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The challenge of enlargement  
Commission opinion  
on Finland's application  
for membership

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## Foreword

1. The Finnish application for membership is being examined at a time when a number of other accession requests are also on the table. These include applications from three other EFTA countries: Austria, Sweden and Switzerland. The Commission has adopted its opinion on the accession requests of Austria and Sweden, and is conducting the work relative to the opinion on the consequences of the accession of Switzerland.

2. The question of enlargement was addressed by the European Council during its Lisbon meeting of 26 and 27 June 1992, on the basis of a report<sup>1</sup> presented by the Commission. The European Council on that occasion considered that 'the EEA Agreement had paved the way for opening enlargement negotiations with a view to an early conclusion with EFTA countries seeking membership of the European Union'. It invited the institutions to speed up preparatory work needed to ensure rapid progress including the preparation before the European Council in Edinburgh of the Union's general negotiation framework. The official negotiation would be opened immediately after the Treaty on European Union was ratified and agreement had been achieved on the Delors II package. This was confirmed by the Council at its meeting of 5 October 1992.

3. In preparing the present opinion, the Commission has assumed, in line with the conclusions of the European Council in Maastricht in December 1991, that accession will, in accordance with Article O of the Maastricht Treaty, be to a European Union characterized by the establishment of economic and monetary union, ultimately including a single currency; the implementation of a common foreign and security policy, including the eventual framing of a common defence policy, which might in time lead to a common defence; the introduction of a citizenship of the Union and the development of close cooperation in justice and home affairs as well as the strengthening of economic and social cohesion.

4. The European Council in Lisbon also concluded that 'negotiations with the candidate countries would, to the extent possible, be conducted in parallel, while dealing with each candidature on its own merit'. This will be particularly important in the case of the EFTA candidates, not only in respect to the adjustments to the Treaties provided for in Article O, but also because of the numerous similarities in the questions to be addressed in the negotiations.

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<sup>1</sup> 'Europe and the challenge of enlargement', *Bulletin of the European Communities*, Supplement 3/92.

## Introduction

1. On 18 March 1992, Dr Mauno Koivisto, President of the Republic of Finland and Mr Esko Aho, the Finnish Prime Minister, submitted to the Council of the European Communities the application of the Republic of Finland for membership of the European Coal and Steel Community (ECSC), the European Economic Community (EEC) and the European Atomic Energy Community (EAEC).
2. At its meeting of 6 April 1992, the Council decided to set in motion the procedure laid down in Articles 98 of the ECSC Treaty, 237 of the EEC Treaty and 205 of the EAEC Treaty.
3. As in the case of its opinion on Sweden's application for membership, the Commission has based itself on the *acquis* of the future European Union. The analysis is focused on those sectors not covered, or only partially covered, by the EEA Agreement. Furthermore, in an effort to respond to the Lisbon European Council's invitation to speed up preparatory work, the Commission has concentrated its analysis in those areas where the impact of accession will be largest and which are likely to form the main subjects for discussion in the context of accession negotiations.
4. During the preparation of its opinion the Commission obtained a wealth of information on Finland's situation from the Finnish authorities, with which it has remained in close contact, notably through the Finnish Mission to the European Communities.

# General

## Relations to date between the Community and Finland

1. Finland's geopolitical situation<sup>1</sup> and historical experience led it for many years after World War II to pursue a cautious policy towards West European integration and to develop a policy of neutrality aimed at remaining outside great power conflicts. In this context, Finland developed a practice of careful and balanced development of its relations with both East and West. An important element of this was the maintenance of friendly relations with the Soviet Union, based on the Treaty of Friendship with the USSR of 1948. This was formally repealed only in January 1992, on the occasion of the signature of a (CSCE-type) Treaty between Finland and Russia. Finland was, in a number of instances, a latecomer to new initiatives in West European integration in the early years of the post-war period. It was only after Finland joined the UN and Nordic cooperation in 1955 that it started gradually to develop its role in international cooperation, particularly in Europe.

2. When the European Free Trade Association (EFTA) was created in 1960, Finland expressed the wish to establish a link with the Association short of full membership. Negotiations were launched in February 1961. These led to the establishment of an association between the member States of EFTA and the Republic of Finland, by virtue of the Helsinki Agreement of March 1961, which entered into force on 26 June of the same year. Finland was to remain an associate member of EFTA until 1 January 1986, when it became a full member. Meanwhile, Finland participated in the development of closer links between the EFTA and the EEC. Shortly after Free Trade Agreements were concluded between the Community and the remaining member States of EFTA, in 1972, similar Agreements<sup>2</sup> were signed in 1973 between Finland and the Community providing for the progressive abolition, in respect of trade between the parties in industrial goods, of custom duties, quantitative restrictions and all measures of

equivalent effect. The Agreements, which also provided for rules on State aid and industrial competition and a number of mutual concessions in the agricultural and fisheries fields, created a bilateral Joint Committee to administer them.

3. Despite some initial hesitation, Finland has been an active participant in the subsequent development of EC/EFTA relations. The first important step was the adoption by the ministers of the EC and EFTA countries in April 1984 of the Luxembourg Declaration which laid down the guidelines for the continuation, deepening and extending of cooperation, within the framework of, and beyond, the Free Trade Agreements, with the objective of progressively establishing a dynamic European economic space. The second major step was in January 1989 when, in his investiture speech at the European Parliament, President Delors invited the EFTA States to reflect on the possibility of a more structured partnership. Responding to this declaration, in March 1989 in Oslo, the EFTA Heads of Government declared their readiness to explore, together with the Community, ways and means to achieve such a partnership. Negotiations were opened in December 1989 culminating in the signature in Oporto, on 2 May 1992, of the Agreement establishing the European Economic Area (EEA).

This Agreement will, once ratified and in force, establish, throughout the territories of the Contracting Parties, the free circulation of goods, persons, services and capital (known as the 'four freedoms') as well as the broadening and strengthening of cooperation in a number of other areas. In parallel with the EEA Agreement, Finland has concluded a bilateral agreement with the Community to facilitate the exchanges of certain agricultural products.

<sup>1</sup> Refer to section on foreign and security policy, pp. 21-23.

<sup>2</sup> Agreement between the European Economic Community and the Republic of Finland (OJ L 328, 28.11.1973), and Agreement between the Member States of the European Coal and Steel Community and the European Coal and Steel Community, on the one part, and the Republic of Finland, on the other part (OJ L 348, 27.12.1974).

Finland has thus already established a high level of integration with the Community. It will already apply from 1 January 1993 a large part of the Community's *acquis*, not only in the field of the four freedoms but also in such areas as social policy, the environment, company law, consumer protection and competition rules.

4. Meanwhile, full membership of the Community came to be considered in Finland as no longer incompatible with the Finnish policy of neutrality. Finland, realizing also the large extent of the Community *acquis* already taken on board, initiated a reflection about the advantages and disadvantages of requesting membership of the Community, as two other members of EFTA, Austria and Sweden, had already done. In the communication to the Parliament on Finland's membership in the European Community, of 27 February 1992, the Finnish Government clearly stated the reasons behind the presentation of the accession request. These reasons are not solely of an economic nature. If it was considered essential for the Finnish economy to operate on equal terms with its competitors on its principal markets, it was also judged that EC membership would offer Finnish citizens equal opportunities to take part in cooperation in research, education, culture and other fields. Finland aspired to participate in decision-making in all spheres of Community activity. It was also felt that, following the changes in Europe that ended the cold war division of the continent, 'the European Community has become a key factor in the political and economic development of the whole of Europe'. Moreover, the likelihood that the EEA, while important for Finland, would remain transitory, led the Finnish Government to the conclusion, supported by the vote of Parliament, that 'it would seem that Finland can best pursue its national interest as a member of the European Community'.

5. In a speech delivered at Bruges, on 28 October 1992, President Koivisto expressed thus the commitment taken by Finland regarding its candidature for membership of the European Union: 'The European Community is playing a growing role in determining the course of developments

on our continent. We would like to play a part in this process. We have studied the obligations of EC membership with care. In applying for membership, we accept the *acquis communautaire*, the Maastricht Treaty and the *finalité politique* of the European Union. We are ready to accept the obligations conferred by membership and to help to meet them as agreed.'

## The Finnish economy and the Community

1. Finland's post-war economic development has enabled its standard of living to catch up rapidly with that of the richest members of the Community. Its investment rates have been consistently higher than its European neighbours', and unemployment lower. Public finances have been kept under control, with the result that public sector debt is remarkably low.

The Finnish economy is, however, heavily dependent on exports of forestry products and paper, a sector which is undergoing difficult structural change. Moreover, a share of industrial production — which was still significant in the late 1980s — used to be protected from international competition by Finland's preferential trade links with the former Soviet Union. For some time, however, the country has been diversifying its exports and redirecting them towards the industrialized countries' markets, and has thereby demonstrated its ability to adapt to the international division of labour with the help of high technology, a highly skilled workforce and sound infrastructure.

2. Finland is currently facing a deep economic crisis, mainly in the productive system and supply-side conditions, whose causes and effects run much deeper than a cyclical downturn. In the late 1980s, investment followed domestic demand, notably in services and construction, to the detriment of the export sector. In addition, part of Finland's capital stock became redundant with the loss of the former Soviet market, which had largely sheltered major industries, particularly the metal industry, capital goods and textiles, from international competition. The

paper industry is also under substantial pressure with the trend towards recycled paper, which means shifting production closer to the consumer.

In the last two years unemployment has risen substantially, and now stands at some 13.5%. It is difficult to see how the level of profitable productive capital and the labour supply can be brought back into balance, and unemployment reduced, without a significant improvement in the return on capital compared with the return on labour.

The recession has also thrown public finances out of balance. In the 1980s, the public service budget was kept more or less in equilibrium. Public spending rose in 1990 and 1991 as a percentage of GDP and is now four points higher than the Community average. A considerable adjustment effort will be needed in this area too in the next few years if the budget is to be balanced again and public expenditure brought to a level more appropriate to the new situation.

A fundamental shift in Finnish monetary policy occurred in June 1991 when the Finnish Government decided unilaterally to link the Finnish mark to the ecu. This step, which was accompanied by a number of far-reaching macroeconomic measures, was required to create a favourable climate for the structural adjustments needed by Finnish industry. The inflation/depreciation cycle which has long characterized the Finnish economy leads to fluctuations in costs and profitability throughout the productive cycle, exacerbating sectoral price distortions, and hampers diversification in manufacturing.

And so the credibility of the Finnish economy had to be restored at a difficult time. In November 1991 the mark, which was under great pressure, was devalued. Despite this, in September 1992, Finland had to decide to allow the currency to float. Altogether, the mark depreciated 23% against the ecu in October 1991 to October 1992.

In these circumstances, it is more important to step up the adjustments and changes in public finances and wage behaviour. This will enable Finland, having restored credibility, to return to an exchange-rate policy which will allow it to participate in economic and monetary union when the time comes.

The government's recent announcement of fiscal measures aimed at redressing public finance in the medium term is an important step towards achieving this.

3. Even before the crisis, economic policy had to be directed mainly towards two objectives: achieving sustained monetary stability, internally and externally, and boosting domestic competition. The crisis in the productive sector in Finland has underlined the importance of these objectives even more. However, it has also thrown up two new challenges for economic policy, by causing a drop in the country's prosperity and ultimately its potential revenue base. This in turn has created or exacerbated serious imbalances affecting the productive system, the labour market, the banking system and public finance. If these imbalances are to be reduced, substantial adjustments will have to be made to public spending and labour costs, the areas on which Finland's return to balanced, job-creating growth will depend. Such reduction of the imbalances will also decide whether Finland will be able to participate fully in economic and monetary union later.

There is a high level of concentration in sectors of the Finnish economy such as retail and wholesale trade, construction and transport, which have been sheltered from foreign competition. This situation has been encouraged by regulations restricting access to certain markets, relatively loose competition laws and the small size and geographical remoteness of the Finnish market.

Other sectors such as electricity, oil, fertilizers and telecommunications are dominated by State monopolies. The persistence of artificially high prices and low efficiency in these sectors would increase the costs of sectors which compete internationally and hamper efforts to increase Finnish competitiveness. The Finnish Government has taken the first steps to enhance domestic competition. It recently presented a bill to Parliament to reform competition law, partly with the aim of bringing Finnish law more closely into line with Community legislation.<sup>1</sup> Finland's international competitiveness is closely linked to trends in nominal and real wages. The vital shift in monetary policy

<sup>1</sup> See 'Competition', pp. 15-16.



towards the goal of achieving monetary stability means that social partners will have greater responsibility for the level of employment. Uncertainties in this area will affect the credibility of monetary policy, curbing the downturn in interest rates and damaging investment prospects. This means that very considerable efforts must be taken to render nominal and real wage rates more flexible.

The integration of the Finnish economy into the European Economic Area will set the pattern for the reorganization of the productive system. Marked distortions in relative prices compared with other countries indicate significant dysfunctions in market mechanisms. Abolishing non-tariff barriers to the free movement of goods and services, lifting restrictions on direct foreign investment and enhanced discipline regarding State aid will certainly help to increase competition and alleviate such distortions. Such steps will also encourage export diversification, provided that supply-side conditions are competitive.

The government made a start on adjusting public spending to the new situation at the end of 1991 in its budget proposal for 1992. However, there is again in 1992 a rise in public spending of over 5% (compared with 13% in 1991) because of a degree of inflexibility in the legislative process and a rise in crisis-related expenditure. Institutional reforms have been set in motion to provide greater control over public spending, of which the most important is the reform of the system of transfers from central to local government, which will in future be calculated on the basis of objective criteria such as population and demographic structure. This should encourage local authorities to control their spending. The present government's budgetary policy is part of a medium-term strategy whose main aim is to restore budgetary equilibrium speedily by means of a tight rein on public spending, which is intended to be cut back to its 1991 level by 1995 and then stabilized. In line with this policy, the central government's 1993 budget plan aims for a cut in central government spending of 6% in real terms.

It includes a reform of transfers related to unemployment and health insurance, cuts in public sector employment and a freeze on

local authority expenditure. Such a policy represents a major break with the past. It is essential to sustain the commitment to this policy in the coming years if the benefits of a low level of public debt are not to be wasted, and Finland is to participate in monetary union.

The government intends to continue the fiscal reforms started in the late 1980s with the aim of reducing tax-related price distortions. Between 1989 and 1991, the top rate of personal income tax was cut from 51 to 39%. However, the tax base was broadened. The first stage of a reform of capital income taxation has been written into the budget plan for 1993. This will subject all capital income to a flat rate of tax, making the tax system more neutral towards the different sources of finance and encouraging private companies to build up equity capital. The reform of indirect taxation planned for 1994 is vital both to reduce price distortions caused by the present system and to bring it into line with Community requirements. Finland's system of indirect taxation on sales differs from the VAT system in that many corporate services, consumer services and construction are exempt and intermediate input expenses are not fully deductible. The introduction of VAT will reduce the distortions of the present system, which puts export industries in particular at a disadvantage.

4. The objective of participation in economic and monetary union (EMU) is clearly impied in President Koivisto's recent speech in Bruges where he said that it would seem that small and open economies like Finland need to move towards economic and monetary union as foreseen by the Maastricht Treaty even more than stronger economies do.

The government programme as described above reflects first and foremost the necessity to redress internal and external imbalances accumulated over the last decade and exacerbated by the loss of trade with the former USSR. It lays the basis for sound medium-term perspectives and also constitutes a most welcome step in the direction of participation in economic and monetary union.

# Impact of accession

## Agriculture and forestry

1. Finland has a farm land area of 12.3 million hectares (ha) with 2.3 million ha of arable land and 7.2 million ha of productive forests. The average arable area per farm is below Community average (13 ha compared to 16.5 ha for the Community). The share of active population in agriculture is at about the same level as the Community average (9 % of the total active population<sup>1</sup> in 1985 compared to 6.6 % for the Community). The contribution of agriculture to the economy was, in 1990, about ECU 3 300 million i.e. 3 % of GDP.

Finnish farm structure is dominated by a large number of small farms. Many farmers have significant incomes arising from activities other than agriculture; about 50 % of the farms have at least 50 % of their net income from outside agriculture.

Of the arable land, 15 % is used for crop production for human consumption. More than a half of the arable land is used for grains — including feed grains — and around a third is used for production of grass forage.

Production of almost all major agricultural products has in recent years exceeded the 100 % degree of self-sufficiency (cereals, beef, dairy products, etc.). However, surpluses have been reduced during recent years. Compared with EC agricultural production, Finland's production represents 1 to 3 % according to the product. A notable exception concerns oats production, which represents some 30 % compared to EC production.

2. In general, Finland's agricultural policy is in many ways similar to the one of the European Community. Decent incomes for the agricultural population, stabilizing markets and availability of supplies at reasonable prices are common objectives of the Finnish and EC agricultural policies. The policy instruments used by Finland and the European Community are to a large extent also similar: quotas, intervention arrangements on the internal market and a system of border protection together with export

support for surplus production, and direct income aid.

