

The Lisbon Strategy **Finnish National Implementation Report** February 2003

Improving Finnish and European Competitiveness



Confederation of the Finnish
Industry and Employers, TT



Employers' Confederation
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FOREWORD

European heads of state made a commitment in the Lisbon European Council to make Europe the "most competitive knowledgebased economy". TT and PT have closely followed the development of the Lisbon strategy and furthermore contributed to it at the national level vis-à-vis the Finnish government and at the EU level together with UNICE vis-à-vis the EU institutions. TT and PT have annually contributed to the joint UNICE exercise to present the business view on the Lisbon Strategy focusing on the most essential elements of the original Lisbon goal in the EU decision making system. UNICE Lisbon Strategy Status 2003 report "Time is running out, action needed now" can be found at

<http://www.unice.org/content/Default.asp?PageID=89>.

All UNICE's member federations in EU countries and Norway are preparing national Lisbon strategy reports. The aim of these national reports is to present a clear picture of the present situation in the implementation of the Lisbon goals at the level of Member States and to focus their respective government's attention to the important areas where additional efforts are needed. In addition these national reports give a picture of the situation in a given country in relation to other Member States. National reports from UNICE member federations can be found at <http://www.unice.org/lisbon>.

In Finland the implementation of Internal Market legislation, according to the November 2002 Internal Market Scoreboard has been top-class. Finland has implemented 99.4 per cent of the present legislation. Also according to the World Economic Forum paper "The Lisbon Review 2002-2003" Finland has performed very well. This evidence corresponds with the business view that the Finnish government has performed well in respect to the Lisbon Strategy targets, although one can by no means say that work has been completed - a lot remains to be done to improve both Finnish and European competitiveness. Furthermore, there are certain areas where the Finnish public sector needs to intensify its efforts to enhance a competitive business environment.

In the following we briefly evaluate the state of play regarding the national implementation of the Lisbon Strategy in Finland.



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Highlights of the Business Recommendations

1. COMPLETING THE INTERNAL MARKET

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Transposition and implementation of Internal Market legislation is an essential element in achieving Lisbon Strategy goals. The Finnish government should maintain its rapid implementation of EU legislation, and at the same time, continue pressuring the lagging Member States in the Council to reduce their implementation deficit.

2. COMPLETE MARKET OPENING

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Complete market opening of telecommunications and energy markets should be carried out in all EU Member States. In order to avoid fragmentation of the EU's internal communications market it is essential that Finland and all other EU Member States ensure timely implementation of the electronic communications package and avoid divergent national interpretations of legislation.

3. FACILITATE ACCESS TO FINANCE

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The situation in financial markets is presently very favourable in Finland and we hope it can remain so along with the creation of the Internal Market of financial services. Financing remains very much reliant on the banking system and development of capital markets should be boosted. Presently capital investment activity is low and following the burst of the IT-bubble especially small starting technology firms have had difficulties in accessing risk capital.

4. REDUCE TAX PRESSURE AND PUBLIC DEFICITS

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Finland's taxation levels remain too high. Especially earned income taxation is severe and steep progression has a negative impact on economic growth and employment. Furthermore, Finland faces considerable challenges from international tax competition. Income taxes must be lowered at all income levels and throughout all tax rates, limiting the highest marginal taxation level to 50% by 2007. In addition, the lowering of indirect labour costs must continue in order to improve employment conditions. It is also necessary to improve the competitiveness of corporate taxation, as well as to avoid double taxation of dividends.

5. STIMULATE INNOVATION

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Finnish total R&D expenditure, at 3.4 % level, is the second highest in the EU. Business sector expenditure is more than 70 % of this figure. However, Finnish public sector R&D expenditure has stagnated. To be able to meet the growing challenges Finland needs to increase public financing of R&D. Agreeing at the EU level on a well functioning and cost effective Community Patent is fundamentally important for stimulating innovation in Europe.

