OECD REVIEWS OF FOREIGN DIRECT INVESTMENT

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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— to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
— to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
— to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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Foreword

This report examines Finland's foreign direct investment policies. It is the result of an examination held in November 1994 by an OECD Working Group made up of representatives of the Committee on Capital Movements and Invisible Transactions (CMIT) and the Committee on International Investment and Multinational Enterprises (CIME). These committees, whose members are officials from Ministries of Finance, Foreign Affairs, Commerce and Industry, and from central banks, promote liberal, non-discriminatory investment policies through the OECD Code of Liberalisation of Capital Movements and the National Treatment Instrument.

Following the Working Group examination, this report was reviewed and adopted by the CMIT and CIME. Factual updating has been made through January 1995. The report was approved and derestricted by the OECD Council on 19 May 1995.

Table of contents

Introduction

The political sea changes in Europe have altered Finland's perception of its place on the continent. The Finns seemed to regard themselves – not without reason – as a small and vulnerable nation encircled by powerful neighbours and, consequently, they surrounded themselves by protective rules and regulations. The country seemed to be an outpost, forced to political neutrality and fencing itself off against foreign investors by a law dating from the war years (the 1939 Restriction Act). For a long time, the case for change did not seem compelling. As the OECD observed in 1989 in its *Economic Survey* of Finland: "throughout the 1980s Finland's growth performance was better than that of most OECD economies and economic activity continued to be buoyant until 1989".[1] This remarkable performance took a sharp turn for the worse around 1990. As in other countries, monetary policy was tightened, straining the credit surge that had followed the financial deregulation in the late 1980s. On top of this came the sharp drop in earnings from exports to the Soviet Union (which fell from 13 per cent of total export earnings in 1990 to 5 per cent in 1991). Over the years 1991-1993 real GDP dropped by 13 per cent. Unemployment rose from 3.4 per cent of the labour force in 1990 to 18.5 per cent in 1994. A financial crisis ensued when the banking system as a whole became unprofitable and had to be bailed out by capital injections from the State.

Finland did not fail to respond to the wind of economic change. As in other Nordic countries, it had started a programme of liberalising its foreign exchange and investment restrictions in the mid-1980s and it completed the overhaul in the early 1990s. It negotiated successfully its entry into the European Economic Area, which took off from 1 January 1994, and its accession to the European Communities, of which it has been a Member State since 1 January 1995. Finland has now come to see itself as a country whose place is in Western Europe, but which also forms a gateway to the independent states of the former USSR.

While Finland emerges from recession, the country finds itself confronted with an urgent need to strengthen and diversify its industrial capacity and its external competitiveness. GDP growth picked up in 1994 and may reach 4.5 per cent in 1995. This, however, will only dent unemployment (a drop to 16.5 per cent of the labour force is expected for 1995), but it will not suffice for bringing unemployment down to historical levels. Finland's foreign public indebtedness (60 per cent of GDP) is the highest in the industrialised world; furthermore, about one-third of private corporate debt is denominated in foreign currencies. The current imbalances make enduring, export-led, growth imperative. Whether Finland's industrial sector will adjust successfully will depend on the openness of its economy and on its internationalisation.[2] The repeal of the Restriction Act, alongside such measures as the floating and subsequent depreciation of the markka, tax reform and the removal of monopolies, should be helpful in attracting the required influx of foreign investment, human capital and technology.

Until the mid-1980s, foreign direct investment (FDI) contributed only marginally (less than 2 per cent) to gross fixed capital formation in Finland. All but some of the direct investments were made by neighbouring Sweden. Only in more recent years have the geographical origins of direct investment become more diversified; an increasingly large share has originated outside Europe. This coincided with vigorous growth of the FDI share in capital formation; FDI even recovered in 1992, while the fixed capital stock was still shrinking. On the other hand, the sectoral pattern of direct investment has not changed significantly. FDI has continued to be concentrated in a few sectors, notably metal and chemical products, as well as in trade.

The widening geographical diversification and the under-representation of FDI in many sectors suggest that a potential remains for significant further expansion of foreign direct investment in Finland. Finland's accession to the EC and its gateway position towards the emerging markets of the former Soviet Union will be helpful in attracting investment related to marketing, logistics and management. Stiffening international competition for market share could force Finnish enterprises to combine resources with foreign competitors, which would increase direct investment in Finland further. These factors, together with the quality of Finland's labour force and infrastructure, as well as its competitive corporate tax regime, create a potential for further direct investment growth in the near future.

This report is organised as follows. Chapter 1 analyses direct investment trends in Finland and the role of foreign direct investment in the Finnish economy; it also contains charts and tables concerning Finland's direct investment flows and stocks. Chapter 2 discusses Finland's policy towards FDI, focusing on horizontal and sectoral issues, respectively. In Chapter 3, an assessment of these policies is made. Annex 1 explains the nature and role of the OECD's liberalisation instruments in respect of Member countries' FDI policies and details Finland's position under these instruments. Finally, Annex 2 presents statistics on foreign direct investment in the OECD area.

Chapter 1

The role of foreign direct investment in Finland

A. Inward direct investment: trends, countries of origin and sectoral breakdown

Historically, Finland has been a net exporter of direct investment capital: almost consistently, inward direct investment has been small compared to outward direct investment. While FDI remained almost negligible over the years up to the mid-1980s, it rose to levels around 0.5 per cent in the subsequent period. Over 1993 and 1994, FDI rose markedly further to the unprecedented level of 1.5 per cent of GDP. FDI used to contribute around 2 per cent or less to gross capital formation, but its contribution jumped to 9.8 per cent over 1994: while gross fixed capital formation slumped by two-thirds between 1990 and 1993, investment from abroad recovered more quickly than its domestic counterpart (Table 6). Almost half of all foreign direct investment over the past ten years (1985-1994) was made in 1993 and 1994 alone. Although no separate data are available on greenfield investment and on mergers and acquisitions, it is reported that most direct investments in Finland were made in existing smaller and medium-sized enterprises. Employment in foreign-controlled enterprises stood at 37 557 at the end of 1992; this was equal to 1.7 per cent of the total employed labour force.

Statistically, direct investment in Finland is broken down in equity capital, loans and re-invested earnings (see Table 4). Earnings encompass capital gains and losses. Equity investment made up two-thirds of all FDI into Finland over the past ten years; over the 1980s, the remainder consisted largely of re-invested earnings, while in the present decade, intra-group loans were the main other component. During the early 1990s, overall FDI was suppressed by negative re-invested earnings, due to the severe recession of those days (Table 4*a*).

Foreign investors, as a group, paid out more dividends and interest than they earned (Table 4*b*); hence their negative re-invested earnings.

Over the past ten years FDI stocks increased steadily, with the exception of 1991, when foreign divestitures surpassed new investment by foreigners. But from a foreign point of view, the value of FDI stocks was considerably eroded by the depreciation of the Finnish markka, which lost more than a third of its value in US dollars between 1990 and 1993. The dollar value of FDI stocks continued to decline over 1992 and was reduced by more than a quarter over two years (1991-1992; see Table 3). The depreciation of the markka continued in 1993, after the currency's link with the Exchange Rate Mechanism of the European Monetary System had been severed (September 1992). However, new investments in that year outpaced the further loss in value of the existing stocks, resulting in a net increase in the overall value over 1993. Of the US$4.2 billion in FDI stocks at the end of 1993, almost 75 per cent was in the form of equity capital; the remainder in outstanding loans.

The fact that foreign direct investment in Finland has been low for a long time is partly due to structural factors and partly to economic and policy developments. Its attractiveness for foreign investment is hampered by its peripheral location and its small domestic market. But arguably, its past policy stance has also contributed to its modest status as an FDI recipient. Capital inflows from abroad, and acquisitions of Finnish enterprises and real estate by foreigners, used to be restricted. However, actual FDI policy has grown more liberal over recent years, so other factors must also have played a role. For example, the relatively high marginal income tax rates may have dissuaded foreigners to establish as residents. Another dissuading factor may have been the high level of production costs resulting from Finland's hard-currency policy, which proved unsustainable and was abandoned in 1992. Furthermore, Finland's liberalisation policy coincided with the severe recession of the early 1990s; this may have discouraged some foreign investment at that time, although in actual fact FDI started to rise already in 1992, when domestic capital formation was still in a steep fall. In any event, the outlook for FDI in Finland has been improving while the importance of several of these negative factors diminished. The peripheral position may become less problematic now that Finland has joined the European Communities, particularly if its attempts to present itself as a gateway to the former Soviet Union are successful. Remaining restrictions on FDI were repealed as from 1 January 1993, the exchange rate has become more competitive and real economic growth has resumed in 1994. Indeed, investment in Finnish shares rose strongly in 1993. Most of this was in the form of portfolio investment: 13 billion markkaa, against 5 billion in the form of direct investment. The rising trend continued in 1994. It should be added that about half of these large investments were made in the form of acquisitions in, or the creation of joint ventures with, only five Finnish enterprises.

Sweden used to have a virtual monopoly on direct investment in Finland: over the mid-1980s (1982-1987), more than 80 per cent of FDI originated in Sweden (Table 7). The net divestiture that occurred in 1991 was also due to a Swedish pull-out, notably in the financial and metal sectors. During the later 1980s and the 1990s, the origins of FDI showed a more diversified pattern and Sweden's share of total FDI dropped below one-third. Particularly the United States and the Netherlands became important investor countries. In the most recent years, investors from Germany and the United Kingdom emerged strongly. By the end of 1993, one-third of FDI stocks were held by investors from the (then) twelve EC Member States, almost one-half (49.6 per cent) by investors from EFTA countries – largely Sweden –[3] and 13.5 per cent by those from North America – mostly the United States.

Table 1. **Production and investment structure, 1993**

	Per cent shares		
	of GDP	of gross fixed capital formation	of FDI (flows)
Primary sector	4.9	4.8	0.0
Secondary sector	27.6	21.0	52.3
Chemical products[1]	3.1	2.9	7.0
Metal products[2]	8.1	3.9	23.3
Other manufacturing[3]	16.4	14.1	22.1
Tertiary sector, including government	67.4	74.1	47.7
Wholesale and retail trade	8.4	6.4	18.2
Finance and insurance	3.7	–2.2	1.5
Other services	55.3	69.9	28.0

1. Including coal and petroleum products and non-metallic products.
2. Including mechanical equipment, electric and electronic equipment, motor vehicles and other transport equipment.
3. Including construction, electricity, gas and water.

Sources: National Accounts of OECD Countries; Suomen Pankki Finlands Bank.

Foreign direct investment has been concentrated in the manufacturing and services sectors (Table 12): by the end of 1993, 55 per cent of FDI stocks was held in the manufacturing sector and the remaining 45 per cent in services. Within the manufacturing sector, the metal industry was the largest single recipient, counting for close to one-third of total stocks. The rise of FDI has entailed a certain diversification according to sector, although the shares of the primary and tertiary (excluding trade) sectors have remained rather low. Electrical engineering and instruments have been important growth sectors for foreign investment. Hardly any investment has been made in forestry, which constitutes Finland's single most important industry and which was off-limits to foreign investors until 1989. An inhibiting factor may have been that much of the forest (62 per cent) is family-owned. Enterprises in the chemical sector are mostly State-owned, which explains why foreign investment in that sector is much lower than in metal and engineering. In services, FDI has been most significant in trade. Other individual service sectors, such as finance, have not counted for more than a small percentage. The relative importance of investment in trade services is due to the relatively small size of the Finnish domestic market, which made it preferable for foreign suppliers to establish a local presence in the form of sales companies rather than by creating local production facilities. The concentration of FDI in metal and trade is disproportionate in relation to these sectors' weight in Finland's production and investment structure, as Table 1 shows.

B. Outward direct investment: trends, host countries and sectoral breakdown

Stocks of Finnish direct investments abroad amounted to US$9.4 billion at the end of 1993. Like FDI inflows, direct investment by Finnish residents abroad rose importantly in the second half of the 1980s. Before 1987, outflows had not been higher than around 1 per cent of GDP. After 1987, their level has typically been around 2 per cent of GDP, except in 1991 and 1992. The increase occurred in spite of the fact that, since 1989, outward investment flows have been subdued by consistently negative re-invested earnings, (Table 5*a*). In 1991 and 1992 this factor was compounded by large loans taken up by Finnish multinational enterprises from their special purpose entities established abroad, with the result that aggregate net outflows were even negative in 1991 and 1992. Multinational enterprises usually establish such special purpose entities abroad, *inter alia* to facilitate investment financing from sources inside or outside of the enterprise group. The *OECD Benchmark Definition* recommends that intra-group flows to and from these entities are recorded statistically as direct investment.

Among the factors prompting Finnish enterprises to increase their foreign investment, the small size of Finland's domestic markets and the desire to establish production within the EC's internal market have been of prime importance. Finland's accession to the European Economic Area and its subsequent Membership of the EC were major catalysts. In 1993, the improved competitiveness and profitability of the export sector following the depreciation of the Finnish markka also contributed to the increase. Financial surpluses were used for investment abroad within enterprise groups. The markka's depreciation boosted the value of outstanding investment stocks in local currency, just as it had depreciated the dollar value of FDI stocks in Finland: measured in dollars, stocks of outward investment fell by almost one quarter over the period 1990-1992; calculated in markka their value rose by 10 per cent.

The geographical dissemination of outward direct investment was much more varied than that of inward direct investment. On average almost three-quarters of the outflows had Europe as destination, including some 50 per cent that were invested in EC Member States (Table 9). The expansion of outward investment owes much to the proceeding European unification, which has raised the interest of Finnish investors for European countries. In the last few years however, investors have also turned more to non-European destinations, partly in view of the rapid economic development in some non-European regions. Not the least of these was the United States, but the non-OECD Members too have seen their share in Finnish investment increase (Table 13). Investments in the EC area have been scattered across most EC Member States. At the end of 1993, Europe accounted for 67.8 per cent of Finnish direct investment stocks.

Most overseas investments are made by a limited number (in the order of 10 to 20) of large Finnish enterprises that are also heavily involved in foreign trade. Such investments are part of the strategy of these companies to secure their share of foreign markets. Most of their foreign investments are in the form of acquisitions of existing enterprises. Much of the outward direct investment (over 70 per cent in the past five years) has been in manufacturing, a smaller part (about one quarter) in the services sector. The most rapid expansion has been in metal and engineering. For the forest-based industries, which have the longest history of manufacturing abroad, the growth has been slower. For several years, Finnish financial institutions used to be important investors abroad, but the expansion of their foreign presence has waned as a consequence of the financial strains these institutions have encountered.

C. Data and methodological issues

Statistical data on direct investment are collected by the Bank of Finland. Data on flows are part of the balance of payments statistics. The Bank collects data on foreign payments and conducts monthly surveys of foreign assets and liabilities. In addition, annual surveys of direct investment are made among enterprises. The monthly data are published with a four-week delay. Breakdowns according to sector and country are made available within six weeks for annual flows and ten months for annual stocks and earnings. In summary:

i) the *data on foreign payments* (available in six weeks) comprise capital flows and investment income; re-invested earnings are not available on such short notice (preliminary annual data are available in eight months), but are estimated;

ii) the *monthly survey on foreign assets and liabilities* (available in four weeks) is aimed at Finnish enterprises with large foreign assets and liabilities; intra-group loans have been included since 1994, and equity capital since 1995;

iii) the *annual survey of direct investment* (available after ten months) is based on financial statements of enterprises; the data are used to compile statistics on direct investment stocks and re-invested earnings.

With some exceptions, the definition of direct investment is in compliance with the guidelines of the International Monetary Fund and the OECD. Direct investment is defined as a foreign investment made in an enterprise in Finland, or a Finnish investment in an enterprise abroad, with the purpose of acquiring a lasting interest in the enterprise and having an effective voice in its management. A key condition for an investment to be regarded as a direct investment is that the investor's shareholding or voting power in the enterprise is at least 10 per cent of total. The acquisition of dwellings or other real estate is also considered as a direct investment. Re-invested earnings and all cross-border intra-group loans are incorporated in the statistical definition. Included in re-invested earnings are capital gains and losses, which, since 1992, have also been available separately. Included in the intra-group loans are non-negotiable loans, private placements, financial leasing and other non-negotiable instruments, funds held in intra-group accounts (cash pools) and financial deposits.

Stock data obtained in the annual direct investment surveys are based on book values, both for inward and outward direct investment stocks. To a certain degree, this diminishes the comparability of stock and flow data, although in fact trends in stock data tend to reflect those in the flow data rather closely. No plans exist to introduce market valuation for stocks, since balance sheet data from enterprises are based on book values, as is common among Member countries.