The level of support in Finnish agriculture has, nevertheless, been higher than in the European Community, as measured by producer subsidy equivalents (PSEs). In 1990, the percentage PSEs in Finland were higher than in the European Community for all major products. While the total PSE in the EC was 49 %, the respective figure in Finland was 72 %. This higher level was also reflected in relatively higher producer prices in Finland.

3. Under present conditions, a Finnish accession to the European Community would mean, in terms of consequences for Finnish producers, a downward pressure on prices for the majority of agricultural products. Existing producer price levels in Finland are approximately the double of the corresponding EC levels.

However, lower feed costs and reduction of other costs would significantly compensate for lower prices of livestock products; a basic element of the adjustment process would be a national milk quota. In all likelihood, a reduction would take place in total agriculture production volume. In particular, the self-sufficiency ratio for grains would fall during the intermediate period. The horticultural sector will be in a particularly difficult situation, mainly because of its labour and capital intensity.

An adaptation by Finnish farmers to the conditions prevailing on the EC market means that they will be exposed to generally lower producer prices, a reduced support level and more intense competition. As a result of decreasing producer prices and stronger competition, reduced consumer prices as well as a broader variety of food supply can be expected in Finland.

4. Given the small volume of production of the applicant country compared to the production volume of the Community, no global effects for Community markets have to be expected even if the Finnish degree of self-sufficiency for certain products should still

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<sup>1</sup> 7 % in 1990.

be above 100 % after the adoption of the EC regimes.

5. Geographical location and climatic conditions play a significant part in determining the basic agricultural pattern. About one-third of the total length of Finland lies within the Arctic Circle and most of the rest of the country has sub-Arctic characteristics, although, due to the Gulf stream and frequent penetration of warm winds from the south-west and west, the Finnish climate is relatively warm in comparison with other parts of the globe situated at the same latitude.

Nevertheless, Finland's agricultural production is limited by the shortness of the growing season, which is about 170 days in the southern parts of the country and about 130 days in the northern parts. In the northern parts of the Community the growing season is around 220 to 260 days. The effective temperature sum during the growing season in Finland is usually between 800°C and 1 300°C, varying mainly in function of the latitude and the distance from the Baltic Sea. The extremely low values of both variables have a strong influence on yields and increase risks in crop production; average yields of main crops are thus significantly lower than the EC average. The northern and eastern regions of Finland are also the ones where population density is lowest. Population density in Finland is amongst the lowest in Europe with an average of 15 persons per square kilometre; in most parts along the northern and eastern borders this density is less than five persons per square kilometre.

For many different reasons, such as regional development, employment, national security and nature conservation, special support is therefore directed to a large part of Finland including the northern and eastern regions. The agricultural sector is one of the main beneficiaries of these supports. According to Finnish estimates, the level of support as a part of the Finnish agricultural policy considerably exceeds the corresponding support levels in the Community. There are clear indications that Finland would wish to maintain a high level of support in the event of accession. The Community would have to verify, in the course of negotiations, compatibility between such support and the Com-

munity's relevant policies and legislation, including State aid policy, taking account of the shared objective of maintaining agriculture in marginal areas.

6. After starting with measures related only to agriculture and forestry, Finland has expanded its rural policy programmes to other rural activities promoting better living conditions. The aims of this policy broadly correspond to the EC rural development objectives, such as compensating for the decline of agricultural incomes, giving opportunities to the population of rural areas to develop new activities, developing infrastructures, combating the recent increase in unemployment and avoiding depopulation. Community rural development programmes could be applied in designated areas fulfilling the conditions laid down in Community legislation.<sup>1</sup>

New measures, recently approved in the context of the CAP reform, may well cover some of the existing Finnish schemes. This is the case of agri-environmental programmes (which could cover the Finnish schemes on extensification and organic farming), the withdrawal of land permanently from agricultural production, environmental protection and the maintenance of rural landscape.

Forestry measures are very important for Finland, where this sector is well regulated and organized. Community grants for afforestation of agricultural holdings could cover part of the existing Finnish schemes.

Early retirement schemes should be adapted to the EC conditions. In particular, the new EC funded scheme, approved in the context of the new CAP reform, provides for cessation of activities on the farm within certain conditions.

## Economic and social cohesion

1. Finland's GDP per capita in purchasing power standards is near the Community average (107.5 % in 1989; currently<sup>2</sup> slightly less than 100 %). Nevertheless, half of the Finnish counties have a GDP situated

<sup>1</sup> See also 'Economic and social cohesion', pp. 12-14.

<sup>2</sup> Prior to the recent floating of the Finnish mark.

between 85% and 100% of the Community average.

At present, Finland is experiencing an unusually deep recession.<sup>1</sup> This situation, characterized by a decline in GDP of 8% in real terms during the last year, has led to the creation of unprecedented levels of unemployment. This had risen in the first quarter of 1992 to some 13.5% and appears still to have grown since.

2. The depression is affecting the different regions to varying degrees. The regional differences in unemployment have traditionally been considerable, with the highest figures in the northern regions of Finland and the lowest in the Helsinki region and in the Åland islands, but the difference has narrowed recently because of the rise in unemployment in the south.

The relative importance of agriculture is greatest in the central parts of the country (the counties of Mikkeli, North Karelia, Kuopio and Vaasa have 15 to 17% of employment in agriculture). Regional aid given to these regions tends to address agriculture-related aspects of the economic activity.

The northern and eastern parts of the country, situated at the periphery of Europe, are strongly dependent on forest resources. The industrial sector is essentially composed in these regions of a few big companies in the wood-processing industry. Aid given to these regions is aimed fundamentally at addressing the consequences of their isolation.

Finnish manufacturing industry is strongly concentrated in the south of the country (highest concentration in Turku, Pori and Kymi). Aid given to these regions tends to be concentrated on the restructuring of industry.

The share of services is particularly high, on the one hand, in the Helsinki region and, on the other hand, in the northern and eastern peripheral areas of Finland. In the latter case, this is due to the importance of the public sector and, to some extent, as far as Lapland is concerned, to tourism. Of these regions only Lapland is a recipient of substantial aid.

3. Finnish regional policy aims to provide, in peripheral, sparsely populated regions characterized by a difficult climate, the conditions of life necessary to ensure that all

areas of the country remain populated. This is particularly the case of all the eastern and northern border regions. The policy is currently being revised essentially in the direction of a greater autonomy for regions through the creation of associations of municipal authorities. Aid intensities allowed under the Finnish mechanism are considerably higher than the average rates in the Community.

The Community will have to ascertain whether those levels of support, often designed to compensate for high transportation costs inherent in the different economic activities, are compatible with the Community *acquis* regarding competition.<sup>2</sup>

4. According to the relevant EC Regulation,<sup>3</sup> regions concerned by Objective 1 of the EC structural Funds are regions of NUTS level 2 whose per capita GDP, on the basis of the last three years, is less than 75% of the Community average. The GDP data by county, provided by the Finnish administration, suggest that according to this criterion there are no regions in Finland which would qualify for this objective.

According to the same Regulation, Objective 2 areas must belong to a level 3 region which satisfies the following basic criteria: an unemployment rate and a share of industrial employment above the Community average and a fall in industrial employment. Taking into account the evolution of industrial employment and unemployment, there might be some counties or parts of counties which could qualify for Objective 2, either under the above statistical criteria, or under the additional criteria and flexibility provisions contained in the Regulation.

5. The relevant Regulations<sup>4</sup> set out several criteria for the eligibility of rural areas under Objective 5b: high share of agricultural activity, low level of GDP, high percentage of agricultural production, low population

<sup>1</sup> See section on the Finnish economy and the Community, pp. 8-10.

<sup>2</sup> See section on competition, pp. 15-16.

<sup>3</sup> Regulation (EEC) No 2052/88 of 24 June 1988, Articles 8 (Objective 1) and 9 (Objective 2) (OJ L 185, 15.7.1988).

<sup>4</sup> Regulation (EEC) No 2052/88, Article 11, and Regulation (EEC) No 4253/88 of 19 December 1988, Article 4 (OJ L 374, 31.12.1988).

density, and peripheral nature and sensitivity of the area to developments in agriculture, especially in the context of the common agricultural policy. On the basis of the description above, substantial parts of the country might fulfil these criteria and become eligible under Objective 5b.

6. Finland would be likely to qualify for a variety of EC horizontal measures in the fields of agricultural structures and rural development under Objective 5a: investment aid (support to interest rates and capital grants), loans, and installation aid to young farmers which is widely applied in Finland. Some measures are similar to their EC equivalents, others would have to be adapted. Finland would also benefit from the Regulation on aid for marketing and processing, which has no equivalent. Income aid as it exists for some regions could be covered in part by the compensatory allowance system.<sup>1</sup>

7. In view of the recent increases in unemployment, Finland might, if the present levels persist, benefit, although to a modest extent, from aid granted by the European Social Fund under horizontal Objectives 3 and 4, which are at present aimed respectively at fighting long-term unemployment and facilitating the occupational integration of young people.

8. With a view to the application of Community rules, notably as regards the structural Funds, the Finnish Government will have to supply the appropriate national and regional data drawn up to Community standards.

9. A large part of Finland is composed of Arctic and sub-Arctic regions whose climatic and demographic features would increase the regional and social diversity of the Community and would need to be taken into account in EC structural policies.

## Taxation and the overall tax burden

1. The level of the overall tax burden in Finland (burden of taxes and social security

contributions as a percentage of gross domestic product) is comparatively similar to the Community average. In 1989, according to OECD figures, it was 37.4% as against 39.4% in the Community. The structure of tax revenues is, on the whole, rather similar to that of the Community. The burden of direct taxation is higher in Finland than in the Community (Finland 18.5%; EC 12.7%). The level of indirect taxes is also slightly higher than the Community average (Finland 14.3%; EC 11.1%). On the other hand, the burden of social security contributions is, as for other Nordic countries, much lower in Finland than in the Community (Finland 3%; EC 13.1%).

2. As regards indirect taxation, Finland adopted in 1964 a turnover tax system which has gradually become more and more similar to the VAT system applied in the Community.

Finland applies a relatively high turnover tax rate (22%). A reduced rate system, which includes tax exemption and zero rating, is also operated.

The tax base, which includes very few services, is much narrower than in the Community. Finnish legislation will have to be adapted to bring it into line with Community law on the tax base for VAT.

Rates of taxation will also have to be examined to see whether changes are needed to respect the minimum rates fixed at Community level.

3. In addition to turnover taxes, Finland applies a large number of excise duties which are significant by being very high compared with average rates in the Community, particularly those on alcoholic beverages, tobacco products and motor vehicles.

Taxation on fuels and energy production was reformed in 1986. Fuels and energy production are now subject to VAT. At

<sup>1</sup> See also 'Agriculture and forestry', pp. 11-12.

present, excises are imposed, in addition to VAT, on only gasoline and diesel.

The approximation of excise rates in the Community foresees the application of minimum rates on tobacco, alcoholic beverages and mineral oils. Finland would have to adapt its excise duties to these Community rules.

4. As regards direct taxation, Finland imposes a high level of tax on personal incomes (16.9% of GDP, compared with 9.5% in the Community). As a result of reforms introduced in the period from 1988 to 1991, the marginal rate of tax has fallen from 51 to 39%. The rate of corporate taxation has also been reduced, from 50 to 40%. Finally, a withholding tax was introduced on the interest on securities and bank deposits, initially at a rate of 10%, rising to 15% on 1 January 1992.

The areas of company taxation and direct taxation were not covered by the EEA Agreement and will have to be discussed during the accession negotiations. Finland is expected to be able to introduce the relevant measures without any need for transitional periods. This concerns both the principle of non-discrimination according to Article 7 of the Treaty and the secondary legislation applicable in the field of direct and indirect taxes having a bearing on the performance of enterprises. Finland will also have to accept the convention of the Member States of the Community on the elimination of double taxation in connection with the adjustment of profits of associated enterprises.

5. As regards social security contributions, a particular feature of the Finnish system is that it imposes no charges on employees, only on employers.

6. The tax burden in Finland is comparable to that of the Member States of the Community. The changes needed to conform to the Community's *acquis* concerning approximation of taxes, in particular indirect taxes, should not give rise to any major difficulties, and any transitional periods should be short.

## Competition

1. With the aim of significantly strengthening competition policy, the Finnish Government has undertaken a considerable revision of its anti-trust laws and embarked on a policy of deregulation, bringing Finnish and Community legislation closer together, although to a limited degree.

The principal innovations are the reinforcement of the existing ban on horizontal agreements and abuses of dominant positions, and the replacement of seldom applied criminal sanctions with administrative fines. However, there are two major gaps in the law on restrictive practices<sup>1</sup> compared with Community rules: it has no provisions on prior control of mergers or on vertical agreements, which seriously limits its potential effectiveness. The progress of current efforts to break up cartels should provide a measure of the effectiveness of the new regulations.

2. Spending on State aid has gradually increased over the last five years. Aid schemes would have to be made compatible with Community schemes: this is particularly true of R&D, export promotion and regional aid. After entry into force of the EEA Agreement, Finland's State aid programmes would have to be re-examined to assess their compatibility with Community rules.

3. As for State monopolies of a commercial character (within the meaning of Article 37 of the Treaty), the most obvious problem is the alcohol monopoly, which the Finnish Government justifies on the grounds of public health. In its judgment of 12 March 1987 in Case 178/84, the Court ruled that the obligation to protect public health could not be allowed to obstruct free trade unless there was absolutely no alternative.

A committee has been set up to identify the changes needed to make the monopolies compatible with the relevant EEA provisions. As for other sectors covered by Article 90 of the Treaty (enterprises with special or exclusive rights), such as electricity or telecommunications, the Finnish authorities are planning to introduce deregulation poli-

<sup>1</sup> 4 October 1991.

cies that will have to be examined in the light of developments in Community policy.

4. In conclusion, the alignment of Finnish legislation on Community law will require an increased effort on the part of the Finnish authorities.

The Commission will closely monitor the implementation of the adjustments called for by the EEA Agreement and look into the State alcohol monopoly, which gives cause for concern.

## Implications for the budget of the Community

1. The assessment of the effect of Finnish accession on the Community budget was, as with previous opinions, carried out on the basis of the approved budget figures for 1992, and on the assumption that Community legislation would be applied immediately and in its entirety to Finland. It therefore does not allow for any transitional periods that may be adopted, nor for the dynamic effect of accession (for example changes in trade flows). The simultaneous accession of one or more other countries might alter the income figures slightly.

### Expenditure

#### *EAGGF (Guarantee Section)*

2. Additional EAGGF expenditure for Finland should be relatively modest, focusing mainly on cereals, milk and milk products.

Given the structure of agricultural production, production levels and the level of support established in the reformed CAP, the additional expenditure would be of some ECU 570 million.

#### *Structural Funds*

It is likely that aid would be granted to Finland from Objectives 2, 3, 4 and 5.<sup>1</sup>

On the basis of the regional structure of certain Member States similar to Finland, it is estimated that expenditure on aid would be in the region of ECU 110 million.

### *Other policies*

Given Finland's GNP, 'other expenditure' would amount to ECU 160 million of which ECU 25 million for fisheries, ECU 43 million for research and ECU 30 million for external policies. The rest would consist of expenditure relating to the internal market, industry, citizens' Europe and administrative expenditure.

### *Level and structure of expenditure*

The increase in the Community budget expenditure due to Finnish accession would represent ECU 830 million, namely 1.4% of total Community expenditure.

The structure of expenditure in favour of Finland would show a share for agricultural expenditure (68.5%) slightly above the corresponding average for the Community of Twelve (60%).

On the other hand, the structural Funds would represent only 12% of expenditure, compared with 27% for the Twelve. The share of expenditures related to 'other policies' would, nevertheless, be higher: 19.5% for Finland, and 13% for the Community of Twelve.

### Income

3. The income from Finland would be of the order of ECU 255 million for the traditional own resources (agricultural levies, sugar levies and custom duties). Finland's VAT contribution would be ECU 500 million in absolute terms and its GNP contribution would be ECU 190 million.

The breakdown of income is close to the Community average. The total income from Finland would represent some 1.5% of the

<sup>1</sup> See also 'Economic and social cohesion', pp. 12-14.

income of the budget of the 13 Member States, a value near the Finnish share of total Community GNP.

## Other sectors

### Fisheries

1. The maritime fisheries sector represents only a modest part of the Finnish economy, smaller in fact than the sector of aquaculture, itself also not economically very significant. Full participation of Finland in the common fisheries policy (CFP) should not imply substantial changes in the present structure of fishing activities either in Finland or in the Community. Furthermore, the commitment made by Finland within the EEA Agreement to open up the market should bring it closer to that of the Community and facilitate the adaptation of Finnish legislation to that in force in the framework of the CFP.

2. Nevertheless, some differences remain between Community and Finnish policies, especially concerning access to waters (conditions of access), exploitation of resources (necessary improvement of the management mechanisms and of the control of fishing activities) and markets (introduction of a reference price and active participation of producers' organizations).

