



PRIME MINISTER'S OFFICE  
FINLAND



## Government Report on EU Policy 2013



# **Government Report on EU Policy 2013**



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<b>Name of publication</b> Government Report on EU Policy 2013			
<b>Abstract</b> <p>The Government Report on EU Policy 2013 focuses on the benefits and challenges of European integration, lays down guidelines for Finland's EU policy and discusses key development projects intended to foster the Union activities. The report puts forward the proposals on the basis of which Finland will seek to improve the Union, not only for EU citizens but also for European business and working life. Finland is committed to the single currency, strengthening the Economic and Monetary Union and supporting closer integration. The European Union must act in ways that its citizens feel they can support. A stronger, more unified and fairer Union will best serve the interests of Finland and its citizens. Key development areas include efforts with which to ensure respect for the Union's values and rules; strengthen the Economic and Monetary Union; improve competitiveness, growth and employment, and the social dimension; develop a common energy policy; combat climate change; promote the free movement of people; enhance the Union's external actions; and foster enlargement. In future, it will remain important to maintain the Union's unity. The report also examines Finland's EU policy mechanisms, and the ways in which Finland has an influence and promotes its interests within the EU. To attain the established objectives, Finland's existing system of coordinating EU issues must be strengthened by developing the current procedures and making better use of resources.</p>			
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*"At the beginning of this year, Finland became a fully-fledged adult member of the European Union. Now, 18 years since Finland's EU membership referendum, we can justifiably refer to young people as the "E generation". We are European in a very different way to our parents and grandparents. We live within a European culture, and travel, study, work and fall in love on the continent. We participate in European society and politics and want to develop Europe."*

*Young People's Working Group on the Future of the EU 2013*



# INTRODUCTION

The Finnish Government submits a report on Finland's EU policy to Parliament in line with the Government Programme. The previous report – the first during our membership of the EU – was drawn up four years ago. Since then, much has changed. With the Lisbon Treaty, which entered into force in December 2009, integration has deepened and the EU has gained an entire set of new tools. The euro zone has grown by one new Member State. Structural change in the global economy has continued to intensify and the Union's neighbouring regions have undergone major transformations. In the meantime, the first generation of Finns born during the country's EU membership has come of age.

The EU and its future development are now being affected by the economic crisis, the debt crisis afflicting a number of Member States, and mounting unemployment. These crises are also creating ground for EU criticism, dividing Member States into various groupings, and increasing the urge to retreat into protectionism. They have also highlighted the need for financial market reform, greater competitiveness and healthier public finances among Member States, alongside protection of the EU's social stability.

This report is being submitted during a time of transition for the Union – when a great many questions are being posed about its activities and future. The Finnish Government now wishes to respond to these questions.

The first section of this report surveys the benefits and challenges of integration. It lays down guidelines for Finland's EU policy and discusses key development projects intended to foster integration.

The second section puts forward the proposals on the basis of which Finland would seek to improve the Union, not only for EU citizens but also for European business and working life. Key policy areas within the EU provide the focus for this part of the report.

The third section examines Finland's EU policy coordination, and the ways in which Finland has an influence and promotes its interests within the EU. Here, we are concerned with how we might coordinate existing policy positions, involve the Finnish Parliament, engage in dialogue with civil society, and allocate resources to preparatory work. This calls for constructive approaches and pro-active lobbying.

# I EU POLICY GUIDELINES: AIMING FOR A STRONGER, MORE UNIFIED AND FAIRER UNION

The European Union must now answer fundamental questions in many respects. It has become an ever closer union. Individual Member States, including the larger members, have acknowledged that as lone actors they are not able to solve cross-border problems and achieve success against global competition.

On the other hand, the economic crisis has deepened divisions between Member States. Unemployment and social problems have undermined citizens' confidence in the European Union, while the debate on the Union's future has been characterised by increasingly polarised positions. As a result, the alternatives are presented in the form of oversimplified binaries: federalism or fragmentation.

To thrive going forward, the European Union must reform. The key question is as follows: do we want a stronger, more unified actor, or a fragmented Europe of nation states.

Finland's policy in this regard is clear: we support closer integration as long as it can be achieved in a manner that the Member States and citizens find necessary, fair and just. Both economically and socially, the EU must be a balanced community of values. A stronger, more unified and fairer Union would best serve the interests of Finland and its citizens.

## 1 European integration and its significance to Finland and its citizens

Finland and the European Union must continue to reform as the world around them changes. National and EU-level shortcomings must be addressed. While engaging in critical debate, we Finns should remember the major benefits we have gained from our membership of the European Union. Such advantages are often taken for granted. The EU is also blamed for problems whose roots actually lie at national level.

