

## TRADE BETWEEN FINLAND AND THE UNION OF SOVIET SOCIALIST REPUBLICS

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### Abstract

Trade between Finland and the Union of Soviet Socialist Republics (U.S.S.R.) began following the World War II as a device to pay reparations. The objective of this study was to determine the progress in trade between the two countries, types of products imported and exported, and the future of the trade relationship. Analysis of the available data indicated that Finland imported mostly raw materials from the U.S.S.R. and exported finished goods. The increasing demand in the domestic market for the raw materials exported to Finland and export of finished products from the U.S.S.R. to other countries may in the longrun create some trade problems between Finland and the U.S.S.R.

### Introduction

Finland has a population of 4.7 million and a total area of 337,009 sq.km. The population density is 15 per sq.km. Forest account for 72 percent of the area and 60,000 lakes for 9 percent. A third of the country lies above the Arctic Circle. Finland became independent in 1917. Countries neighboring Finland are Sweden and the U.S.S.R., in the west and east, respectively.

Being politically neutral and because of geographic location, Finland has to maintain good relations with the Union of Soviet Socialist Republics (U.S.S.R.). Finland's postwar Eastern policy is called the "Paasikivi-line". Paasikivi, who was the president of Finland between 1946-1956, described the principle in a 1955 newspaper interview as follows.

Although history does not always repeat itself, in spite of what one used to believe, it is, however, a fact that all the armed conflicts which Finland has had with Russia over 250 years have ended unhappily for our country; whereas, when meeting the Russians around the negotiating table, we have achieved many valuable results. In our history, it has been necessary for the pen to rectify what has been caused by the sword... Good relations with Russia are now, and always will be, most important for Finland. This is determined by geography and history. We must think in terms of geographic location of Finland in our foreign policy (Dagens Nyheter, 1955).

The focal point for the trade between Finland and Soviet Union was World War II. Prior to the war, Finland had some trade with Soviet Union, but it accounted for only 1 - 2 percent of the total foreign trade. After World War II, Finland--like the other countries who lost the war--had to pay reparations to Soviet Union. Trade between the two countries, therefore, became a source of reparation payments. More than 60 percent of the reparations were from metal and engineering industries, the products of which comprised only 4 percent of Finnish exports in prewar years. Machinery and equipment accounted for \$100.9 million; vessels, \$60.2 million; paper industry products, \$59.0 million; wood industry products, \$41.0 million; cable products, \$25.0 million; and ships surrendered from the existing merchant marine, \$13.9 million of the total reparations of \$300 million (Auer, 1956).

In 1947, Finland and Soviet Union entered into a Trade Agreement, which is still in force. The two parties agreed for mutual courtesy. The most important of all agreements between Finland and Soviet Union was made in April, 1948. Republic of Finland and the U.S.S.R. entered into a Treaty of Friendship, Cooperation, and Mutual Assistance. The 5th article of the treaty states that the parties of the treaty "affirm to work in the spirit of cooperation and friendship to constantly develop and strengthen economical and cultural relationships of Finland and Soviet Union" (Liinainmaa, 1976). These two agreements formed the foundation for the development of trade between Finland and the U.S.S.R.

The terms of trade between Finland and Soviet Union are defined in a long-range program, which maps out the cooperation possibilities for 15 years. Each 15-year period is divided into three segments. Each five-year segment is called "stem pact". The value and volume quotas for both exports and imports are defined in these pacts.

The long-range program outlines the methods of current trade and different cooperative possibilities which will increase the communication of knowledge beneficial to both parties and develop the trade in the long run. Currently, existing cooperative functions between Finland and Soviet Union are cooperation in industrial and other projects, agricultural production, power industry, transportation and communication, environmental control, geology, payment/credit relationship, taxation, and customs. Besides the terms of trade defined in the stem pacts, Finland and Soviet Union are engaged in what is known as boundary trade, the trade between Finnish companies and V/K Lenfintorg. No special agreements exist concerning boundary trade. In the exchange minutes, it has a name, "The trade between the boundary areas of Finland and Soviet Union" and is carried out "according to the parties' agreement", (Kauppopoliittisia Tiedotuksia, 1979). which means that no quotas are defined.