### Transport

1. All questions concerning the extension of the Community legislation in the transport sector to Finland are dealt with in the EEA Agreement. No transitional periods or exemptions will apply for Finland in this case, which shows that Community and Finnish transport policy are evolving in the same direction.

2. Compared to the existing Community Member States, Finland is applying in national transport higher weight and dimension limits for heavy vehicles, which are considered economically necessary for tim-

ber transport in particular. Vehicle weights and dimensions in national transport would have to be discussed in the accession negotiations.

### Industry

1. For the majority of industrial sectors no problems are expected in relation to Finland's likely membership, as most of the relevant Community *acquis* will already be adopted by Finland by virtue of the EEA Agreement. Transitional periods were restricted to exceptional cases and strictly limited in time. As a result Finnish legislation will already be, not later than 1 June 1995, adjusted to the obligations of Community membership in almost all areas.

2. In some areas, nevertheless, namely concerning forest-based industries, chemicals, foodstuffs, steel and non-ferrous metals, particular issues remain to be addressed in the context of the accession negotiations.<sup>1</sup>

### Environment

1. Most Community legislation in the field of the environment will be adopted by Finland in the context of the EEA Agreement. Finnish legislation is thus undergoing major changes in order to adapt to the Community *acquis* in this field and most legislation will be ready at the beginning of 1993. This applies to air and water pollution control, noise, chemicals, waste management and emissions from industrial plants. It will equally be the case for future legislation on biotechnology and genetically modified organisms.

2. Review of the annexes of EC Directives dealing with flora and fauna will be required given the specificity of the country. Finland will have to change its legislation in some areas, including for instance those concerning nuclear safety and radiation protection.

<sup>1</sup> These are analysed in the annex on industry, pp. 30-31.



## Energy

1. There are no major differences between the objectives of Finland's energy policy and those of the Community's own energy policy. Finland would have to apply the whole of the Community's *acquis*. It should be noted that, by virtue of the EEA Agreement, the relevant *acquis* will already be applied by Finland, apart from the crisis and short-term Directives. Furthermore, Finland, which has recently joined the International Energy Agency (IEA), has oil stock levels well above Community requirements and has a legislative framework for provisional demand restraint measures.

2. Finland's lack of indigenous resources, its geographical position, industrial structure and substantial transport requirements resulted in a high energy consumption and import dependence. There is considerable uncertainty about imports from the republics of the former Soviet Union and, in order to increase security of supply, Finland will need to make substantial investments, particularly in extending the gas infrastructure.

3. In the short term, Finland's energy situation poses no major problems and should create no difficulties for the Community's existing energy structure. Its present energy links with the Scandinavian countries are a positive feature from the Community's point of view. However, in the medium term some difficulties are to be expected in reconciling different aspects of policy. Environmental objectives similar to those pursued in the Community might be difficult to attain in the event of the relaunch of economic growth since, apart from nuclear energy, there seem to be few economic alternatives to fossil-based energy. In the event of accession Finland would be the only Member State operating Russian-designed nuclear reactors (those in the new German *Länder* having been shut down). The fuel for two of the reactors is supplied as a complete service from Russia in the form of manufactured fuel elements ready for insertion into the reactors.

4. There should be no insurmountable problems on the accession of Finland in matters relating to nuclear fuel supply under the responsibility of the Euratom Supply

Agency. Certain aspects nevertheless require further examination, notably the implications of Finnish licensing procedures for the conclusion of supply contracts and trade in nuclear materials by Finnish entities in the Community.

## Trade and economic relations with third countries

1. As a member of the European Economic Community, Finland would be bound by the Common Customs Tariff and by the Community common commercial policy towards third countries.

2. Finnish tariffs on industrial products are comparable with those of the Common Customs Tariff. The average level of most favoured nation (MFN) duties for such goods is 5.5 and 5.06% respectively.<sup>1</sup> However, Finnish tariffs have more peaks and troughs which may give rise to some difficulties in adjustment.

3. The introduction of the common commercial policy would mean the application to Finland's external trade of the relevant basic provisions of the Treaty of Rome (and notably those of Article 113 EEC) as well as of the Community *acquis* in this field and in particular:

- the common import regime;
- the rules concerning dumping or subsidization by countries which are not members of the Community;
- the common export regime;
- the so-called 'new commercial policy instrument';
- the rules concerning the prevention of imports of counterfeit goods;
- the Community's system of generalized tariff preferences towards developing countries.

4. Any trade policy instruments or measures currently applied by Finland would

<sup>1</sup> See also 'Customs union', pp. 20-21.

have to be modified or repealed so as to bring Finnish law into conformity with its obligations under the above *acquis*.

In a number of sectors, Finland's trade policy for industrial products is more restrictive than that of the Community. On the other hand, special tariff concessions apply to goods that are not manufactured in Finland.

Finland has an anti-dumping regime based, as is that of the Community, on the GATT anti-dumping code. Finland introduced in 1972 a generalized system of preferences (GSP) providing for preferential rates of import duty for goods to which the system applies. In the new GSP decree implemented on 1 January 1992 least developed countries (LLDCs) were given total duty exemptions and the 'negative list' which applied to other countries was substantially reduced.

5. One possible area of difficulty for Finland could be the Community's practice of imposing economic sanctions on certain third countries on the basis of Article 113 of the EEC Treaty (e.g. Argentina, USSR, South Africa, Iraq, Serbia-Montenegro), a practice that is codified in Article 228A of the Maastricht Treaty.

This would not be the case for sanctions taken pursuant to UN Security Council binding resolutions, since Finland has always supported such sanctions and regarded them as not in conflict with its neutrality. Problems might arise, however, in relation to peace-time trading restrictions of a 'political' or 'strategic' nature. They might lead to a conflict with the policy of neutrality but Finland's freedom to determine her position within the Union's institutions *vis-à-vis* such measures would remain unfettered, since it is not bound by any legal obligations of neutrality. As mentioned by the Commission in previous opinions on applications for membership, similar problems might theoretically be possible regarding some provisions of the ECSC and Euratom Treaties.

6. Finland would have to take over the existing agreements the Community has established with third countries. In the area

of preferential agreements, the most important are those with the remaining members of EFTA, the Europe Agreements with the countries of Central and Eastern Europe, the various Mediterranean Agreements and the Lomé Convention. None of these should give rise to any substantial difficulty for any of the parties involved. In certain cases, the Community itself might need to adapt its existing agreements with certain partners to take account of Finland's accession.

7. The textiles policy of the Community would be extended to Finland. At present, Finland has agreements on imports of specified textiles and clothing items with 11 exporting countries (with which the Community maintains restrictions). Products under restriction are certain knitted and woven garments and, in some cases, bed linen. Yarns and fabrics are not included. Finnish measures apply to a smaller range of products than those of the Community. On the other hand, Finnish tariffs are higher than those applied by the Community.

8. Finland's accession would bring about a new situation for the Community which would then share a long common land border with Russia. This border also marks a deep prosperity and welfare gap. Given its vicinity with Russia, Finland is particularly aware of the need for economic cooperation and for international support for the modernization of the Russian economy. As a member of the European Union, Finland would be likely to be strongly in favour of support for the economic reform process in Russia, in particular in the neighbouring regions. Beside the Russian Federation, Finland has also recently established contractual relations with a number of other republics of the CIS — Belarus, Kazakhstan and Ukraine — and has an experience of trade and economic relations with both the CIS and the Baltic countries which would be precious for the efforts of the Union to support the economic transformation of, and development and cooperation with, those countries.

9. Finland would have to repeal her current trade agreements with third countries. As a general rule this should not pose major difficulties, since Finland only has a few free trade agreements, most of which are with

European partners. A particular case that would require close scrutiny is that of the Baltic States with which Finland is committed to free trade while the Community still has relations based on MFN treatment.

Finland would have to cease to be a member of EFTA, its relations with these countries being henceforth ruled by the Community's own agreements with the EFTA countries. The EEA Agreement would cease to be applicable to bilateral relations between Finland and the Community.

10. The implications of Finland's accession to the Union for trade relations with third countries would have to be the subject of a GATT assessment under Article XXIV of the General Agreement.

## Customs union

1. Under the Free Trade Agreements concluded in the 1970s<sup>1</sup> customs duties and charges on imports and exports, having an equivalent effect and also quantitative restrictions on imports and measures having an equivalent effect, were abolished a long time ago in trade between Finland and the Community in industrial products originating in Finland or in the Community within the meaning of Protocol 3 to the Agreement.<sup>2</sup>

A Supplementary Protocol to the 1973 Agreement was concluded between the Community and the EFTA countries including Finland<sup>3</sup> with the aim of phasing out quantitative restrictions on exports (except on ECSC products) by 1993. Agriculture is not covered by the Agreement although there are specific agreements on certain agricultural products.

The establishment of the customs union should start from the position created by the application of these Agreements and the Conventions between the EEC and Finland on the simplification of formalities in trade in goods, and on the establishment of a common transit procedure, which have been in force since 1 January 1988.

2. Adopting the Common Customs Tariff (CCT) will be made easier by the fact that

Finnish tariffs are generally comparable with the Community's, particularly for industrial products.

The Finnish duty applicable to industrial imports solely for those products subject to customs duties is 5.5% on weighted average (CCT 5.06%).<sup>4</sup>

For Finland as for the Community, almost all the industrial tariffs are bound under GATT (97% for Finland; 98.8% for the Community).

For all agricultural products, and solely for those products subject to customs duties, the weighted average of duty applicable is 8.3%.<sup>4</sup>

3. Finland has been applying the harmonized system since 1 January 1988, as has the Community. Adopting the combined nomenclature should not pose particular difficulties, since the Community's subdivisions are perfectly suitable for Finnish requirements and will enable Finnish statistical data to be refined.

4. Finland will have to apply Council Regulation (EEC) No 802/68 of 29 June 1968 on non-preferential rules of origin for non-member States.<sup>5</sup> It must also accept the *acquis communautaire* on preferential origin (GSP, ACP, Agreements with the Mediterranean countries and the countries of Central and Eastern Europe, etc.).<sup>6</sup>

5. Customs legislation proper which forms part of secondary legislation will have to be adopted by Finland subject, of course, to certain adjustments which may prove necessary as a result of accession.

6. Finland has concluded bilateral agreements with Sweden and Norway setting up a system of administrative cooperation on common borders. On most major routes between Finland and Norway there is only

<sup>1</sup> See 'Relations to date between the Community and Finland', p. 7-8.

<sup>2</sup> OJ L 323, 11.12.1984.

<sup>3</sup> No 5/88 of the EEC Finland Joint Committee (OJ L 381, 31.12.1988).

<sup>4</sup> *Ad-valorem* duties only.

<sup>5</sup> OJ L 148, 28.6.1968.

<sup>6</sup> See 'Trade and economic relations with third countries', pp. 18-20.

one joint (Finnish or Norwegian) customs office, which is responsible for applying customs legislation for both countries. These agreements could create a problem if Finland were to join the Community but Norway to remain outside.

7. Finland's accession would require a change in the definition of the Community's customs territory in customs legislation to include the additional words 'the territory of the Republic of Finland'.

## Development cooperation

1. In the course of the last decade, Finland has increased significantly its contribution to development cooperation aid. At a yearly rate of 15% the increase of Finnish public development aid was one of the highest of the OECD. The provisional figures for 1991 show that development aid increased by more than 9% and was higher than 0.7% of GDP. In spite of the fact that, given her difficult economic situation, Finland was forced in 1992 to significantly diminish the level of her public expenditure, development aid included, the commitment of Finland to development cooperation and the country's experience in the area of development cooperation would represent an asset to the Community, particularly in the context of the establishment of the common development policy arising from the Treaty on European Union.<sup>1</sup> Finland would have no difficulty in accepting all the *acquis* and joining all the international agreements the Community has established in this area.

2. As far as the relations with the ACP States are concerned, the accession of Finland to the Community would imply accession to the Lomé Convention and participation in the European Development Fund.

3. A Protocol of Accession would be concluded in order for Finland to become a Contracting Party to the Lomé Convention. Indeed, under Article 358 of Lomé IV, the Community is required to inform the ACP States of its decision to enter negotiations in view of the accession of a third country.

Regular contacts between the Community and the ACP States are foreseen to take place during accession negotiations. Once these negotiations are concluded, the Community and the ACP States will enter negotiations in order to establish a Protocol of Accession and adopt any adaptation or transitional measures deemed necessary.

## Foreign and security policy

1. Finnish foreign and security policy has been strongly influenced by its geopolitical situation on the periphery of Europe, with an extensive border with Russia. This century it has twice been involved in war with Russia and was forced to cede a substantial part of its territory.

2. Following the Second World War, Finland developed a policy of neutrality aimed at remaining outside great power conflicts of interest. This political choice was determined essentially by geopolitical factors. Finland needed on the one hand to maintain close and friendly relations, both economic and political, with the Soviet Union while at the same time retaining and developing political and economic links with the rest of Western Europe. Neutrality was seen as the best way of reconciling these two objectives. This policy line, known as the Paasikivi-Kekkonen doctrine, has for long dictated a cautious approach towards European integration efforts.

3. Finland thus developed a tradition of neutrality, not rooted in national or international law, which had, as in the case of permanent neutrals, the effect of imposing restrictions on foreign policy in peacetime. Finland's neutrality was furthermore characterized by its strong commitment to maintaining the capability of ensuring its own defence. Finland has thus developed an important military capability.

Until the end of the cold war, membership of the European Community was considered by Finland to be incompatible with its policy of neutrality. The latter has not, however,

<sup>1</sup> Through the addition to the EEC Treaty of Title XVII, containing Articles 130u to 130y.

prevented Finland from gradually assuming an international role, namely in the UN and Nordic cooperation (since 1955), in the EFTA context and in the provision of development assistance to the Third World, and, more recently, in support of the Baltic States, the G24 exercise and in particular in the creation and development of the CSCE. Finland has participated in many peace-keeping missions in the UN context, placing its military expertise and capacity at the service of its commitment to the UN system and to peace.

4. The unification of Germany, the emergence of the new democracies in Central and Eastern Europe, the dissolution of the Warsaw Pact and the transformations undergone by the former Soviet Union have led to a major reassessment of Finnish external policy. The government published in January 1992 a background report on Finland and European integration. The paper stated that EC membership 'would create a more effective channel for Finland's national aspirations and increase its importance for other EC countries'. In its section on foreign and security policy, the document noted that EC membership 'would face Finland with significant obligations' and that in practice the opportunity to exercise the right of veto was limited. As regards possible EC sanctions, this could also pose a problem but not if such measures were sanctioned by the UN or CSCE. As regards the Western European Union (WEU), considering it probable that the long-term goal would be to combine membership of the Community and the WEU, the Finnish Government concluded that Finland would have to define its relationship with the WEU as an organization at a later date.

The report concluded that Finnish foreign policy goals would be compatible with EC membership. At the same time, it recognized that there could be problems with acceptance of a defence policy binding on Member States and with the imposition of sanctions on third countries. It concluded that 'ultimate clarity in detailed issues related to Finland's security policy would not be forthcoming before the actual membership talks'.

5. The member States of the Western European Union (WEU), in their declaration at

Maastricht, invited Member States of the European Union to accede to the WEU or to become observers if they so wished.

The Finnish authorities appear to consider that the WEU will initially be developed as an instrument of crisis management for the Union, having noted that contingencies are being developed for the WEU to contribute to security tasks such as the provision of humanitarian aid to conflict areas, peace-keeping and the use of combat troops in crisis management (in cooperation with the UN and the CSCE). They appear to accept that as a member Finland must be prepared to contribute to crisis management activities in accordance with its membership obligations. The Commission would, however, recall that the role of WEU involves political objectives which go beyond that rather restrictive view. The official position of the Finnish Government, supported by Parliament, is that Finland will determine its relationship with the WEU in the light of the further development of the WEU's defence dimension.

6. The question is whether the Finnish policy of neutrality — even reduced as it is to its core of military non-alignment and credible, independent defence — might stand in the way of a full acceptance of the Union's external policies. Moreover, in respect of the common foreign and security policy, the question arises to what extent Finland, which, as an armed neutral, has always laid great emphasis on the capability of defending the national territory, can fully share some of its objectives, such as the safeguarding of the independence and security of the Union (Article J.4). The Finnish Government has indicated that it considers that — since the Maastricht Treaty would not create a military alliance and thus would not replace the existing defence arrangements of the members or applicants — the maintenance by Finland of its national defence would conform to the Treaty's provisions and would contribute to the common security of the Union and its Member States.

7. The conclusion to be drawn from the Finnish authorities' statements is that Fin-

land could fulfil all common foreign and security policy obligations. The Finnish policy of neutrality is not rooted in national or international law; the doctrine of the anticipated effects in peacetime of maintaining neutrality in wartime is less developed in Finland than it is in some other countries where there is a legal basis for neutrality.<sup>1</sup> Nevertheless such anticipated effects, even if they are of a political nature, can pose problems for the Union, to the extent that they might cause Finland to oppose itself systematically to certain actions which, in its view, could be prejudicial to its policy of neutrality, or what is left of it.