6. IMPROVE THE LABOUR MARKET

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In order to reach the employment rate target of 75 % measures in economic, fiscal and labour market policies are needed; especially reducing the heavy taxation of labour is required. Also promotion of occupational and regional mobility of labour is an important element in decreasing structural unemployment. Employers do not support recruiting subsidies since they distort competition and displace normal recruitment. In the medium term, activating the workforce reserves is a high priority.

7. MODERNISE SOCIAL PROTECTION

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Finland is facing an especially dramatic demographic change due to the rapid ageing of its population. It is of utmost importance to raise the retirement age in order to be able to maintain the Finnish pension system viable. The national pension reform is an important step but additional measures will be needed in the future. Structural reforms are needed in taxation, education, labour market policy and social protection systems in order to maintain the present level of social inclusion. Modernisation of social protection is clearly a national responsibility. EU-wide solutions are not possible due to differences in social protection systems within the Member States.

8. ADAPT EDUCATION AND TRAINING

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The declining trend of public expenditure on education and training needs to be turned upwards in addition to improving the effective use of the funds. Teachers' skills and competencies in information technology should be further developed and also better programs to be used in schools should be created.

9. PROMOTE ENTREPRENEURSHIP AND DISMANTLE UNNECESSARY REGULATION

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There is a need to enhance the co-operation between numerous actors in Finland promoting entrepreneurship. Initiatives need to be goal oriented, enjoy the support of relevant stakeholders and be prioritised from the business point of view. Promoting entrepreneurship requires measures in education, improving the finance at start-up and growth stages of SMEs, simplification of legislation and regulation and also lowering the administrative burden e.g. by further developing on-line public services in all interaction between the business sector and public authorities. Finnish entrepreneurs are ageing at an alarming rate; consequently, the taxation of transfer of business to younger generation needs to be lowered.

10. RECONCILE SUSTAINABLE DEVELOPMENT AND COMPETITIVENESS

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Because striving for sustainable development, e.g. combating climate change and promoting sustainable consumption and production are global in nature the problems cannot be solved unilaterally at a national or EU level but require broad international co-operation. The functioning of the internal market requires that more emphasis is put on the enforcement of environmental legislation in the Union. The significance of this will increase after the forthcoming enlargement of the EU.



1. COMPLETING THE INTERNAL MARKET

Lisbon objectives:

Preparing the transition to knowledge-based economy and society by completing the internal market.

■ The Internal Market, in connection with peace and stability, is probably the most significant contribution of the EU to the operating environment of Finnish enterprises. The Internal Market provides a base that allows room for industrial structural reforms and a large customer base to enable the firms to develop within this extended "domestic" market to face global competition. It also offers a wide range of networking opportunities in all phases of business activity from purchasing and product development to marketing. For these reasons **we wish to emphasize the importance of completing the Internal Market as a key element in reaching the goal of the Lisbon strategy.**

The Commission, in its Report to the Spring European Council 21 March 2003, notes that "the greatest risk ... is not the lack of decisions at European level, but the failure by Member States to ensure that agreed rules and new policies are effectively implemented and applied." The importance of following the implementation is only emphasised by the fact that now for the first time since 1992 the implementation deficit of the internal market directives has increased. The average implementation deficit has declined from 21.4 per cent in 1992 to 1.8 per cent in May 2002. During 2002 the trend turned around and the deficit has grown to 2.1 per cent.

The Internal Market has progressed significantly in many areas: the euro, energy market liberalisation and the telecommunications package to mention just a few. Unfortunately even in these areas, where the EU decision-making system has succeeded in finalising measures further developing the Internal Market, the lack of implementation at the national level is preventing these decisions from being translated into real benefits for companies. Work needs to continue at

the EU level in completing the Internal Market e.g. in financial services and public procurement.