Table 2. **Direct investment flows, 1975-1994**[1]

US$ million

	Inward	Outward
1975	68	26
1976	58	31
1977	47	73
1978	34	63
1979	27	125
1980	28	137
1981	99	129
1982	–4	85
1983	84	143
1984	138	493
1985	110	341
1986	340	753
1987	265	1 132
1988	530	2 608
1989	489	2 965
1990	787	2 708
1991	–247	–124
1992	406	–752
1993	865	1 667
1994	1 467	3 771

1. Balance of payments statistics.
Source: Suomen Pankki Finlands Bank, Information Services Department.

Table 3. **Direct investment stocks, 1975-1994**[1]

US$ million

	Inward	Outward
1975	292	318
1976	397	356
1977	427	397
1978	480	471
1979	533	626
1980	540	737
1981	1 202	550
1982	1 044	671
1983	1 013	754
1984	1 040	1 306
1985	1 339	1 842
1986	1 680	2 418
1987	2 620	4 534
1988	3 040	5 805
1989	3 965	8 188
1990	5 133	12 064
1991	4 221	12 959
1992	3 672	11 756
1993	3 915	12 588
1994	6 635	14 674

1. Balance of payments statistics.

Source: Suomen Pankki Finlands Bank, Information Services Department.

Table 4. Foreign direct investment in Finland

Mk million

	A. Net capital flows			
	Equity capital	Loans	Re-invested earnings	Total
1985	364	24	292	680
1986	1 619	8	95	1 722
1987	328	98	739	1 165
1988	871	83	1 264	2 218
1989	452	860	783	2 095
1990	1 762	1 921	–673	3 010
1991	132	–211	–918	–997
1992	1 969	613	–760	1 822
1993 (prelim.)	3695	1 119	131	4 945
1994 (prelim.)	4 498	2 305	900[1]	7 703

	B. Direct investment earnings		
	Dividends and interest (net)	Retained earnings	Total
1985	592	292	884
1986	659	95	754
1987	787	739	1 526
1988	963	1 264	2 227
1989	1 775	783	2 558
1990	1 815	–673	1 142
1991	1 125	–918	207
1992	817	–760	57
1993 (prelim.)	893	131	1 024
1994 (prelim.)	893	900[1]	2 200

	C. Stocks of direct investment assets		
	Equity capital	Loans (net)	Total
1985	6 837	414	7 251
1986	7 640	416	8 056
1987	9 836	503	10 339
1988	12 093	580	12 673
1989	14 864	1 229	16 093
1990	15 574	3 077	18 651
1991	13 954	3 489	17 443
1992	14 898	4 450	19 348
1993 (prelim.)	18 293	6 098	24 391
1994 (prelim.)	23 691	7 782	31 473

1. Estimate.

Source: Suomen Pankki Finlands Bank, Information Services Department.

Table 5. Finnish direct investment abroad

Mk million

A. Net capital flows

	Equity capital	Loans	Re-invested earnings	Total
1985	2 009	93	10	2 112
1986	3 191	328	298	3 817
1987	3 183	707	1 087	4 977
1988	5 692	3 686	1 541	10 919
1989	9 141	4 008	–434	12 715
1990	9 782	2 348	–1 777	10 353
1991	7 317	–3 900	–3 918	–501
1992	7 411	–5 033	–5 750	–3 372
1993 (prelim.)	11 895	2 570	–4 928	9 537
1994 (prelim.)	9 789	11 398	1 500[1]	19 687

B. Direct investment earnings

	Dividends and interest (net)	Retained earnings	Total
1985	133	10	143
1986	116	298	414
1987	114	1 087	1 201
1988	237	1 541	1 778
1989	631	–434	197
1990	472	–1 777	–1 305
1991	1 189	–3 918	–2 729
1992	1 061	–5 750	–4 689
1993 (prelim.)	1 313	–4 928	–3 615
1994 (prelim.)	2 584	–1 500[1]	1 084

C. Stocks of direct investment assets

	Equity capital	Loans (net)	Total
1985	8 703	1 205	9 908
1986	9 789	1 438	11 227
1987	15 438	2 053	17 491
1988	18 688	5 110	23 798
1989	23 731	8 490	32 221
1990	31 280	9 520	40 800
1991	39 381	5 442	44 823
1992	47 381	–2 460	44 921
1993 (prelim.)	54 306	1 271	54 577
1994 (prelim.)	57 758	11 843	69 601

1. Estimate.
Source: Suomen Pankki Finlands Bank. Information Services Department.

Table 6. **Indicators of international direct investment**

US$ million

	1975-1980 average	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
GDP	36 716	50 629	50 974	49 308	51 307	53 568	70 100	88 051	103 885	113 468	134 652	121 182	106 176	82 406	98 038
Nominal growth (%)	13.5	13.4	12.5	11.8	12.3	8.6	7.5	8.0	12.6	11.7	5.3	–4.9	–3.0	–1.8	6.5
Real growth (%)	2.7	1.6	3.6	3.0	3.1	3.3	2.8	3.3	5.4	5.4	0	–7.0	–4.0	–2.0	3.9
GFCF	9 665	12 821	12 913	12 575	12 217	12 901	16 448	21 212	26 228	31 727	36 391	27 128	19 513	12 492	15 048
GFCF growth (%)	..	32.6	0.7	–2.6	–2.8	5.6	27.5	29.0	23.6	21.0	14.7	–25.5	–28.1	–36.0	20.5
Inflows of FDI	44	99	–4	84	138	110	340	265	530	489	787	–247	406	865	1476
Inflows as % of GDP	0.1	0.2	0.0	0.2	0.3	0.2	0.5	0.3	0.5	0.4	0.6	–0.2	0.4	1.0	1.5
Inflows as % of GFCF	0.5	0.8	0.0	0.7	1.1	0.9	2.1	1.2	2.0	1.5	2.2	–0.9	2.1	6.9	9.8
Outflows of FDI	76	129	85	143	493	341	753	1 132	2 608	2 965	2 708	–124	–752	1 667	3 771
Outflows as a % of GDP	0.2	0.3	0.2	0.3	1.0	0.6	1.1	1.3	2.5	2.6	2.0	–0.1	–0.7	2.0	3.8
Outflows as a % of GFCF	0.8	1.0	0.7	1.1	4.0	2.6	4.6	5.3	9.9	9.3	7.4	–0.5	–3.9	13.3	25.1
Inflows-Outflows	–32	–30	–89	–59	–355	–231	–413	–867	–2 078	–2 476	–1 921	–123	1 158	–802	–2 295
As a % of GDP	–0.1	–0.1	–0.2	–0.1	–0.7	–0.4	–0.6	–1.0	–2.0	–2.2	–1.4	–0.1	1.1	–1.0	–2.3
Outflows/Inflows (%)	173.7	130.3	–2 125.0	170.2	357.2	310.0	221.5	427.2	492.1	606.3	344.1	50.2	–185.2	192.7	255.5

Sources: Suomen Pankki Finlands Bank; *National Accounts of OECD Countries*; *OECD Economic Outlook*.

Table 7. **Foreign direct investment flows by country, 1982-1994**

Mk million

	1982-1987 average	% of total	1988-1994 average	% of total	1988	1989	1990	1991	1992	1993	1994
EC + EFTA + North America	455	97.9	2 869	100.1	916	1 540	3 657	199	2 489	4 946	6 339
EC + EFTA	400	86.2	2451	85.5	871	1 442	3 414	232	1 651	3 798	5 752
EC	26	5.6	1 331	46.4	396	669	746	1 104	888	2 073	3 444
Belgium-Luxembourg	–13	–2.8	129	4.5	4	210	61	1	24	54	546
Denmark	12	2.6	443	15.5	74	63	67	171	52	141	2 530
France	6	1.4	73	2.5	97	72	76	–56	42	267	11
Germany	16	3.4	139	4.8	7	41	60	142	197	445	80
Ireland	..	..	14	0.5	..	..	..	..	9	51	36
Italy	0	0.1	3	0.1	3	–	1	10	14	–4	0
Netherlands	18	3.8	130	4.5	167	275	458	218	533	183	–169
United Kingdom	–14	–2.9	247	8.6	44	8	23	284	17	936	417
Other	–	–	–1	–0.0	–	–	–	–	–	–	–7
EFTA	375	80.7	1 120	39.0	475	773	2 668	–872	763	1 725	2 308
Austria	0	–0.1	2	0.1	–	–	–	–	9	–	8
Norway	–13	–2.7	319	11.1	33	18	73	442	162	155	1 352
Sweden	378	81.5	815	28.4	451	767	2 350	–1 326	387	1 528	1 550
Switzerland	9	1.9	–17	–0.6	–9	–12	245	12	205	42	–602
North America	54	11.7	418	14.6	45	98	243	–33	838	1 148	587
Canada	0	0.1	15	0.5	–	–	–	–	67	68	–28
USA	54	11.6	402	14.0	45	98	243	–33	771	1 080	615
Other[1]	10	2.1	–2	–0.1	38	–228	26	–278	93	–132	464
Total	464	100.0	2 867	100.0	954	1 312	3 683	–79	2 582	4 814	6 803

1. Including investment unallocated by country.
Source: Suomen Pankki Finlands Bank, Information Services Department.

Table 8. Foreign direct investment flows by industry, 1982-1994

Mk million

	1982-1987 average	% of total	1988-1994 average	% of total	1988	1989	1990	1991	1992	1993	1994
Secondary	270	58.0	1 560	54.4	223	505	847	–152	1 800	2 520	5 175
Chemical products[1]	–36	–7.8	504	17.6	108	25	265	73	227	337	2 493
Metal products[2]	282	60.8	432	15.1	145	140	189	–527	1 229	1 120	723
Other manufacturing	24	5.1	624	21.8	–30	340	393	302	344	1 063	1 959
Tertiary	195	41.9	1 307	45.6	731	807	2 836	73	782	2 294	1 628
Wholesale and retail trade	101	21.8	494	17.2	248	274	609	398	383	877	665
Finance and insurance	26	5.5	69	2.4	214	433	126	–622	251	70	12
Other services[3]	68	14.6	744	26.0	269	100	2 101	297	148	1 347	951
Total	464	100.0	2 867	100.0	954	1 312	3 683	–79	2 582	4 814	6 803

1. Including coal and petroleum products and non-metallic products.
2. Including mechanical equipment, electric and electronic equipment, motor vehicles and other transport equipment sectors.
3. Including figures for business services, other services and the primary sector, and, as from 1994, households' investments in real estate and dwellings.

Source: Suomen Pankki Finlands Bank, Information Services Department.

Table 9. **Direct investment flows abroad by country, 1982-1994**

Mk million

	1982-1987 average	% of total	1988-1994 average	% of total	1988	1989	1990	1991	1992	1993	1994
EC + EFTA + North America	2 181	89.0	9 741	89.6	8 697	11 088	9 980	2 367	1 242	13 945	20 868
EC + EFTA	1 693	69.1	7 852	72.2	6 630	7 161	8 112	909	848	13 235	18 074
EC	933	38.0	5 494	50.5	3 800	4 481	4 541	–455	–457	9 496	17 051
Belgium-Luxembourg	155	6.3	849	7.8	312	546	559	758	1 185	1 832	750
Denmark	157	6.4	815	7.5	417	373	162	70	–128	47	4 769
France	99	4.0	733	6.7	239	382	1 442	678	1 046	812	531
Germany	120	4.9	943	8.7	1 136	525	387	420	581	3 294	257
Greece	2	0.1	4	0.0	4	8	13	-	2	–1	1
Ireland	34	1.4	93	0.9	31	5	146	246	55	97	66
Italy	25	1.0	204	1.9	54	150	106	391	315	330	85
Netherlands	129	5.2	794	7.3	289	1 238	–168	–4 395	–5 175	–325	6 983
Portugal	0	0.0	213	2.0	12	73	116	272	117	1 068	–161
Spain	42	1.7	401	3.7	70	150	373	311	652	824	425
United Kingdom	171	7.0	1 460	13.4	1 236	1 031	1 405	794	893	1 518	3 345
EFTA	761	31.0	2 359	21.7	2 830	2 680	3 571	1 364	1 305	3 739	1 023
Austria	5	0.2	79	0.7	2	–3	6	7	-	20	523
Norway	74	3.0	336	3.1	284	371	1 014	587	–272	244	128
Sweden	561	22.9	1 952	18.0	2 292	2 398	2 535	703	965	3 765	1 002
Switzerland	121	5.0	–9	–0.1	252	–86	16	67	512	–290	–630
North America	487	19.9	1 888	17.4	2 067	3 927	1 868	1 458	394	710	2 794
Canada	122	5.0	132	1.2	145	871	121	261	–58	–672	256
USA	366	14.9	1 756	16.2	1 922	3 056	1 747	1 197	452	1 382	2 538
Other[1]	271	11.0	1131	10.4	681	2 061	2 150	1 050	1 136	520	319
Total	2 451	100.0	10 872	100.0	9 378	13 149	12 130	3 417	2 378	14 465	21 187

1. Including investments unallocated by country.

Source: Suomen Pankki Finlands Bank, Information Services Department.

Table 10. Direct investment flows abroad by industry, 1982-1994

Mk million

	1982-1987 average	% of total	1988-1994 average	% of total	1988	1989	1990	1991	1992	1993	1994[5]
Secondary	1 421	58.0	7 936	73.0	3 528	7 413	6 079	3 561	5 404	12 852	16 715
Paper, printing and publishing	221	9.0	1 365	12.6	252	1 411	1 918	708	1 392	1 812	2 058
Chemical products[1]	591	24.1	1 958	18.0	573	895	1 002	1 187	144	4 930	4 977
Metal products[2]	465	19.0	3 593	33.0	2 431	3 430	2 405	954	3 470	4 754	7 706
Other manufacturing	144	5.9	1 021	9.4	272	1 677	754	712	398	1 356	1 974
Tertiary	608	24.8	2 493	22.9	2 893	4 520	3 318	768	953	1 001	4 001
Wholesale and retail trade	276	11.3	1 292	11.9	657	1 411	931	1 087	260	480	4 224
Finance and insurance	233	9.5	881	8.1	1 925	2 521	1 877	–870	510	521	–320
Other services[3]	99	4.1	322	3.0	311	588	510	551	183	16	97
Unallocated[4]	422	17.2	440	4.0	2 957	1 216	2 733	–912	–3 979	596	471
Total	2 451	100.0	10 872	100.0	9 378	13 149	12 130	3 417	2 378	14 465	21 187

1. Including coal and petroleum products and non-metallic products.
2. Including mechanical equipment, electric and electronic equipment, motor vehicles and other transport equipment sectors.
3. Including households' investments in real estate and dwellings.
4. Including figures for business services, other services and the primary sector.
5. Up to 1993, outward direct investment was classified according to the industry in which the investment was made; since 1994 classification has been according to the industry to which the Finnish investor belongs.

Source: Suomen Pankki Finlands Bank, Information Services Department.

Table 11. **Foreign direct investment: position at year-end by country,[1] 1989-1993**

Mk million

	1989	% of total	1990	1991	1992	1993	% of total
EC + EFTA + North America	14 834	92.2	17 257	15 777	18 203	23 416	96.0
EC + EFTA	12 422	77.2	14 805	13 454	15 606	20 126	82.5
EC	3 796	23.6	4 329	4 409	5 847	8 025	32.9
EFTA	8 626	53.6	10 476	9 045	9 759	12 101	49.6
North America	2 412	15.0	2 452	2 323	2 597	3 290	13.5
Other	1 259	7.8	1 394	1 666	1 145	975	4.0
Total	16 093	100.0	18 651	17 443	19 348	24 391	100.0

1. For 1989-1991, ultimate, and thereafter, immediate investing country.

Source: Suomen Pankki Finlands Bank, Information Services Department.

Table 12. **Foreign direct investment: position at year-end by industry, 1989-1993**

Mk million

	1989	% of total	1990	1991	1992	1993	% of total
Secondary	6 966	43.3	7 551	7 793	10 125	13 499	55.3
Chemical products[1]	796	4.9	1 033	1 018	1 491	1 799	7.4
Metal products[2]	4 676	29.1	4 736	4 619	6 011	7 913	32.4
Other manufacturing	1 494	9.3	1 782	2 156	2 623	3 787	15.5
Tertiary	9 127	56.7	11 100	9 650	9 223	10 892	44.7
Wholesale and retail trade	7 165	44.5	7 278	6 758	6 419	6 807	27.9
Finance and insurance	1 083	6.7	1 156	539	793	809	3.3
Other services[3]	879	5.5	2 666	2 353	2 011	3 276	13.5
Total	16 093	100.0	18 651	17 443	19 348	24 391	100.0

1. Including coal and petroleum products and non-metallic products.
2. Including mechanical equipment, electric and electronic equipment, motor vehicles and other transport equipment sectors.
3. Including figures for business services, other services and the primary sector.

Source: Suomen Pankki Finlands Bank, Information Services Department.