For Finland, the European Union is the most evident political community, whose development fosters Finland's prosperity and security. The positive stance on integration is rooted in our understanding of the advantages it brings to Finland and its citizens. This is much more than an economic cost-benefit

analysis: for Finland, EU membership is a choice based on a particular set of values and politics.

EU membership has bolstered Finland's position, firmly anchoring the country within the European community of values. Membership provides Finland with a level of influence over cross-border issues way beyond anything achievable as a lone actor.

Globalisation has created a high level of mutual interdependence. Most of our 21st century challenges must therefore be met with cross-border measures. We must act together – we need common rules, their implementation and common institutions to be able to ensure effective measures and create confidence.

For citizens, European integration is most directly experienced through the implementation of the EU's four freedoms. This is manifested most notably in the Europeans' freedom to move, work, live and study freely throughout the Union. Younger Finns raised during our EU membership take these freedoms for granted.

The European Union remains the world's most important economic area, despite its current challenges. In response to the economic crisis, Member States are pushing ahead with structural changes that will strengthen Europe's economy and global competitiveness.

In everything it does, the EU must acknowledge the continuous change occurring in the global economy. In the face of global competition, regional EU integration and balanced development are improving the position of Finland and other Member States.

The European internal market offers Finnish businesses unrestricted access to the world's largest economic area. As an export-driven economy, Finland has benefited hugely from the internal market, in terms of prosperity and employment. To ordinary consumers, free movement of goods and services means lower prices and a greater variety of products.

For Finland, the single currency – the euro – has guaranteed currency, interest rate and price stability. Gone are the days characterised by a vicious circle of devaluations and inflation. Elimination of exchange-rate risk has provided Finnish companies with a competitive edge promoting growth and employment. In addition, all EU Member States have benefited from the strong role played by the euro in the international monetary system.

As economic well-being continues to advance in regions such as Asia, the liberalisation of world trade and investments is becoming increasingly important to Finland. The EU's common trade policy has opened up new markets for Finnish companies and brought significant benefits for Finland. The European Commission states that realising the existing EU trade agenda alone could create two million new jobs in Europe.

The European Union is a leader in environmental and climate protection. It is a question of taking responsibility and implementing sustainable policies. By leading the way, we can create opportunities for a new, green economy.

Integration is also enhancing the protection of citizens' fundamental rights at EU level. Member States and institutions are committed to respecting and promoting fundamental rights and freedoms. Due to the social and societal problems caused by the economic crisis, questions about the internal stability of Member States and compliance with the rule of law have gained greater urgency. The European Union must therefore continue to ensure that social unrest in Member States does not undermine democracy.

The Union fosters its social dimension by preventing exclusion and discrimination; promoting social protection, minimum standards and gender equality in working life; and fostering other fundamental social rights and forms of labour market development. The European Social Fund promotes employment.

The Nordic way, based on combining market economy and competitiveness with a social safety network and effective public services, sets a good benchmark at European level. While significant differences remain between Member States and various regions, efforts are being made to narrow these gaps by harmonising legislation and allocating common cohesion funds.

The EU plays a key role in promoting comprehensive security in Europe. By acting jointly to combat cross-border crime and terrorism, and to manage border security and migration flows, Member States are creating true added value. The Common Agricultural Policy secures agricultural production and the supply of safe food in all areas of the Union, while attending to the environmental aspects of sustainable production. Common union-wide policies have become increasingly important to safeguarding the supply of moderately priced energy.

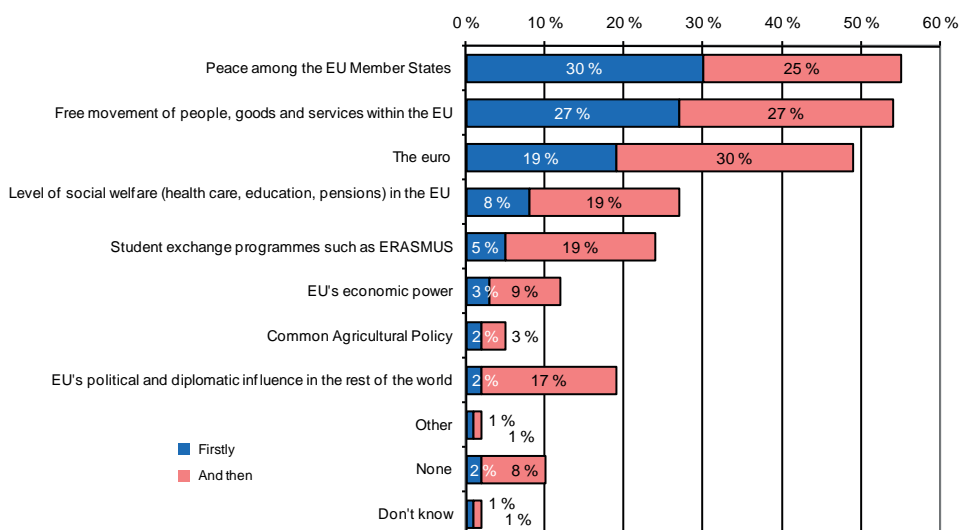
European integration rests also on solidarity. The EU's security policy solidarity is manifested in the mutual assistance obligation and solidarity clause, which