### Agreements

Bilateral trade and payment agreements and agreements concerning economic, industrial, and technological cooperation form the framework for the trade between Finland and Soviet Union.

#### 1. Trade Agreements:

Trade Agreement 1947  
Tariff Agreement 1960  
Five-year Exchange and Payment Agreements (stem pacts)  
Yearly Exchange Minutes  
Long-range Program 1977

#### 2. Agreements and Programs Concerning Economic, Industrial, and Technological Cooperation

Scientific and Technological Cooperation 1955  
Economic Council 1967  
Economic, Industrial, and Technological Cooperation 1971

## Trade Agreements

In this group, the most important agreement is the Trade Agreement of 1947; it gave legal basis for all commercial transactions between Finland and the Soviet Union, and made it possible to open Soviet Commerce Embassy in Finland. This agreement is still in force. Form the viewpoint of the trade policy, this agreement is important since the parties agreed for mutual courtesy; the courtesy clause has been applied when organizing the tariff-system. With the Tariff Agreement in 1960, Finland removed customs on industrial goods imported from Soviet Union.

Six five-year Exchange and Payment Agreements (stem pacts) have been made since 1950. The one currently in operation is for the years 1976-1980. The principle of bilateral trade is that in the long run, that is, during certain time periods, the exports and imports are maintained in a manner that the trade between the two countries will be in balance. This mechanism is regulated by bulk stem pacts and yearly exchange minutes. The agreements include fairly detailed lists of goods and services, and their quotas in terms of sales value or quantity. The quotas are not legally binding, but the parties try to follow them to the extent possible.

The Long-range Program, also known as 15-year program, both strengthens the past and creates present trade. The new 1977 program can well be said to define the principles of economic relationships between Finland and the Soviet Union. The program defines the principles and methods of cooperation and includes the plan of how the commercial and other economic cooperation can be developed from the current period to approximately 15 years hence.

### Agreements and Programs Concerning Economic, Industrial, and Technological Cooperation

These agreements apply to economic cooperation, which is broader and of longer duration than the usual trade. Scientific and Technological Cooperation Committee was formed between the Finnish and Soviet governments at the same time as the Scientific and Technological Cooperation Agreement. The task of the committee is to develop economic, scientific, and technological cooperation. This encompasses the development of technological processes, production facilities, and opening up and operating new businesses, improving the operation of the firms, cooperation in the use of results of scientific research, exchange of patents and licenses, and mutual work of product development.

The task of the Economic Council is to develop, coordinate, and carry out plans which are associated with the broadening and diversification of the economic transactions between Finland and Soviet Union. The Economic, Industrial, and Technological Cooperation Agreement of 1971 brought the Economic Council and previous agreements together and also broadened the scope of the agreements.

### Payment Procedure

Both countries have in their Central Banks "clearing accounts". They are used in the following way:

When the goods exported from a Finnish firm arrive in the Soviet Union, the importing Soviet firm will issue a notice to the Central Bank of Soviet Union (Vneshtorg Bank). The account is settled by making payment in Roubles to the clearing account in Finnish

Central Bank by Vneshtorg bank. When the firm which exported the goods pays the Vneshtorg bank, it will notify Finnish Central Bank. The Finnish bank then pays the reporter in Finnish Marks. The same procedure is used when a Soviet company exports products to Finland.

Finland and the Soviet Union have agreed that all commercial payments will be paid using Roubles as currency. The Long-range Program and stem pacts define the limits on clearing accounts, which for the years 1976-1980 has been set at 50 million Roubles.

### Exports From Finland to the U.S.S.R.

Since 1950, products based on lumber and metal industries played a key role in Finland's exports to the U.S.S.R. During the last several years, the Soviet Union has been the most important importer of Finnish metal industry goods and the vessels and vessel accessories supplied by Finland's shipbuilding industry. The exports of lumber industry include mainly chemical-wood processing products, whose refining level has improved constantly.