The transposition and implementation of EU legislation varies greatly among member states. Only five members, Denmark, Netherlands, Finland, Sweden and United Kingdom, meet the European Council's target of a transposition deficit of 1.5 % or less by the spring of 2003. **The transposition record of Internal Market legislation has been excellent in Finland and we highly recommend the Finnish government to continue on this well-established track. Furthermore we give our strongest support to the Commission and the Council in their activities in putting pressure on the countries that are lagging behind in the implementation of Internal Market legislation.** This is important to all companies operating in the internal market, but especially to the SMEs that do not have resources to adapt to different market conditions to same degree as larger companies do.

2. COMPLETE MARKET OPENING

Lisbon objectives:

- Accelerated opening of telecommunications, energy, postal services and transport.
- Easier SME access to online markets.
- Expansion of online public procurement.

■ Market opening has advanced in Finland very favourably. **Full liberalisation has been reached both in telecommunications and electricity markets.** This has enhanced competition and resulted in lower prices in these sectors.

The **market for electricity** was opened to competition for all customers, business and consumers, already in 1997, based on legislation answering to all of the main requirements of the Directive for accelerated opening. Gas markets have been only partly opened to competition, given the derogation for Member States with a single supply source. Currently no electricity generator holds a market share above 25 %. Electricity prices for both businesses and households are among the lowest in the EU.

In **the telecommunications sector**, despite full liberalisation, the local incumbents still hold a very dominant position (ca. 90 %) in the local calls market, while in long distance calls their market share is less than 40 per cent. Finland has implemented earlier elements of the EU electronic communications regulatory package and is in process of implementing the directives due to be implemented by July 2003. **In order to avoid fragmentation of the EU's internal communications market it is essential that Finland and all other EU Member States ensure timely implementation of the electronic communications package and avoid divergent national interpretations of the legislation.**

Opening of the **transport sector** is also advancing. The Finnish Parliament is processing the implementation of the first railway package and it is expected to be completed in the given schedule by March 2003. **Postal services** are also being opened up for competition according to the es-

established schedule. **The process of liberalisation of postal services should be kept up and accelerated in order to bring benefits of increased choices and reduced prices for businesses and consumers alike.**

The **Internet penetration rate** of Finnish SMEs is about 95 per cent. On the other hand only 10 % of all Finnish enterprises made more than 1% of their turnover from **eCommerce**. The main constraints for the development of eCommerce are considerations regarding existing sales channels, non-suitable products for eCommerce, small customer potential and logistical problems. Public sector actors have promoted eCommerce by publishing eCommerce manuals, studies and guidelines. Numbers of technology programmes exist focusing on the development of applications, platforms and tools for eCommerce and ICT technology diffusion is actively promoted. **The capacity of SMEs to participate in eCommerce should continue to be strengthened** by training, financing, consultancy projects and the development of practical tools for SMEs.

According to Finnish legislation all **public procurement** has to be opened-up to competition. All calls for tenders above the EU threshold values are published in the Official Journal (available in printed and electronic versions) and for calls of tenders below the threshold values there is a national online-site, **www.ktm.fi/julma**. From this portal suppliers can get information on open tenders and acquire all necessary documentation. Julma-portal has so far registered over 1000 suppliers and over 400 purchasing units and so far its use has not been extensive. Many municipalities are developing their electronic purchasing systems. **Electronic purchasing portals should be further developed and promoted. Co-operation between municipalities in developing joint systems should be enhanced.**

3. FACILITATE ACCESS TO FINANCE

Lisbon objectives:

- **A more competitive environment for business activity.**
- **Integration of securities and financial markets.**
- **Greater transparency in bond emissions.**
- **Removal of obstacles to investment in pension funds.**
- **Easier access to risk capital.**

■ Development in financial markets in Finland since EU membership in 1995 has been extremely positive. Finland has turned from an indebted economy (1994 net national debt without listed shares of 43 billion euros) to a net contributor of capital (September 2002: net balance of 7 billion euros receivables). Positive economic developments, especially in the export sector, have made this development possible. It can be argued that without the EU and the EMU and their stabilising effects on financial markets and a boost in exports, this development would not have been possible.

