

# FINLAND

## Overview

In 1994, GDP grew four percent, the first positive growth since 1989, reaching FIM 511 billion (\$98 billion). In 1995, the Finnish GDP grew 4.2% to FIM 550 billion (\$126 billion). GDP growth for 1996 is projected to be 3%. The move towards a better balance in the economy was reflected in a recovery in the domestic sector. In 1995, industrial output grew by 9 percent. This trend is expected to continue, provided world market factors remain unaltered, as much depends on exports. In 1996 and 1997, output is expected to exceed the level of the 1980s boom years.

## Defense Industry Environment

The FY 96 Finnish defense budget of US \$1.8 billion includes a defense procurement account of approximately US \$700 million. This is a slight increase over FY 95 levels. Even so, defense officials have called for an increase. The defense budget represents approximately 1.5% of the GDP. Procurement is roughly 38% of the defense budget.

In keeping with its national security policy of an independent, credible defense, Finland strives to be self-sufficient in certain core industries. Additionally, it seeks maximum domestic added value in its foreign purchases. As a result, Finnish industry is the sole supplier of major end items to the Finnish Navy, and to a large extent to the Finnish Army for vehicles, communications equipment, individual weapons, indirect fire weapons systems, and uniforms. It lacks domestic capability to produce rotary wing aircraft and missile systems.

The Finnish defense industry is in the process of a major restructuring. As the civilian industrial sector moved deeper into privatization, defense industries remained under government control. Thus, Finavitec (formerly Valmet Aviation) was spun off from the parent company, Valmet Industries. Valmet will continue privatization and concentrate on its core businesses. There is currently a move to merge several key defense companies - notably Vammis (indirect fire systems and ammunition) and Vihtavuori and Lapua (ammunition and propellant) - into a large umbrella company named Defense Equipment Corp. They will likely be joined by Finavitec and possibly Sisu. Other key defense firms include:

- *Elesco* - Communications, Hydro acoustics, Fire Control Systems
- *Nokia* - Communications, Fire Control and Microprocessing Systems
- *Rauma Oceanics* - Deep Submersibles
- *Temet* - Underground Shelters
- *Finnyards* - Shipbuilding and Marine Technology
- *Kvaerner Masa Yards* - Shipbuilding
- *Jantronic* - Vehicular Electronics and Vehicle Layout Design
- *Kemira* - Powder and Explosives
- *Forcit* - Powder and Explosives
- *Vaisala Technologies* - Marine Engines and Meteorological Equipment

- *Enviro-nics* - Chemical and Biological Warning Devices and Protective Gear

Most Finnish Army equipment is of Russian design. The bulk of the current inventory is the result of a purchase of former East German Army equipment from Germany. Finnish companies and depots have been involved in the refurbishment and upgrade of this equipment. Tactical vehicles, indirect fire systems, and individual weapons are mainly homegrown. Likewise, the ships of the Finnish navy are domestic productions, with some foreign procured weapons and guidance systems. By the end of the decade, the primary fighter aircraft will be the McDonnell-Douglas F-18 Hornet. Approximately 50 British Aerospace Hawk trainers will also remain in the inventory.

## **Defense Opportunities**

Due to the impact of the Hornet buy on the defense procurement budget, major end item procurement before the year 2000 is highly unlikely. Additionally, for the reasons outlined above, many areas of procurement will remain closed to foreign products. However, both the Army and Navy will be due for significant upgrades within 5-10 years. Listed below are potential projects which may be open to U.S. companies:

- Anti-armor weapons systems
- Replacement of the fleet of six MI-8 helicopters
- Minesweeping and mine-laying technologies
- Underwater surveillance technologies
- Electronic warfare/information warfare technologies

## **Defense Procurement Process**

The Ministry of Defense proposes and presents large scale material acquisitions to the Government for approval. The Ministry itself, however, makes all decisions concerning routine acquisitions. The Central Department of the Defense Ministry is responsible for the material acquisition process and defense material export permits. Procurement procedures with U.S. firms are covered under a 1991 Memorandum of Understanding between Finland and the United States concerning reciprocal principles in defense procurement. The agreement covers (1) removing barriers to procurement or coproduction of an item of defense equipment produced in the other country; and (2) utilizing contracting procedures that, at a minimum, allow all responsible sources of both countries to compete for procurement contracts.