Table 13. **Direct investment abroad: position at year-end by country,[1] 1982-1993**

Mk million

	1982	1983	1984	1985	1986	1987	1988	1989	% of total	1990	1991	1992	1993	% of total
EC + EFTA + North America	2 001	2 454	5 433	6 619	7 455	13 119	21 537	28 902	89.7	35 057	37 934	38 438	48 695	89.2
EC + EFTA	2 053	2 299	3 653	4 163	5 201	10 436	16 871	21 218	65.9	28 945	28 419	28 465	37 002	67.8
EC	1 283	1 244	1 944	2 012	2 748	5 736	9 622	12 640	39.2	18 442	17 497	16 411	20 388	37.4
EFTA	770	1 055	1 709	2 151	2 453	4 700	7 249	8 578	26.6	10 503	10 922	12 054	16 614	30.4
North America	–52	155	1 780	2 456	2 254	2 683	4 666	7 684	23.8	6 112	9 515	9 973	11 693	21.4
Other[2]	1 549	1 924	3 097	3 289	3 772	4 372	2 261	3 319	10.3	5 743	6 889	6 483	5 882	10.3
Total	3 550	4 378	8 530	9 908	11 227	17 491	23 798	32 221	100.0	40 800	44 823	44 921	54 577	100.0

1. For 1982-1991, ultimate, and thereafter, immediate host country.
2. Including investments unallocated by country.

Source: Suomen Pankki Finlands Bank, Information Services Department.

Table 14. **Direct investment abroad: position at year-end by industry, 1982-1993**

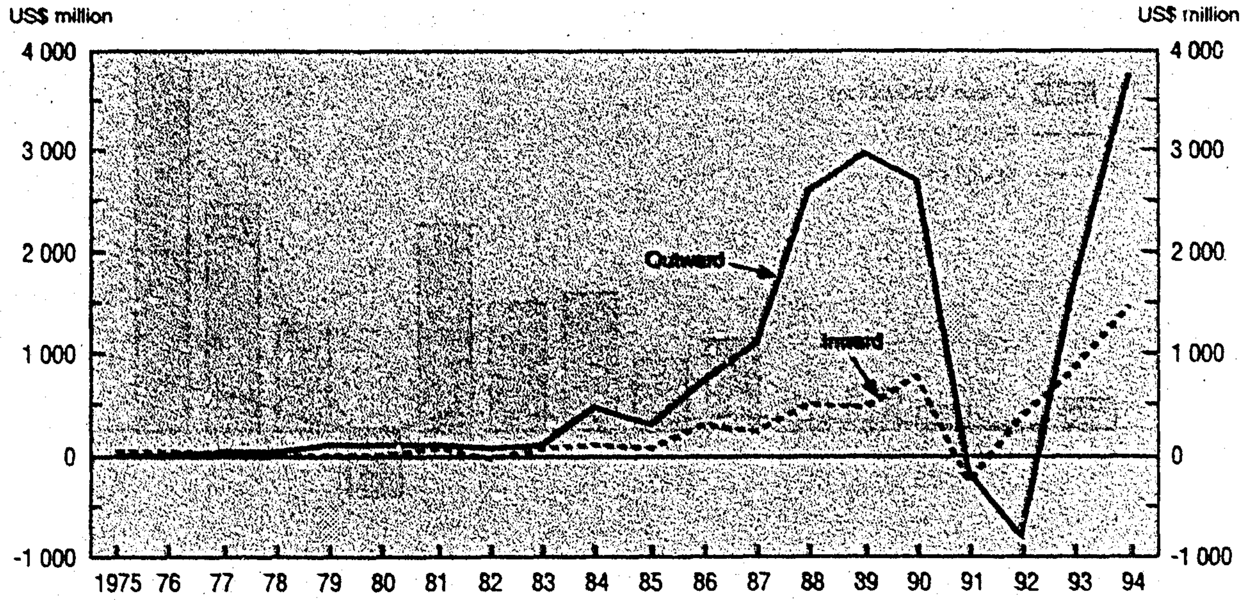
Mk million

	1982	1983	1984	1985	1986	1987	1988	1989	% of total	1990	1991	1992	1993	% of total
Secondary	2 144	2 406	5 326	6 304	7 546	11 619	13 917	19 562	60.7	22 921	24 907	29 174	38 388	70.3
Paper, printing and publishing	906	881	1 486	1 872	2 287	3 140	3 612	5 055	15.7	5 837	6 786	6 294	8 825	16.2
Chemical products[1]	132	256	729	1 188	1 516	3 515	3 410	3 957	12.3	5 144	5 190	6 625	10 227	18.7
Metal products[2]	874	979	1 607	1 719	2 477	3 847	5 464	7 900	24.5	8 925	9 426	11 387	11 422	20.9
Other manufacturing	232	290	1 504	1 525	1 266	1 117	1 431	2 650	8.2	3 015	3 505	4 868	7 914	14.5
Tertiary	1 553	2 019	3 287	3 272	4 087	4 796	7 438	9 650	29.9	11 169	12 154	13 958	15 072	27.6
Wholesale and retail trade	263	312	668	460	683	1 067	1 405	1 401	4.3	1 197	2 873	3 335	3 983	7.3
Finance and insurance	1 217	1 588	2 437	2 533	2 955	3 090	5 084	6 712	20.8	7 925	6 487	7 363	8 156	14.9
Other services[3]	73	119	182	279	449	639	949	1 537	4.8	2 047	2 794	3 260	2 933	5.4
Unallocated[4]	–147	–47	–83	332	–406	1 076	2 443	3 009	9.3	6 710	7 762	1 789	1 117	2.1
Total	3 550	4 378	8 530	9 908	11 227	17 491	23 798	32 221	100.0	40 800	44 823	44 921	54 577	100.0

1. Including coal and petroleum products and non-metallic products.
2. Including mechanical equipment, electric and electronic equipment, motor vehicles and other transport equipment sectors.
3. Including households' investments in real estate and dwellings.
4. Including figures for business services, other services and the primary sector.

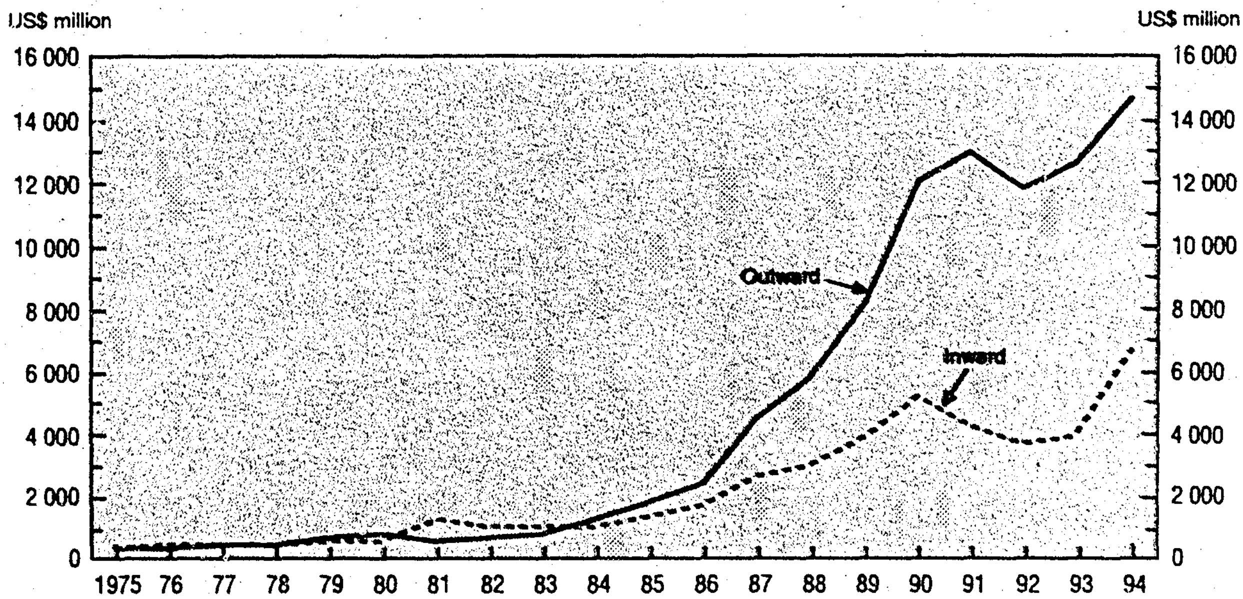
Source: Suomen Pankki Finlands Bank, Information Services Department.

Chart 1. **Foreign direct investment flows to and from Finland, 1975-1994**



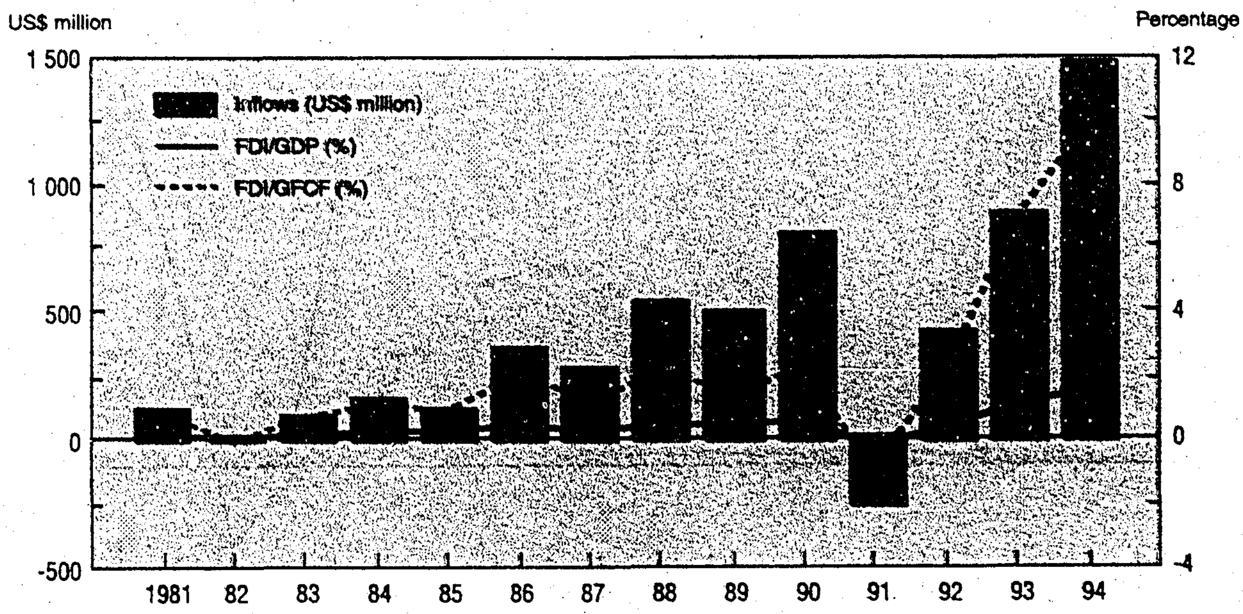
Source: OECD/DAF.

Chart 2. **Finland – Foreign direct investment stocks, 1975-1994**



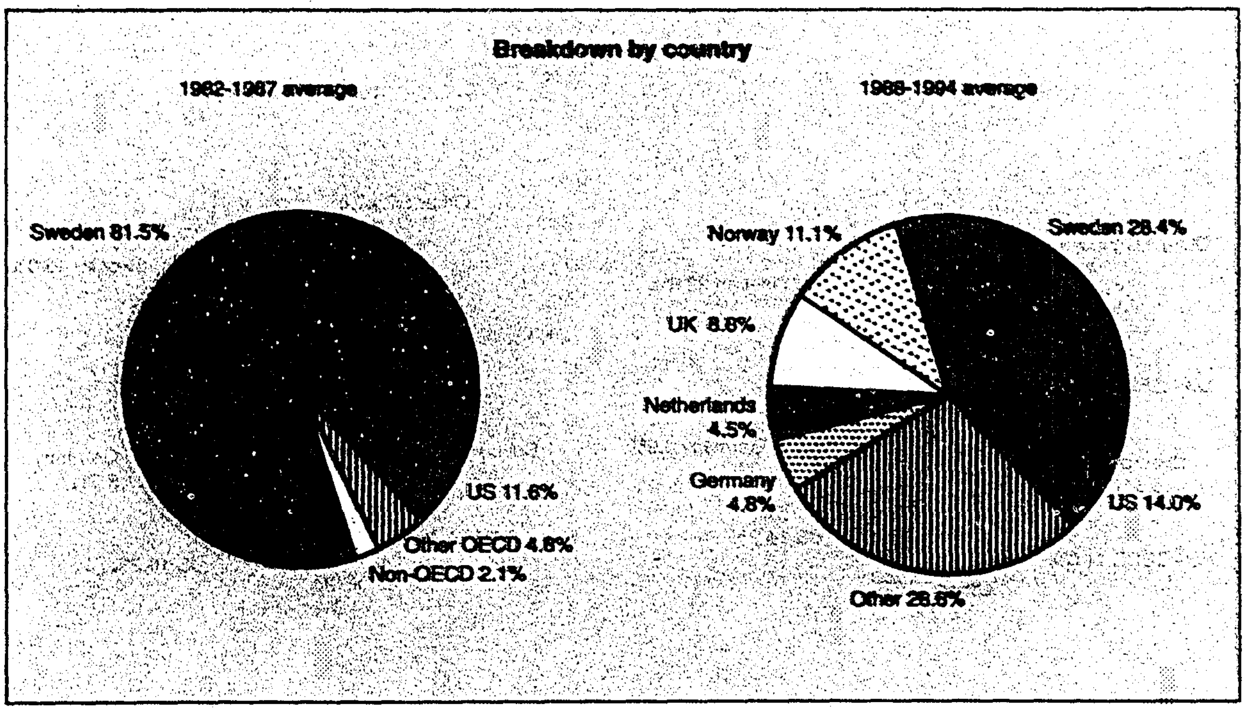
Source: OECD/DAF.

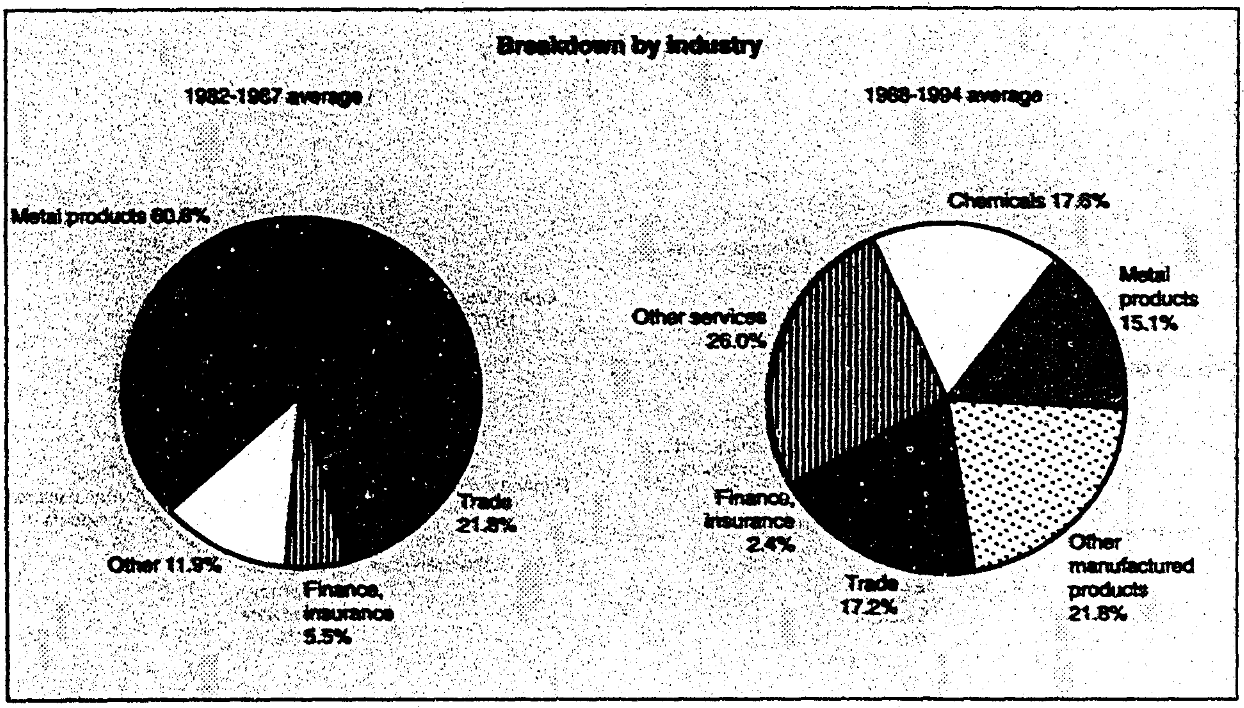
Chart 3. **FDI as a percentage of GDP and GFCF, 1981-1994**



Source: OECD/DAF.