After the recession and crisis in the banking sector in the early 1990's Moody's ratings have climbed from A2-A3 up to AA3 class. The banking sector has been rationalised, a number of mergers have taken place and an increase of foreign banks in Finland has boosted competition. The system for payment transactions relies almost entirely on electronic traffic and it is very developed both in business and consumer markets.

Access to finance for both businesses and consumers has in recent years been easy and interest rates have been low. In a survey of 1994 difficulties in finance were experienced by a third to a half of firms (small 58 %, medium-sized 30 % and large 35 %). In last year's survey the corresponding figures had fallen to 9 %, 2 % and 2 %. After the recession firms have been careful in their investments and systematically strengthened their balance sheets. Also access to risk capital has been improving due to public and

private capital investments and activities of business angels. Still the venture capital market is very modest in Finland, 0.19 % of GNP compared to 0.25 % average in EU.

The financial situation is presently very favourable in Finland and we hope it remains so along with the creation of the Internal Market of financial services. Financing remains very much reliant on the banking system and capital markets development should be boosted. Presently capital investment activity is low and after the burst of the IT-bubble especially small starting technology firms have had difficulties in accessing risk capital.

4. REDUCE TAX PRESSURE AND PUBLIC DEFICITS

Lisbon objectives:

- Sustainable public finances.
- Reform of the administrative environment.
- More targeted use of public resources to promote growth and employment.
- Lower tax pressure on employment.
- Reduction of state aid.

■ The Commission's Broad Economic Policy Guidelines of 2003 reported that **Finnish government finances remain in a comfortable position** and in full compliance with the requirements of the Stability and Growth Pact. The general government budgetary surplus was 3.5 % of GDP in 2002 and the government debt ratio is projected at around 42.5 % of GDP for 2002. The report also notes that the pension reforms undertaken in 2002 are a step in the right direction.

On a more critical note **Finland's taxation levels remain too high**. During 2003 the total tax burden is estimated to be approximately 44 %. Although tax rates have been slightly lowered, internationally Finland remains a high tax country and among the euro countries taxation in Finland is one of the highest. **Especially earned income taxation is severe and steep progression has a negative impact on economic growth and employment**.

Finland faces considerable challenges in international tax competition. Although Finland has been able to take small steps in diminishing taxation of earned income her relative position has not improved due to corresponding or larger tax cuts in many other countries.

Taxation of earned income does have a significant impact on real competitiveness. Heavy taxation diminishes the benefits of work at all income levels and increases the likelihood of emigration of skilled labour. On the other hand Finland's attractiveness for highly educated and professional skilled workers from abroad is further

hampered by steep progression of earned income taxation. Since Finnish competitiveness is fundamentally based on know-how and skilled human resources it is imperative that Finland remains attractive for middle and high-income professionals.

Income taxes must be lowered at all income levels and throughout all tax rates, limiting the highest marginal taxation level to 50 % by 2007. In addition, the lowering of indirect labour costs must continue in order to improve employment conditions.

It is also necessary to improve the competitiveness of corporate taxation, as well as to avoid double taxation of dividends.

Finland did not participate in the EU's programme of lowered VAT-levels in the labour intensive services sectors. The present high levels of VAT prevent the creation and growth of services aimed at consumers. In the future **reduced VAT rates should be used to support employment in labour intensive service industries e.g. personal services and the restaurant sector**.

Within energy taxation the EU has not met the goals set in Lisbon. The directive was supposed to have been completed by December 2002. The Finnish government is prepared to accept the compromise proposal presented by the EU presidency, Denmark. **We support harmonisation of energy taxation, provided that it does not significantly weaken the competitiveness of European industry.**

Finnish state aid, not including aid to agriculture, is lowest in the EU, namely 0.39 % of GDP, while EU15 average is 0.83 %. **Three quarters of the state aid is directed towards horizontal objectives** of common interest such as research and development, environment, energy saving, as well as SMEs in accordance with Council recommendations. On the other hand, state aid including aid to agriculture is at a very high level in Finland: 1.44 % of GDP, while EU15 average is 0.99 %.