Finnish requests for bids are formally advertised through written notification to the Foreign Commercial Office in the U.S. Embassy. An announcement of the bid request is then sent to Washington for publication in the Commerce Business Daily. Offers are routinely submitted through sealed bid, but may continue as a negotiation procedure before a contract is awarded. In an effort to maximize the potential value of foreign contracts to assist Finnish industries, Foreign Commercial Office arrangements have become an essential element of any contract proposal. Defense procurement of US \$10.9 million or more requires a 100 percent offset.

There is also a move to coordinate defense procurement among the Nordic countries in an attempt to cut escalating costs and achieve greater efficiency. Each country would take primary responsibility for exploring cooperation in selected fields. Sweden, for example, would study artillery; Norway would look at air base systems; Finland would look at maintenance of command, control and communications systems; and Denmark would consider the next generation of submarines. The Finnish MOD contacts are:

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Chief of Commercial Section  
Ms. Eija Pekkarinen, M.Sc. (Eng.)  
Defense Staff  
Finnish Defense Forces  
Commercial Section  
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FIN-00101 Helsinki  
Finland

## **Diversification and Commercial Opportunities**

Privatization of Finland's state controlled companies is proceeding gradually. The major Finnish companies undergoing privatization at this time (or proposed to be privatized on case by case basis depending on the state of the company and the market situation) are: Outokumpu, a large Finnish mining company which recently sold Government shares decreasing Government ownership to 40 percent; Enso-Gutzeit (state's ownership currently 44 percent), one of Europe's leading forest industry groups; Rautaruukki (69 percent), a diversified company with expertise in steel and its applications; Neste Oy (84 percent), a Finnish-based international oil and chemicals company; Kemira Oy (72 percent), an international chemicals group; and Valmet Oy (59 percent), the world's leading supplier of paper and board machinery.

### *Commercial Aircraft*

The civilian market for aircraft and parts is almost completely dominated by Finnair, the national airline, and its subsidiaries Karair and Finnaviation. Finnair dominates the market with respect to purchases and market share. McDonnell-Douglas is the major supplier of aircraft in Finland. The Finnair fleet as of April 1996 consisted of 56 aircraft of which 42 were McDonnell-Douglas planes. Finnair has also made a decision to lease four Boeing 757 aircraft in the near future to maintain competitiveness in traffic from Finland to the Mediterranean.

### *Aviation*

The Finnish aviation industry market, consisting of aircraft and parts and airport and ground support equipment, is dominated by a few major participants. These include Finnair, the Civil Aviation Administration (CAA), and the Finnish Military. The U.S. share of this market is approximately 54 percent, which is mainly based on McDonnell-Douglas' market position in Finland. In the short run, most of the opportunities which do exist are more suited to smaller sized

U.S. companies, which can provide spare parts or operate as subcontractors to major suppliers, like McDonnell-Douglas or Siemens-Plessey.

### *Medical Equipment*

The United States is Finland's leading foreign supplier of medical equipment, with a market share of 22 percent. Finns look for the latest available technology in the market. Modern MIS (mini invasive surgery) is already commonly used in local hospitals. Also, the need to improve efficiency in hospitals has increased the use of MIS technology. The MIS technology includes products such as MIS instruments, scopes, light sources, insulators, and video endoscopes. The market for MIS technology is expected to increase in the future, offering potential for U.S. suppliers. Another best prospect for U.S. companies is medical electronics used in cardiology, as heart disease is very common in Finland. Other medical electronics offer also good market potential for U.S. suppliers.