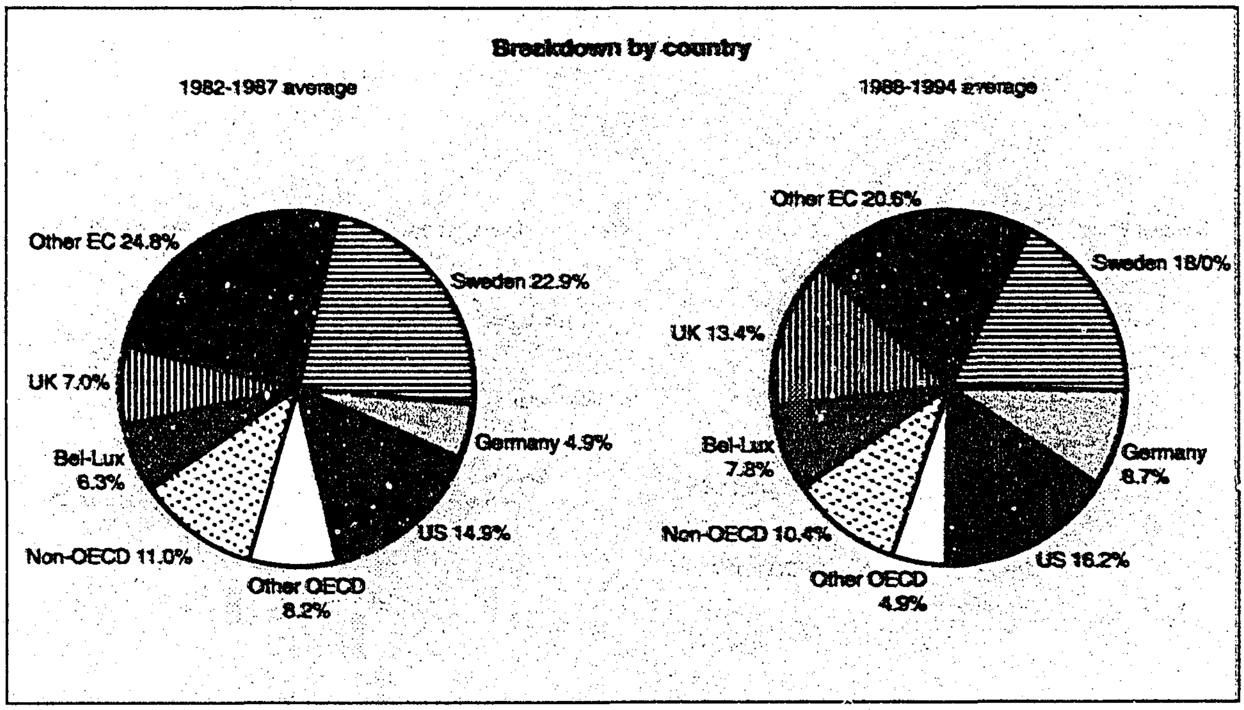
Chart 4. **Foreign direct investment flows to Finland**

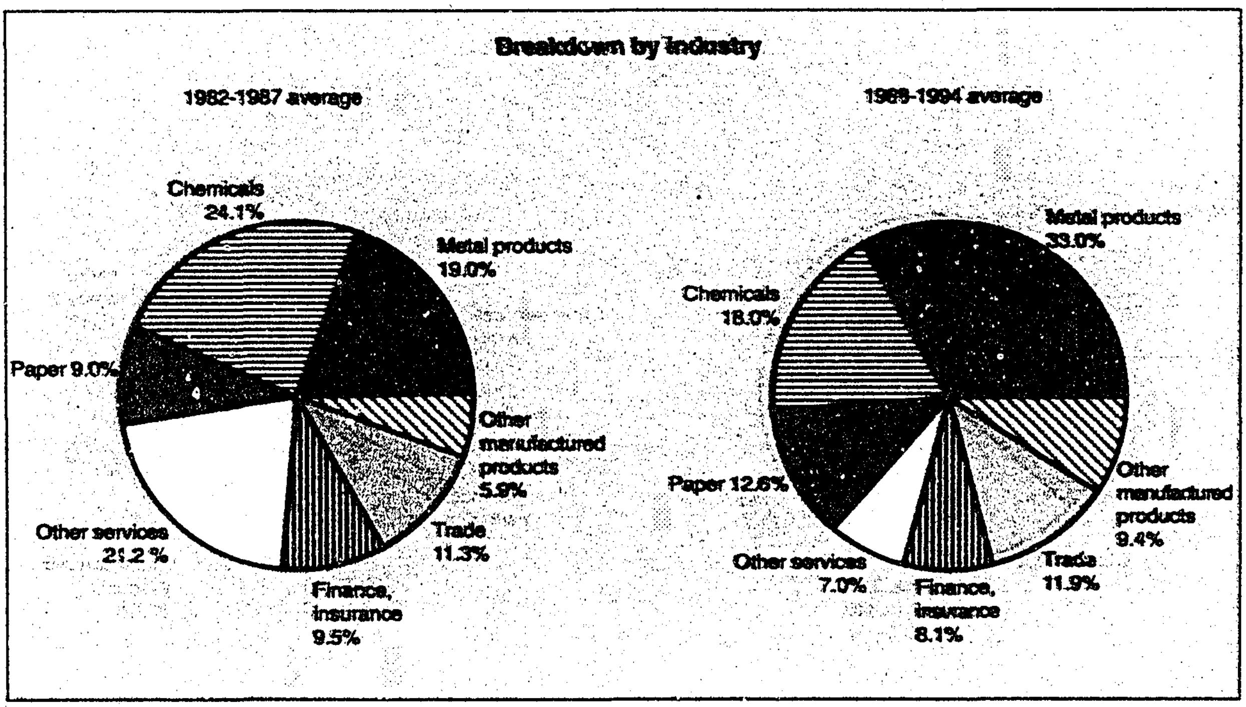




Source: OECD/DAF.

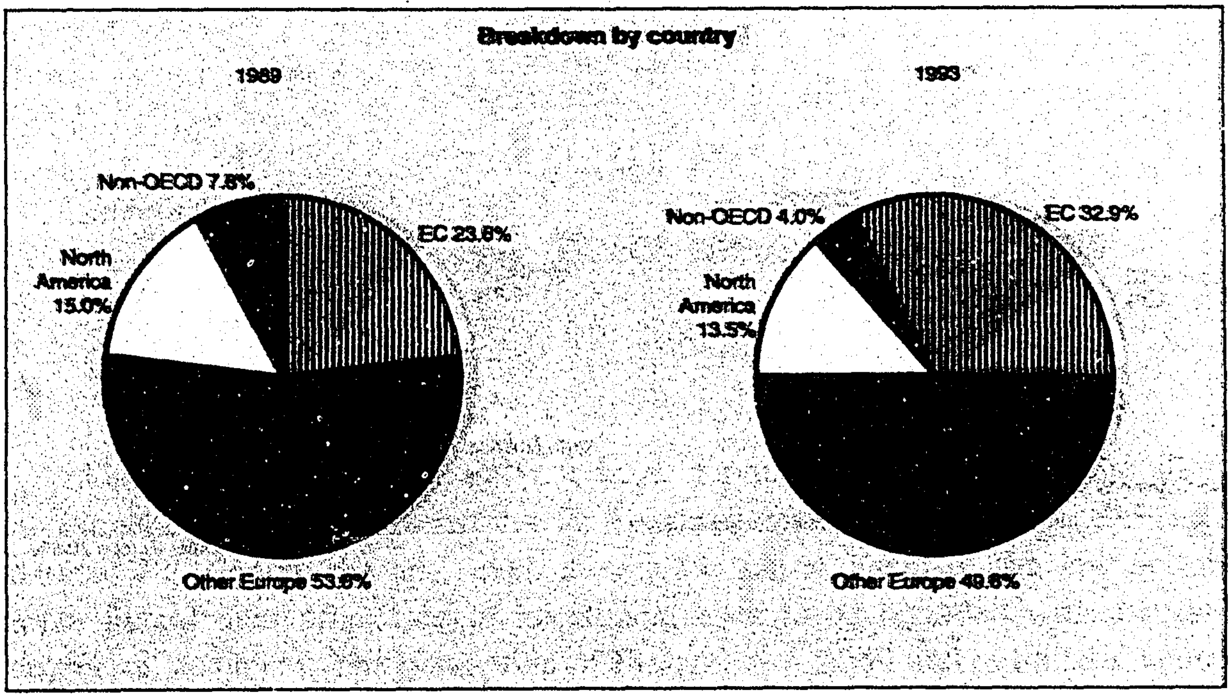
Chart 5. **Finnish direct investment flows abroad**

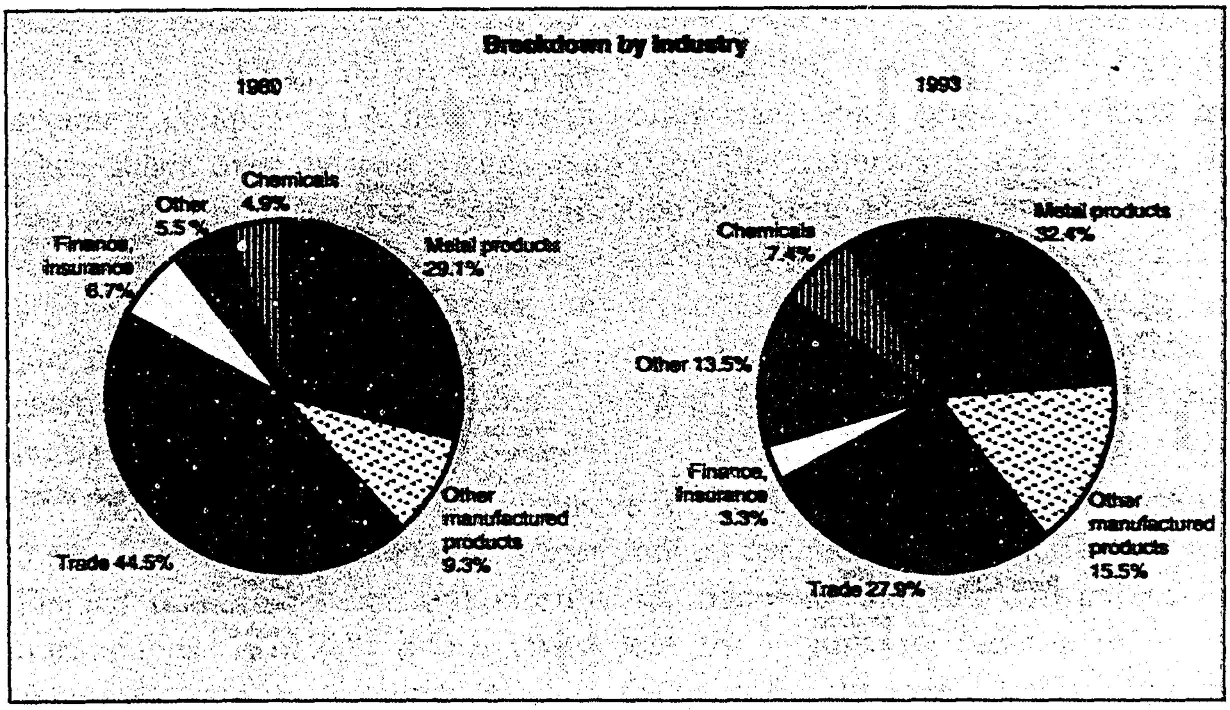




Source: OECD/DAF.

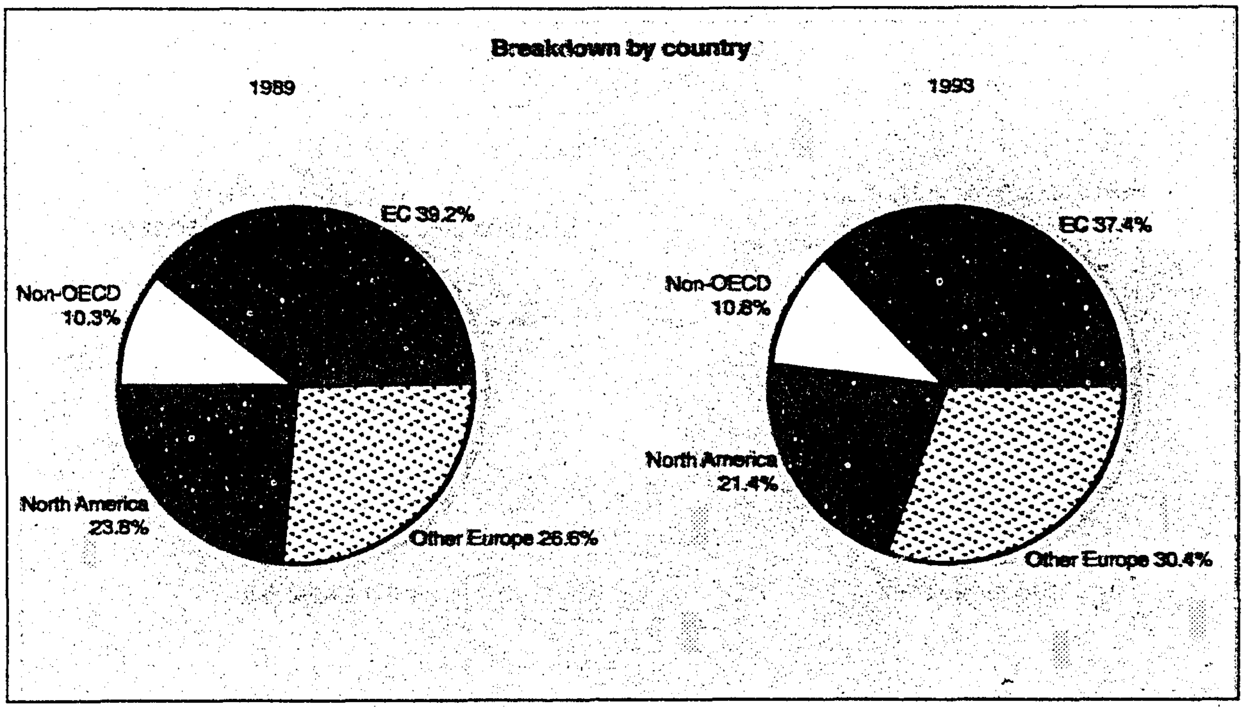
Chart 6. **Foreign direct investment stocks in Finland**

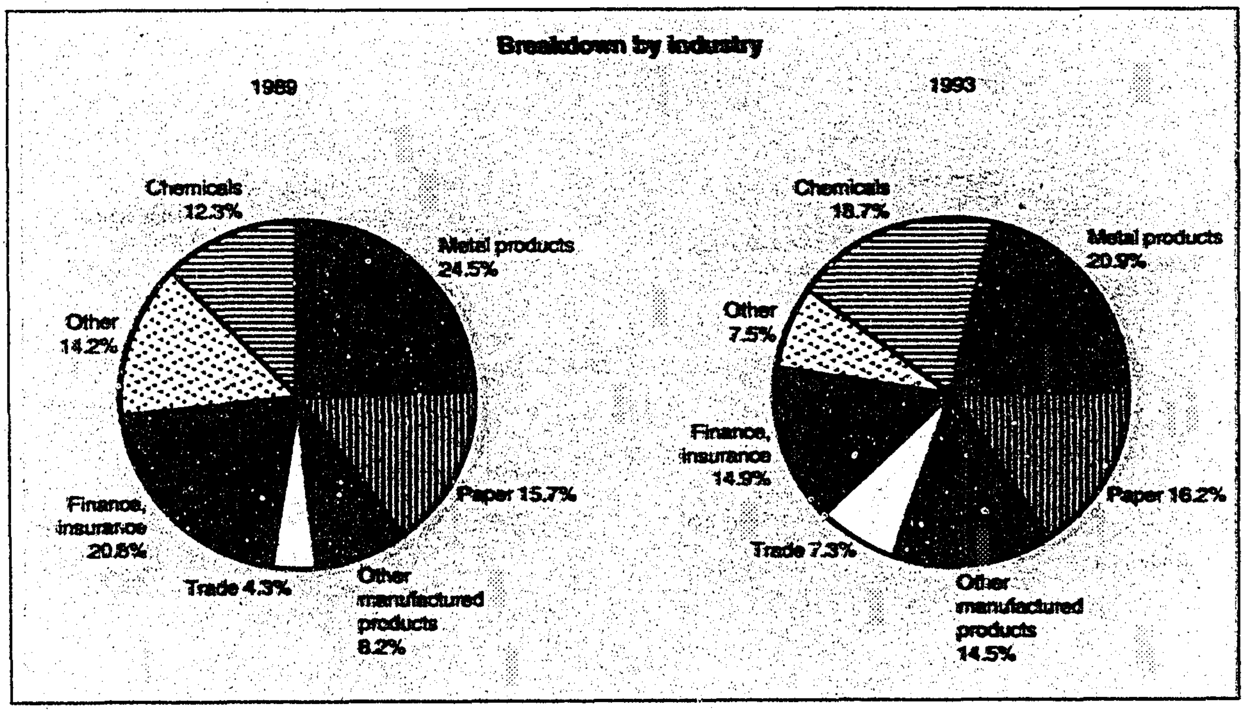




Source: OECD/DAF.