5. STIMULATE INNOVATION

Lisbon objectives:

- **Better co-ordination between national and European research programmes.**
- **Development of private investment in research.**
- **More partnerships between schools, training centres, companies and research.**
- **Greater mobility of students, teachers, trainers and researchers.**
- **Development of Internet access for all.**
- **Improved protection for intellectual property.**

■ According to the Innovation Scoreboard 2002 Finland's relative **innovation performance** is remarkably strong, with **nine top places out of fourteen. Total R&D expenditure was 3.4 % of the GDP in 2001. With this Finland places itself in second place among EU member states.** Public R&D expenditure in 2001 was 0.98 per cent of GDP. At the same time the business sector expenditure on R&D was considerably higher at 2.68 per cent of GDP, only second to Sweden in the EU. **Business sector expenditure is more than 70 % of the total R&D investments.**

Finland was also leading in high-tech **patent applications** in the EU mainly due to high level of ICT related patent applications (over 80 per cent). Also **human resources** as well as **education and training** indicators provide a competitive picture in relation to other EU countries. On the other hand the SME in-house innovativeness in Finland is far below the EU average, although SMEs are widely participating in innovation co-operation.

This very favourable picture is largely a result of very successful developments in the ICT industry during the last decade. When shifting the focus to other traditional sectors the picture is not equally rosy and the competitiveness of all sectors of the Finnish economy needs to be de-

veloped further in order to remain competitive internationally.

The latest figures show that growth of R&D investments have stagnated. To be able to meet growing challenges Finland needs to increase public financing of R&D.

In Europe we need a well functioning and cost efficient Community Patent to provide European wide industrial rights protection. This is especially significant for SMEs. We urge the Finnish authorities to support the Commissions proposal that among the present proposals best reflects the needs of the business sector.

The Finnish government should promote the harmonisation of patents concerning computer-implemented inventions at the EU level. The "software patent" should follow the present EPO practices including allowing protection of software products themselves. In this respect the Commission proposal needs to be improved.

6. IMPROVE THE LABOUR MARKET

Lisbon objectives:

- **Better employability and a match between supply and demand for labour.**
- **Qualification programmes for the unemployed.**
- **Reduction of long-term unemployment.**
- **Development of employment in the services sector.**
- **Equal opportunity.**

■ The employment rate in Finland remained at 68 % in 2002 exceeding the mid-term Lisbon target. The Finnish government aims to rise it to 70 % and the target should be 75 % by 2010, according to the Finnish high level working group. **Reaching the employment targets requires measures in economic, fiscal and labour market policies, especially easing the heavy taxation of labour.**

The primary aim of employment policy is to ensure the functioning of the labour market and the availability of labour. As demand mainly focuses on skilled labour, training, improvement of professional skills and keeping job seekers active has been a priority also during the ongoing recession. With a view of the impending skills shortages, companies have tried to avoid redundancies and are increasing their training efforts. Collaboration between the employment offices and companies is a common priority. **Promoting the occupational and regional mobility of labour** is seen as the most important means to rein in the menacing growth of unemployment.

Solidarity in wage policy means compromising jobs in sectors of low productivity. Therefore **wage differentiation should be encouraged in order to facilitate job creation in all sectors.**

Long-term unemployment has decreased more rapidly than unemployment overall, but it remains still high and has become more problematic. Temporary jobs and general training courses have provided breaks to the longest spells of unemployment and renewed the participants'

rights to benefits, but have been proved to be of no or little help in getting them to real jobs. The labour authorities have been increasingly using recruiting subsidies to dress up the unemployment figure. **Employers do not support recruiting subsidies since they distort competition and displace normal recruitment.** Furthermore, we believe that the **dole system should be staggered in order to make work the most feasible choice.**

As a part of the new incomes policy agreement between the central labour market organisations in 2002, common basic guidelines and principles for the development of the professional training policy and the active labour market policy were agreed upon. The key idea here is concerted action in order to achieve better targeting and higher quality of training and the employment service.