Finland has indicated that as a member of the Union it will support the security of the other members in a spirit of loyalty and mutual solidarity, and expects similar support from the other members. As noted above,<sup>2</sup> President Koivisto recently confirmed the Finnish acceptance of the *acquis communautaire*, the Maastricht Treaty and the *finalité politique* of the European Union. Finland has, however, not yet fully clarified its position regarding the eventual framing of a common defence policy and in particular regarding the possible establishment in time of a common defence.

8. The Community would need, in the context of the accession negotiations, to ascertain further the full nature of the present Finnish policy in order to be satisfied that this would not hamper the possible evolution in time of a common European defence. As the Commission already pointed out in its report on enlargement<sup>3</sup> of 24 June 1992, 'specific and binding assurances will be sought from [applicant countries] with regard to their political commitment and legal capacity to fulfil the obligations' of the common foreign and security policy.

## Cooperation in the fields of justice and home affairs

1. Declaring its acceptance of all the provisions of the Treaty on European Union, Finland has implicitly indicated its accep-

tance of all the provisions concerning the cooperation in the fields of justice and home affairs, included under Title VI of the Treaty on European Union. These include asylum policy, the movement of nationals of third countries across the external borders of the Community, and the immigration policy including conditions of entry, movement and residence of nationals of third countries. Finland is particularly well-informed on all these questions, having followed them closely because of their implications for the workings of the Nordic Passport Union Agreement.

2. In common with its Nordic neighbours, Finland has considerable experience in dealing with matters related to refugees and asylum-seekers and would not have difficulty in participating in cooperation in this area. Finland has devoted the necessary means to ensuring the effective control of the circulation of nationals of third countries across its borders. Finland is committed to regional and in particular cross-border cooperation as a stabilizing factor contributing to avoid the risk of economically motivated migration in the north-eastern part of Europe.

3. Finland would equally be ready to join cooperation in the fight against drug addiction and fraud on an international scale, judicial cooperation in civil and criminal matters, customs cooperation and police cooperation for the purposes of preventing and combating terrorism, unlawful drug trafficking and other serious forms of international crime. Finland has both the means and the will to cooperate fully in these areas even if — unlike some other EFTA countries — it is not one of the partners regularly consulted in the Trevi framework.

<sup>1</sup> It should be recalled, however, that in acceding to the International Energy Agency (IEA), Finland subscribed to the declaration made by Austria, Switzerland and Sweden, thereby granting itself considerable freedom of manoeuvre to act as it wished in conformity with its status of neutrality even in the face of binding decisions of the IEA in time of crisis.

<sup>2</sup> See p. 8.

<sup>3</sup> See footnote 1, p. 5.

## The specific situation of the Åland islands

1. The Åland islands form an autonomous Swedish-speaking province of Finland with 25 000 inhabitants living on 60 of the 6 500 islands of the Åland archipelago, situated in the Gulf of Bothnia.

The autonomy status of Åland dates back to 1921, when following a decision of the Council of the League of Nations to grant sovereignty of the islands to Finland, the latter undertook to guarantee the inhabitants of the province their Swedish language, culture and customs. These undertakings, under international public law, have since been incorporated in the Act of Autonomy of Åland recently amended in a new text which will enter into force on 1 January 1993. Under the Act, the Åland Legislative Assembly has exclusive legislative competence in specified fields such as education and culture, health and medical services, administration, promotion of business and industry, internal communications and local taxation. The Provincial Government of Åland drafts and gives effect to the measures relevant to the autonomy.

The demilitarization and neutralization of Åland date back to the same year of 1921. In fact, even if the demilitarization of Åland was first established in the Peace Treaty of Paris of 1856, the present status was defined in the Treaty on demilitarization and neutralization of the Åland islands concluded in 1921, under the auspices of the League of Nations.

2. Åland has no treaty-making competence. International agreements concluded by Finland also cover the Åland islands. The consent by the Autonomous Province is required before international agreements affecting the autonomy of the islands enter into force for them. Such is the case for the EEA Agreement which the Government of Finland presented to the Parliament of the Åland in Autumn 1992. If the Legislative Assembly gives its assent to the Agreement, Finland will notify the Community as provided for in Article 126, paragraph 2 thereof. This article reflects, in the form of special

exemptions, the specific prerogatives attached to regional citizenship. Åland regional citizenship is required for voting and standing for elections for the Legislative Assembly, for owning and holding real estate in Åland and for carrying on business in the islands. It is acquired at birth, although immigrants can apply for regional citizenship after five years' continuous residence.

3. The service sector is fundamental to Åland economy, generating some 70 % of employment and 80 % of gross product. The backbone of the local economy consists of shipping and, closely connected to it, of tourism. The revenues from tax-free sales aboard the ferries cruising the area are economically very significant. The share of the agricultural sector in the economy of the islands is comparatively high and that of the industrial sector quite small. The fishing sector too has some importance in the economy of the islands. In 1991, 9 % of fishing boats and 14 % of fishermen in Finland came from Åland. They were responsible for 13.5 % of the total captures by the maritime fisheries' fleet.

4. According to the Autonomy Act, Åland has legislation powers for the 'protection of nature and environment and the recreational use of nature and water law'. These powers have been exercised in some fields of environment protection. Provincial requirements are of stricter character than the corresponding national ones and are designed to the local needs and conditions of protection. Legislative drafting is under way to eliminate disparities between such legislation and EC environmental legislation.

5. The Legislative Assembly has competence to legislate on additional tax on income for the province, the provisional extra income tax, trade and amusement taxes, the bases of dues levied for the province and the municipal tax.

6. The status of the Åland islands in the context of the accession of Finland to the European Union thus calls for a more detailed examination during accession negotiations.

# Conclusions

1. As the Commission pointed out in its report 'Europe and the challenge of enlargement', the Treaty on European Union<sup>1</sup> requires that a State which applies for membership must satisfy the three basic conditions of European identity, democratic status and respect for human rights as well as being willing to accept and able to implement the Community system. In the accession negotiations, the Union should take as a basis the rules and structures as they will exist following the entry into force of the Treaty on European Union.

2. Finland, like its EFTA partners, shares with the present EC Member States the values of democracy, human rights and market economy.

3. The Commission noted in its abovementioned report that the accession of the EFTA countries who have applied for membership 'should not pose insuperable problems of an economic nature, and indeed would strengthen the Community in a number of ways'. The more detailed analysis of the present report illustrates this in the specific case of Finland.

4. Finland has free trade in industrial products with the Community in the context of the Free Trade Agreements of 1973.<sup>2</sup> This relationship will be further developed in the context of the EEA Agreement. Furthermore, Finland has close relations with the Community in the economic and monetary fields. Expectations are that, once the present economic difficulties are surmounted, the Finnish mark will once again be pegged to the ecu, as it has been since 1991. Accession to the Union is expected to contribute to creating the conditions for strengthening the Finnish economy. As regards the Community's *acquis*, much of this will already be applied by virtue of the EEA Agreement.

5. There are some areas where problems might arise, but the Commission considers that it should be possible to solve these satisfactorily during accession negotiations. The implementation of the Finnish Government's policy for the restructuring of the

agricultural sector would take it in the same direction as that of the Community. Accession would represent, nevertheless, an important challenge for Finnish agriculture, resulting in lower prices, reduced support levels and increased competition. Changes would be required also in a number of other sectors. State monopolies, such as that for alcoholic beverages, would have to be adapted. Competition in general would increase in a number of fields. Finnish national policy in relation to regions facing particular difficulties, such as the northern and eastern regions of Finland, would have to be implemented in forms compatible with the Community *acquis*. Changes, mostly of a technical nature, would also be required in Finnish policies in a number of other fields such as fisheries and industry.

6. The Union will on the whole benefit from the accession of Finland, which would widen the circle of countries whose prospective middle- and long-term economic, monetary and budgetary performance is likely to contribute to the development of economic and monetary union.

7. In the area of foreign and security policy, the Commission notes that Finnish policy has evolved significantly, especially since the beginning of the 1990s. Finnish neutrality has been reduced to its core of non-participation in military alliances and keeping an independent defence. There seems to exist a consensus in Finland in relation to a full participation in the common foreign and security policy of the European Union. Finland will be required to accept and be able to implement this policy as it evolves over the coming years. The Finnish Government has stated that it recognizes that the Maastricht Treaty provides for the eventual framing of a common defence policy for the Union, which might in time lead to a common defence. It has accepted the Treaty's provisions and has indicated its preparedness to participate constructively in their implementation. As will be the case for other appli-

<sup>1</sup> Articles F and O.

<sup>2</sup> See footnote 2, p. 7.



cants, the Commission recommends that in the context of the accession negotiations, specific and binding assurances from Finland should be sought with regard to her political commitment and legal capacity to fulfil the obligations in this area.

8. As regards the adjustments to the Treaties referred to in Article O of the Treaty on European Union which would have to be made in the case of Finnish accession, these would obviously have to take into account not only the specific case of Finland but also the fact that a number of other EFTA

countries would be joining the Union at the same time.

9. On the basis of the above considerations the Commission confirms in respect of Finland the conclusion it reached in its report on enlargement as regards EFTA applicants in general. The Commission recommended that negotiations should be opened after the Member States have ratified the Treaty on European Union and concluded the negotiations on own resources and related issues. These conclusions were, moreover, confirmed by the European Council.

## Annexes

## Agriculture

### The situation by product

#### *Crop products*

Adjustments to certain Finnish market organizations will be needed, in particular for cereals, vegetable oils, oilseeds and protein plants, fresh and processed fruit and vegetables, potatoes, sugar, wines and spirits.

1. The main difficulties in the cereals sector pertain to Finland's policy of price support at levels much higher than those in the Community, and the fact that the market is managed by a State body (the Grainboard). Finland is likely to request a transitional period in which to align Finnish prices with the Community's. Finland's experience in supply management and specific regional assistance will be an advantage in introducing the main elements of Community policy in this sector.

2. In the oilseed and protein plant sectors, Finland's support system will have to be made compatible with Community policy. To this end, taxes on fodder products in these sectors should be abolished, along with quantitative restrictions on imports.

3. Some changes will have to be made in Finland's fresh and processed fruit and vegetable policy, primarily because of the lack of a market organization in Finland. If a transitional period is provided for, it must be kept short.

4. Finland will have to adapt the potato sector to meet the required quality standards, and its present system of support will have to go.

5. In the sugar sector, while the adoption of the Community system should not pose any problems, certain new measures will nevertheless have to be introduced, including production quotas, a compensation system for storage costs and production levies. Moreover, consumer prices in Finland are some 66% higher than Community prices, and these differences will have to be resolved satisfactorily. A transitional period could be

requested to allow the beet sugar and isoglucose sector to adjust to Community conditions. In this connection, particular attention should be paid to the import prices paid by the refineries.

6. Finland should in general have little trouble adopting the *acquis communautaire* governing wine and spirits in its entirety and without recourse to a transitional period, since this sector was thoroughly examined in the context of the establishment of the European Economic Area (EEA). All non-tariff barriers — both those arising from the definition and composition of products and those concerned with oenological practices — appear to have been dismantled. Moreover, customs duties on spirits have been reduced to zero on both sides.

It should, however, be noted that a monopoly exists in the importation of, and wholesale and retail trade in, alcohol, spirits and wine.<sup>1</sup>

7. No particular changes are required in Finland's rules governing products such as starch and seed. Accession will pose no problem as regards starch, since the Finnish and Community arrangements in this sector are similar and Finland produces only a very small proportion of its starch requirement domestically. No transitional period will be necessary if the green rate is set at a level near the central rate. Nor will transitional measures be required for seed after accession, since Finland's overall level of aid is lower than the Community's. For the very small floriculture sector, all that needs to be done is to align the Finnish customs tariff with the Community's and adjust quality standards in the sector.

#### *Livestock products*

8. The beef and veal sector, together with milk and milk products, is crucial to Finnish agriculture — the two sectors combined account for over 50% of total revenue. It is closely linked to regional development and the food-processing industry.

Finland's livestock policy is based on:

<sup>1</sup> See 'Competition', p. 15-16.

- a guide price which is over 30% higher than the Community intervention price;
- granting income supplements, under the law on farmers' incomes.

To avoid discrimination between Finnish and Community producers, payments to farmers should be harmonized as soon as possible following accession.

Trade between Finland and the Community could increase as a result of the arrangements negotiated for the EEA, which provide for zero-duty import quotas. The Community arrangements for dealings with third countries could be applied in Finland from accession.

9. The Finnish sheepmeat sector is very small, and the Community arrangements (voluntary restraint agreements on imports and ewe premiums) should be applied from accession, with no transitional period.

10. For milk and milk products, a number of adjustments will be needed in terms of the prices paid, which are 55% higher than Community prices, and the complexity of the subsidy system. Finland may request a transitional period to allow for a progressive adjustment of the sector.

11. A transitional period may also be requested in the pigmeat, eggs and poultrymeat sectors. In all three sectors, Finland will be required to eliminate all quantitative restrictions, direct production aid and other restrictive measures. It will also have to adopt the Community scale for the classification of pig carcasses and Community egg and poultrymeat marketing standards as soon as possible.

## Industry

In the case of Finland's membership to the Community no problems are expected for the following industrial sectors:

- Finnish shipbuilding which was for nearly 30 years favoured by the bilateral trade agreement with the USSR. In the wake of the political changes in the USSR and due to the economic crisis in this sector on world level, Finnish shipbuilding had to undergo a substantial restructuring. At present, the sec-

tor is made up of two companies, both particularly specialized in specific types of ships. Integration into the Community for Finnish shipyards seems to be easily possible. In addition, there is already good cooperation between the relevant administrations and Finland already applies the Community aid rules on an autonomous basis;

- the automobile sector, where Finland accepts Community legislation in the fields of competition and environment and has not asked in the EEA context for derogations from Community regulations;

- in mechanical and electrical engineering Finland has a hi-tech, specialized and well-equipped industry. The sector is competitive and would be an asset to the Community industry. Integration into the Community does not pose problems as most of the large Finnish firms are already established in the Community;

- the construction sector, although suffering seriously from the economic downturn and the loss of the Soviet market which accounted for 43% of construction activities abroad, is already transparent and consequently no problems are expected due to Finland's EC membership;

- the textiles and clothing industry accounts for 2.7% of industrial value added and 5.6% of industrial employment; no problems are expected from Finnish EC membership as Finland is also a member of the Multifibre Arrangement and has followed, up to now, a restrictive approach as regards import quantities agreed upon by bilateral agreements;

- compared with the EC pharmaceutical industry, the Finnish pharmaceutical industry is rather small, reaching about 1% of Community production. With close to 4 000 employees the sector accounts for 1% of industrial employment in Finland. Mergers have reduced the sector to two companies, Orion and Leiras. During the EEA negotiations it became clear that the adoption of the Community *acquis* by Finland will not pose any problems.

In some industrial sectors additional in-depth analysis seems necessary.

Forest-based industries are most important for Finland. In economic terms, no problems are to be expected as a result of Finnish EC membership because there exists already a

high level of integration between Finland and the Community in forest-based industries. The sector accounts for 40% of total Finnish exports by value. Some 80% of the sector's output is exported, mainly to the Community which absorbs about two-thirds of all exports. Germany and the United Kingdom are the most important markets for Finnish pulp, paper and sawnwood. In recent years the Finnish pulp and paper industry, 26% of which is State-owned, has made heavy investments in the Community, such that 25% of Finnish-owned paper and paperboard production now takes place outside Finland. In addition, Finland already participated in the EC research programmes on forestry and wood products. In competition terms, it should be noted that the wood sector receives more grant aid in proportion to value added than any other industrial sector. Once Finland becomes an EC member, it will be important to check that such grants conform to EC rules. In terms of trade policy, Finland has lower tariffs with third countries than the Community, but the importance of this problem should not be exaggerated since actual imports of these products from third countries are small.

The Finnish steel industry is the second most important steel industry in northern Europe, only a little smaller than in Sweden. The sector consists of three companies, which together account for 3 to 4% of total industrial production and employment. About half of Finnish exports go to the Community. Possible problems could result from the different approaches between the Community and Finland concerning imports from the ex-USSR. While Finland grants preferential treatment the Community has not yet agreed to eliminate tariffs on imports from the ex-USSR.

This is to be reached through a bilateral agreement currently under negotiation. Finland's EC membership would also imply regular payments of the production levy due to the provisions of the ECSC Treaty. Concerning the EEA Agreement, Finland has agreed to apply the Community rules for State aid and to abandon any export restrictions on scrap metal.

The non-ferrous metals sector in Finland covers mining, smelting, refining and the transformation of metals. Finland is a pro-

ducer of copper, zinc, nickel, lead, cadmium, mercury, cobalt, gold and silver. The sector covers 12 enterprises which account for about 1% of industrial value added. The Community is one of Finland's important trading partners in this sector, in addition to EFTA and the ex-USSR. The importance of Finnish industry in relation to Community industry is relatively high as concerns production of cobalt, zinc, nickel, copper, cadmium, mercury and gold minerals. Nevertheless, the accession of Finland is not expected to have significant consequences for Community industry. In addition, Finland's industrial associations are already members of the relevant European organizations Eurometaux and Eurometric.