Consumption goods (clothing, shoes, furniture), agriculture products and food have increased their share of export goods since 1960. Soviet Union is now the largest foreign buyer of these goods. Table 1 shows the exports of various products for the years 1951-1978.

TABLE 1  
Products Exported from Finland to the U.S.S.R.;  
1951-1978

Period	Lumber	Metal	Textiles	Food	Others
	Industry	Industry			
			(percent)		
1951-55	49.4	47.5	1.7	0.4	1.0
1956-60	36.3	58.6	1.5	1.8	1.8
1961-65	35.1	55.6	2.8	4.0	2.5
1966-70	32.6	51.2	6.3	4.8	5.1
1971-75	37.8	36.5	10.2	6.7	8.8
1976	26.7	55.1	6.8	4.2	7.2
1977	24.6	59.3	5.6	3.6	6.9
1978	23.6	59.5	5.8	3.5	7.6

Source: Turun ja Porin Laaninhallitus, 1979

### Export Trends

According to the 1979 Trade Agreement, products of metal industry have played a key role as exports from Finland to the Soviet Union, accounting for Fmk 2.7 billion, although their value decreased somewhat compared to 1978 exports. More than half of this can be attributed to shipbuilding industry. The value of ships accounted for Fmk 1.5 billion and the number of ships exported amounted to 26. The shipbuilding industry is not working to its full capacity. Increased orders from U.S.S.R. is, however, expected during the upcoming agreement covering 1981-85 period.

The exports of lumber industry will be at the same level as before. The largest product groups are various types of papers and paperboards. The export quotas for lumber industry are approximately Fmk 1.6 billion. The value of consumption goods will be approximately Fmk 400 million. Ready-to-wear clothes, leather shoes, leather products are the goods which will be exported the most. Textile and clothing

industry has more capacity than the export quotas allow to export. Export of agriculture and food products include dry milk, butter, cheese, eggs, and meat products.

According to the Long-range Program, up until 1990 the emphasis in the exports from Finland to the U.S.S.R. will concentrate on the number of ships exported; machinery and accessories, particularly those of wood and mechanic wood processing; machinery and accessories of cellulose and paper industry, and lift and transportation related accessories. In the near future, the growth of Finnish economy is expected to slow down. However, the trade outlook for industry is encouraging, particularly for wood and textile and clothing industries; the demand for these products is quite strong. The outlook for exports related to metal industry seems to be especially encouraging.

#### Imports from the U.S.S.R. to Finland

In 1975, Finland imported fuel and raw material amounting to Fmk 4 billion, representing approximately 85 percent of the total imports from the Soviet Union. Crude oil accounted for 40 percent, representing 60 percent of the amount imported into Finland. Since 1972, Finland has imported natural gas from Soviet Union. During the five-year period from 1976 to 1980, crude oil and various oil products imported represented approximately 10 million tons. Coal and other minerals 600,000 tons. Table 2 provides information about the products imported from the U.S.S.R. to Finland for the period 1951 through 1978.

TABLE 2  
Products Imported from the U.S.S.R. to Finland,  
1951-1978

Period	Machinery & Appliance	Energy	Agricultural Products	Lumber	Scrap Metals	Others
	(percent)					
1951-55	4.0	24.1	48.1	0.1	9.0	14.7
1956-60	5.7	37.6	29.3	0.8	13.5	13.1
1961-65	12.5	40.9	17.0	6.7	13.1	9.8
1966-70	10.0	54.0	7.5	8.9	9.3	10.3
1971-75	7.5	68.8	1.9	8.6	5.0	8.2
1976	8.6	74.5	0.6	8.8	2.2	8.3
1977	5.8	79.2	0.5	6.6	2.5	5.4
1978	6.8	79.5	0.8	5.9	2.1	4.9

Source: Turun ja Porin Laaninhallitus, 1979

#### Import Trends

Imports from the U.S.S.R. has been on the average between 15-20 percent of the total imports into Finland. Imports from the Soviet Union comprised mainly raw materials and fuel, which is essential for Finnish industry. Soviet Union provides almost half of the total energy demand of Finland. The share of different machinery and accessories form a small percentage of the total imports. This sector is, however, expected to increase in the future because the Soviet Union is trying to increase the amount of crude oil refined to meet the growing domestic needs.

