forestry income, and corporate profits. The sole exception was bank interest, on which the tax rate was increased from 20 to 25 percent at the beginning of 1994. The corporate and capital gain income tax rate was increased from 28 per cent to 29 per cent in January 2000.

In March 1997, European Union commitments required the establishment of a tax border between the autonomously governed, but territorially Finnish, Aland Islands (Ahvenanmaa) and the rest of Finland. As a result, the trade of goods and services between the rest of Finland and Aland is now treated as if it were trade with a non-EU area. The trade effect of this treatment is minimal since the Aland Islands are part of the European Fair Trade Association tariff area.

Liberalization of foreign investment has resulted in a strong revival of the Finnish stock market and greater corporate use of equity markets. It has also substantially increased the percentage of foreign ownership of many of Finland’s leading companies, and is the preferred vehicle for privatization or partial privatization of companies with significant state ownership. The previous center-conservative government initiated a program aimed at privatizing as many state-owned companies as the Finnish parliament would permit and the market could absorb. The present government agrees that state ownership at its present level is no longer necessary in manufacturing, energy production, and telecommunications operations. The basic strategy has been to reduce the government’s stake through the issuance of stock, rather than by selling off companies to individual investors, and to treat each company as an individual case.

The only major divestment of state share holdings in 2000 was the sale of three percent of the stake in the telecom service provider Sonera, which brought in FIM 2.02 billion ($30 million) at a time when the firm's stock was near its historic high of 90 Euros. The Finnish state has share holdings in 46 major companies, at present it controls four stock exchange companies: Sonera; the national airline Finnair; the energy group Fortum; and the chemical group Kemira. The Finnish state has decided to sell its majority stake of 56 percent in chemical industry group Kemira to Swedish Industri Kapital, and in return will receive a minority holding of 34 percent in a new, as yet nameless, company. However, in order for the deal to be finalized, the Finnish parliament must authorize the state to sell all of its holdings in Kemira. The wholly state owned Finnish defense group Patria, has decided to sell 27 percent of its shares to European Aeronautic Defense and Space Company (EADS) and become a strategic partner with EADS.

In May 2000, the government reached a decision-in-principle on the use of state sales proceeds between 2000 and 2003. The government will boost basic funding for universities and will commit to certain projects aimed at bolstering long-term growth prospects. The rest of privatization proceeds already realized or forthcoming will be allocated to debt redemption.

State aid to industry was at a relatively high level in Finland in the first years of the 1990s. This was mainly due to the severe depression that Finland experienced at that time. It should be noted, however, that even in those years Finland was no more generous in subsidizing its manufacturing companies than the EU countries on average. The government has begun to reduce subsidies in line with the need for greater fiscal discipline and it is the government's policy to continue this trend. All companies registered in Finland have access to government assistance under special development programs. Foreign-owned companies are eligible for government incentives on an equal footing with Finnish-owned companies. Government incentive programs are mainly aimed at investment in areas deemed to be in need of development.

The system of direct business subsidies was streamlined in early 2001, so that existing subsidy programs were merged. The system of business subsidies consists of three forms of subsidies, i.e. investment aid, development aid for small and medium sized enterprises, and aid for the operating environment of businesses.

The Finnish economy faces two major challenges. First, the competition the Finnish economy is facing is clearly increasing and spreading to new sectors threatening traditionally sheltered sectors of the economy. Second, with the population aging, labor supply is set to decline in the next decade, correspondingly weakening the financial base by increasing outlays for social security and pensions. Finland's priority during next few years is to rise the effective retirement age. These challenges highlight the importance of fiscal restraint and structural reforms. There is a growing need in general government finances to concentrate on relieving the expenditure pressure caused by the aging population and on reducing the central government debt ratio. The key task in structural policy is to secure prerequisites for employment-oriented stable economic growth. To counter the economic slowdown, Finland plans to lower taxes and increase investment.

*4. Debt Management Policies*

Under the government's EMU convergence program, the gross government debt is projected to drop from 44.1 percent of GDP in 2000 to 42 percent by the end of 2001.