The imminent retirement of the baby-boom generation will create a new labour market situation. There is a consensus that **decreasing structural unemployment and activating the workforce reserves is the most important priority.** New legislative measures to slow down early retirement have been agreed upon and policies to advance the entry of the young people to the labour market are being planned. Employers and political parties of the right and centre see the necessity to prepare for more immigration, while the trade unions and the political left have doubts on this point.

The importance of the service sector as an employer in Finland is growing. The development in our country, however, has been slower than in other industrialized countries. Our private service sector, measured in number of employed, is one of the smallest of the OECD-countries. The sector's share of Finland's entire production is 40 %. During the last few years, plenty of new workplaces have been created within company services. Society's contributions to private services, however, have been modest. **In Finland, we have not profited of the entire employment potential as other western industrialized countries have.**

The employment rate for women in Finland was around 65 % in 2001, which already exceeds the Lisbon target of 60 % by the year 2010. The difference between the employment rate of men and women is small. A high educational level as well as a well functioning municipal day-care system improve Finnish women's position in the labour market. Despite the economical downturn the unemployment rate for women has fallen in 2001, being 9.7 %. The figure for men fell 0.5 %, being 8.6 %.

Collective agreement parties of several branches of industry and the service sector renewed their payroll systems in the end of the 1990's and in the beginning of the 21st century, emphasising job evaluation. New wage systems are an efficient mean to guarantee neutral wage formation between men and women. Implementation of the European Council Directive 2002/73/EC of equal treatment for men and women was under way in the year 2002. A national tripartite committee finalised its proposals for amendments to the Finnish Act on Equality between Men and Women at the end of the year 2002.



7. MODERNISE SOCIAL PROTECTION

Lisbon objectives:

- **Adaptation of social protection to reflect the ageing of the population, to guarantee its long-term viability.**
- **Exchanges of experience and best practice.**
- **Better access to pension funds.**
- **Fight against social exclusion.**

■ **Finland is facing an especially dramatic demographic change due to the rapid ageing of its population.** The economic dependency ratio is anticipated to rise after the year 2015 from the present almost 120 per cent to 140 percent by 2030. Demographic ageing presents a difficult challenge to the Finnish pension system. It also leads to a substantial increase in the number of elderly people demanding care. **It is of utmost importance to raise the retirement age in order to be able to maintain the Finnish pension system viable.** Finnish Parliament has recently adopted a pension reform, which is estimated to cut the growth of pension expenditure by 50 %. The **pension reform is an important step** towards adjusting the Finnish pension system to the ageing of population. However, this reform is not sufficient. **Additional measures are needed in the future.** Furthermore the challenges regarding the health care system and the required actions need to be discussed thoroughly.

The Finnish statutory **pensions schemes** cover all employees and self-employed persons and provide sufficient cover against old age, disability and death. As a result, a major proportion of total pension income is provided by first pillar schemes. Therefore access to pension funds is not a cause for concern in Finland. In terms of second pillar schemes, access is not a problem either, because benefits of second pillar schemes are not seen as deferred income and access is based on the agreements between employer(s) and employee(s). From the point of view of the Finnish pension systems **EU level activities are not needed as far as access to pension funds is concerned.**

According to international comparisons Finland has been successful in fighting **social exclusion**. The success is based on the high employment rate, universal health, social and education services and income benefits. The wage differentiation in Finland is indeed very low in international comparison. However, **due to increasing international competition, changes in the labour market and ageing population, structural reforms are needed in taxation, education, labour market policy and social protection systems in order to maintain the present level of social inclusion.** The key issues are incentives to work, occupational qualifications and labour costs (especially social protection contributions).