Chart 7. **Finnish direct investment stocks abroad**





Source: OECD/DAF.

Chapter 2

Finland's foreign direct investment policies

A. Introduction

Until recently, Finland did not have a policy to promote foreign direct investment. Legislation governing foreign investment was based on the (aptly named) Restriction Act and, even though the enforcement of the law became more liberal over time, foreign investment used to be regarded with a certain degree of suspicion. The perception of Finland as a small and politically neutral country, surrounded by powerful neighbours and keen on limiting foreign involvement in its domestic affairs were important factors determining this attitude. The political changes in Europe around 1990, including the orientation of the Nordic countries on the European Communities, made the case for greater openness compelling. A new Finnish policy stance on foreign investment has taken shape over the past years, spurred by the country's participation in the European Economic Area. New legislation has been adopted, not the least of which was the replacement of the Restriction Act by the Monitoring Act, entailing the abolition of most discriminatory practices concerning foreign investment. The new legislation also outlawed private practices (in particular provisions in enterprises' articles of association) aimed at favouring domestic over foreign investors.

The abolition of Finland's extensive foreign exchange restrictions started in the mid-1980s and proceeded in stages until its completion in 1991. The Bank of Finland used to require authorisation for many inward and outward capital transactions. In 1988, direct investment by Finnish residents abroad was exempted from this requirement, with the exception of investment by financial institutions (which was liberalised only in 1989) and private persons (liberalised in 1990). Inward direct investment was exempted in 1989, except for investment in the financial sector, which was liberalised only in 1991. In practice, the Bank granted authorisation in any case once the establishment or acquisition had been approved by other authorities involved (mainly the Ministry of Trade and Industry).

The thrust of Finland's policy is to seek equal treatment with their domestic investors: no special incentives (such as tax incentives) are granted to foreign investors, except that exemption from withholding tax is offered to investment earnings of investors from countries with which Finland has concluded bilateral treaties to avoid double taxation. Bilateral investment agreements, aimed at providing fair, legitimate and non-discriminatory treatment of direct investment, have been concluded with a number of Central and Eastern European and developing countries. The treaties provide *inter alia* that investments can be expropriated only on grounds of public interest and provided that there is reasonable and non-discriminatory compensation.

The Ministry of Trade and Industry recently started a campaign abroad to promote Finland as a foreign investment venue. Information is disseminated by the Finnish Foreign Trade Association, through its Invest in Finland Bureau. This Bureau is fully funded by the Ministry of Trade and Industry. Its mandate includes the assistance of individual foreign investors. It is also required to report back to the authorities on perceived obstacles and to recommend policy changes.

B. General issues

i) Implications of Finland's EC Membership

On 1 January 1994, the Treaty on the European Economic Area (EEA), concluded between the Member States of EC and EFTA (excluding Switzerland) became effective. Its implication has been that much of the EC legislation became applicable to Finland and the other EFTA Members involved, with a major impact on these countries' laws governing trade, investment and competition. Among the most important consequences for Finland's investment-related legislation has been the necessity to amend or replace:

i) the Restriction Act of 1939, by eliminating the authorisation requirement for foreign acquisitions beyond 20 per cent of the share capital and the restriction on foreign purchases of real estate (except for secondary residences);

ii) the rules on government support of industries and public procurement;

iii) legislation on market access for foreign financial institutions in accordance with the relevant EC Directives;

iv) company law, including the nationality restrictions for boards of directors and other decision-making bodies in enterprises;

v) the legislation on competition in accordance with the EC rules;

vi) legislation on air and maritime transport, so as to allow EEA nationals to invest in these sectors.

In some areas brief transitional periods have been granted to bring legislation in conformity with the requirements of the Treaty. Finland has been given time until 1 January 1996 to adapt its laws on foreign direct investment on national territory. In fact, new legislation in this field became effective as from 1 January 1993. Some other sectors have been excluded from the EEA Treaty, notably agriculture.

Pursuant to its obligations under the Treaty, Finland has overhauled its legislation. A new Competition Act entered into force in September 1992. The Restriction Act, with its discriminatory provisions for foreign acquisitions and investment in real estate was replaced by the more liberal Monitoring Act as from 1 January 1993. These new laws will be discussed in greater detail below.

On 1 January 1995 Finland became a Member of the European Communities, together with Austria and Sweden. At a popular referendum on Finland's accession, in October 1994, 56.9 per cent of votes were cast in favour of this step. The most important legal changes to bring Finland's regulations of foreign direct investment in line with EC rules had already been brought about following the country's decision to join the EEA in 1994. However, some further changes will be necessary. Finland's accession to the EC will require the amendment of the Monitoring Act by abolishing the provisions on the confirmation procedure for investment by EEA investors in non-defence industries before the end of 1995 (see Chapter 2, section B*ii*). Secondly, the restrictions on the right of foreign EEA nationals to purchase leisure dwellings will have to be lifted (see Chapter 2, section B*iii*).

Some of the new legislation will not distinguish between residents and nationals of EEA States on one hand and those from non-EEA States on the other, whereas others will. Notable examples of the former are the new laws on enterprise acquisitions and real estate and on establishment in the financial sector.

In other areas, such as the establishment of branches by foreign enterprises, on the corporate structure and on air and maritime transport, the new rules will apply to residents, or (in the context of air transport) nationals, of Contracting States to the EEA only. This raises questions with respect to the consistency of the relevant provisions in the EEA Treaty with the principle of non-discrimination, enshrined in OECD's Code of Liberalisation of Capital Movements (see Annex 1). The OECD Council has invited the EEA Countries to extend their liberalisation measures and practices to all OECD countries. The Finnish Government has stated its general intention to apply without discrimination among countries (*"erga omnes"*) any liberalisation of capital movements, including foreign direct investment, that might be required by the EEA Treaty.

ii) Horizontal legislation on establishment

Before 1993, Finland's legislation on foreign direct investment was rather inhibiting. Pursuant to the Restriction Act, ownership of real estate by an enterprise whose share capital was more than 20 per cent foreign-owned was restricted. Consequently, any acquisition bringing foreign ownership of a firm beyond 20 per cent of the share capital required authorisation. The same applied to joint ventures in which foreigners participated for more than 20 per cent. The old company law embodied the concept of "free shares" in enterprises, namely shares that could be owned by Finnish and foreign nationals (including foreign-owned enterprises). Usually, the articles of association of Finnish enterprises limited these free shares to 20 per cent of total share capital.

The Restriction Act dated from a different era (1939) and, although in more recent years it was in general applied liberally, the need for a more open legislation was increasingly felt. The outdated Act was abolished effective 1 January 1993, giving way to two new Acts:

i) the Act on Monitoring of Foreigners' Corporate Acquisitions in Finland (1612/92, known as "Monitoring Act"); and *ii)* the Act on the Surveillance of Non-Residents' Acquisitions of Real Property (1613/92, known as "Real Estate Surveillance Act"; to be discussed in Chapter 2, section B*iii*).

Under the Monitoring Act, foreign nationals are generally free to buy and own shares in Finnish enterprises. However, foreign acquisitions of large companies are subject to prior notification and "confirmation" by the Ministry of Trade and Industry. The conditions are as follows:

i) the Finnish enterprise in which the investment is made is large, meaning that it has either:
- an annual turnover exceeding 1 000 million Finnish markkaa (presently equalling about US$200 million), or
- a balance sheet total exceeding 1 000 million markkaa, or
- more than 1 000 employees; and

ii) the acquisition is to be made by a single foreign investor who intends to buy at least one-third of the voting stock, or to have control over the enterprise (see the final paragraph of this section); and

iii) the acquisition would jeopardise important Finnish national interests.

These provisions also govern the acquisitions by foreign-owned Finnish enterprises. The national interest is defined in the law as: safeguarding national defence, avoiding serious economic, social or environmental problems, or ensuring public order, safety and health. Four applications have been notified for confirmation by the Ministry of Trade and Industry, none of which has been rejected. Confirmation procedures have taken between 9 and 41 days, with an average of 16 days.

The monitoring system will be in force until 1 January 1996; it will subsequently be terminated for acquisitions by EEA nationals. By that date, it may be abolished altogether by decree, except for enterprises producing defence equipment; however, no decision to that effect has been taken yet.

The company statistics summarised in Table 15 show that, by the end of 1993, 115 Finnish enterprises were "large" in the sense of the Monitoring Act.[4] Twelve of these were already possessed by a one main foreign owner, so 103 enterprises would need to be monitored if taken over by a foreign investor.

Table 15. **"Large enterprises" under the Monitoring Act end-1993 data**

	Enterprises in Finland with:			
	turnover > Mk 1 billion	> 1 000 employees	both	one out of two
Enterprises	89	96	70	115
of which owned by one major foreign owner	*10*	*6*	*4*	*12*

Source: OECD/DAF.

By virtue of the 1919 Act on the Right to Carry out Economic Activity (122/1919, known as the "Business Act"), the right for foreign enterprises to establish a branch in Finland continues to be subject to permission. Finland's accession to the EEA has removed this requirement for enterprises having their seat in another EEA Contracting State (*i.e.* having their main seat of administration there and being established according to the law of that State). The argument for this blanket authorisation requirement for branches, which is rare among OECD Members, is that branches do not constitute separate legal entities, so the authorities may have difficulties in obtaining sufficient control or information about the enterprise's activities. The Finnish Government has stated that permissions for investors from other OECD Member countries are as a rule granted. About 100 direct branches of non-resident enterprises have been registered.

In the context of Finnish corporate law, two concepts deserve clarification, namely that of a "Finnish enterprise" and of "foreign control". In principle, any enterprise established and registered in Finland is "Finnish", even if its owners are non-Finnish citizens or residents. But there are some exceptions. A foreign-owned branch established in Finland is not considered Finnish. Furthermore, in acquisitions of enterprises and real estate, an enterprise is considered foreign if it is under foreign control and, hence, subject to the same restrictions in the law as non-resident foreign enterprises. Foreign control implies:

i) in case of a limited liability company, that more than half of the voting stock is in under control of foreign owners by virtue of ownership or agreement;

ii) in case of a general partnership, that one of the partners (or for a limited partnership, one of the full partners) is foreign;

iii) in case of an organisation, that more than half the members' voting power is exercised by foreigners.

iii) *Real estate*

The repeal of the Restriction Act, effective 1 January 1993, entailed the liberalisation of the Finnish real estate market, which had been severely restricted to foreign land purchases. Since that date foreigners (private persons and enterprises) have been able to purchase real property in Finland. The new legislation is in compliance with the obligations under the EEA Treaty, although this Treaty did not compel Finland to liberalise its real estate market before 1995. Under the new law (the Act on the Surveillance of Non-Residents' and Foreign Organisations' Acquisitions of Real Property in Finland) special authorisations for non-residents who have not lived in Finland for five years or more, are still needed in two circumstances:

i) the land is acquired with the purpose of building a dwelling for leisure or recreational use; authorisation can be denied only if the acquisition disrupts the implementation of zoning regulations, or if it has a considerable adverse effect on nature conservation, or if it leads to abrupt price rises which distort the local real estate market;

ii) the land is located in the Frontier Zone or in a protected area as defined in the 1989 Decree on Territorial Integrity and Control.

Furthermore, the liberalisation does not extend to the Åland Islands, which, as an autonomous region, have remained outside the purview of the new law.

The arguments for restricting the purchase of land for recreational dwellings are found in the desire to preserve natural coastal and lakeshore area, where a strong potential foreign demand exists. A specific reason for limiting the restrictions to non-residents and to land for building could be the fact that landowners in Finland are entitled by law to compensation for any limitations in the building rights. A proliferation of newly-built secondary residences would make nature conservation particularly costly. In general however, authorisations appear to be liberally granted; only one application has been turned down, and this for reasons of nature conservation. Furthermore, the restrictions on secondary residences will be abolished before 1 January 2000, as stipulated by the EC Accession Treaty.

The restrictions on the acquisition in the Frontier Zones and other protected areas are motivated by reasons of border control and territorial integrity. No one (Finnish and foreign nationals alike) is allowed to move into these areas without permission from the boarder guarding officials. Frontier zones are designated only in the border region with the Russian Federation. The zones extend three kilometers inland from the border, unless the authorities have established a narrower limit (it is 1.5 kilometers in the Zone's southern section). Their total area covers just over 1 per cent of Finland's surface. For the Frontier Zones and other protected areas special restrictions apply with respect to sojourning, travel and construction. Acquisitions of real estate require a special permit from the provincial authorities.

iv) The Åland Islands

The Åland Islands, located half-way between Sweden and the Finnish mainland in the Baltic Sea form an autonomous Finnish province. This status was established by a decision of the League of Nations in 1921, four years after Finland and the Åland Islands had gained independence from Russia. Incorporation into Finland was conceded on the condition that Swedish would be the official language and that the islands would remain demilitarised. Åland was entitled to decide on its own accession to the EC, which was indeed approved with a large majority. It will not be considered part of the EC as to the application of EC provisions on excise duties and VAT. After the abolition of duty-free trade within the EC as from 1 January 1999, this status will protect Åland's main enterprise sector: the ferry-boats between Sweden and Finland and the tax and duty-free business thereon, which earns the province some Mk 2 billion per year. The ferries will have to dock in Åland on the way in order to qualify for duty-free status. Several shipping lines have their seat on the islands and symbolically fly the Åland flag, although their ships are registered in the Finnish shipping register.

Finnish national legislation on monetary and foreign currency affairs, as well as banking and insurance legislation, is applicable to Åland. Furthermore, Finland has legislative powers in matters relating to "associations and foundations, companies and other private corporations and the keeping of accounts", on "the nationwide general preconditions on the right of foreigners and foreign corporations to own and possess real property and shares of stock and to practice a trade", and on "copyright, patent, copyright of design and trademark, unfair business practices, promotion of competition, consumer protection" (Autonomy Act, section 27, sub 8, 9 and 10). Hence, the acquisition of businesses by foreigners is governed by national legislation, but it appears that foreign ownership of enterprises established in Åland may be hampered or impaired by the restrictions on real property acquisitions, residence and the right to carry out a business for profit.

The Autonomy of Åland Act establishes a right of domicile (local citizenship), which can be granted by the local Government to Finnish citizens (natural persons only), provided that they are residents of the islands and have been so for at least five years, and that they are satisfactorily proficient in Swedish. Setting up a business is permitted for persons with the right of domicile and, furthermore for natural persons that have been legal residents for over five years and legal persons with a board of directors consisting entirely of local residents. Anyone else needs permission from the Åland authorities to set up a business or to acquire real property in the province. Permission is, as a rule, granted only where the business concerned meets the criteria of local establishment in Åland and is exercised by local residents. Hence, it is not plausible that Finnish enterprises could establish their seat in the province for any other purposes, such as the prevention of foreign take-overs. Usually, real estate may be acquired to the extent necessary for the permitted business.

v) Competition policies

a) Competition law

The founding of the European Economic Area implied that the EC's legislation against cartels and abuse by enterprises of dominant market positions (embodied in Articles 85 and 86 of the EC Treaty) became effective in Finland. The new Competition Act (480/92), which came into force in September 1992, has been drafted in accordance with the EC's provisions. However, no regulation of merger control exists: Finland's competition law is in general based on the principle of forbidding abuse of a dominant position rather than that of preventing such positions. The Competition Act does not distinguish between Finnish and foreign enterprises.

The main bodies enforcing competition law are the Office of Free Competition, which is a governmental inspection body, and the Competition Council, a judicial organ in competition matters. A revision of the Act on the Competition Council was enacted recently. The Competition Council may be developed into an independent court over time.

b) *Monopolies and concessions*

The prevention of private monopoly practices is a matter of competition policy, which is discussed in the previous sub-section. However, the existence of public monopolies or concessions also raises obstacles to competition as well as to foreign investment. Sometimes such monopolies are justified by considerations of public order and essential security. Other reasons may be political or other sensitivities (which might arise *e.g.* in the case of telecommunications, energy, broadcasting or gambling) or the public character of the services supplied (such as job mediation).

Table 16 presents a survey of public and private monopolies, and areas where suppliers require a government concession in Finland. In the past few years, several monopolies have been eradicated, or (in the case of the State railways on its own network) replaced by a concession regime. Until recently, services in broadcasting, employment mediation, post and telecommunications used to be supplied by public or private monopolies. Foreign investment and supply of services by foreign-owned firms in these sectors is governed by the principle of national treatment, with the exception of social security and work-related accident insurance (see Chapter 2, section C*iii*).