In May 2001, Standards & Poor's announced it would keep its rating of Finnish long term government bonds at their second-best rating, AA+ , adding that the outlook on long term ratings remains positive. In September 2001, Moody's rated Finnish long-term government bonds at its best rating, AAA. In November 2000, Fitch IBCA confirmed the rating of Finnish long-term government bonds as AAA, short-term foreign currency at F1, and rated the outlook as stable.

Finland is an active participant in the Paris Club, the London Club, and the Group of 24, providing assistance to East and Central Europe and the independent states of the former Soviet Union. It has been a member of the IMF since 1948. Finland's development cooperation programs channel assistance via international organizations and bilaterally to a number of African, Asian, and Latin American countries. In response to budgetary constraints and changing priorities, Finland has reduced foreign assistance from 0.78 percent of GDP in 1991 to 0.31 percent of GDP in 2000. The Finnish government estimates foreign assistance will rise to 0.34 percent of GDP in 2001 and 0.341 percent of GDP in 2002.

*5. Significant Barriers to U.S. Exports*

Finland became a member of the EU in 1995, and as a result has had to adopt the EU's tariff schedules. The agricultural sector remains the most heavily protected area of the Finnish economy, with the bulk of official subsidies in this sector. The amount of these subsidies is determined by the difference between intervention and world prices for agricultural products. Since joining the EU, the difference between these two prices has decreased for most agricultural items, resulting in lower, albeit still significant, subsidy levels.

In mid-1996 the Finnish government's inter-ministerial licensing authority began to oppose within the EU some U.S. company applications for commercialization of genetically modified organisms (GMOs) such as insect-resistant corn. The Ministry for Environment appears to favor mandatory consumer-oriented labeling of GMOs. Other ministries are more supportive of GMO commercialization. The government continues to take a case-by-case approach to GMO-related issues.

The Finnish service sector is undergoing considerable liberalization in connection with EU membership. Legislation implementing EU insurance directives has gone into effect. Finland has exceptions to the EU directives on insurance covering medical and drug malpractice and nuclear power supply. Restrictions placed on statutory labor pension funds, which are administered by insurance companies, will in effect require that such companies establish an office in Finland. In most cases, such restrictions will cover workers' compensation insurance companies as well. Auto insurance companies will not be required to establish a representative office, but will have to have a claims representative in Finland.

1995 was the first year of fully open competition in the telecommunications sector in Finland. The Telecommunication Act of August 1996 allows both network operators and service operators to use competitor telecommunication networks in exchange for reasonable compensation. The Telecommunication Act was replaced by the Telecommunications Market Act of 1997, which improved the opportunities of telecommunication operators to profitably lease each other's telecommunications connections. Entry to the sector was also made easier by eliminating a licensing requirement to construct a fixed-telephone network. Only mobile-telephone networks are still subject to license. The number of mobile telephones exceeded the number of fixed-line connections beginning in 1998. Finland's mobile phone penetration is 75 percent, with 3.9 million mobile phones in use. As of September 2001, Finns have been able to make local calls using the operator of their choice by using a five -digit code at the beginning of the number. It is also possible to choose which operator is used when calling from a fixed-line phone to a mobile subscriber.

Finland was the first country to grant licenses for third-generation mobile-phone networks. In March 1999, four telecommunications companies were granted licenses to construct 3G mobile networks in Finland. Contrary to many other European countries, licenses were free of charge and granted to the most qualified applicants, rather than by auction. Licenses were technology-neutral, but all four licensees are expected to use the European UMTS technology. 3G mobile operations are expected to be launched by the beginning of 2002. The world's first 3G WCDMA voice call on the commercial 3G PP (3rd generation partnership program) system was made between Nokia laboratories in Oulu and Salo, Finland, in mid August 2001.

The government requires that the Finnish broadcasting company devote a "sufficient" amount of broadcasting time to domestic production, although in practical terms this has not resulted in discrimination against foreign-produced programs. Finland has adopted EU broadcasting directives, which recommend a 51 percent European programming target "where practicable" for non-news and sports programming. Finland does not intend to impose specific quotas and has voiced its opposition to such measures in the EU.