may be applied in case of major disasters or in response to terrorist attacks. Cohesion policy and structural funds provide support to the less developed countries and areas and to those countries and areas that suffer from permanently unfavourable conditions. Over the recent years, arrangements for granting aid in the form of loans have also been set up in the euro area to help those Member States that are in economic trouble and to ensure the financial stability of the euro area.

For today's Finns, peace, social stability and security are a self-evident fact of life. Although nearly 70 years have passed since the Second World War, the imperative of maintaining a lasting peace still shapes the integration policy of founding members such as Germany and France. On the other hand, not all parts of Europe view war as something confined to the history books: in 1999 – when Finland was preparing for its first EU Presidency – Kosovo was still being ravaged by armed conflict.

EU enlargement has been a key factor in increasing Europe's political and social stability. Greece, Spain and Portugal were able to join the European Community in the 1980s, after breaking with their undemocratic pasts. The end of the Cold War enabled countries liberated from their undemocratic systems – the Baltic

**Which of the following do Finnish people think are the most positive results of the EU? (%)**



**Figure 1: EU's greatest achievements according to Finns**

(Source: European Commission's Eurobarometer: public opinion in the EU, autumn 2012)

States, and Eastern European and Balkan countries – to seek membership of the European Union. The membership process itself encourages countries to remain on the path to democracy, respect for fundamental rights and the rule of law – Turkey and the Western Balkans are examples of this. Without our enlarged European Union, Europe would look decidedly different today.

The European Union's external influence reaches outwards both east and southwards, enhancing stability across its wider neighbourhood. Tools ranging from trade and economic cooperation, to development aid, diplomacy and crisis management, serve to prevent conflicts, stabilise societies, safeguard human rights, eliminate poverty and promote development in various parts of the world. A lasting peace, socially just and sustainable development and greater international security are the aims in all of these actions. In this way, the European Union safeguards Europe's interests globally, while fostering the position and future success of Finns.

## 2 Europe's challenges

The European Union has been the most successful peace project in history. It has given Europe prosperity and political stability. However, its legitimacy cannot rest only on past achievements. The European Union must provide new solutions, to the new challenges it faces today.

As the current economic and financial crisis has fragmented opinion among Member States and fuelled criticism of European integration at citizen level, it has also weakened the commitment to European integration in some Member States. In the UK, there are proposals for an in/out referendum on EU membership. The crisis has also led to speculation that some countries might leave the euro.

Citizens' main concerns relate to the uncertainty, unemployment and social problems generated by the economic crisis. The EU's key objective now is to build a basis for the creation of new jobs in place of those that have been lost. Growth, employment and social justice are a prerequisite for well-being in Europe.

The recent financial, economic and debt crises stem not only from Member States' own policies and neglect of the common rules, but also from dysfunctional financial markets. At the same time, the EU and Economic and Monetary Union are chiefly to blame for their lack of preparedness for an economic or banking crisis, inadequate rules and inability to ensure compliance.



In some Member States, challenges to the rule of law and human and fundamental rights as well as corruption and tax evasion are undermining the Union's common rules.

The Union is also expected to meet the challenge posed by climate change and to take strong action to defuse the political turmoil just beyond its southern frontiers.

### 3 Development of integration in the near future

As a dynamic and proactive Member State, Finland wishes to promote a fair and just European Union.

In terms of fairness, it is essential that the European Union respects its own values and rules. The EU is now much more than a free trade area and economic community. It is a community of shared values. However, if not based on a strong commitment to comply with common rules, such a community cannot be viewed as resting on firm ground.

The pooling of sovereignty with other Member States calls for mutual trust: the EU's activities rest on the principle of sincere cooperation.

Deeper integration requires decision-making on a more open, democratic basis. As Member States commit themselves to closer integration, they must also ensure that national measures are consistent with the common rules and objectives. There is a need for more Europe and at the same time more national responsibility.

European integration must be fostered, wherever acting jointly will create added value or bolster the EU's influence elsewhere in the world. At the same time, there must be respect for the principle of subsidiarity; the Union must refrain from regulation when the objectives could be equally well or better achieved at national level.