Finland's chemical sector accounts for 11% of industrial value added and 9% of industrial employment. The Finnish chemical industry has become the third largest export sector of industry exporting about 35% of production. Two major companies account for about half of the sector's employment. One is a big oil refiner and one of the biggest polymer-producing companies in Europe. The other is one of Europe's biggest producers of fertilizers.

The foodstuffs sector in Finland accounts for 11% of industrial value added and employment, ranking it in fourth place of all industrial sectors in Finland. The sector is well developed and competitive with the emphasis on beverages, bakery products and dairy products. Participation in international trade is not very high and quantitative restrictions on imports affect about 60% of the food market. Only 30% of the exports go to the Community. The industrial structure in the processed food sector in Finland is highly vertically integrated covering basic agricultural as well as processed foodstuffs, creating limitations on competition. This, however, is starting to change due to the EEA Agreement. A specific point to be dealt with is the question of Finnish excise duties on certain foodstuffs.

## Fisheries

1. Finland is unusual in that its small fishing industry is overshadowed by aquacul-

ture: the Finnish fleet's landings contribute only 0.03% of GDP whereas aquaculture accounts for more than twice that (0.07%). Only 0.12% of the working population is employed full time or part time in the maritime fishing fleet. Finland's accession would therefore increase the number of fishermen and fishing capacity in the Community only very slightly; the Community's trade deficit in terms of value would rise by around 1.7%. Unlike the Community, Finland has not established an exclusive economic zone (EEZ).<sup>1</sup>

2. The total fishing fleet is equivalent to 0.6% of the Community fleet in terms of numbers.<sup>2</sup> Like the Community countries, Finland appears to suffer from over-fishing, with overcapacity and overcapitalization of the fleet. Although to date it has no plan for reducing its fishing effort, the Finnish Government none the less appears to have sufficient legal instruments and statistical apparatus at its disposal to conform to Community policy, which is aimed at adjusting fleet capacity to available resources. This will enable it to eliminate obvious overcapacity in the Finnish maritime fleet, such as that caused by the worsening condition of cod stocks in the Baltic.

It is also worth pointing out that recreational fishing is relatively important in Finland and must be considered as an integral part of Finnish culture.

3. Finland's landings are equivalent to around 1.4% of the tonnage landed by the Community fleet. Over half of this is intended for processing into fishmeal and oils which are not for human consumption. The main species used for fishmeal is herring. This poses a problem in complying with Regulation (EEC) No 2115/77, which prohibits direct fishing for herring for industrial uses not geared to human consumption.

4. Finland's processing industry is quite small and concentrates mainly on herring and rainbow trout. The industry should not pose any great problems for the Community, although introducing the Community's structural policy, which is based on co-financing, could create some problems for the Finnish Government, which does not

have a specific support scheme for the processing industry.

5. In this connection, the various types of State aid to the fishing industry (worth ECU 10.2 million in 1990) will need to be examined in more detail to see whether they are compatible with Community legislation and establish their validity.

6. With regard to the monitoring of fishing activity, Finland appears to be adequately equipped to carry out inspections. There is no national licence system, except for salmon fishing: this situation will have to be rectified as a matter of urgency. Finland, however, prohibits discards, contrary to prevailing Community rules.

7. With regard to markets, Finland has given commitments in the EFTA and EEA Agreements which should bring its legislation more closely into line with the Community's from 1993; introducing a reference price and actively involving producers' organizations in market management may yet pose problems.

8. The impact of Finnish aquaculture on the Community industry is likely to be very small.<sup>3</sup>

## Services

1. Finland's services sector has expanded rapidly in recent years and accounts today for 60% of GDP and 61% of employment. Once the EEA Agreement is in force, no problems are expected in the area of business services, as Finland will be subject to the same obligations as Member States.

2. Concerning audiovisual services, accession negotiations will have to be based on the full *acquis communautaire*, in particular the Directive on television without frontiers.

<sup>1</sup> Finland only has a fishing zone extending eight miles from the outer limit of its territorial waters to four miles from its base lines.

<sup>2</sup> This covers both sea fishing and fishing in inland waters.

<sup>3</sup> Finnish production for human consumption is largely geared to rainbow trout, which accounted for 99% of output in 1990.

3. The sector of financial institutions was covered by the EEA Agreement and in general will pose no problems for Finland. However, the special provisions of the EEA Agreement<sup>1</sup> referring to the Finnish employees' pensions act (TEL) will have to be re-examined in the light of the third life insurance Directive, which will be adopted by the end of 1992.

## Competition

Under the EEA Agreement, Finland will have to apply competition rules comparable to the Community's in areas including State aid and State monopolies.

### 1. Competition rules for undertakings

The new Finnish law on restrictions on competition entered into force on 1 September, demonstrating the Finnish Government's genuine desire to align on Community rules when developing previously non-existent competition mechanisms.

The principal modifications are:

- extension of the scope of the prohibition principle to horizontal agreements<sup>2</sup> and abuses of dominant positions;
- replacement of the previous sanctions, which were rarely applied, by a system of fines ranging from FMK 5 000 to FMK 4 000 000 or 10% of turnover; fines are imposed by the Competition Council, acting on a proposal from the Office of Free Competition (OFC), and are subject to review by the Supreme Administrative Court;
- extension of the OFC's investigative powers
- maintenance (by the OFC) and reinforcement (by the Competition Council) of the independence of the authorities responsible for competition policy.

The promotion of deregulation in various sectors of the economy should help improve competition on Finland's markets.

Nevertheless, some of the new provisions reveal crucial shortcomings when compared

with Community legislation. One major flaw affecting the control of abuses relating to vertical agreements is the failure to make any provision whatsoever for the prior control of mergers, the Finnish authorities considering it sufficient to control abuses of dominant positions. And although the legislation covers all sectors of the economy, it is somewhat surprising to find that responsibility for bringing restrictions on competition in the banking and insurance sectors before the Competition Council should rest with the Bank Inspectorate and the Ministry of Social Affairs, respectively.

### 2. State aid

The information provided gives rise to two initial remarks:

- Community law on State aid is more detailed and more comprehensive than Finland's (e.g. in its definition of small and medium-sized enterprises (SMEs) receiving such aid).
- The maximum aid intensity (to industry) is rather high: indeed, in some cases it is much higher than that applied in the Community, and this despite the fact that such sectors are usually already enjoying certain derogations.

The following fields warrant certain remarks:

- In the R&D sector, in addition to defining a number of sectors still to be clarified, such as industrial and applied research, it would be extremely useful to obtain confirmation of the progressive reduction of aid intensity as the product nears the marketing stage (in particular where the promotion of regional technological activities is concerned).
- While the maximum intensity of export aid is undoubtedly high (50%), the *de minimis* rule could be applied. Moreover, though export credits are generally in line with OECD rules, maximum aid intensity, which can sometimes be as high as 100%, cannot be considered acceptable.

<sup>1</sup> Annex IX, paragraph 11a.

<sup>2</sup> Concerning prices, output and market share, with, however, the possibility of a derogation comparable to that afforded by Article 85(3) of the EEC Treaty.

- A number of aspects relating to regional aid policy remain to be clarified. The fact that the Finnish regional development fund (KERA) uses methods that differ from those of the Community presents problems: Eurostat's proposal on the matter has not been accepted. The acceptability of the intensity of aid in various sectors, among them the regional development plans and aid to SMEs, depends on these criteria. There are, however, doubts about the compatibility with Community policy of other aid schemes, such as that for regional transport or the regional development project. The Commission takes note of the reform announced by the Finnish Government for 1 January 1994.

- In view of the lack of clarity that persists, further information on aid to undertakings would be desirable.

### 3. State monopolies of a commercial character

It is clear from discussions with the Finnish authorities that alcohol is subject to a monopoly of a commercial character within the meaning of Article 37 of the EEC Treaty. Broadly speaking, the Finnish Government defends these exclusive rights on the grounds of public health as a means of combating alcoholism. The Commission takes the view that the health objectives sought by the alcohol monopoly could be achieved by other means less obstructive to competition.

The exclusive rights are exercised at several stages:

- at the production stage: even if Community law did not preclude the maintenance of a production monopoly accorded for non-economic reasons and with due regard for the principle of proportionality, there is at present discrimination based on the origin of the goods and the fact that the 'compensation' paid by the monopoly to private producers is such as to hamper imports;

- on import: in the light of the Court's judgment of 3 February 1976 in Case 59/75, confirmed by the judgment of 19 March 1991, the right is incompatible with Articles 30 and 37 of the Treaty;

- on export: in this instance incompatibility with Community law is founded on Articles 34 and 37 of the Treaty;

- at the marketing stage, including retail sales: the same principle of incompatibility was upheld by the Court in its judgment of 19 March 1991 in Case C-202/88.

As for public undertakings and those enjoying special rights, covered by Article 90(1) of the Treaty, the Commission will examine the programme to privatize certain public sector undertakings, notably in the electricity and telecommunications sectors. The Finnish Government should also be reminded of the need to clarify the scope and details of the tax arrangements applicable to those undertakings, which could lead to their review in terms of Articles 92 et seq. of the Treaty.

## Energy

1. Finland is totally dependent on outside sources for its oil supplies which accounted for 30% in 1990 of its total final consumption (TFC) compared to 46% in 1980. Up to 1989 the USSR supplied nearly all of Finland's oil (86%); its share is now estimated at around 35%. Transport continues to take the greater part of Finland's oil imports (45%) and this share is likely to increase.

2. Finland has no indigenous coal resources but coal, still imported in the main from Poland and the USSR, constitutes 16% of Finland's total energy supply (TPES). An almost equivalent amount of Finland's TPES is covered by 'renewables' such as peat and wood which have an importance in Finland's energy balance which is considerably greater than in the Community. Peat, in particular, is found in the sparsely populated north and eastern parts of Finland and is an important fuel in combined heat and power (CHP) plants in large towns and for district heating stations in large villages.

As regards other renewables, hydroelectric power, which provides 20% of Finland's electricity and about 3% of TPES, is the most important. However, the potential for further development is limited for geographic and environmental reasons. The scope for the development of other alternative energy sources — solar, wind, wave — is limited owing to Finland's geographical position.



3. The use of natural gas in Finland has significantly increased in the last 10 years and now constitutes 7% of TPES compared to 19% for the Community. All of this gas is imported from Russia and there is some concern about possible disruption of supplies. Finland is considering possible alternatives.

4. Nuclear power accounts for 17.3% of TPES and over a third of domestic electricity generation. There are four nuclear power units, two of Russian design constructed with Western technology and two based on a Swedish design. These nuclear plants operate at 90% capacity but in order to meet expanding demand for electricity the State-owned energy company has applied to build another unit. This go-ahead will require a political decision that is currently being hotly debated.

5. Finland is in the process of examining ways in which to introduce more competition, particularly in the electricity sector. While for historical reasons there is a diversified power generation industry and therefore competition, there is no open access to the grid and there are still important limitations as regards the role of independent producers. Imports of electricity are also subject to a license system. Finland is particularly interested in EC proposals on liberalization and transit since they could serve as a model for new legislation.

Although Finland's energy prices are determined by the market there are still distortions arising through the taxation system. Energy in general is subject to VAT.<sup>1</sup> However, wood and peat, and indigenous fuels, pay no VAT and producers are subsidized. Natural gas also receives a subsidy element through repayment of VAT on imports and government aid for infrastructure investments.

The domestic oil supply and natural gas industry is dominated by one supplier, Neste, which for all practical purposes has a monopoly.

6. Environmental issues related to the production and use of energy are of growing concern in Finland. Its environmental goals, particularly as regards global climate issues are very much in line with Community

objectives. The government has already put in place fiscal measures on fossil fuels in order to limit CO<sub>2</sub> emissions. However, given Finland's energy mix and the forecast need to increase consumption of fossil fuels in order to meet Finland's future energy demand there will need to be increasing forms of energy efficiency and clean technologies if environmental goals are to be respected.

7. Finland has an important energy technology and R&D programme that could complement EC programmes. It already participates in the EC Joule programme. The government is examining how these programmes can be introduced into the Finnish energy strategy. It should be noted that a large part of these energy technology programmes focus on the paper and metalworking industries, sectors which are energy intensive and particularly important for Finland's industrial profile.

## Research and development

According to the last available figures (1989) Finland's spending in R&D is about 1.8% of GDP. The public sector accounts for 38 and 62%, and is carried out by private enterprises on their own funds.

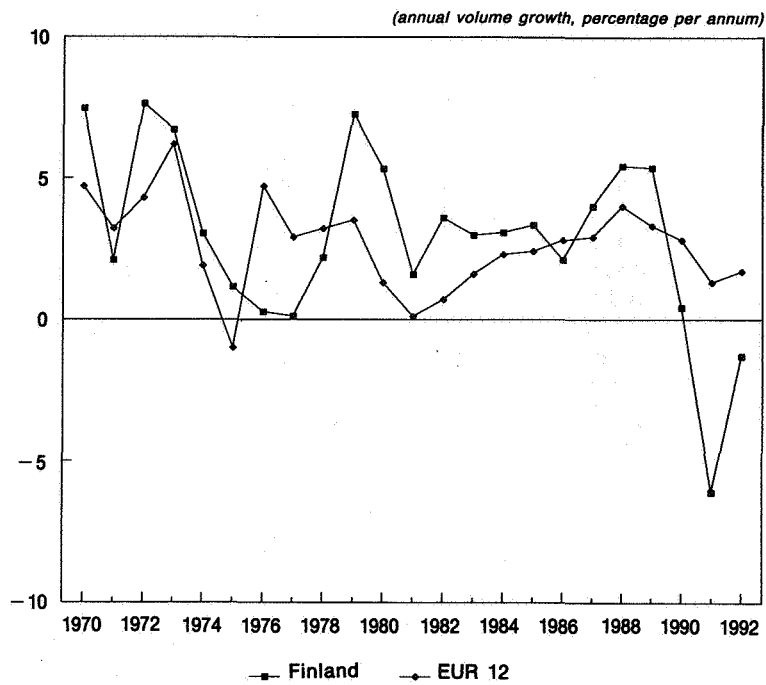
As far as public research is concerned, whilst basic research aims at raising the standard of research closer to the international vanguard, applied research and development are mainly oriented to developing generic technologies to promote technological renewal in the most important branches of Finnish industry.

No particular problems are envisaged in the event of the accession of Finland. In fact, Finnish organizations have participated in the bilateral 1986 S&T framework programmes. Furthermore, with the entry into force of the EEA Agreement, and in particular the chapter on flanking policies, Finland will have full access to all non-nuclear programmes under the current third framework programme.

<sup>1</sup> See 'Taxation and the overall tax burden', p. 14-15.

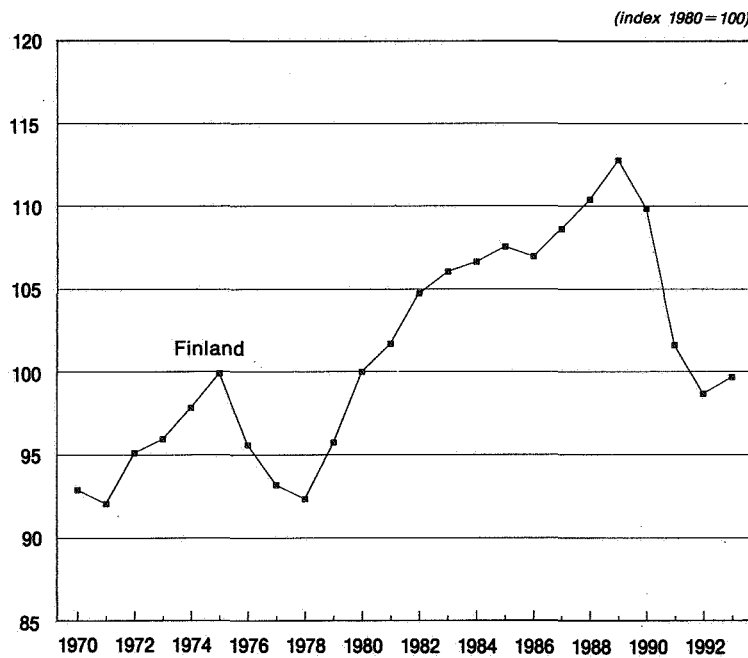
# Statistical appendix

Graph 1 — GDP growth in Finland and the EC, 1970-92



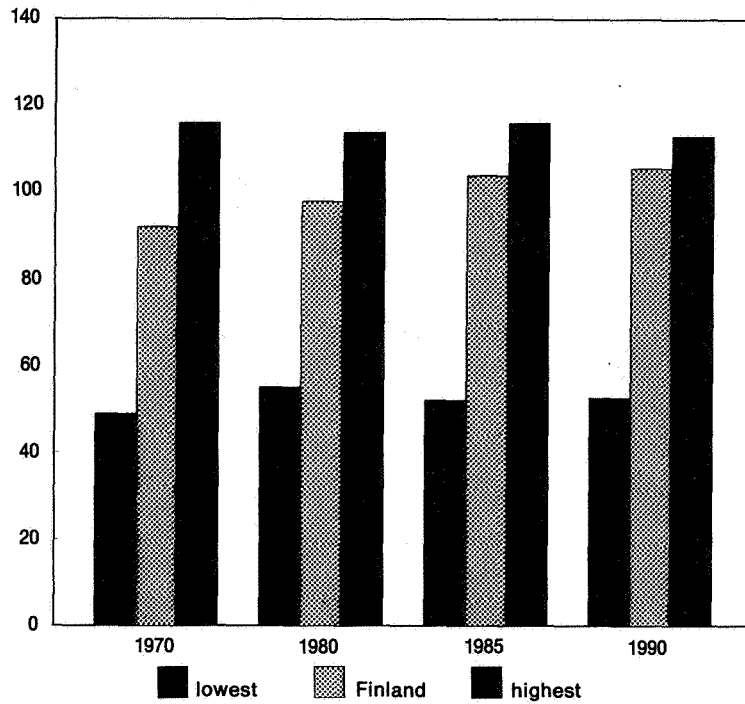
Sources: Eurostat and EC Commission services.