With the end of the Restriction Act in January 1993, Finland removed most restrictions on foreign ownership of property in Finland. Only minor restrictions remained, such as requirements to obtain permission of the local government in order to purchase a vacation home in Finland. But even restrictions such as this were abolished in January 2000, bringing Finland fully in line with EU norms.

Foreigners residing outside of the EEA who wish to carry on trade as private entrepreneurs or as partners in a Finnish limited or general partnership must get a trade permit from the Ministry of Trade and Industry (MTI) before starting a business in Finland. Additionally, at least one-half of the founders of a limited company must reside in the EEA unless the MTI grants an exemption.

Normally Finland requires that a labor-market test be conducted before allowing a foreigner from outside the EEA to work in Finland. The purpose of the test is to determine whether or not a Finn could undertake the same work. However, foreign intra-corporate transferees who are business executives or managers are not subject to the labor-market test. This standard does not apply to company specialists, who must prove that they possess knowledge at an advanced level of expertise or are otherwise privy to proprietary company business information.

Finland is a signatory to the WTO Government Procurement Agreement and has a good record in enforcing its requirements. In excluded sectors, particularly defense, counter trade is actively practiced. Finland is purchasing fighter aircraft and associated equipment valued at $3.35 billion from U.S. suppliers. One hundred percent offsets are required, as a condition of sale, by the year 2005.

Finland has in most cases completed the process of harmonizing its technical standards to EU norms. It has streamlined customs procedures and harmonized its practices with those of the EU.

Within the European Union, the European Commission has authority for developing most aspects of EU-wide external trade policy, and most trade barriers faced by U.S. exporters in EU member states are the result of common EU policies. Such trade barriers include: the import, sale and distribution of bananas; restrictions on wine exports; local (EU) content requirements in the audiovisual sector; standards and certification requirements (including those related to aircraft and consumer products); product approvals and other restrictions on agricultural biotechnology products; sanitary and phytosanitary restrictions (including a ban on import of hormone-treated beef); export subsidies in the aerospace and shipbuilding industries; and trade preferences granted by the EU to various third countries. A more detailed discussion of these and other barriers can be found in the country report for the European Union.

### *6. Export Subsidies Policies*

The only significant Finnish direct export subsidies are for agricultural products, such as grain, meat, butter, cheese and eggs, as well as for some processed agricultural products.
Finland has advocated worldwide elimination of shipbuilding subsidies through the OECD Shipbuilding Agreement. The EU decided that payment of shipyard subsidies would end at the end of year 2000. According to Finland's year 2000 supplementary budget, subsidies were granted on ship orders up to a total value of FIM 6 billion ($930 million) and the industry granted an appropriation of FIM 140 ($21.7) million, in order to secure the competitiveness of the shipbuilding industry. Since spring 1996, Finnish shipyards have received 1.1 billion FIM ($169 million) in direct production support. The EU ministers discussed in mid July 2001 a plan to reintroduce subsidies to their shipbuilders as a "temporary support mechanism" to protect the industry from South Korean competition, which was said to benefit from unfair subsidies.

### *7. Protection of U.S. Intellectual Property*

The Finnish legal system protects property rights, including intellectual property, and Finland adheres to numerous international agreements and organizations concerning intellectual property. Patent rights are consistent with the international standards. In 1996, Finland joined the European Patent Convention (EPC).

Finland is a member of the World Intellectual Property Organization, and participates primarily via its membership in the EU. The idea of protection of intellectual property is well developed. For example, the incidence of software piracy is lower than in the United States, and by some measures (e.g., BSA), is the lowest in the world.

Finland has been a member of the Paris Convention for the Protection of Industrial Property since 1921, the Berne Convention for the Protection of Literary and Artistic Works since 1928, and the Rome International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations since 1983.

Finland is a member of the WTO. It shares the U.S. overall philosophy on an open and fair international trading system. Its government procurement practices have been consistent with EU policies and there has been no pattern of discrimination against U.S. businesses.