### *Law Enforcement*

About 80 percent of security electronics equipment is imported to Finland. There is also some local manufacture, including products such as control panels, and access control hardware and software. Surveillance devices and systems such as passive and active surveillance systems and equipment offer good potential for U.S. suppliers.

### *Environmental Technology*

Imports cover about 45 percent of the total environmental protection and control equipment market with an expected growth rate of about 10 percent during the next three years. The United States has about a 10 percent import market share of environmental protection and control equipment.

Potential for U.S. suppliers is particularly high in the following areas: monitoring, measuring and sampling instruments for detection of PCBs and air pollution dioxides, sulphur dioxide emissions removal technology, nitrogen oxide emissions removal technology, and dust reduction equipment, and soil remediation measuring and purifying equipment.

The largest ongoing projects are focusing on the main environmental problems in and around St. Petersburg, Karelia and Estonia. These projects offer U.S. companies, in cooperation with Finnish companies, interesting possibilities in the fields of technical consulting, contracting, direct equipment deliveries, investments, and financing.

### *Electronic Components*

There are three major competitors in the Finnish electronic components market, the United States with an import market share of 20 percent followed by Japan (18 percent) and Germany (13 percent). Local production in the electronic component field is very low, covering mainly manufacture of printed circuits, switches, and electrical connectors. Companies such as

Nokia and ICL Personal Systems have been able to increase their exports substantially. Depending on the development of Finnish exports of electronics, it is expected that imports of electronic components will increase by about 15 percent during the next three years. However, import of products such as semiconductors and integrated circuits, where American companies have a substantial market share, are expected to increase by 30-40 percent over the same period.

### **Finnish Government Agency Points of Contact**

Mr. Bo Goran Eriksson, Director General  
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Mr. Jorma Nykanen, Director  
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Mr. Juhani Hulkko, Director  
Civil Aviation Administration  
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Mr. Heikki Sisula  
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### **Doing Business in Finland**

Selling factors and techniques are very similar in Finland to those in the U.S. Terms generally applied to international trade with industrial countries apply to selling in Finland. This is a modern, post industrial country having close relations with other Nordic countries. Social and business protocol is similar to that in the U.S. Relationships are important within the society and business as Finns prefer to deal with people they know and trust.

*Export/Import Controls*

Finland has modified its export control legislation pursuant to the EC Export Control Regulation on Dual-Use Goods 3381/94 and Council Decision 94/942/CFSP which became effective as of July 1, 1995. New legislation on Export Control of Dual-Use Goods was submitted to the Parliament in May 1996.

The Trade Department of the Ministry of Trade and Industry grants licenses for the export of dual-use goods except for nuclear goods and rockets and propulsion systems. The Ministry also has an Advisory Board on Export Controls which coordinates export controls of dual-use goods and technologies.

The Ministry of Defense grants licenses for exports of arms and missile technology, including rockets and propulsion systems. The MOD's Advisory Working Group for Exports of Defense Materiel coordinates export controls of military items.

The Ministry of the Interior is responsible for export and import licenses for civil ammunition. For more information on these export controls, contact:

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Ministry of Trade and Industry  
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Finland follows import licensing procedures of the EU. Licenses can be obtained from the National Board of Customs. Certain agricultural products such as cereals, flour, certain fats and oils, fishery products, butter, cheese, eggs, poultry, meat, cattle, and hogs are subject to import duties and/or fees imposed in accordance with EU rules and regulations. During a transitional period (1995-1998), Finland will be allowed to maintain stricter import regulations on certain agricultural products, primarily in the meat and livestock areas. Finland will also continue its bilateral agreement with the U.S. permitting export of 10,500 tons of Finnish cheese into the U.S. market for at least the next three years.

### *Tariffs/Duties*

With certain exceptions, imports most goods are dutiable and taxable. Upon joining the EU at the beginning of 1995, Finland was required to adopt the EU import duty standards. Imports from EU countries come duty free if the products have been manufactured in one of the member countries. However, Finland does not have a free trade agreement with the U.S. and import duties have to be paid for many goods imported from the U.S. Because the EU has free trade agreements with countries such as Turkey, Israel, the Czech Republic, Slovakia, Bulgaria, Hungary, Poland, Estonia, Latvia and Lithuania, imports of industrial goods into Finland from

these countries are duty free.