All Member States are facing similar challenges regarding pension systems, social inclusion and health care. **Exchanging views and learning from other countries experiences is therefore a useful way of getting ideas on how to develop national systems. However, modernisation of social protection is clearly a national responsibility. EU-wide solutions are not possible due to differences in social protection in the Member States.**

8. ADAPT EDUCATION AND TRAINING

Lisbon objectives:

- Substantial annual increases in investment in human resources.
- Adaptation of education and training to technological and IT change.
- Redefinition of the future objectives of education systems.
- Promotion of mobility among the young, teachers and researchers.
- Priority to lifelong learning and promotion of agreements on alternance-based training-work.
- Development of employability.
- Local and inexpensive access to the Internet, with better training.

■ Public expenditure on education and training has been declining from 6.3 % of GDP in 1997, to 6.2 % in 1998 and further to 5.7 % in 1999. With this Finland ranks third in EU comparison after Sweden and Denmark both being at ca. 8 % and well above the EU average of 5 %. **The declining trend of public expenditure on education and training needs to be turned upwards in addition to increasing the effective use of the funds.**

All the schools and training centres in Finland have **internet-access**, and most of them also have appropriate equipment. **Teachers' skills and competencies in information technology should be further developed and also better programs to be used in schools should be created.** The curricula have been renewed and basically they are up to date. The modernisation of objectives of the education system has not been done, although the social partners have proposed to set up an independent high-level body.

The **EU-programs** (Socrates, Leonardo and Youth) have been effectively implemented in Finland with good results. The mobility of young people has been good. According to the OECD the participation of **adults in education and training** in Finland is the highest among members of OECD. There is now a national program to lift

the level of qualifications of those between 30 and 54 still in working life. Unfortunately this program is not using alternance-based learning.

The curricula of **vocational education and training** for young people have been renewed and this includes a six months period of on the job learning. This has increased much co-operation between schools and companies, and also helped the inclusion of young people into working life. But at the same time the amount of young people not interested in taking upper secondary qualification in vocational education and training has stayed at the same level as before. There is a new program focusing on these young people, but so far there has been no results.

9. PROMOTE ENTREPRENEURSHIP AND DISMANTLE UNNECESSARY REGULATION

Lisbon objectives:

- **An environment and a culture conducive to enterprise.**
- **Simplification of laws and regulations, with new and more flexible approaches.**
- **Simplification of relations with the administration.**

■ In Finland, according to the GEM-report *attitudes towards entrepreneurship are positive, but the positive attitudes do not translate into actual creation of enterprises*. The actual number of entrepreneurs in Finland is relatively low, some 20–30 % below EU averages. This is even more pronounced in the service sector, although the number of service sector enterprises is gradually growing. The share of service sector entrepreneurs of the total workforce was 4.4 % in 2000, about one percentage point lower than the EU average. Finland, alongside of Denmark, Austria and France have the lowest figures, while Greece and Italy have twice the number of service sector entrepreneurs relative to population. According to the High Level Group the development of the private service sector is key to achieving employment targets especially during slow growth period.

The Ministry of Trade and Industry has the lead of the Finnish government's programme for entrepreneurship initiated in 2000. The programme is run jointly with nine ministries and municipal and regional authorities. The programme has been implemented with employment and economic development centres and business organisations. The programme consists of some 130 initiatives. The evaluation of the programme revealed the *need to enhance the co-operation between numerous actors promoting entrepreneurship in Finland. The initiatives need to be goal oriented and enjoy the support of relevant stakeholders. The initiatives must be prioritised from the business point of view and not from the perspective of the administration.*

The enterprise policy aims to create a competitive business environment and an atmosphere for enterprises, regardless of their size. Majority of Finnish firms are small and medium sized and their needs are especially emphasised in planning and implementation of enterprise policy. Also in the enterprise policy the responsibility for implementation is distributed among various administrative branches and regional operators. *Co-ordination between various operators needs to be improved.*

The Ministry of Education stresses in its entrepreneurship policy the need to develop a positive entrepreneurship culture. Studies reveal that the authorities have taken the promotion of entrepreneurship in education seriously. Business organisations are also contributing significantly in promoting entrepreneurship among students. *Promoting entrepreneurship in education is essential, but not a sufficient condition for fostering entrepreneurship. Improving the finance at start-up and growth stages of SMEs, simplification of legislation and regulation, as well as lowering the administrative burden e.g. by further developing on-line public services are some examples of areas that need to be improved.*

The regulatory Impact Assessment of new legislation has improved in recent years. Practices in Finland are moving to the right direction, but much remains to be improved. In preparation of new legislation the consequences should be analysed further and connections to other existing legislation should be studied in more detail. The systematic consulting of interest groups is still often too weak. Also alternatives for new regulations need to be considered more widely.