Information on copying and copyright infringement is provided by several copyright holder interest organizations such as the Copyright Information and Anti-Piracy Center. The Business Software Alliance (BSA), a worldwide software anti-piracy organization, began operations in Finland in January 1994. According to a BSA survey, the rate of software piracy in Finland dropped from 67 percent in 1994 to 30 percent in 2000. Retail software revenue lost to piracy amounted to $ 46.5 million in 2000, BSA reported.

The Finnish Copyright Act, which traditionally grants protection to authors, performing artists, record producers, broadcasting organizations, and catalog producers, is being amended to comply with EU directives. As part of this harmonization, the period of copyright protection was extended from 50 years to 70 years. Protection for data base producers (currently a part of catalog producer rights) will be defined consistent with EU practice. The Finnish Copyright Act provides for sanctions ranging from fines to imprisonment for up to two years. Search and seizure are authorized in the case of criminal piracy, as is the forfeiture of financial gains. The Copyright Act has covered computer software since 1991.

*8. Worker Rights*

a. *The Right of Association:* The constitution provides for the rights of trade unions to organize, to assemble peacefully, and to strike, and the government respects these provisions. During 1993-2000, the percentage of workers who were organized dropped from 85 to 79 percent, mainly due to the fact that people between 35 and 44 years of age have started to lose their interest in labor unions, a recent study found. All unions are independent of the government and political parties. The law grants public-sector employees the right to strike, with some exceptions for provision of essential services. In 2000, there were 96 strikes and 2001 will be dominated by a five months long doctors' strike, which started in May and ended in September 2001, and proved to be expensive for everyone. Despite this major strike, statistics show that the number of working days lost to strikes has been reduced significantly over the past thirty years. Trade unions freely affiliate with international bodies.

b. *The Right to Organize and Bargain Collectively:* The law provides for the right to organize and bargain collectively. Collective bargaining agreements are usually based on incomes policy agreements between employee and employer central organizations and the government. The law protects workers against antiunion discrimination. Complaint resolution is governed by collective bargaining agreements as well as labor law, both of which are adequately enforced. There are no export processing zones.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced or compulsory labor, and this prohibition is honored in practice. The law prohibits forced and bonded labor by children and adults, and such practices do not exist. The government enforces these prohibitions effectively.

d. *Minimum Age for Employment of Children:* Youths under 16 years of age cannot work more than six hours a day or at night, and education is compulsory for children from 7 to 16 years of age. The Labor Ministry enforces child labor regulations. There are virtually no complaints of exploitation of children in the work force.

e. *Acceptable Conditions of Work:* There is no legislated minimum wage, but the law requires all employers, including non-unionized ones, to meet the minimum wages agreed to in collective bargaining agreements in the respective industrial sectors. The legal workweek consists of five days not exceeding 40 hours. Employees working in shifts or during the weekend are entitled to a 24-hour rest period during the week. The law is effectively enforced as a minimum, and many workers enjoy even stronger benefits through effectively enforced collective bargaining agreements. The government sets occupational health and safety standards, and the Labor Ministry effectively enforces them. Workers can refuse dangerous work situations without risk of penalty.

f. *Rights in Sectors with U.S. Investment:* Conditions in all goods-producing sectors in which U.S. capital is invested do not differ from those in other sectors of the economy.

**Extent of U.S. Investment in Selected Industries** -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 2000

(Millions of U.S. Dollars)

| Category | | Amount |
|---|---|---|
| Petroleum | | 81 |
| Total Manufacturing | | 672 |
| Food & Kindred Products | 7 | |
| Chemicals & Allied Products | 355 | |
| Primary & Fabricated Metals | 59 | |
| Industrial Machinery and Equipment | 77 | |
| Electric & Electronic Equipment | 61 | |
| Transportation Equipment | 77 | |
| Other Manufacturing | 36 | |
| Wholesale Trade | | 328 |
| Banking | | 20 |
| Finance/Insurance/Real Estate | | -3 |
| Services | | 68 |
| Other Industries | | 114 |
| TOTAL ALL INDUSTRIES | | 1,279 |

Source: U.S. Department of Commerce, Bureau of Economic Analysis.