Graph 2 — Relative GDP for Finland and the EC, 1970-93



Source: EC Commission services.

Graph 3 — Per capita GDP in Finland and the EC,<sup>1</sup> 1970-90

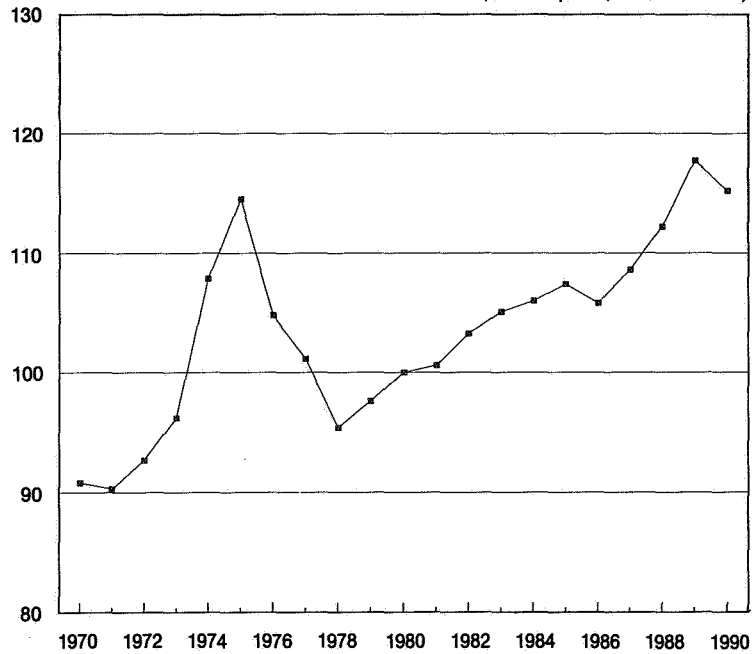


Purchasing power standard, EUR 12=100.

<sup>1</sup> EC except Luxembourg.

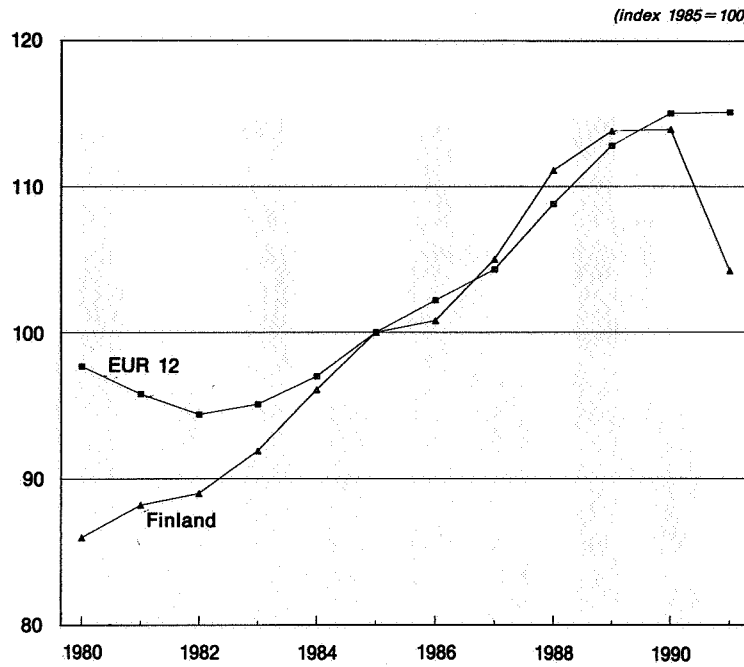
Graph 4 — Relative internal demand for Finland and the EC, 1970-90

(constant prices, index 1980=100)



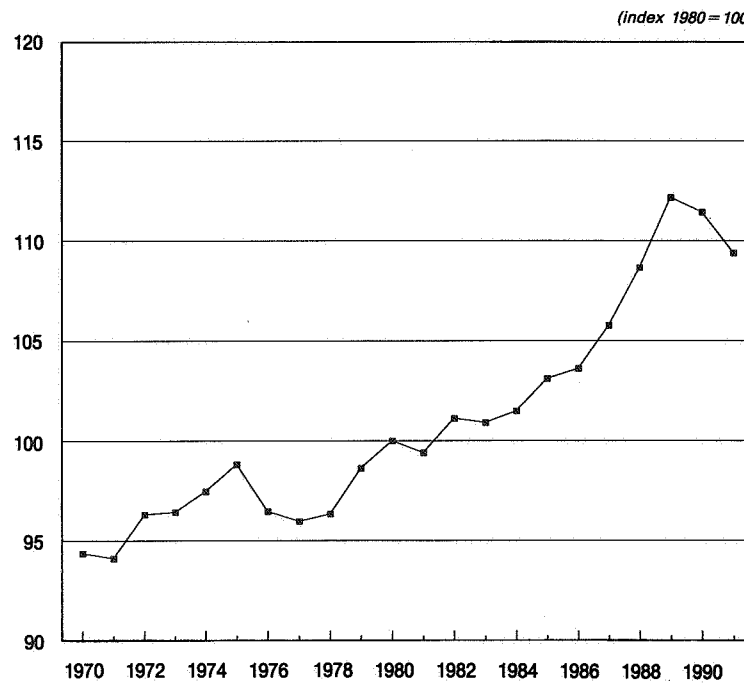
Source: EC Commission services.

Graph 5 — Industrial production in the EC and Finland, 1980-91



Sources: OECD and EC Commission services.

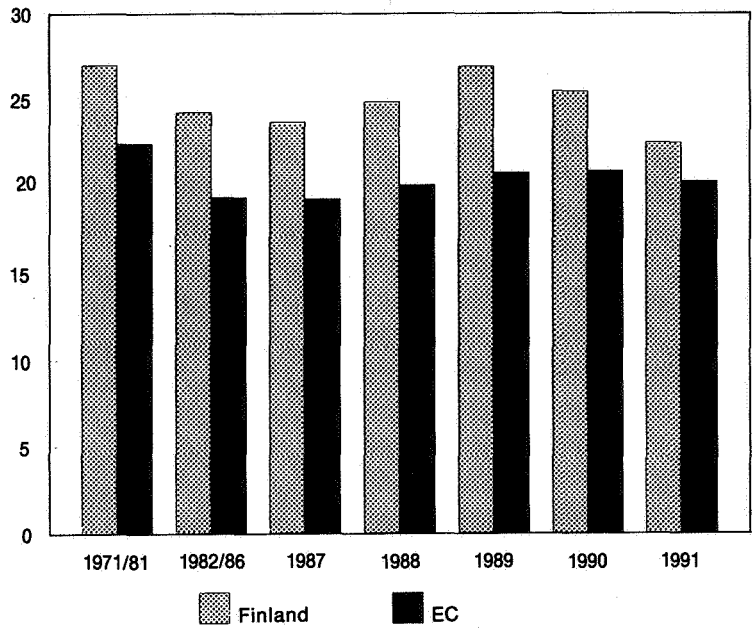
Graph 6 — Relative productivity for Finland and the EC, 1970-91



Sources: Eurostat and EC Commission services.

Graph 7 — Investment/GDP ratio in Finland and the EC, 1971-91

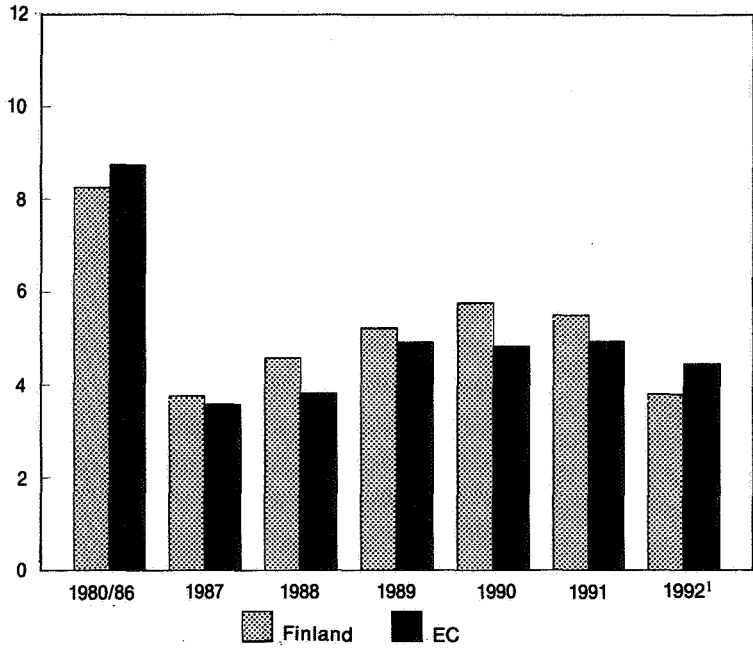
(current prices, percentage of GDP)



Source: EC Commission services.

Graph 8 — Consumer prices in Finland and the EC, 1980-92

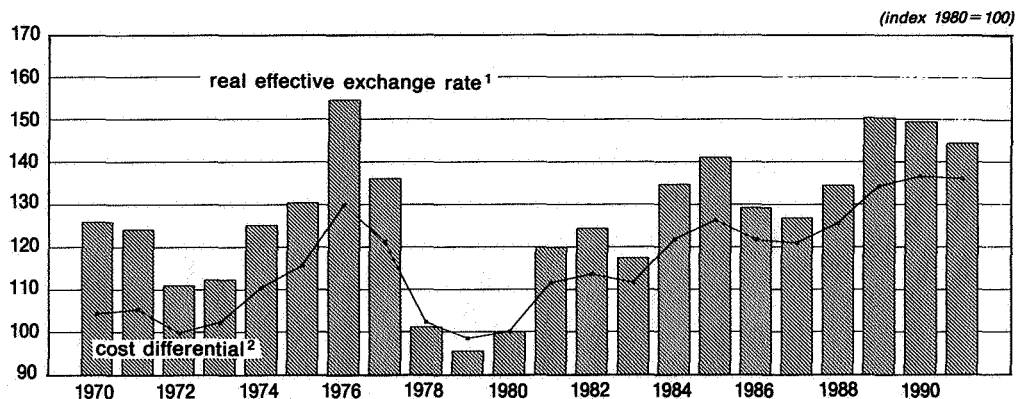
(annual percentage change)



Sources: 1980 to 1991: EC Commission, DG II.

<sup>1</sup> 1992 forecast: OECD, December 1991 and EC Commission, spring 1992.

Graph 9 — *Cost differential and real effective exchange rate relative to the EC, 1970-91*

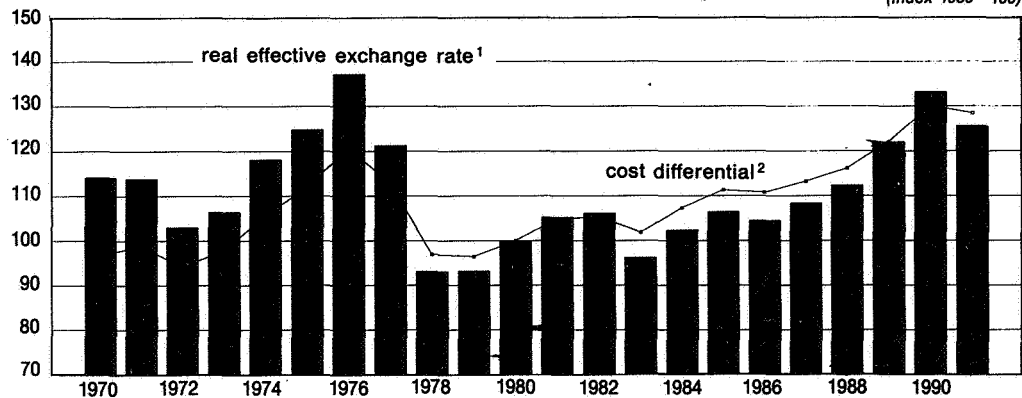


<sup>1</sup> Relative unit labour cost at common currency.

<sup>2</sup> National currency.

Source: EC Commission services.

*Cost differential and real effective exchange rate relative to industrialized countries, 1970-91*

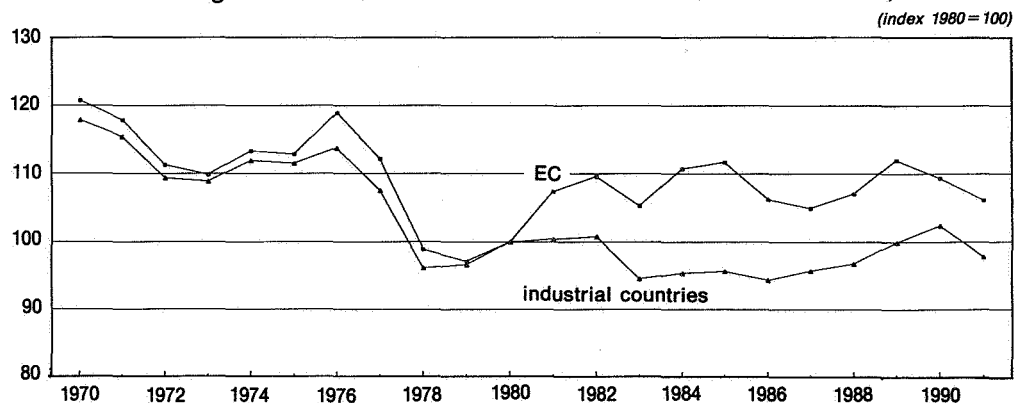


<sup>1</sup> Relative unit labour cost at common currency.

<sup>2</sup> National currency.

Source: EC Commission services.

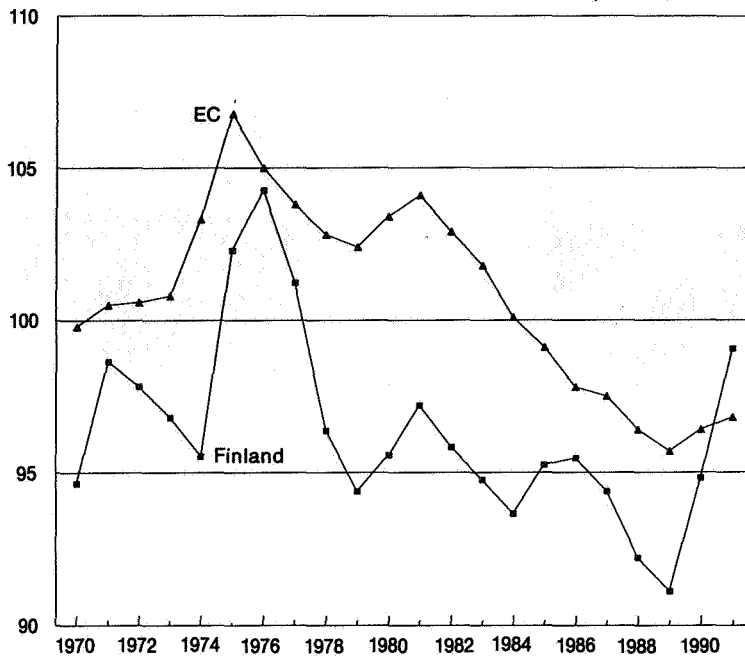
*Effective exchange rate vis-à-vis the EC and the industrial countries, 1970-91*



Source: EC Commission services.