Several monopolies exist in utilities: the provision of gas and water and the electricity network. The Government has submitted an Electricity Market Bill to Parliament, most provisions of which are expected to be enacted as from June 1995. The network will remain a monopoly; network operators will require a licence. The construction of power stations will continue to require a permit so as to ensure compatibility with environmental, nuclear and hydro-electric energy and zoning legislation. In production, sales and foreign trade competition will be free; sales will no longer require a licence. Network operators will be obliged to open their network to interested parties (whether Finnish or foreign) against

Table 16. **Finland: monopolies and concessions**

1. At the level of national government

a) Public monopolies
- Retail sales of alcoholic beverages
- Football pools, money lotteries, slot machines and casinos

b) Private or mixed monopolies
- Totaliser and horse betting

c) Concessions
- Rail transport services

2. At the level territorial subdivisions

a) Public monopolies
None

b) Private or mixed monopolies
None

appropriate payment. The bill's aim is to allow consumers (in particular corporate consumers) greater freedom to choose their electricity suppliers.

For social reasons, some monopolies have been retained. The State has a monopoly for the retail sales of alcoholic beverages, except those produced by fermentation and with an alcohol content not exceeding 4.7 volume per cent (notably low-alcohol beer). Monopolies also exist in gambling (see Table 16).

c) Public procurement

As a result of the EEA Treaty, Finland has had to bring its regulations on public procurement in line with those prevailing in the EEA. These regulations demand non-discrimination among suppliers from EEA Contracting States in public works and other forms of government procurement. Finland will also be subject to the rules on public procurement under the WTO rules, which are being finalised and should take effect on 1 January 1996.

vi) State intervention in the economic process

a) State-owned enterprises and privatisation

In 1993, State-owned industrial enterprises, including those in which the State holds minority stakes, accounted for about 22 per cent of total value added and 27 per cent of the total investment volume in Finnish manufacturing. These enterprises employed about 16 per cent of the industrial labour force. They play a key role in Finnish manufacturing and energy production; for this reason the Finnish Government considers any change in ownership arrangements in the light of industrial development. It has no overall privatisation programme. A gradual privatisation of State-owned enterprises is implemented on a company-by-company basis; however, the State will keep minority stakes in privatised enterprises for the time being. State control will be retained in a few sectors, notably energy production, production of military equipment, the Finnish Broadcasting Company and (for public health reasons) the alcohol producer *Oy Alko Ab*.

Although plans to privatise certain enterprises date from the late 1980s, any implementation was shelved during the recession and not taken up again before the Helsinki stock market showed signs of new life in 1993. Relinquishing State control is not considered unless the enterprise in question has improved its equity/capital ratio to an internationally comparable level.[5] A number of wholly-owned unincorporated State enterprises have been corporatised. Some State-owned enterprises have been introduced at the Helsinki Stock Exchange. Furthermore, some State-owned enterprises have lost their monopolies and have to compete with private ones, such as in broadcasting, telecommunications and postal services.

The Government's room for manœuvre regarding its industrial holdings is governed by the Act on the State's Exercise of its Partnership Authority (740/91). According to this Act, any reduction of the State's interest in an enterprise below one-third or two-thirds of shares and votes, or below one half of the votes requires prior approval by Parliament, whereas by implication any other sell-off does not. Parliament has approved the State's cession of majority ownership in three enterprises and the reduction of its stakes in nine others. Among the former was the metal and mining company *Outokumpu Oy*, shares on which the State recently put on offer. No discrimination between foreign and domestic investors is intended in the offering of shares; indeed, foreign investment is sought in view of the limited supply of domestic investment capital. On a case-by-case basis the State can decide to retain a "golden share" with special privileges. So far, this has not been done and there are no plans to use this instrument for the purpose of discriminating against foreign investors.

b) *Subsidies and taxes*

At 3.1 per cent of GDP (1994), the general volume of government subsidies in Finland is high, even in comparison with other Nordic countries. Especially agriculture, newspapers, transportation and, more recently, the support of employment are important beneficiaries. On the other hand, sectoral subsidies have been relatively low in manufacturing. Among the important goals of subsidisation have been the promotion of research and development, small and medium-sized enterprises, peripheral regions and employment. Subsidies and tax regulations do not discriminate between Finnish-owned or foreign-owned Finnish enterprises.

In the late 1980s Finland embarked on a tax reform, the aims of which were a shift from direct to indirect taxes and a lowering of the tax rate combined with a broadening of the tax base. Revenue neutrality was set as a condition. The reform has been carried out in a number of steps. In 1993, the VAT basis was broadened by making a range of goods and services VAT liable. Other measures taken related to capital income and served the objective of achieving symmetric treatment of capital income and expenditure, while removing the incentives to debt financing against equity. As a result, all types of investment income (interest, rents, dividends and capital gains) are taxed at a flat rate of 25 per cent. Foreign investors are generally exempted by law from withholding tax on interest income. Dividends received by households are not taxed, so as to eliminate double taxation of dividends. The tax deductibility of interest payments has been terminated. The corporate income tax is now 25 per cent, down from 60 per cent; this is one of the lowest rates among OECD Member countries. However, the broadening of the corporate tax base has led to higher rather than lower tax payments for the corporate sector as a whole. Under the present rules, some firms may actually pay corporate tax for the first time.

c) *Bailing out the banks*

As in Norway and Sweden, the banking system in Finland was jolted by the severe recession of the early 1990s. Especially the savings banks were hit hard. Banks aggregate losses rose to Mk 21.7 billion in 1992 (about 3 per cent of their assets), up from Mk 4.8 billion in 1991. The stock of non-performing assets increased to Mk 55 billion in 1992 (1991: Mk 43 billion). In September 1991, the Bank of Finland acquired 53 per cent of the shares of *Skopbank* (a commercial bank that serves as a central bank for savings banks), in exchange for a capital injection and a clean-up of the balance sheet, following an acute liquidity crisis. In March 1992 the Government announced a rescue operation to restore confidence in the Finnish banking system. The banks received capital injections totalling Mk 8 billion in the form of preferred capital. At the same time a Government Guarantee Fund (GGF) was established, authorised to borrow up to Mk 20 billion to ensure the stability of the banking system and to secure claims on the banks. Most of the GGF's support was extended to the Savings Bank of Finland, a new institution set up by merging 41 savings banks. In February 1993, Parliament passed a resolution mandating the Government to guarantee the banks' solvency and providing the financial means to fulfill this guarantee. The costs of the bank bail-out to the Government amounted to around Mk 40 billion by the end of 1994.

The sale of the two nationalised banks has been among the tasks of the GGF. The Savings Bank of Finland was sold to four Finnish banks in October 1994. The *Skopbank* is still partly owned by the Government and the GGF. The Government intends to return the rest of its bank ownership to the private sector as well. Foreign acquisitions are possible and would, in fact, be welcomed.

vii) Corporate organisation

Finnish company law has traditionally incorporated nationality requirements for founders, members of the Board and the managing director in enterprises. By virtue of the revised Companies Act (a revision in pursuance of the EEA Treaty) these have been replaced by a requirement of residence. Of the *founders* at least half must be resident in an EEA country. If the founder is a corporate legal person, it is considered to have residence within the EEA if

i) it is formed in accordance with the law of an EEA Contracting State; and

ii) if it has either a registered office, central administration or principal place of business with the EEA.

As far as the *Directors* are concerned, at least half of the members of the Board, and the Managing Director, must be resident of an EEA Contracting State. Both for founders and Directors, the Ministry of Trade and Industry can consider requests for other arrangements and the Ministry reports that permission is, in most cases, granted. If all Board members and the Managing Director live outside Finland, the enterprise must name a representative in Finland to whom all communications can be addressed.

The purpose of the residence requirement is to safeguard that persons liable for the company's acts can be brought to courts if necessary. For residents of other EEA countries, this should be assured by the Lugano Convention, of which all EEA Contracting States are signatories. This Convention governs international co-operation in the enforcement of rulings by civil law courts within the EEA (and as such extends the Brussels convention which applies to EC Member States). In particular, Article 5 of the Lugano Convention makes it possible to bring a civil lawsuit against persons resident in other contracting States in courts of the jurisdiction in which the allegedly unlawful act has occurred, whereupon the court's ruling can be enforced in another contracting State (*i.e.* the country of residence). It should be noted that the Lugano Convention does not make residence requirements for directors of founders mandatory; indeed, not all EEA Contracting States have such requirements in their laws.

Residence status in Finland can be obtained by anyone who lives in the country, has a residence permit for at least one year and intends to stay permanently. Finland does not require special work permits for foreign managers in a Finnish enterprise.

viii) Private practices

The articles of association of many Finnish enterprises used to incorporate restrictions on foreign acquisition, such as clauses recognising different classes of shares, some of which were unavailable to foreigners. The replacement of the Restriction Act by the Monitoring Act has rendered such anti-foreigner clauses invalid. Violations of foreign shareholders' rights can be submitted to civil law courts. This is a major liberalisation measure and follows similar action in Sweden. It is still common for enterprises to have different share categories, but the categorisation can no longer be expressly used to curtail foreign ownership. Usually the classes differ in voting power; the maximum voting power per share is twenty times that of the share with the smallest voting power. All classes are tradeable on the stock market and hence, accessible in principle to all investors, whether Finnish or foreign. In practice, enterprises will be able to use the shares with higher voting rights as a weapon against unwanted take-overs and, reportedly, certain enterprises have indeed done so. Preferential shares that carry financial advantages may be issued under current corporate law, but those providing an exclusive right to vote on certain matters may not. It is expected that the latter prohibition will be eliminated in the near future. Cross-shareholdings are not prohibited under Finnish law.

Anonymity of foreign shareholders can be assured through a "registration of possession" by a Finnish bank or securities broker. Under the scripless securities trading system, Finnish shareholders do not have that option and have to be registered by name. However, the foreign investor will be identified according to the "flagging rule" in the Securities Markets Act. This rule provides for reporting of major shareholdings in an enterprise to the enterprise itself and the supervisory authority. This notification, which will be made public, has to be given any time the investor's stake in the enterprise exceeds 10, 20, 33⅓, 50 or 66⅔ per cent of the total share capital. This rule also applies to persons who are not shareholders, but may exercise the voting rights attached to the shares.

The transferability of shares can be limited by the articles of association and shareholder agreements, and this according to two methods: the approval clause (*i.e.* transfer of shares requires the enterprise's approval – a clause that is, reportedly, rarely applied) and the redemption clause (shares transferred may be redeemed by registered shareholders, the enterprise or its pension fund). Selective application of these clauses to foreigners is prohibited.

ix) Public order and essential security interests

Under the Monitoring Act, the acquisition of a monitored Finnish enterprise can be denied confirmation if it would jeopardise an important national interest; the latter includes public order and security. In particular, foreign investment in an enterprise producing defence material are monitored. Other restrictions motivated by security concerns are those on the acquisition of real property in the Frontier Zone with the Russian Federation (see Chapter 2, section B*iii*) and those concerning nuclear energy (see Chapter 2, section C*ii*).

C. Sectoral issues

The sectors where foreign direct investment is restricted (or used to be restricted until recently) will be discussed one by one in this chapter.

In November 1989, revised guidelines on inward direct investment took effect in Finland. These abolished the restrictions in regard of investment in forestry, forest-based industries, mining, agricultural products, energy, transportation, tourism, information, certain financial services and brokerage. Henceforth, applications by non-residents to establish or acquire business undertakings in any sector of the Finnish economy other than finance and real estate would be treated favourably, unless the intended investment would be considered to run counter to Finland's vital national interest.

Around the same time, Finland deleted its restrictions with respect to outward direct investment. These were related to investment in the financial sector abroad, and to outward direct investment by Finnish financial institutions. Such investments, which used to require approval by the Bank of Finland, were liberalised in 1989 (for enterprises) and 1990 (for private citizens).

i) Mining

The main Finnish minerals are apatite, talc and limestone; the main ores are nickel, zinc, copper and chromium. Attempts are made to explore gold, but deposits found have only been minor. A related activity undertaken in Finland is stone quarrying. Enterprises in Finland require a permission to engage in mining, but the authorities are obliged to grant this if the conditions laid down in the Mining Act are met (*i.e.* the presence of the deposit is technically proven). There are three steps in the process: a reservation (for one year), a claim (for 2 to 5 years) and the eventual mining rights. Any foreign investor can engage in mining or quarrying if he has a local presence in Finland. For non-EEA residents and enterprises established outside the EEA this should be a subsidiary, unless authorisation for a branch is granted. The establishment of branches by EEA enterprises is permitted on the same conditions as apply for Finnish enterprises. Exploration and exploitation by non-EEA residents and enterprises established outside of the EEA is possible, but, virtue of the Mining Act, this requires special permission. Specific rules apply for uranium and thorium (see the following section).

The Act on the Continental Shelf (149/65) reserves the rights on the continental shelf to the Finnish State, in reference to the Geneva convention on the Continental Shelf. The Finnish Government may grant oil and gas exploitation rights to a Finnish enterprise or, for particular, reasons, to a foreign enterprise. For the exploitation of ores and minerals the provisions of the Mining Act are applied.

ii) Energy

A substantial share of Finland's electricity production (32 per cent) is generated in nuclear power plants; the share of nuclear energy is 29 per cent of total electricity consumption and 15 per cent of total energy production (1993 data). The Nuclear Energy Act, amended as per 1995 (1420/94), stipulates that EC nationals and enterprises resident in the EC area require a licence for nuclear energy activities. Enterprises and authorities not resident in the EC area may be granted licences for the following activities:

i) transport of nuclear material and nuclear waste within Finland;

ii) import and export in connection with transit via Finland of nuclear material, nuclear waste, ores or ore concentrates containing uranium or thorium;

iii) temporary operation in Finland of a nuclear facility built for operation or used in a vehicle as its power source or otherwise.

Participation in the production of non-nuclear energy used to be permitted to foreign-owned resident enterprises to a limited extent only. This restriction was repealed in 1989. There are no longer any specific restrictions for foreign-owned resident enterprises in the non-nuclear energy sector.

iii) Financial institutions

a) Banks

Once, Finland was among the most restrictive OECD Members as far as the admission of foreign banks was concerned, a policy inspired by the desire to exercise an effective "quality control" over the banking system. The activities of established foreign banks were limited by a ceiling on their own capital. In order to keep control over the banking system in Finnish hands, Finnish banks had different classes of shares with different rules on voting power, one of which was available only to Finnish nationals, the other also to foreign nationals. This discrimination in voting shares was abolished in the mid 1980s. The 1978 Act on the Right of Foreigners to Own Shares in Finnish Credit Institutions stipulated that foreign ownership of a Finnish bank beyond 20 per cent of the bank's share capital – or 10 per cent of the combined voting rights – required authorisation. Furthermore, the establishment of wholly-owned and majority-owned subsidiaries and of branches and representative offices also required authorisation.

During the late 1980s and early 1990s the financial system was opened up to foreign participation. Finnish banking rode on the waves of liberalisation of the era, which was particularly conspicuous in the formerly restrictive Nordic countries. There was also a growing sentiment that the limited presence of foreigners needlessly curtailed liquidity in the financial system. The creation of the European Economic Area was a decisive factor in the virtual complete opening-up of the Finnish banking market, achieved as per 1 January 1994. At this date, the Act on the Operation of a Foreign Credit Institution or Financial Institution in Finland became effective. Foreign acquisitions of Finnish banks were liberalised: the limits of 20 per cent of the share capital (10 per cent of the aggregate voting stock) were repealed. Foreign banks' subsidiaries were granted equal treatment with domestic banks. The establishment of representative offices of foreign banks no longer needed permission.

An authorisation requirement still exists for direct branches of credit institutions from a country outside the EEA. The purpose of this rule is to ensure that the foreign bank is subject to adequate supervision and sound prudential safeguards in its home country and that it is solvent. The prudential standards in Finland are laid down in the Act on Credit Institutions, which also took effect on 1 January 1994. Under the EEA Treaty, the contracting states mutually recognise each other's supervisory system, so for banks originating in EEA contracting states the requirement of adequate supervision is presumed to be met. This requirement has been retained chiefly with a view of the possible entry of banks from countries with a relatively underdeveloped banking system; it is unlikely that an application by a bank from OECD countries will be rejected. Any rejection would be on strictly prudential grounds and would, consequently, not pose a restriction in the sense of the OECD's Capital Movements Code. Any rejection of an application has to be motivated; the applicant can appeal at the Supreme Administrative Court.