Fair and just integration would mean a European Union that acts in ways that its citizens feel they can support. This will be crucial to ensuring the EU's democratic legitimacy.

In many EU policy areas, it is in Finland's interest that European integration be deepened. At this stage, integration should be deepened within the framework of existing Treaties. In Finland's view, reforming the EU's structures is not

necessary at present, but discussion should continue on the need and preparation for Treaty changes.

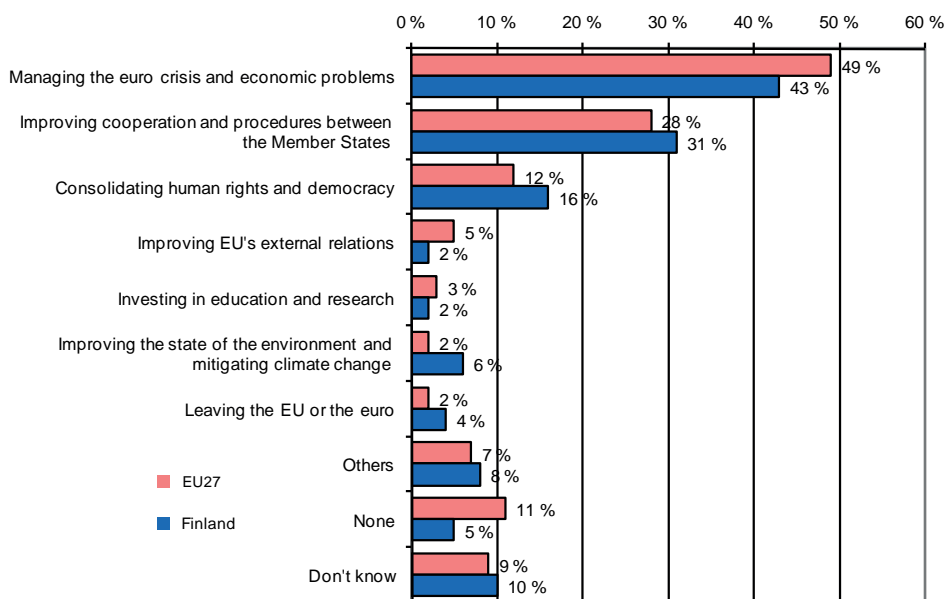
Finland is committed to the single currency and strengthening the Economic and Monetary Union. Membership of the Economic and Monetary union is politically important to Finland and has provided us with a say in issues that we consider significant.

Finland believes that key integration development projects over the coming years should aim to:

- improve competitiveness, growth and employment in all Member States
- address unemployment and other social problems through EU policies in support of national-level measures. This could be done by targeting EU funds from the EU budget to areas of high youth unemployment
- implement the new provisions on Member States' public finances, especially those promoting stable fiscal policy
- finalise the banking union, to ensure that owners and investors, rather than tax payers, bear the consequences of bank crises
- complete the internal market, particularly the digital single market, and promote the liberalisation of trade and investment through a common trade policy, taking due account of the position of consumers
- develop the European welfare model towards that of the Nordic countries
- improve working life with reforms addressing labour protection, restructuring protection, equality, minimum standards for working life, and the position of posted workers
- develop a common energy policy, particularly through the means provided by the internal energy market and coherent external energy relations
- prevent global warming through progressive regulation and by having a global influence, while ensuring that European businesses remain competitive, and without distorting competition within the EU
- establish more effective procedures for guaranteeing respect for the rule of law and human and fundamental rights

- root out corruption within the European Union, provide new means of preventing tax evasion and eradicate tax havens
- promote the free movement of persons within the EU, in such a way that citizens' rights and security are also guaranteed
- continue developing the Union's border control, to enable smoothly functioning border checks
- ensure the coherence, comprehensiveness and consistency of the EU's external actions
- enhance the EU's common security and defence policy, in a manner that provides a means of assisting Member States faced with a growing shortage of resources, and strengthen the Union's crisis management capabilities
- actively promote the enlargement process
- maintain the Union's unity while considering the diverse situations of Member States

#### What do Europeans expect from the European Union (answers to the open question)?



**Figure 2: Citizens' expectations of the EU**

(Source: European Commission's Eurobarometer: public opinion in the EU, autumn 2012)

## 4 Vision for the future

In addition to short and medium-term development, we must also form plans to address our long-term challenges and needs related to integration, all the way to 2050.

Changes in the structure of the global economy will continue. According to the worst scenario offered in a Commission report, by 2050 the current Member States of the European Union will account for 15% of the world's GNI (at the moment the figure is approximately 25%). An ageing population and deteriorating dependency ratio will only exacerbate this situation.