Graph 10 — Real unit labour costs<sup>1</sup> in Finland and the EC, 1970-91

(index 1961-73 = 100)

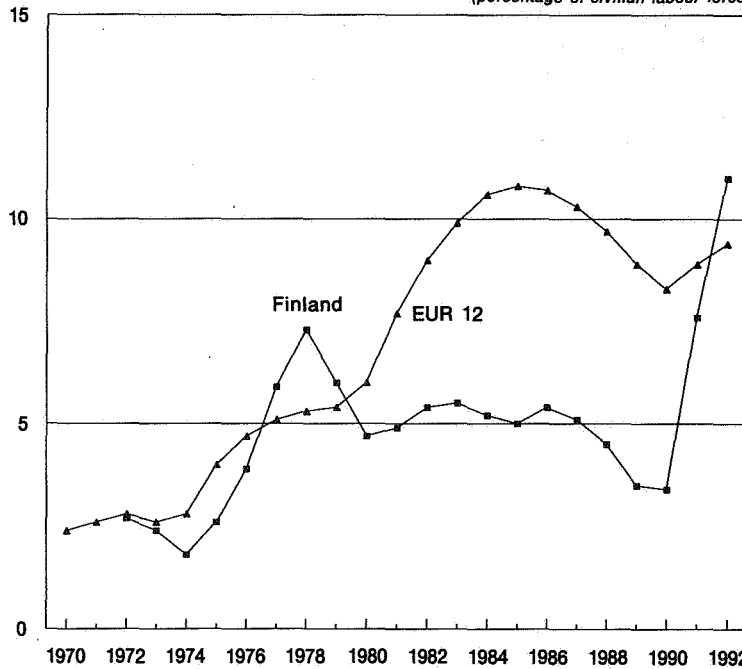


<sup>1</sup> GDP deflator.

Sources: Eurostat and EC Commission services.

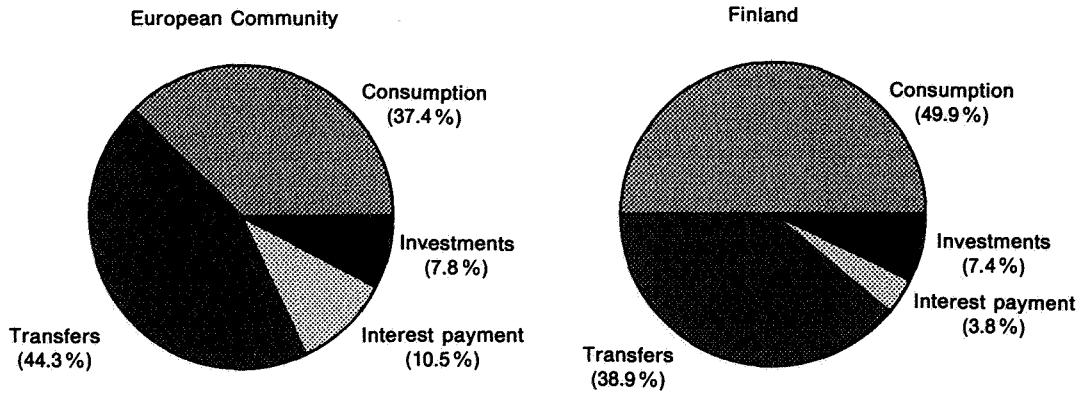
Graph 11 — Unemployment in Finland and the EC, 1970-91

(percentage of civilian labour force)

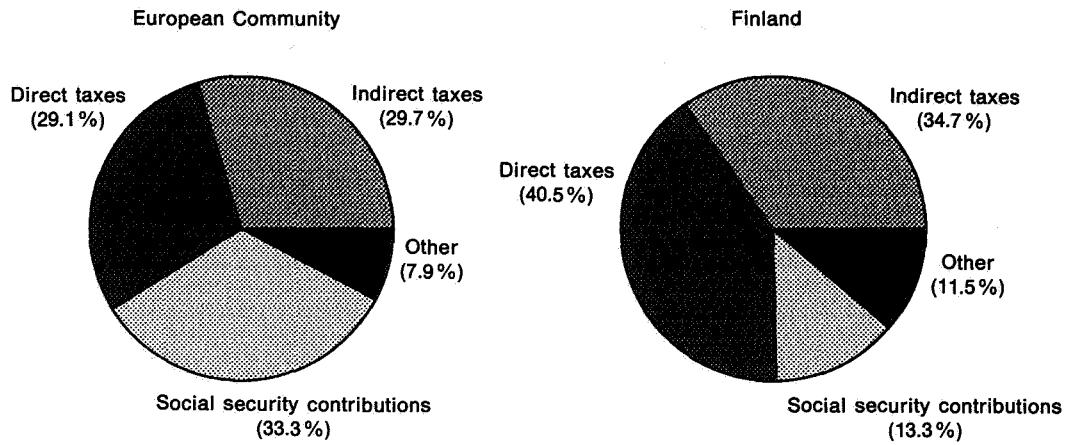


Sources: Eurostat and national sources (Finland).

Graph 12 — Breakdown of general government expenditure, 1991



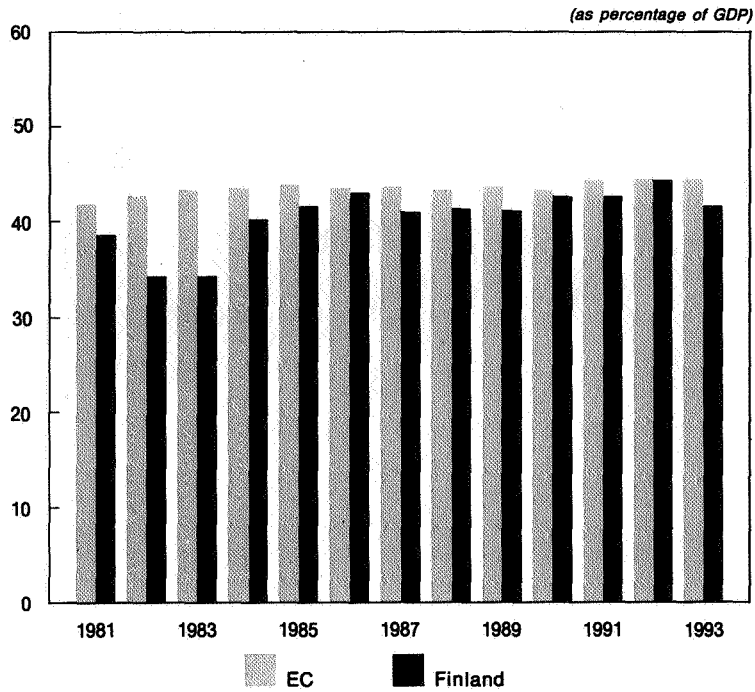
Graph 13 — Breakdown of general government revenue, 1991



Sources: EC Commission services and Finnish Ministry of Finance.

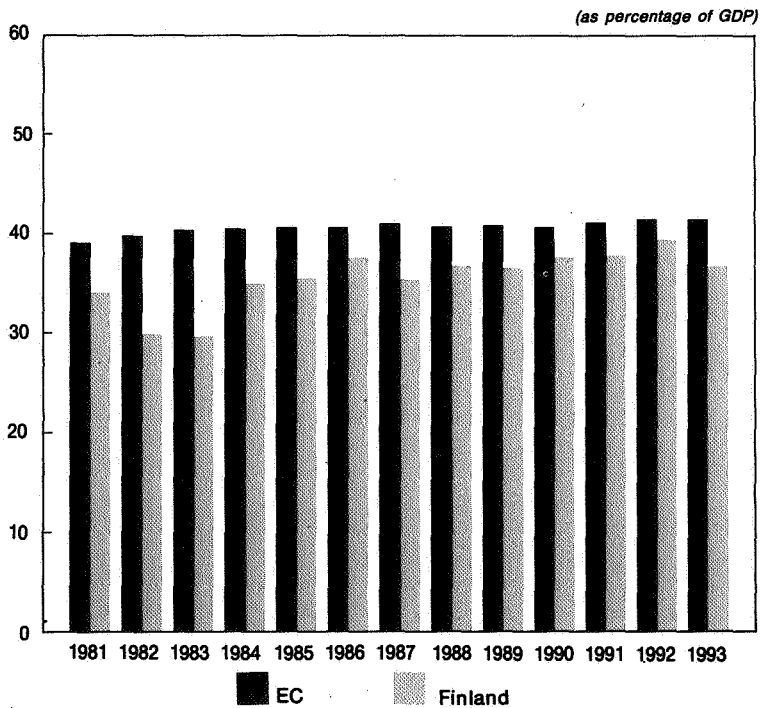


Graph 14 — General government revenue, 1981-93



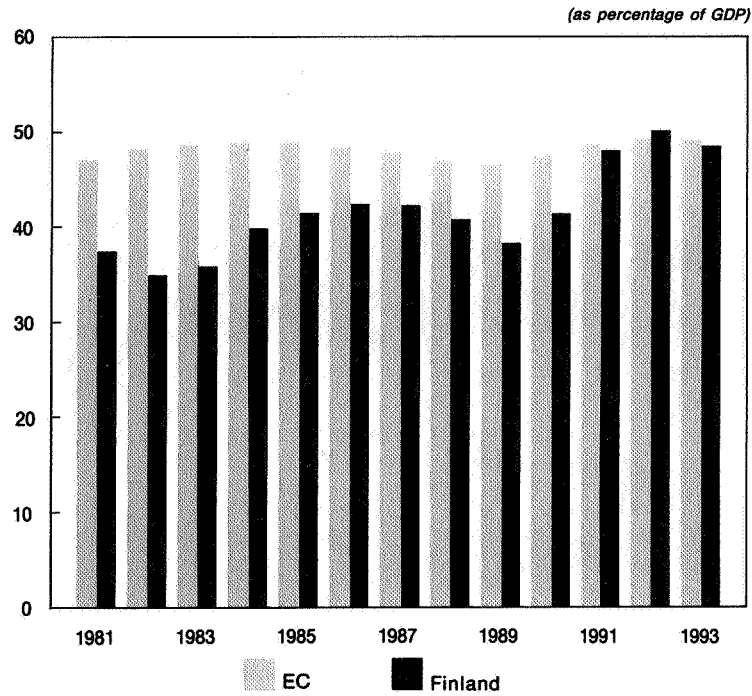
Sources: EC Commission services and Finnish Ministry of Finance.

Graph 15 — Taxes and social security contributions, 1981-93



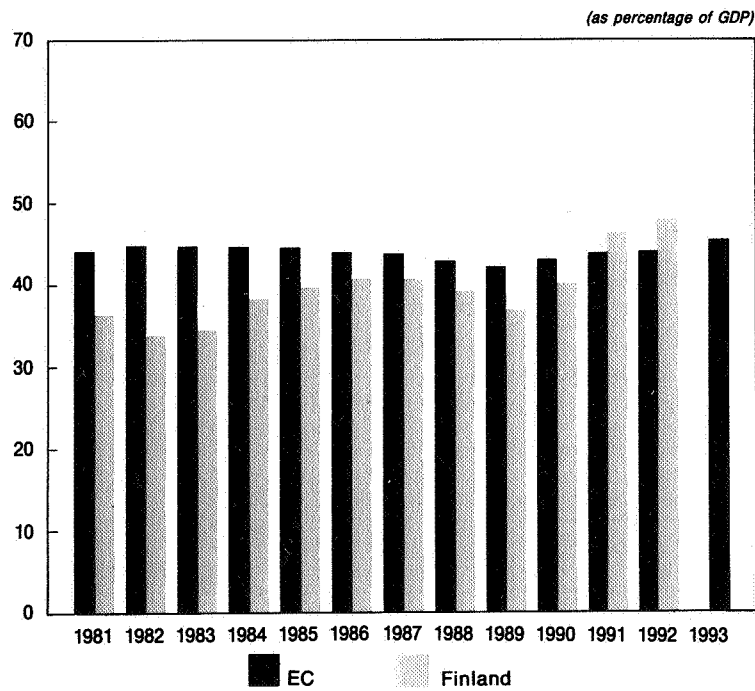
Sources: EC Commission services and Finnish Ministry of Finance.

Graph 16 — *General government expenditure, 1981-93*



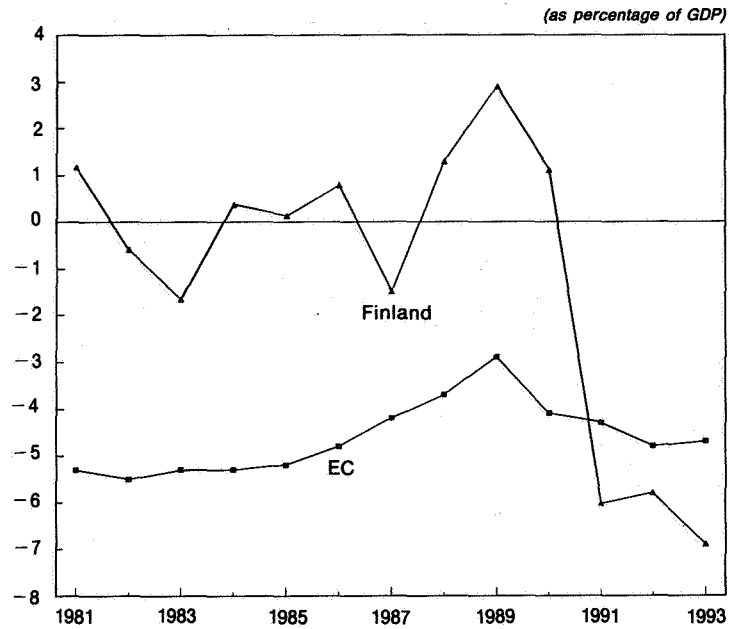
Sources: EC Commission services and Finnish Ministry of Finance.

Graph 17 — *Public expenditure (excluding interest charges), 1981-93*



Sources: EC Commission services and Finnish Ministry of Finance.

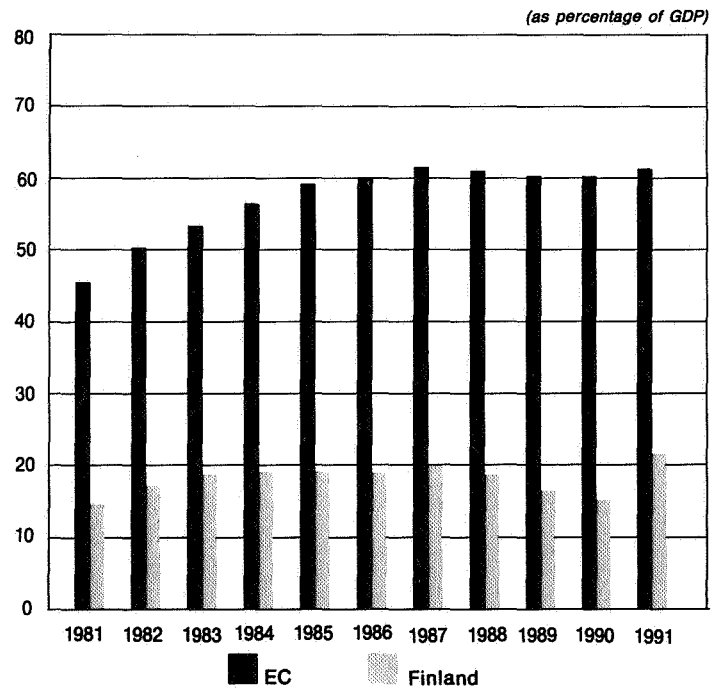
Graph 18 — Public deficit<sup>1</sup>



<sup>1</sup> Net lending/borrowing by general government.

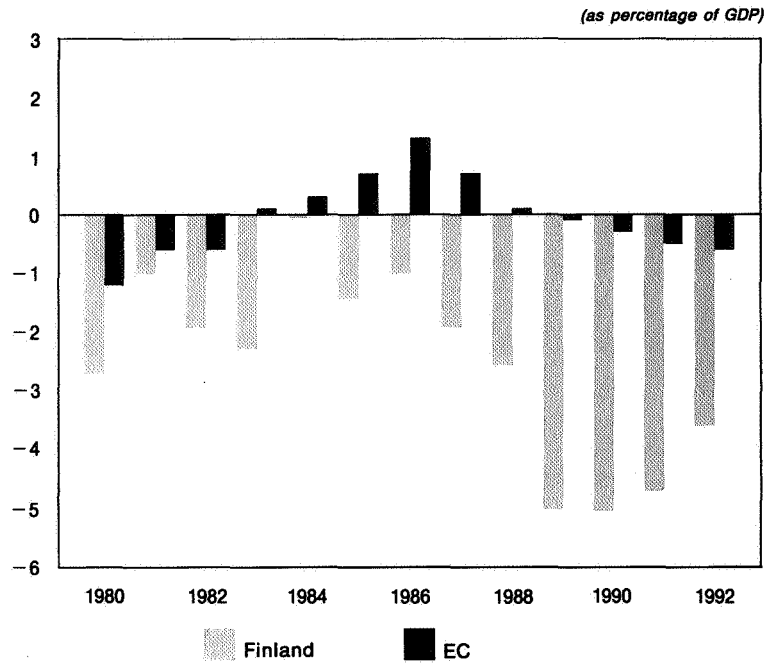
Sources: EC Commission services, Finnish National Institute of Economic Research and Finnish Ministry of Finance.

Graph 19 — Public debt



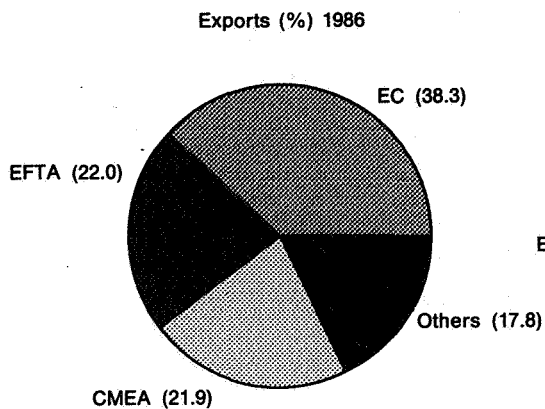
Sources: EC Commission services and Finnish Ministry of Finance.