Types of products involved in trade between Finland and the U.S.S.R. are not similar. That is, exports and imports comprise different types of goods. The Soviet Union is mostly supplying Finland with raw material and fuel. Even if the Soviet Union has huge supplies of these raw materials, the country needs to use these resources at an increasing rate to meet the growing domestic needs. In the long run, it is questionable if Finland is able to get enough raw materials and fuel from the Soviet Union. Also, Soviet Union has brought up a discussion about the current trade. Soviets think that Finland regards the U.S.S.R. as an underdeveloped country from which only raw materials and semi-manufactured products can be imported. Finland has to diversify and increase her imports from the Soviet Union since it is necessary for increasing exports.

At the present time, several other factors have contributed to the problem of trade between Finland and the U.S.S.R. The increased demand for Soviet Union's products in other countries has created shortages of products originally imported from the U.S.S.R. to Finland. For example, increasing demand from France and England for the Soviet machinery and equipment has resulted in decreased availability of machinery and equipment to Finland.

Lack of direct contacts between the seller and buyer is another problem. This is not only because government mainly does the planning and paper work, but also from the passiveness of importers. Products manufactured in the Soviet Union is directed mainly to satisfy the domestic need and not that of other countries. On account of this, marketing in the U.S.S.R. has not developed to the level comparable to that of western countries.

In some cases, the quality of Soviet products is a barrier for increasing trade. This has been recognized also in Soviet Union: "We cannot tolerate, that those first-rate products... do not get to foreign markets only because of a single reason, that not enough attention is given to the finishing, planning of drawings, and technical calculations, service, and promotion of the products" (Kosygin),

The advantage of bilateral trade is its relationship between the two countries involved and independence from the multinational trade problems. Several disadvantages also exist in situations involving bilateral trade. To balance the trade makes it rigid, since in order to import more the exports have to be increased, as well. Suspicious attitudes and political prejudices contribute a great deal to the relationship between Finland and the Soviet Union because of historical causes. They reflect in the trade, too, even if the war ended over 30 years ago. Because of this, Finland has suffered losses in the trade. Newspapers write articles against Soviet trade with the view of influencing public opinion. The main purpose of such articles is to make Finnish foreign and commercial policies look suspicious (Kekkonen, 1970).

Before elections and when important decisions are to be made concerning Soviet trade, political attitudes and prejudices reach a peak. The attitude toward Soviet trade is different compared to that of western world. The following generalizations can be made:

1. Soviet products are underestimated or even blackmailed
2. Trade with the Soviet Union is viewed to increase the dependence on that country but trade

with the western world is viewed differently.

3. Soviet trade with Finland is used as a propaganda device against government and parties responsible in government.

#### Summary and Conclusion

The trade between Finland and Soviet Union is the result of planning 30 years ago and which has continued since then. With the Treaty of Friendship, Cooperation, and Mutual Assistance in 1948, the prerequisites of economic cooperation were created. During the years, a unique agreement network has been built between Finland and the Soviet Union. The last agreement - the Long-range Program - defines the development possibilities of commercial, economic, industrial, and scientific and technological cooperation up until 1990. The trade between Finland and Soviet Union is bilateral. Since 1950, products based on lumber and metal industries have had a central position as Finland's export of goods to Soviet Union. Consumption goods, agricultural machinery, and food have increased their share steadily since 1960. Finland is mainly importing raw material and fuel from the U.S.S.R. They cover over 80 percent of total imports. Imports from the Soviet Union have accounted for approximately 15 - 20 percent of total Finnish imports.

Finland is planning to diversify the products she currently imports from the U.S.S.R. The problems facing the trade are related to products exported and imported, the shortage of some goods because of increased demand in Soviet Union, absence of the application of marketing concept and strategies, and quality of products. Problems are also created as a result of public opinion. Soviet products are not valued as high as western products, the trade is considered as not favorable to Finland, and is used as a propaganda against the Finnish government.

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