Climate change, environmental problems, depletion of energy and raw material resources, and population growth may generate unprecedented global problems. Wars and other armed conflicts, proliferation of nuclear weapons, public unrest and uncontrolled migratory flows will pose a continuous, perhaps growing threat.

Finland is ready to move forward in developing the European Union so that, as the world changes, those policy sectors that are handled most effectively and appropriately at European level would either fall within the Union's exclusive competence or be subject to effective coordination and harmonisation of national level measures.

If global development continues along its current lines, completion of the EU's internal market and the negotiation of comprehensive free trade agreements with key partners will only become more important. Such achievements will enable the development of traditional and service industries in the face of global competition. The strengthening of economic policy coordination must be based on the existing division of competences so as not to obscure the division of responsibilities between the various actors. With the intensifying global competition, increased attention should be placed on coordination measures that strengthen the Member States' potential for growth and competitiveness. The common foreign and security policy should also be more clearly based on the community method.

If we are to deepen European integration markedly, while retaining the support of the EU's citizens, we must also strengthen the democratic legitimacy of the Union's decision-making, while ensuring openness and transparency, and providing citizens with opportunities to influence and participate.

## II FURTHER INTEGRATION

### 5 Common values as a basis for closer integration

European integration is founded on a **common value base** which is not be compromised. As defined in the Treaties establishing the European Union, its fundamental values are respect for human dignity, freedom, democracy, equality, rule of law and respect for human rights, including rights of persons belonging to minorities. These values are common to the Member States in a society characterised by a plurality of values, non-discrimination, tolerance, justice, solidarity and equality between women and men. An integral part of the EU's common values are also fundamental social rights, such as the right to employment and the right to exercise a profession.

Over of the past few years, developments that are not in line with the common values have taken place in individual Member States. Disregard for the principles of rule of law, violations of fundamental and human rights and discrimination of minorities have no place within the European Union. Efficient measures, supervision and, if necessary, sanctions are called for at the EU level to restore acceptable conditions.

Steps must be taken to ensure respect for the **rule of law** throughout the Union, which is also to be reflected in the daily lives of the citizens. While compliance with the principles of rule of law and fundamental and human rights are assessed in accession negotiations and reforms undertaken in certain countries have been monitored after accession, no monitoring covering all Member States is exercised.

Therefore, a permanent method of regular monitoring encompassing all Member States needs to be put in place to ensure the monitoring and supervision of compliance with the common values, such as the rule of law. Such a system would permit the prevention of problems and early intervention. A key role in this would be played by the Commission. Efficient use should be made of the existing tools and instruments, such as the Commission reports on the application of the Charter of Fundamental Rights and the reports prepared by the European Fundamental Rights Agency. Similarly, the expertise and resources of the Council of Europe, more precisely those of the Venice Commission experts in constitutional law, as well as other international organisations should be drawn upon in order to avoid a duplication of efforts. When there is a risk of a breach by a Member State of the Union's common

values, recommendations could be issued and peer pressure exercised on the country concerned.

Such a monitoring system could be created within the framework of the existing Treaties. The Treaties stipulate far-reaching sanctions only when a Member State breaches seriously and persistently the common values on which the EU rests. If this threshold were to be lowered, it would be necessary to amend the Treaties.

Reinforcement of the EU's **fundamental rights**, including fundamental social rights, would boost confidence in the EU's actions among the citizens and strengthen mutual trust between the Member States' legal systems. The fundamental rights must be taken into account in all the activities of the European Union. The Commission, Council and the European Parliament must verify compliance of all proposals and legal acts with the EU Charter of Fundamental Rights. To ensure that the rights and principles contained in the EU Charter of Fundamental rights are duly implemented in practice, the Member States must respect them whenever applying EU law. At the same time, the fundamental rights have more wide-ranging implications for the development of EU politics and operations. The European Court of Justice plays a central role in overseeing compliance with the fundamental rights. Moreover, the strong position of the European Fundamental Rights Agency and accession of the EU to the European Convention on Human Rights as quickly and extensively as possible will contribute to the realisation of the fundamental rights dimension.

Special efforts are called for to enforce the rights of vulnerable groups of people, such as children, the disabled and the minorities. The Directive regarding equal treatment outside the labour market must be adopted to ensure a minimum level of protection from discrimination for all people in different areas of life. The EU's common strategies and action plans – such as the strategy for the integration of Roma, the strategy for the disabled, and the action plan on children's rights – are important tools in promoting fundamental rights.

In the EU Treaties, the Member States have agreed on a **common statutory basis** for the EU's activities. It is this statutory basis and the general legal principles that provide the foundation for the Union's legislation and decisions. The Member States are committed to the EU Treaties and other EU law.