Graph 20 — Current account in Finland and the EC, 1980-92

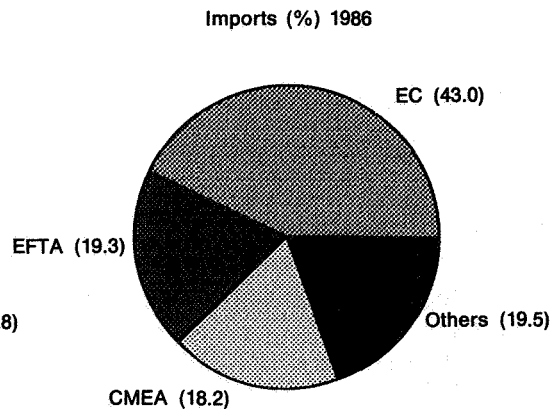


Sources: Eurostat and EC Commission services.

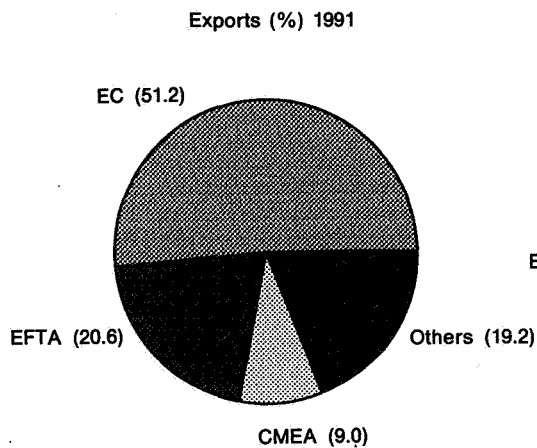
Graph 21 — Finland's trade, 1986 and 1991



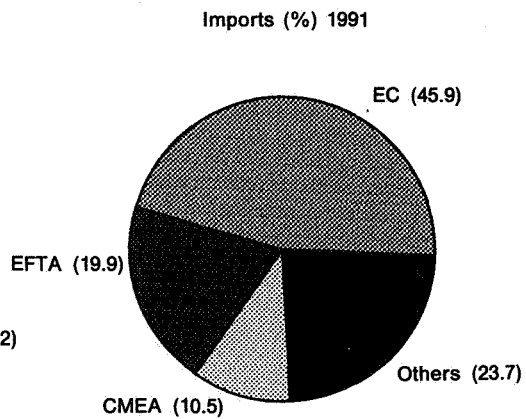
Source: Statistics Finland.



Source: Statistics Finland.



Source: Statistics Finland.



Source: Statistics Finland.

Table 1 — Selected statistics

(annual percentage volume change)

	1988	1989	1990	1991
GDP	5.4	5.4	0.4	- 6.5
GDP price deflator	6.9	6.8	5.2	2.3
Private consumption	5.0	4.2	0.4	- 3.8
Public consumption	2.4	2.6	4.5	3.1
Gross fixed capital formation	10.5	14.1	-4.9	-19.0
Export of goods and services	3.7	1.6	1.6	- 6.3
Import of goods and services	11.1	8.8	-0.9	-11.8
Net lending (+) or net borrowing (-), total <sup>1</sup>	-2.6	-5.0	-5.1	- 4.6
of which:				
general government	1.3	2.9	1.3	- 5.3
households	-3.2	-4.6	-3.1	2.3
private business sector	0.5	-1.9	-3.2	- 1.6
Employment	0.3	0.5	-1.0	- 5.3
Unemployment rate <sup>2</sup>	4.5	3.5	3.4	7.6
Industrial production	3.9	3.7	-0.6	-10.7
Productivity in the business sector	5.9	5.8	2.3	- 0.6
Real interest rate	4.9	5.9	7.9	9.0
Long-term interest rate differential Finland/EC	1.5	2.5	2.3	1.7

<sup>1</sup> Percentage of GDP in current prices.<sup>2</sup> Percentage of civilian labour force.

Table 2 — Balance of payments

(billion FMK)

	1988	1989	1990	1991
Trade balance	0.1	-6.1	- 2.2	4.6
Transportation (net)	3.7	3.8	4.0	3.6
Travel (net)	- 3.6	- 4.5	- 6.1	- 6.1
Services balance	- 1.2	- 3.2	- 5.6	- 7.1
Investment income (net)	- 7.7	-11.7	-14.2	-16.2
Transfers (net)	- 2.6	- 3.9	- 4.5	- 4.8
Current account as percentage of GDP	-11.3	-24.9	-26.5	-23.4
	- 2.6	- 5.0	- 5.1	- 4.6
Direct investment (net)	- 8.7	-11.2	- 9.5	- 8.4
Portfolio investment (net)	13.2	14.6	22.1	35.5
Loans (net)	- 1.3	3.9	17.9	11.4
Long-term capital account	3.0	7.0	30.3	39.0
Short-term capital account	8.5	11.9	11.3	-21.9
Central government capital transactions (net)	- 2.0	- 3.2	3.3	22.8
Change in the foreign exchange reserves	0.2	- 6.0	15.1	- 6.4

Sources: OECD and Bank of Finland.

Table 3 — *Employment and production by sectors, 1970-90*

Employment share as percentage of total

	1970	1980	1990
Agriculture and forestry	25.0	16.5	12.2
Mining, quarrying and energy	1.4	2.1	1.8
Manufacturing	27.7	31.9	27.3
Construction	11.2	10.0	12.3
Wholesale and retail trade, etc.	17.7	18.4	20.7
Transport, storage and communications	7.8	8.8	9.8
Finance, insurance, real estate and business services	4.3	7.0	9.5
Community, social and personal services	4.8	5.3	6.4
Private GDP	82.2	78.0	73.9
Public sector	11.7	17.8	22.4
Other producers	6.2	4.2	3.7

Production share of value added at factor cost

	1970	1980	1990
Agriculture and forestry	14.2	11.2	7.4
Mining, quarrying and energy	4.1	3.9	3.2
Manufacturing	30.5	32.6	26.0
Construction	11.2	9.2	11.6
Wholesale and retail trade, etc.	12.6	13.6	13.4
Transport, storage and communications	9.1	9.2	9.8
Finance, insurance, real estate and business services	14.3	16.1	22.9
Community, social and personal services	4.0	4.2	5.7
Private GDP	85.3	83.4	80.0
Public sector	12.3	14.6	17.9
Other producers	2.4	1.9	2.1

Sources: OECD and Central Statistical Office of Finland.

Table 4 — *General government expenditure*

(percentage of GDP at market prices)

	1981		1986		1991	
	EC <sup>1</sup>	Finland <sup>2</sup>	EC <sup>1</sup>	Finland <sup>2</sup>	EC <sup>1</sup>	Finland <sup>2</sup>
Consumption	19.2	18.7	18.6	20.7	18.2	23.8
Transfers	20.9	11.8	21.6	13.8	21.9	17.3
Households	17.2	8.5	17.7	10.6	17.2 <sup>3</sup>	13.9
Enterprises	2.6	3.3	2.6	3.1	2.0	3.4
Interest payments	3.7	1.1	4.9	1.7	5.1	1.8
Investment	3.0	3.5	2.8	3.6	2.9	3.7
Net capital transfers	1.0	0.2	0.9	0.2	0.8	0.1
Other	—	2.1	—	2.4	—	1.1
<b>Total expenditure</b>	<b>47.0</b>	<b>37.4</b>	<b>48.8</b>	<b>42.3</b>	<b>48.9</b>	<b>47.9</b>

<sup>1</sup> EUR 12.

<sup>2</sup> Does not include expenditure of the employment pension schemes.

<sup>3</sup> 1990.

Sources: EC Commission DG II and Finnish Ministry of Finance.

Table 5 — *General government receipts*

(percentage of GDP at market prices)

	1981		1986		1991	
	EC <sup>1</sup>	Finland <sup>2</sup>	EC <sup>1</sup>	Finland <sup>2</sup>	EC <sup>1</sup>	Finland <sup>2</sup>
Indirect taxes	13.1	13.6	13.3	14.7	13.5	14.8
Direct taxes	11.8	15.8	12.3	17.7	12.8	17.3
Social security contributions	14.2	8.7	15.0	9.1	14.8	11.1
Other current receipts	3.7	5.7	3.7	17.4	3.4	7.5
<b>Total receipts</b>	<b>42.8</b>	<b>43.9</b>	<b>44.3</b>	<b>48.8</b>	<b>44.5</b>	<b>50.6</b>

<sup>1</sup> EUR 12.

<sup>2</sup> Including receipts of the employment pension schemes.

Sources: EC Commission DG II and Finnish Ministry of Finance.



Table 6 — *General government revenue and expenditure*<sup>1</sup>*(billion FMK, current prices)*

	1990	1991	1992	1993
<i>Revenue</i>	223.3	217.7	227.6	222.0
Indirect taxes	78.7	75.5	77.0	80.5
Direct taxes	92.7	88.1	86.5	77.1
Social security contributions	25.1	28.9	38.3	37.8
Other	19.1	16.9	17.3	17.7
Consumption of fixed capital	7.7	8.3	8.5	8.9
<i>Expenditure</i>	216.5	244.9	257.6	260.2
Consumption	110.8	122.0	125.1	124.8
● Central government	36.3	40.5	41.3	40.9
● Local government	74.4	81.5	83.8	83.9
Transfers	69.6	88.2	97.9	96.8
Interest	7.1	9.2	11.2	16.7
Investment	18.2	18.4	16.8	16.0
Other	10.8	7.1	6.6	5.9
Net lending (+)	6.8	-27.2	-30.0	-38.2
<i>Percentage of GDP</i>				
Taxes and charges	42.5	42.7	44.3	41.3
Expenditure	41.2	48.0	50.1	48.4
Net lending (+)	1.3	-5.3	-5.8	-7.1

<sup>1</sup> Does not include revenue and expenditure of the employment pension schemes.

Source: Finnish Ministry of Finance.

Table 7 — *Net lending (+) of the public sector*

	<i>(percentage of GDP)</i>			
	1990	1991	1992	1993
<i>Public sector</i>	1.3	-5.3	-5.8	-7.1
Central government	1.4	-4.0	-5.0	-6.0
Local government	0.1	-1.1	-1.0	-1.6
Social security funds	-0.2	-0.2	0.2	0.5
Pension funds	3.7	3.7	2.8	

Source: Finnish Ministry of Finance.

Table 8 — *General government revenue and expenditure*<sup>1</sup>

	<i>(percentage of GDP)</i>			
	1990	1991	1992	1993
<i>Revenue</i>	42.5	42.7	44.3	41.3
Direct taxes	17.7	17.3	16.8	14.5
Indirect taxes	15.0	14.8	15.0	15.0
Social security contributions	4.8	5.7	7.4	7.1
Consumption of fixed capital and other	5.0	4.9	5.1	4.7
<i>Expenditure</i>	41.2	48.0	50.1	48.4
Transfers	13.3	17.3	19.0	18.0
Consumption	21.1	23.8	24.3	23.3
Investment	3.6	3.7	3.3	3.0
Interest	1.3	1.8	2.2	3.1
Other	1.9	1.4	1.3	1.0
<i>Public deficit (net lending (+))</i>	1.3	-5.3	-5.8	-7.1

<sup>1</sup> Does not include revenue and expenditure of the employment pension schemes.

Source: Finnish Ministry of Finance.

Table 9 — Finland

*(Percentage of GDP)*

Year	General government expenditure			General government revenue			Public deficit		
	Public expenditure	Pension funds	Total public expenditure	Public revenue	Pension contributions	Yield on pension funds	Total public revenue	Excluding pension funds	Including pension funds
1980	36.6	2.6	39.2	36.9	4.1	1.1	42.1	0.3	2.9
1981	37.4	2.7	40.1	38.6	4.2	1.1	43.9	1.2	3.8
1982	39.1	2.8	41.9	38.5	3.8	1.5	43.8	-0.6	1.9
1983	40.3	2.9	43.2	38.6	3.5	1.7	43.8	-1.7	0.6
1984	39.8	3.1	42.9	40.2	3.4	1.7	45.3	0.4	2.4
1985	41.6	3.2	44.8	41.7	3.7	1.6	46.9	0.1	2.1
1986	42.2	3.6	45.8	43.0	3.9	1.9	48.8	0.8	3.0
1987	42.2	3.7	45.9	40.7	4.1	1.7	46.8	-1.5	0.9
1988	40.0	3.6	43.6	41.3	4.2	1.8	47.3	1.3	3.7
1989	38.2	3.5	41.7	41.1	4.4	1.8	47.3	2.9	5.6
1990	41.3	3.5	44.8	42.6	5.3	2.0	49.9	1.3	5.1
1991	47.9	4.1	52.0	42.6	5.4	2.6	50.6	-5.3	-1.4
1992	50.1		44.3				-5.8		
1993	48.5		41.4				-7.1		

Source: Finnish Ministry of Finance.

Table 10<sup>1</sup> — *Farm structure (1987)*

	Agricultural area per farm (ha)	Area under cereals per farm (ha)	Dairy cows		Cattle (including calves)		Pigs	
			Average number per farm <sup>2</sup>	Holdings > 30 (%)	Average number per farm <sup>2</sup>	Holdings > 100 (%)	Average number per farm <sup>2</sup>	Holdings > 400 (%)
Finland	12.8	5.8	10.5	2.8	22.3	2.6	127.5	19.2
Belgium	17.3	7.7	24.3	59.4	48.6	36.9	221.8	66.5
Denmark	32.6	18.8	30.4	72.8	57.7	50.5	245.9	66.4
Germany	17.6	8.8	16.2	37.8	36.4	23.9	65.6	37.3
Greece	5.3	3.3	3.7	12.4	8.3	10.6	10.4	41.3
Spain	16.0	11.2	6.7	19.4	12.5	21.5	27.3	57.5
France	30.7	14.3	20.0	50.8	41.5	29.3	55.9	66.5
Ireland	22.7	7.6	21.8	62.4	37.5	29.7	187.2	87.3
Italy	7.7	4.3	9.7	42.2	20.3	36.8	20.9	70.6
Luxembourg	32.9	11.2	31.2	73.8	73.0	56.6	78.2	37.7
Netherlands	17.2	8.7	39.8	84.7	69.6	51.7	405.9	76.4
Portugal	8.3	3.2	3.4	14.4	5.7	14.2	7.4	36.1
United Kingdom	69.0	43.6	60.8	93.5	78.6	65.4	370.5	85.5
<b>EC 12</b>	<b>16.5</b>	<b>8.9</b>	<b>15.5</b>	<b>53.5</b>	<b>31.2</b>	<b>35.8</b>	<b>49.6</b>	<b>60.8</b>

<sup>1</sup> Finland: 1990; EC: 1987; structural survey.<sup>2</sup> Farms engaged in this type of production.

Table 11 — *Agricultural production in Finland (average for 1989-91)*

	On 1 000 t	Percentage of EC production	Degree of self-sufficiency
Cereals	3 286	2	131
Wheat	522	0.6	125
Oats	1 420	30.5	172
Sugar	160	1.2	81
Potatoes	845	2.2	108
Beef	116	1.5	110
Milk	2 676	2.7	134
Butter	54	3.2	184
Oilseeds	112	1.1	83
Poultrymeat	34	0.5	99
Pigmeat	180	1.3	111
Sheepmeat	1	0.1	76
Eggs	76	1.6	133
Fruits	2	0	1
Vegetables	204	0.4	76

Table 12 — *Protection level of agricultural production*

(Percentage PSE)

	Finland			EC		
	1985	1989	1990	1985	1989	1990
Wheat	65	78	67	40	27	43
Coarse grains	67	81	86	40	34	52
Sugar (refined sugar)	88	62	75	75	47	56
Milk	74	73	77	65	56	72
Beef and veal	68	63	61	53	55	56
Pigmeat	45	53	55	6	7	9
Poultrymeat	55	52	56	20	26	29
Eggs	54	46	46	-6	17	1

Table 13 — *External trade with agricultural and food products of Finland*

(billion ECU<sup>1</sup>)

From/to	Imports			Exports		
	1985	1989	1990	1985	1989	1990
<b>Total</b>	<b>1.140</b>	<b>1.312</b>	<b>1.160</b>	<b>0.608</b>	<b>0.451</b>	<b>0.519</b>
EC (percentage of total)	29.8	37.8	41.9	18.7	24.0	20.3
EFTA (percentage of total)	17.1	15.5	16.2	13.0	21.7	17.0
Eastern countries (percentage of total)	3.1	3.5	3.0	44.6	20.8	35.8

<sup>1</sup> Exchange rates: 1985: ECU 100 = FMK 472.516.  
 1989: ECU 100 = FMK 465.517.  
 1990: ECU 100 = FMK 483.790.

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