### *Foreign Investment*

The favorable attitude of the Finnish Government toward direct foreign investment in Finnish business entities was confirmed in 1993 when laws restricting foreign ownership were liberalized. These laws were further liberalized at the end of 1995 by the removal of a restriction on investments in major Finnish companies which would result in more than a third of the stock voting rights in the company being transferred to foreign control. There are also no restrictions on the purchase of real estate by foreign nationals. Because of this liberalization, Finland's entry into the EU, the opening of ex-Soviet markets (creating an opportunity for Finland to act as a gateway), and economic recovery, foreign investments in Finnish companies have increased dramatically in recent years.

However, some restrictions on foreign investment are retained. For example, only Finnish nationals may invest in sectors involved with the production or delivery of national security related items. Other restrictions are retained in certain sectors involving safety or health hazards, or financial risk, and specific requirements are imposed to engage in the business. These regulated forms of trade, governed by section 3 of the Trade Act and by other specific legislation, include banking and insurance; nuclear energy related activities; mining; manufacture and sale of medicinal substances, dangerous chemicals, and explosives; private security services; travel agencies; transportation; fisheries; restaurant and catering services, and real estate brokerage. A non-European Economic Area entity must first obtain a license or provide notification as required by law, to engage in these "regulated" forms of trade. In addition, mandatory labor pension insurance and workers compensation may only be obtained through a Finnish entity to safeguard compliance with Finnish social security legislation.

The Aland Islands are an exception to the liberalization of Finnish foreign investment. Based on international agreements dating from 1921, property ownership and the right to conduct business in the Aland Islands is limited only to those individuals domiciled there.

The "Invest in Finland" Bureau operates within the government-sponsored Finnish Foreign Trade Association to provide potential investors with detailed information on investing in Finland. For more information contact:

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Invest in Finland Bureau  
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Fax: (358-0) 6969 2530

### *Intellectual Property Rights*

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

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

Information on copying and copyright infringement is available from several copyright holder interest organizations such as the Copyright Information and Anti-Piracy Center. The Business Software Alliance (BSA), a worldwide software anti-piracy organization, began operations in Finland in January 1994. According to their recent survey, the rate of software piracy in Finland (43% in 1994) is one of the lowest in Europe.

#### *Patents*

Patents are granted for a 20-year, non-renewable period. American nationals have a one-year period to file a patent application in Finland to receive the benefit of an earlier U.S. filing date. Process patent protection for pharmaceuticals and product patents are currently offered in Finland.

#### *Teaming with Local Firms*

Distribution channels in Finland are similar to those in the United States market. Helsinki, the capital of Finland is the major business center with a population of about 500,000. Most head offices of Finnish industrial, commercial associations, and large corporations are located in Helsinki. Many foreign companies also use Helsinki as their headquarters for Baltic and Russian operations.

Goods may be sold through an agent, distributor, established wholesaler, or by selling directly to retail organizations. The majority of Finnish commission agents are members of the Finnish Foreign Trade Agents' Federation, which has 18 divisions for different products. These commission agents are relatively small, private companies, most of them operating in sectors such as textiles, apparel, furnishings, and raw materials.

Privately-owned wholesalers and trading houses are particularly strong in certain specialized sectors, such as electronics, electrical components and instruments, pharmaceutical



and health care products, technical products and machinery, raw materials, and chemicals. Most of these importers and wholesalers are members of the Federation of Finnish Trade, which is a central organization for over 25 trade associations covering the bulk of foreign goods sold to Finnish trade and industry.

## **U.S. Government Points of Contact**

Listed below are useful points of contact for U.S. firms interested in the Finnish market.

### **U.S. Embassy**

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