The European Commission plays a key role in controlling compliance with EU legislation. For example, in connection with the development of the EMU, the Commission was assigned new supervisory duties that need to be executed

efficiently and responsibly. To ensure compliance with jointly agreed rules, the Commission must make full use of the tools provided for the supervision of the implementation and application of EU laws. In exercising its prerogative to conduct infringement procedures, the Commission must intervene more consistently when there are repeated infringements by a Member State. At the same time, more attention should be paid to the administrative and structural shortcomings underlying such infractions.

The European Court of Justice ensures that EU law is applied and interpreted uniformly. The Court must be guaranteed adequate resources. Many of its rulings have significant implications for the Union's development. Therefore, court cases should be perceived as an important tool for influencing EU policies.

Shadow economy, corruption, tax evasion and organised crime erode the citizens' confidence in the Union and its Member States. Not limited to the territory of individual Member States, their impact is reflected across the Union and its external activities, undermining the Union's credibility and capacity to act. Moreover, these phenomena infringe upon the rights and interests of the citizens. With the economic and debt crisis, the problems have only been aggravated.

The EU's anti-corruption reporting mechanism and the measures adopted to combat tax evasion and aggressive tax planning provide a sound basis for efforts to improve the situation. These projects contribute to the realisation of citizen's rights and improve the general conditions for business and civil society, while at the same time underpinning the credibility of the Union's external action, including its human rights policy.

**Corruption** is a serious global problem. According to the Commission's estimate, a total of EUR 120 billion is lost due to corruption within the European Union every year, equivalent to one per cent of the EU's GDP and as much as its annual budget.

While international and EU-level regulations are in place to fight corruption, efforts must be made to improve the efficiency of enforcement and monitoring. To achieve this, EU-wide commitment by the Member States and companies is called for. Peer learning between the Member States and the exchange of best practices should be encouraged and awareness increased of corruption and its adverse effects on society, the economy and public confidence in the decision makers and authorities. One of the tools for this purpose is provided by the EU's anti-corruption reporting mechanism which should be put to full use.

Corruption must be addressed both in public administration and in the private sector. Openness, independence and good governance are instrumental in combating corruption. Openness should translate into a genuine transparency of decision making. An active civil society and independent media play an important role in exposing incidents of corruption.

Corruption and bribery reflect problems related to the market economy and inefficiency of competition and so interfere with the functioning of the internal market. Preventing corruption also calls for in-house efforts on the part of companies to alter the corporate culture. Examples of this include self-regulation, ethical codes of conduct and proper guidelines. Combating corruption is also aided by whistle-blowing mechanisms put in place by companies and the public sector.

Corruption affects many policy sectors and thus action to fight it is needed in several areas. Often, corruption has cross-border effects and may be linked to international organised crime and money laundering. More efficient use must be made of Europol and Eurojust by increasing cooperation and the exchange of information between the authorities, Member States and agencies.

The prevention of corruption should also be a priority in the EU's external relations in trade, neighbourhood and development policies. Because of the interdependence of economies, efficient anti-corruption measures call for international cooperation with partners such as the Council of Europe, the UN, the World Bank Group and the OECD.

Globalisation and the increased mutual dependence of economies have brought pressures to address **tax evasion and tax havens**. The Commission estimates that EU countries lose around EUR 1,000 billion per year as a result of tax fraud and evasion. Acting alone, states are unable to prevent the tax evasion and aggressive tax planning associated with international operations. Intensified efforts are required at the EU level and internationally while cooperation with the OECD, G20 and the World Bank Group in particular needs to be increased.

Aside from tax fraud and evasion, individuals and companies take advantage of the differences between tax regimes for aggressive tax planning purposes. This erodes the effectiveness of the tax rules, leads to loss of tax revenues and undermines public finances.

Prompt action is required to address the problems of tax evasion and tax havens within the EU. Increased openness is essential. For cross-border state



controls to be effective, closer cooperation and the exchange of information between the various actors and further development of common regulation are called for. Unanimity is still required for EU-level decision making in tax matters, which has slowed down progress for its part.

Concrete steps to combat international tax evasion include stricter enforcement of the national reporting obligation, and the introduction of a joint harmonised corporate tax rate. The relaxation of strict bank secrecy as well as the disclosure of ownership and corporate registration records are essential to any efficient exchange of information on a practical level. International conventions are also needed to secure access to the information held by banks outside the EU.

One important step is to create a system for the automatic exchange of tax data. Additionally, compliance with tax regulations can be improved by introducing minimum standards for good governance in the realm of taxes. At the same time, ways should be found to address aggressive tax planning in situations where tax payers take advantage of the differences between national regulations and systems. In such cases, the Member States should look into their tax conventions in an attempt to avoid zero taxation, for example.