Development of *on-line public services* is reducing the administrative burden. Already last year some 30 000 enterprises were filing their monthly notifications to the tax administration electronically. Likewise, electronic tax return forms and electronic transfer of data for statistical purposes has been available since 2001. The utilisation of this alternative has grown significantly

in 2002. Tax authorities are extending the scope of electronic tax returns to include general partnerships and limited partnerships as well. Tax authorities are also developing a cost-free system based on Internet for occasional and small employers to taking care of taxes and indirect labour costs starting in 2004. Increasingly also other public authorities are developing their online services e.g. in the field of public procurement and technology project applications. **The development of on-line public services needs to continue in all interaction between the business sector and public authorities.** Finland is still behind other Nordic countries in the use of the Internet in dealing with authorities.

Entrepreneurs in Finland are ageing at an alarming rate. During the next ten years some 50 000 enterprises are confronted with **transfer of business**. In order to help retain the 500 000 jobs provided by these enterprises the **taxation of transfer of business to younger generation needs to be lowered.**



10. RECONCILE SUSTAINABLE DEVELOPMENT AND COMPETITIVENESS

Lisbon objectives:

- Sustainable development strategies in consultation with all interested parties.
- Measures to counter climate change – implementation of Kyoto, renewable energies.
- Adaptation of transport to environmental requirements – social cost, infrastructures, alternatives to road.
- Promotion of natural resources – biodiversity, ecosystem, industrial waste.

■ A Commission chaired by the Prime Minister manages the Finnish programme for sustainable development. The Commission's work is based on broad participation of the stakeholders. In addition to the governmental programmes, Finnish organisations, including TT have their programmes as well.

Because Finland's production structure is raw material and energy intensive, for cost reasons alone industry in Finland has got used to promoting efficient use of energy and raw materials, whilst also reducing emissions and wastes. A national climate change programme was presented in 2001. The programme consists of energy conservation, more use of renewable energy sources and increased production of non-fossil-fuel electricity. The Parliament has given green light for the construction of a new nuclear power station.

Finland is a forerunner in combined heat and power production (CHP) as well as in the use of bio-energy. The use of renewable energies, mainly in the form of biomass, has developed strongly over the last decade, representing now in total a third of all energy used. A majority of the energy intensive industry are partners to a negotiated agreement on energy saving. Finnish industry has also committed itself to meet the ambitious national targets on renewable ener-

gies. In addition business has taken other voluntary measures in the field of sustainable development. Among others the share of certified Environmental Management Systems is one of the highest in the EU.

Recycling of waste has increased, resulting in less land filling. Dedicated waste incineration is minimal in Finland, but co-incineration of source-separated harmless waste has increased slightly. Natural conservation areas, including conservation of forests, have expanded significantly. Sustainable forest management practices are applied also to forests beyond natural conservation areas. Regarding the use of natural resources, Finland has managed to decouple the use of materials from the growth of GDP.

In transport sector the construction of a new railway line to Lahti has been started. It will shorten the connections to eastern Finland and St. Petersburg by some 40 minutes improving considerably the competitiveness of rail transport.

Because striving for sustainable development, e.g. combating climate change and promoting sustainable consumption and production are global in nature the problems cannot be solved unilaterally at a national or EU level but require broad international co-operation.

The functioning of the internal market requires that more emphasis is put on the enforcement of environmental legislation in the Union. The significance of this will increase after the forthcoming enlargement of the EU.

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