The present Finnish banking legislation does not include an explicit reciprocity test in judging the applications for a licence by banks from other countries.[6] In practice, reciprocity has not played a role until now. But the Finnish Ministry of Finance does not exclude beforehand that reciprocity considerations would *de facto* play a role in individual cases. Furthermore, the EC's Second Banking Directive, on which Finland's bank legislation is now based, encompasses a reciprocity provision.

b) *Securities*

There are few specific restrictions affecting the establishment of foreign securities firms. Neither the Act on Securities Brokerage Companies, nor the Act on Common Funds cover acquisitions of these institutions. However, these firms have been, and still are, subject to the general regulations for the acquisition of shares in Finnish enterprises, discussed in Chapter 2, section B*ii*. Accordingly, the acquisition of shares in Finnish securities firms, and firms managing Finnish unit trusts, was liberalised as a result of the repeal of the Restriction Act.

New legislation is in preparation, in accordance with the obligations of the EC's directives in the field of investment services. Enactment is foreseen by the beginning of 1996, when the Investment Services Directive will also enter into force. Under the envisaged legislation, a subsidiary of a foreign investment firm will be treated as Finnish. The establishment in Finland of direct branches by investment firms resident outside the EEA will require authorisation. The criteria will be in accordance with those for foreign banks.

Until recently, there used to be restrictions at the Helsinki Stock Exchange for foreign-owned firms, whose aggregate membership could not exceed 20 per cent of the total number of members. Furthermore, the Derivatives Act of 1988 used to prohibit the establishment of a derivatives exchange by foreign-owned enterprises. These limitations have been abolished.

c) *Insurance*

The Act on the Activities of Foreign Insurance Companies in Finland, which entered into force on 1 October 1989, terminated much of the preferential treatment of domestic over foreign insurers in Finland. The provisions in the Act concerning commencement, supervision and termination of insurance firms' operations are based on those applicable to Finnish firms. The granting of a licence to a foreign insurer is based on legal considerations and no longer on expediency. Nevertheless, the principle of reciprocity may be applied in the granting of a licence. A revocation of this reciprocity test may soon be considered by the Finnish Government. Furthermore, only Finnish insurance firms are permitted to underwrite certain statutory social insurances, which cover work-related accidents and employment pensions. This excludes branches of foreign insurance firms, but not subsidiaries of such firms, from these statutory market segments. The reason for this is that these insurances are supplied by private firms, while they are an essential part of Finland's statutory social security system. Hence, they are regulated closely in order to guarantee a proper management of social security, and to this end, only Finnish firms are allowed to grant these types of insurance. However, foreign insurers can apply for a licence to provide these insurances via a locally established subsidiary.

With the amendment of the Insurance Companies Act, as per 1 January 1993, the special authorisation needed for the establishment of foreign insurance subsidiaries and the foreign acquisitions of shares in Finnish insurance firms, was terminated. In the context of quality control, permission is still needed for the acquisition of stakes of 10 per cent or more in an insurance firm, but this rule is applied on a non-discriminatory basis. The core criterion mentioned in Finnish law to determine quality is that a "sound development of insurance activities" is assured. This terminology is broader than the criterion used in the relevant EC Directive, which will be applicable in Finland under the EEA and which refers to "sound and prudent ownership" of the insurance firm. As yet, one merger (between Finnish statutory employment pension insurance companies) has been rejected on the grounds that it would lead to an undue concentration of power on the statutory pension insurance market. A rejection has to be motivated and the applicant has the right to appeal at the Supreme Administrative Court.

iv) Transport

a) Air transport

In accordance with international practice, OECD Member countries usually apply certain restrictions to foreign investment in airline companies. These restrictions are embodied in bilateral and multilateral aviation agreements, which also govern international air links. The Chicago Convention demands that a "genuine link" exists between the owner of an airline and the country whose flag it flies. Any airline company licenced in Finland must be owned and effectively controlled by nationals from Finland or another EEA Contracting State. Licencing also requires that the company's principal place of business and its registered office are located in Finland. Non-EEA nationals cannot qualify for authorisation to operate a Finnish commercial airline. The legal basis for this exclusion is the EC's Council Regulation 2407/92 on the licencing of air carriers, which stipulates that air carriers in Member States should be owned directly or through majority ownership by member States and or nationals thereof. While effective control by (nationals of) Member States is mandatory, minority ownership by non-EEA nationals is possible. As is almost common practice among OECD Members, air cabotage is reserved to Finnish carriers.

In spite of the restrictions posed by the Chicago Convention, air transport is increasingly being liberalised, also outside the EEA. To confront the intensified competition, national airline companies often seek strategic alliances with other airlines, which may include mergers of activities. On some occasions, even restrictions on air cabotage are relaxed; for example the EC will abolish national restrictions regarding cabotage rights to EEA airline companies starting April 1997. The Finnish Aviation Act is being overhauled, with due account of the relevant EC legislation. This will mean, *i.a.* that cabotage rights can be granted to other EEA nationals. However, it is not foreseen that non-EEA nationals will be permitted to control Finnish commercial airline companies, since this would be in conflict with Community and other international law.

b) Maritime transport

Registration of a ship in the Finnish shipping register, and hence the right to fly the Finnish flag, requires that the ship is more than 60 per cent owned by a Finnish national or a resident enterprise. The latter could be either foreign-owned or Finnish-owned. There are no nationality restrictions on investment in Finnish enterprises operating a shipping company, but foreign nationals are only able to acquire a Finnish ship through a resident enterprise. This is a common requirement, implying a genuine link between a State and ships flying the State's flag, to enable the State to exercise jurisdiction over the owners and operators of the ship.

Maritime cabotage is reserved to ships flying the flag of an EC Member State, a restriction based on EC law (EC Council Regulation 3577/92).

c) Road transport

The 1970 Decree on Road Transport permitted participation by foreign-owned enterprises subject to reciprocity. This decree has been abolished. Establishment by foreign hauliers is permitted on the basis of national treatment. The licence holder must have at least a branch in Finland.

By virtue of EC legislation cabotage is permitted to all EEA nationals that meet the qualitative criteria for obtaining authorisation.

d) Rail transport

The national railway infrastructure is owned by the State. Until at least the end of 1998, the domestic traffic on this network is reserved for the State Railways. The latter will be corporatised as from 1 July 1995. Private railway lines (of which one exists) or networks require a concession from the State.

Finland's legislation on railway operations is in accordance with the relevant EC regulations. Licences to operate on State-owned track may be granted to international railway groupings and enterprises operating international combined transports.

v) Fisheries

The Finnish fishing zone extends to the median line between Finland and Estonia, the Russian Federation and Sweden, respectively, by virtue of agreements with these countries. Since Finland's accession to the European Communities, its fishing zone has become part of the EC's Baltic Sea fishing zone and, hence, subject, to the EC's Common Fishery Policy. Commercial fishing in the Finnish fishing zone is permitted to EEA nationals who are permanent residents of Finland or to enterprises established permanently in Finland, irrespective of the nationality of their owners. The regulation of foreign participation in fisheries within the EEA are not part of the EEA Treaty, but are governed by a separate protocol. Finland has also concluded a number of bilateral treaties on fishing rights (in particular quotas) with Sweden, the Russian Federation, Estonia, Latvia and Lithuania.

The fishing vessels have to be registered in the Finnish fishing vessel register. Ownership of Finnish fishing vessels is possible for anyone; however, if the owner is not an EEA national, nor an enterprise permanently established in Finland, the vessel must not be used for fishing in the Finnish fishing zone. A branch would not qualify as an enterprise permanently established in Finland.

vi) Other services

Foreign ownership, including ownership by foreign residents and foreign-owned resident enterprises, used to be limited to 20 per cent in businesses engaged in employment mediation and surveillance services. These ceilings have now been abolished.

A number of service sectors, such as broadcasting, post and telecommunications have been de-monopolised. These sectors have been discussed in the section concerning monopolies and concessions.

Chapter 3

Conclusions

Finland's apprehension about foreign investment is now a thing of the fast. In recent years, it has made considerable progress in removing discriminatory provisions against foreign investors in its laws and pertinent regulations. The desire to foster the country's integration in the European Economic Area and the European Communities has given a boost to this process. No longer the outpost it once was, the country is geographically well placed between its EC partners and the new independent states of Eastern Europe. Hand in hand with the internationalisation of its economy direct investment into Finland is bound to increase further over the coming years.

A major step towards Finland's present openness was the removal of the 20 per cent ceiling beyond which foreign share ownership was restricted. Another was the liberalisation of real estate investment (outside the Åland Islands and the Frontier Zone): Finnish land used to be virtually off-limits to foreign buyers, whereas the latter now receive national treatment, except for secondary residences. Furthermore, no special restrictions for foreign investors remain in the once heavily guarded Finnish financial services sector. Certain restrictions do continue to exist in transport (partly imposed by international treaty obligations, as in most Member countries) and fisheries.

A source of concern is, nevertheless, that Finland's greater openness to foreign investors has been accompanied by a more favourable treatment of EEA investors, as compared to non-EEA nationals. This raises a serious problem in view of article 9 of the OECD's Capital Movements Code, which stipulates that "A Member shall not discriminate as between other Members in authorising the conclusion and execution of transactions and transfers [ ] which are subject to any degree of liberalisation''. Finland has stated its intention to extend any liberalisation to its EEA partners on an *erga omnes* basis; it will be very welcome if Finland pursued this pledge promptly.

Another point of concern is Finland's retention of the option to apply reciprocity in approving investment applications in the financial services sector. This is so despite the absence of any explicit reciprocity provision in Finland's national banking legislation. The Finnish authorities do not exclude that reciprocity considerations might play a *de facto* role in approving applications (even though this has not been the case until now), hence their desire to keep the entry in Annex E to the Code.[7] However, reciprocity measures raise problems in view of the Code's principle of non-discrimination. It would, therefore, be welcome if Finland excluded the option of applying reciprocity.

Two general issues with respect to the right of establishment of foreign enterprises call for attention. The first is the requirement for foreign acquisitions of large Finnish enterprises to be notified and ''confirmed'' in advance by the Ministry of Trade and Industry. Such monitoring systems create a degree of uncertainty among potential investors. This is so especially if approval criteria are phrased in general terms, such as the requirement (applicable in Finland) that the acquisition does not jeopardise the national interest. It should be noted that the OECD Code does not affect the right of countries to take measures that are necessary to protect its national security. The Finnish monitoring system will be terminated for acquisitions by EEA nationals effective 1 January 1996. An *erga omnes* abolition by decree will be possible as from that date and would indeed merit serious consideration.

The other horizontal issue is the authorisation requirement for the establishment of branches of any foreign enterprise. The argument for this restriction is that branches are not legal entities and that their establishment might, consequently, impair effective control by the Finnish authorities. But it is unclear how it the potential of a branch to undermine effective control is assessed before it is established, so there is a risk of arbitrariness in the application of this rule. The Codes of Liberalisation do not limit the power of authorities to verify the authenticity of transactions or to take measures to prevent the evasion of their laws and regulations. This, however, does not call for a general *a priori* authorisation requirement. Indeed, no other OECD Member has such a requirement.

Notes

1. *OECD Economic Surveys, Finland*, August 1989, page 98.
2. As recognised in: *National Industrial Strategy for Finland*, Ministry of Trade and Industry Publications 3/1993, page 17.
3. In the observed year, the European Free Trade Association (EFTA) consisted of the following Member States: Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland. Since 1 January 1995, Austria, Finland and Sweden joined the European Communities and terminated their EFTA Membership.
4. The statistics in Table 15 are derived from: "The top 500 companies in Finland", *Talouselämä*, 21, 3 June 1994.
5. According to the Ministry of Trade and Industry, before the State intends to relinquish control, the equity ratio "should be at least 35-40 per cent, if not higher, depending on the capital structure of competitors in the field. (This objective) can be achieved by continuing the share issuing policy followed in 1993". [Tapio, Markku (Deputy Director-General) (1994) "On the Expansion of the State-Owned Companies' Ownership Base (Privatization)" *State-Owned Companies in Finland, 1993*, Ministry of Trade and Industry, Helsinki].
6. A reciprocity test would imply that the conditions for the establishment of Finnish banks in the applicant's home country are taken into consideration by the Ministry of Finance when it judges the application. Because of their discriminatory character, such tests are in conflict with the objective of non-discriminatory liberalisation laid down in the OECD's Codes of Liberalisation, although the Organisation has tolerated exceptional reciprocity provisions concerning the right of establishment.
7. This Annex contains a list of reciprocity measures and practices concerning the right of establishment of foreign enterprises; see Annex 1.

Annex 1

Finland's current position under the Code of Liberalisation of Capital Movements and the National Treatment Instrument

Introduction

As a signatory to the OECD Code of Liberalisation of Capital Movements (the Code) and the National Treatment Instrument (NTI), Finland has undertaken a number of obligations in the foreign direct investment field. This annex highlights the main provisions of these instruments as well as Finland's position under them.

The OECD commitments

The Code and the NTI are the two main instruments for co-operation among OECD member countries in the field of foreign direct investment.

The Code, which has the legal status of OECD Council Decisions and is binding on all Member countries, covers the main aspects of the right of establishment for non-resident enterprises and requires OECD members to progressively liberalise their investment regimes on a non-discriminatory basis and treat resident and non-resident investors alike.

The NTI is a "policy commitment" by Member countries to accord to established foreign-controlled enterprises treatment no less favourable than that accorded to domestic enterprises in like situations. While the NTI is a non-binding agreement among OECD Member countries, all measures constituting exceptions to this principle and any other measures which have a bearing on it must be reported to the OECD.

Member countries need not, however, liberalise all their restrictions upon adherence to the above instruments. Rather, the goal of full liberalisation is to be achieved progressively over time. Accordingly, members unable to fully liberalise are permitted to maintain "reservations" to the Code of Capital Movements and "exceptions" to the NTI for outstanding foreign investment restrictions. These limitations to the liberalisation obligations may be lodged at the time a member adheres to the Codes, whenever specific obligations begin to apply to a member, or whenever new obligations are added to the instruments.

The investment obligations of the Code and the NTI are, in fact, complementary, both dealing with the laws, policies and practices of Member countries in the field of direct investment. However, the Code addresses the subject from the point of view of non-resident investors in an OECD host country, while the NTI is concerned with the rights of established foreign-controlled enterprises. Limitations on non-resident (as opposed to resident) investors affecting the enterprises' operations and other requirements set at the time of entry or establishment are covered by the Code. The investment operations of foreign-controlled enterprises after entry, including new investment, are covered by the National Treatment Instrument.

Measures pertaining to subsidiaries fall under the purview of the Code or the NTI, depending on whether they set conditions on entry/establishment or concern the activities of foreign-controlled enterprises already established. As to branches, the 1991 *Review of the OECD Declaration and Decisions on International Investment and Multinational Enterprises* introduced a distinction between "direct" branches of non-resident enterprises and "indirect" branches, that is branches of already established foreign-controlled enterprises. The latter are subject to all the five categories of measures covered by the NTI (investment by established enterprises, government procurement, official aids and subsidies, access to local financing and tax obligations). The investment activities of "direct" branches of non-resident enterprises, which concern the category of measures covered by the NTI, fall however, exclusively under the purview of the Code.

The Committee on Capital Movements and Invisible Transactions and the Committee on International Investment and Multinational Enterprises together conduct country examinations of Member country measures covered by these OECD commitments. These examinations involve a face to face discussion between representatives of the two Committees and experts from the country being examined. The discussion is based on submission by the Member concerned and a document prepared by the Secretariat. The objective is to clarify the nature and purpose of remaining restrictions and to identify possible areas for further liberalisation. The examinations usually conclude with modifications to the Member country's position and recommendations by the OECD Council to the Member's authorities concerning the future direction of the country's foreign direct investment policies.

Finland's position under the Code and the National Treatment Instrument

Finland's remaining restrictions on foreign direct investment are represented in its reservation against item I/A of the Code of Liberalisation of Capital Movements and its exceptions to the National Treatment Instrument. As a result of the examination carried out by the two above-mentioned OECD Committees, Finland's position has changed in many respects. The acceptance of liberalising legislation made it possible to narrow down the reservation against item I/A substantially and to remove most exceptions to the National Treatment Instrument. However, some long-standing restrictions on foreign investment in mining and quarrying, nuclear energy, air and maritime transport and fishing, were included in the reservation, where they had previously not been reflected adequately.

Finland retained its entry in Annex E to the Capital Movements Code, an annex that lists Members' reciprocity measures and practices concerning foreign enterprises' right of establishment.

Restrictions maintained exclusively against Members outside the European Economic Area are not reflected in Finland's position, since such restrictions violate the principle of non-discrimination enshrined in the OECD's instruments. Finland has stated its intention to extend the benefits of liberalisation on an *erga omnes* basis and, in particular, to terminate discrimination between Contracting States to the EEA Treaty and other Members.

a) Finland's reservation on inward direct investment under the Code of Liberalisation of Capital Movements

1. "List A, I/A — Direct investment:

- In the country concerned by non-residents.