International tax cooperation should also be carried out within the framework of development policy by assisting developing countries in establishing tax regimes designed to raise more tax revenues from companies exploiting local resources.

## 6 A democratic and legitimate EU

The European Union is based on representative democracy. The **cornerstones** of the Union are equality between Member States, equal rights and obligations, compliance with the Treaties and EU law, and institutional balance.

A mode of operation based on the Community method remains the best way of guaranteeing stability and balance as well as democracy in the Union's decision making. Under this system, the European Commission has the sole right of initiative, whereas the European Parliament together with the Council act as the legislator and budgetary authority. The Council makes decisions by qualified majority unless otherwise decreed. Finland has supported the extension of decision making by qualified majority. Democratic, open and efficient institutions are part of the Union's legitimacy.

The objectives underlying the Treaty of Lisbon effective from 2009 – improved efficiency, openness, democracy and institutional balance – should be further promoted. The limits of the competences of the institutions specified in the Treaties must be respected and mutual trust and cooperation between the institutions further reinforced.

The **European Council's** current role with a permanent President improves continuity and organisation to the proceedings of the heads of state and government. Above all, the European Council should focus on strategic policies and the promotion of the various policy sectors, not on the legislative duties entrusted to the European Parliament and the Council. Cooperation and coordination between the President of the European Council and the Member State holding the presidency of the Council should be smooth and efficient. The preparations for the meetings of the European Council and eurozone summits should be improved to ensure a high standard of preparatory work at national level. This ensures that the Finnish Parliament is duly involved in the formulation of Finland's positions as foreseen by the Constitution.

An autonomous, independent and efficient **European Commission** is the cornerstone of efficient Union action. The Commission should exercise its right of initiative actively with due regard to the principles of subsidiarity and proportionality, and prepare the legislative proposals with due care by consulting the Member States, engaging in a dialogue with the civil society and stakeholder groups and carefully evaluating the impacts of the proposals. Additionally, the overall implications of the individual initiatives for the various actors should be coordinated and taken into account, for example in the cooperation between Directorate-Generals. This ensures that the EU regulations are perceived well-founded and the legitimacy of the EU's actions enhanced.

The **European Parliament**, which currently exercises far greater powers than before, is to be a responsible and constructive actor committed to a high standard of quality of the legislation. In the eyes of the citizens, the legitimacy of the Parliament elected by direct universal suffrage is based on the content of its action and the citizens' ability to understand what it does. The Parliament's legitimacy would be further enhanced if there were a single seat for plenary sessions, a view adopted by the Parliament itself.

In the **Council**, the Member States should explore constructive solutions, weighing the interests of the EU as a whole when staking out their positions.

The Union's **legitimacy** is based on its democratic values and objectives as well as the authority and powers it exercises and the results it achieves. Democracy

in the Union is founded on representation, openness, good governance and better regulation, Union citizenship, and citizens' participation in decision making including citizens' initiatives.

In the view of the citizens, dissatisfaction with the actions of the EU and Member States has increased, particularly as a result of growing unemployment and poverty. Moreover, many of the measures foreseen in the Treaty of Lisbon designed to improve the legitimacy of the Union are still in progress in many respects. A necessary prerequisite for the advancement of integration is to further reinforce the legitimacy of the Union's actions by increasing democracy. A further priority in the efforts to develop the Union is to prevent growing inequality.

The legitimacy and responsibility of the EU's activities can be guaranteed in various ways. How this is done depends on the policy sector in question and the distribution of competence between the Member States and the EU institutions.

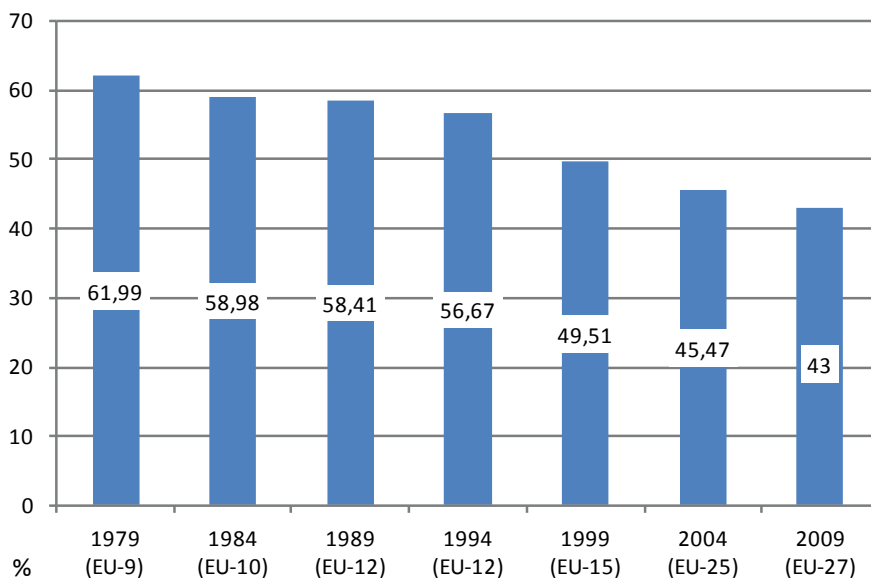
The EU's democratic system is founded on dual **representation**: on the one hand, the European Parliament elected by direct universal suffrage, and on the other, the Council in which national governments – and hence indirectly national parliaments – are represented.