  Remark: the reservation applies only to:

  i) establishment of branches of foreign companies, unless an authorisation is granted;

  ii) acquisition of shares giving at least one-third of the voting rights in a major Finnish enterprise (i.e. with more than 1 000 employees or with a turnover exceeding 1 000 million Finnish markkaa or with a balance sheet total exceeding 1 000 million Finnish markkaa) to a single foreign owner, which requires prior confirmation by the Ministry of Trade and Industry; the confirmation can be denied only if an important national interest would be jeopardised;

  iii) investment in an enterprise engaged in activities involving nuclear energy or nuclear matter;

  iv) investment in enterprises operating an airline, unless otherwise implied by international agreements to which Finland is a party;

v) ownership of Finnish flag vessels, including fishing vessels, except through an enterprise incorporated in Finland;

vi) investment in real estate in the Åland Islands."

2. Finland's position in Annex E to the Code of Liberalisation of Capital Movements (reciprocity).

"Foreign investment in the banking and financial services sectors may be subject to reciprocity considerations."

b) Measures reported as exceptions to the National Treatment Instrument

A. Exceptions at national level

I. Investment by established foreign-controlled enterprises

Trans-sectoral

Acquisition of shares giving more than one-third of the voting rights in a major Finnish enterprises (*i.e.* with more than 1 000 employees or with a turnover exceeding 1 000 million Finnish markkaa or with a balance sheet total exceeding 1 000 million Finnish markkaa) to a single foreign owner, which requires prior confirmation by the Ministry of Trade and Industry; the confirmation can be denied only if an important national interest would be jeopardised.

Authority: Monitoring Act 1992.

Air transport

Air cabotage reserved to national carriers.

Authority: Aviation law, 1964.

Air transport

Government authorisation is required to engage in commercial aviation.

Authority: Aviation Law, 1964.

Maritime transport

Cabotage reserved to national flag.

II. Official aids and subsidies

None.

III. Tax obligations

None.

IV. Government purchasing

None.

V. Access to local finance

None.

B. Exceptions by territorial subdivisions

None.

c) Measures reported for transparency under the National Treatment Instrument

A. Transparency measures at the level of national government

I. Measures based on public order and essential security considerations

a) Investment by established foreign-controlled enterprises

Trans-sectoral

Property located within the Frontier Zone can be acquired only by permit from the Finnish authorities.

Authority: Frontier Zone Act 1947, Decree on the Territorial Integrity 1989.

b) Corporate organisation

None.

c) Government purchasing

None.

d) Official aids and subsidies

None.

II. Other measures reported for transparency at the level of national government

a) Investment by established foreign-controlled enterprises

Trans-sectoral

Restrictions on the right of establishment and the right to provide services by natural persons who do not enjoy regional citizenship in Åland, or by any legal person, without permission of the competent authorities of the Åland Islands.

Authority: Act on the Autonomy of Åland, 1952, and latest revision, 1991.

Restrictions on the right for natural persons who do not enjoy regional citizenship in Åland, as well as for legal persons, to acquire and hold real property on the Åland Islands without permission of the competent authorities of the islands.

Authority: Act on the Acquisition of Real Property in Åland, 1979.

b) Corporate organisation

Trans-sectoral

Half of the founders, half of the members of the Boards of Directors and the Managing Director must be permanent residents of Finland.

Authority: Companies Act, amended 1993.

c) Government purchasing

None.

d) Official aids and subsidies

None.

B. Measures reported for transparency at the level of territorial subdivisions

None.

Annex 2

Statistics on direct investment flows in OECD countries

Table 1. **Foreign direct investment in OECD countries: inflows 1971-1993**[1]

US$ million

	Cumulative flows		Flows of foreign direct investment											
	1971-1980	1981-1990	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Australia	11 295	40 369	2 286	2 994	428	2 099	3 457	3 873	7 936	7 887	7 060	4 904	5 286	2 460
Austria	1 455	3 274	207	219	116	169	181	402	437	578	647	359	940	982
Belgium-Luxembourg[2]	9 215	28 182	1 390	1 271	360	957	631	2 338	4 990	6 731	8 162	8 919	10 956	10 458
Canada[2]	5 534	33 699	–831	2 003	4 754	1 298	2 781	8 038	6 456	5 018	7 852	2 913	4 576	5 930
Denmark	1 561	3 388	136	64	9	109	161	88	504	1 084	1 133	1 530	1 015	1 684
Finland	376	2 838	–4	84	138	110	340	265	530	489	787	–247	396	593
France[2]	16 908	43 194	1 563	1 631	2 198	2 210	2 749	4 621	7 204	9 552	9 040	11 073	15 928	12 142
Germany	13 969	18 029	819	1 775	553	587	1 190	1 901	1 203	7 131	2 529	4 263	2 422	–286
Greece	..	6 145	436	439	485	447	471	683	907	752	1 005	1 135	1 144	977
Iceland[2]	..	12	..	..	14	23	8	2	–14	–27	6	35	17	..
Ireland	1 659	1 212	241	168	119	159	–43	89	91	85	99	97	102	88
Italy[2]	5 698	24 888	605	1 200	1 329	1 071	–21	4 144	6 882	2 181	6 344	2 481	3 210	3 751
Japan[2]	1 424	3 281	439	416	–10	642	226	1 165	–485	–1 054	1 753	1 368	2 728	86
Mexico	..	24 418	1 901	2 192	1 542	1984	2 400	2 634	2 879	3 174	2 634	4 762	4 393	4 901
Netherlands	10 822	28 203	974	688	610	740	1 497	2 486	3 903	6 648	9 167	5 002	6 994	5 651
New Zealand	2 598	3 945	275	243	119	227	390	238	156	434	1 686	1 695	1 089	2 376
Norway	3 074	4 831	424	336	–210	–412	1 023	184	285	1 511	1 004	–291	720	2 058
Portugal[3]	535	6 918	145	150	194	273	241	465	925	1 740	2 608	2 451	1 914	1 311
Spain[2]	7 060	46 000	1 801	1 647	1 773	1 945	3 442	4 548	7 016	8 433	13 681	10 423	8 115	6 746
Sweden	897	8 612	361	223	290	396	1 079	646	1 661	1 809	1 965	6 322	–139	3 786
Switzerland	..	12 432	..	286	520	1 050	1 778	2 044	42	2 254	4 458	2 613	411	64
Turkey[4]	228	2 340	55	46	113	99	125	106	354	663	684	810	844	1 016
United Kingdom	40 503	130 469	5 286	5 132	–241	5 780	8 557	15 450	21 356	30 369	32 889	15 826	16 448	14 536
United States	56 276	359 650	12 464	10 458	24 748	20 010	35 623	58 219	57 279	67 737	47 916	26 086	9 888	21 366
TOTAL	188 249	836 329	30 973	33 665	39 951	41 973	68 286	114 629	132 497	165 179	165 109	114 529	99 397	102 676

1. Data updated in May 1995. Including data for Mexico who became a Member of OECD on 18 May 1994.
2. Reinvested earnings are not included in national statistics.
3. Figures for Portugal are only available from 1975 onward.
4. Cumulaied inflows since 1954.

Source: OECD/DAF – Based on official national statistics from the balance of payments converted in US$ at daily average exchange rate.

Table 2. **Foreign direct investment in OECD countries: inflows 1982-1993**[1]

As a percentage of GDP

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Australia	1.4	1.8	0.2	1.3	2.1	2.0	3.2	2.7	2.3	1.6	1.7	0.9
Austria	0.3	0.3	0.2	0.3	0.2	0.3	0.3	0.5	0.4	0.2	0.5	0.5
Belgium-Luxembourg[2]	1.6	1.5	0.4	1.1	0.5	1.6	3.2	4.2	4.1	4.3	4.7	4.9
Canada[2]	–0.3	0.1	0.4	–0.6	0.3	0.8	0.7	0.3	1.2	1.1	0.9	1.1
Denmark	0.2	0.1	0.0	0.2	0.2	0.1	0.5	1.0	0.9	1.2	0.7	1.2
Finland	0.0	0.2	0.3	0.2	0.5	0.3	0.5	0.4	0.6	–0.2	0.4	0.7
France[2]	0.3	0.3	0.4	0.4	0.4	0.5	0.7	1.0	0.8	0.9	1.2	1.0
Germany	0.1	0.3	0.1	0.1	0.1	0.2	0.1	0.6	0.2	0.3	0.1	0.0
Greece	1.1	1.3	1.4	1.3	1.2	1.5	1.7	1.4	1.5	1.6	1.5	1.3
Iceland[2]	0.0	0.0	0.5	0.8	0.2	0.0	–0.2	–0.5	0.1	0.5	0.3	0.0
Ireland	1.3	0.9	0.7	0.8	–0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Italy[2]	0.2	0.3	0.3	0.3	–0.0	0.5	0.8	0.3	0.6	0.2	0.3	0.4
Japan[2]	0.0	0.0	–0.0	0.0	0.0	0.0	–0.0	–0.0	0.1	0.0	0.1	0.0
Mexico	1.9	1.8	1.0	1.9	2.8	3.0	1.7	1.7	1.1	1.7	1.3	1.4
Netherlands	0.7	0.6	0.5	0.5	1.0	1.1	1.8	2.8	3.1	1.7	1.8	1.8
New Zealand	1.2	1.0	0.5	1.0	1.4	0.7	0.4	1.0	3.9	4.0	2.6	5.9
Norway	0.8	0.6	–0.4	–0.7	1.5	0.2	0.3	1.7	1.0	–0.3	0.6	2.0
Portugal	0.6	0.7	0.9	1.1	0.6	1.0	1.7	3.5	4.3	4.6	3.6	1.5
Spain[2]	1.0	1.0	1.1	1.2	1.5	1.6	2.0	2.2	2.8	2.0	1.4	1.5
Sweden	0.4	0.2	0.3	0.4	0.8	0.4	0.9	0.9	0.9	2.6	0.1	2.0
Switzerland	0.0	0.3	0.6	1.1	1.3	1.2	0.0	1.3	2.0	1.1	0.2	0.0
Turkey	0.1	0.1	0.2	0.2	0.2	0.2	0.5	0.8	0.6	0.7	0.8	0.2
United Kingdom	1.1	1.1	–0.1	1.3	1.5	2.2	2.6	3.6	3.4	1.6	1.7	1.5
United States	0.4	0.3	0.7	0.5	0.9	1.3	1.2	1.3	0.9	0.5	0.1	0.3

1. Data updated in May 1995. Including data for Mexico who became a Member of OECD on 18 May 1994.
2. Reinvested earnings are not included in national statistics.

Source: OECD/DAF – Based on official national statistics from the balance of payments.

Table 3. **Direct investment abroad from OECD countries: outflows 1971-1993**[1]

US$ million

	Cumulative flows		Flows of direct investment abroad											
	1971-1980	1981-1990	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Australia	2 510	22 261	693	518	1 402	1 887	3 419	5 096	4 985	3 267	260	3 105	41	900
Austria	578	4 132	42	190	68	74	313	312	309	855	1 663	1 288	1 871	1 404
Belgium-Luxembourg[2]	3 213	21 454	–77	358	282	231	1 627	2 680	3 609	6 114	6 600	6 062	10 953	11 409
Canada[2]	11 335	41 847	709	2 633	3 685	3 862	3 501	8 538	3 848	4 583	4 732	5 856	3 688	7 176
Denmark	1 063	6 292	77	159	93	303	646	618	719	2 027	1 509	1 851	2 225	1 379
Finland	605	12 132	85	143	493	352	810	1 141	2 608	3 108	3 263	1 049	406	1 831
France[2]	13 940	85 618	3 063	1 841	2 126	2 226	5 230	8 704	12 756	18 137	26 920	20 501	19 097	12 167
Germany	24 846	86 573	2 481	3 170	4 389	4 804	9 616	9 105	11 431	14 549	23 168	22 879	17 745	11 673
Iceland[2]	..	27	..	..	..	..	2	7	1	8	9	10	27	..
Italy[2]	3 597	28 707	1 025	2 133	2 012	1 820	2 652	2 339	5 554	2 135	7 612	7 326	5 948	7 231
Japan[2]	18 052	185 826	4 540	3 612	5 965	6 452	14 480	19 519	34 210	44 130	48 024	30 726	17 222	13 714
Netherlands	27 829	52 940	2 582	2 267	2 392	2 847	3 021	6 954	4 422	11 373	13 589	12 270	14 096	10 079
New Zealand	375	4 563	87	404	31	174	87	562	615	135	2 365	1 472	391	–1 455
Norway	1 079	8 995	317	360	612	1 228	1 605	890	968	1 352	1 478	1 840	434	885
Portugal[3]	21	374	9	17	8	15	–2	–16	77	85	165	474	687	148
Spain[2]	1 274	8 196	505	245	249	252	377	754	1 227	1 470	2 845	3 574	1 273	2 599
Sweden	4 597	47 820	1 237	1 459	1 506	1 783	3 947	4 789	7 468	10 189	14 588	7 008	237	1 328
Switzerland	..	31 858	..	492	1 139	4 572	1 461	1 274	8 696	7 852	6 372	6 543	5 673	6 539
Turkey[4]	..	–7	..	..	..	..	..	9	-	-	–16	27	133	175
United Kingdom	55 112	185 674	7 145	8 211	8 039	10 818	17 077	31 308	37 110	35 172	18 729	15 597	19 444	25 697
United States	134 354	170 041	4 675	4 889	10 948	13 401	17 089	27 182	15 448	36 835	29 950	31 294	41 004	57 871
TOTAL	302 306	1 005 323	29 295	33 101	45 439	57 101	86 958	131 765	156 061	203 376	213 825	180 752	162 595	172 750

1. Data updated in May 1995. No data available on outflows for Mexico.
2. Reinvested earnings are not included in national statistics.
3. Figures for Portugal are only available from 1975 onward.
4. Includes cumulative investment since 1954.

Source: OECD/DAF – Based on official national statistics from the balance of payments converted in US$ at daily average exchange rate.

Table 4. **Direct investment abroad from OECD countries: outflows 1982-1993**[1]

As a percentage of GDP

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Australia	0.4	0.3	0.8	1.2	2.0	2.6	2.0	1.2	0.3	0.7	–0.1	0.3
Austria	0.2	0.3	0.1	0.1	0.3	0.3	0.2	0.7	1.0	0.8	1.0	0.8
Belgium-Luxembourg[2]	–0.1	0.4	0.4	0.3	1.4	1.8	2.3	3.8	3.3	2.9	4.7	1.9
Canada[2]	0.2	0.8	0.7	0.8	1.1	1.7	1.1	0.8	0.7	0.9	0.7	1.3
Denmark	0.1	0.3	0.2	0.5	0.8	0.6	0.7	1.9	1.2	1.4	1.6	1.0
Finland	0.2	0.3	1.0	0.7	1.2	1.3	2.5	2.7	2.4	[illegible]	0.4	2.2
France[2]	0.6	0.4	0.4	0.4	0.7	1.0	1.3	1.9	2.3	1.7	1.4	1.0
Germany	0.4	0.5	0.7	0.8	1.1	0.8	1.0	1.2	1.5	1.4	1.0	0.6
Iceland[2]	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.2	0.4	0.0
Italy[2]	0.3	0.5	0.5	0.4	0.4	0.3	0.7	0.2	0.7	0.6	0.5	0.7
Japan[2]	0.4	0.3	0.5	0.5	0.7	0.8	1.2	1.5	1.6	0.9	0.5	0.3
Netherlands	1.9	1.5	2.0	2.2	1.8	3.3	1.8	5.0	4.7	4.1	4.0	3.3
New Zealand	0.4	1.7	0.1	0.8	0.3	1.5	1.4	0.3	5.4	3.5	0.9	–2.8
Norway	0.6	0.7	1.1	2.1	2.3	1.1	1.1	1.5	1.4	1.7	0.4	0.9
Portugal	0.0	0.1	0.0	0.1	0.0	–0.0	0.2	0.2	0.3	0.7	0.9	0.2
Spain[2]	0.3	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.6	0.7	0.2	0.5
Sweden	1.2	1.6	1.6	1.8	3.0	3.0	4.1	5.3	6.3	2.9	0.5	0.7
Switzerland	0.0	0.5	1.3	4.9	1.1	0.7	4.7	4.4	2.8	2.8	2.0	2.8
Turkey	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
United Kingdom	1.5	1.8	1.9	2.4	3.0	4.5	4.4	4.2	1.9	1.5	1.6	2.7
United States	0.0	0.2	0.3	0.3	0.4	0.6	0.4	0.7	0.5	0.6	0.6	0.9

1. Data updated in May 1995. No data available on outflows for Mexico.
2. Reinvested earnings are not included in national statistics.

Source: OECD/DAF – Based on official national statistics from the balance of payments.

Annex 3

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