The citizens have a say in EU politics in the elections to the **European Parliament** and in national elections as well as through the right of citizens' initiative. The legitimacy of the European Parliament and the democratic nature of the elections to the Parliament can be reinforced by engaging in an EU-wide political debate and encouraging people to vote in the elections. To improve the voter turnout in 2014, the European elections have been rescheduled to take place earlier in May.

The European political parties and political groups play a major role in the EU's decision making, especially now that the position of the European Parliament has been strengthened. Campaigning by the European political parties underlines the pan-European nature of the elections to the European Parliament.

Steps should also be taken to reinforce democratic legitimacy and accountability as part of the efforts to develop the EMU, both in terms of the adoption and implementation of the decisions. An important aspect of reinforcing legitimacy and accountability is to intensify mutual cooperation between national parliaments as well as with the European Parliament.

### Turnout at the European elections 1979–2009



**Figure 3: Turnout at the European Elections 1979–2009**  
(Source: European Parliament)

				%
	Greens / EFA		Green League	98.83
	S & D		Social Democratic Party of Finland	98.57
	EPP		National Coalition Party	95.64
	ALDE		Swedish People's Party of Finland	95.16
	ALDE		Centre Party	93.72
	EPP		Christian Democrats	83.31
	EFD		True Finns	64.62

**Figure 4: Loyalty of Finnish MEPs to their political groups 14.7.2009–29.5.2013**  
ALDE: Alliance of Liberals and Democrats for Europe, EFA: European Free Alliance, EFD: Europe of Freedom and Democracy, EPP: European People's Party, S & D: Progressive Alliance of Socialists and Democrats  
(Source: Votewatch.eu)

Enhanced participation by **national parliaments** in preparing EU issues will add a sense of ownership and accountability. As institutions monitoring compliance with the principle of subsidiarity, national parliaments can communicate their position on legislative proposals directly to the Commission.

Calls for strengthening the position of national parliaments in handling EU matters have intensified, particularly in the eurozone countries at the same time as the understandability and acceptability of the decisions related to debt crisis management has been questioned. Strengthening the position of national parliaments is also important in terms of making decisions clearer and increasing positive reception by the public at large. Also, the European Council has urged the Member States to ensure that the national parliaments are duly involved in addressing the issues at a national level.

Although the national parliaments of most Member States do participate in the handling of EU affairs at national level, only few of them are fully involved in the process like the Finnish Parliament. Its participation in the preparation of EU affairs is guaranteed by the Constitution.

The Finnish system also gives due consideration to the special autonomous position of the Åland Islands by ensuring that the Åland authorities can take part in the coordination of EU affairs at the national level and in the subsidiarity control of proposed EU regulations exercised by national parliaments.

**Openness** contributes to a positive perception of the Union. Further steps need to be taken to increase openness and civil engagement in accordance with the objectives of the Treaty of Lisbon, for example in the area of access to documents.

**Good governance** must be promoted both at the EU and national levels to offer citizens and companies better means to ensure that their rights are honoured in practice. The Commission is expected to put forward a proposal that will guarantee consistent application of this principle in EU institutions and agencies.

The **clarity and efficiency of EU regulations** are important to enforcement and compliance. EU legislation must address relevant issues and be truly appropriate and acceptable. At the same time, the legislative process should refrain from regulation when the objectives can be achieved equally well or better at national level.

The question on whether to **amend the Treaties** has again surfaced in connection with the development of the EMU and, more recently, the demands for repatriation of powers by the United Kingdom. Ideas for long-term objectives have also been put forward by the Commission and the President of the European Council as well as the political leaders of certain Member States.

Proposals for the development of the Economic and Monetary Union concerning eurobonds, the redemption fund and common eurozone fiscal capacity and the EMU's management ('Ministry of Finance') would require amendments to the Treaties. From the Finnish point of view, such amendments signifying increased joint liability are not necessary or preferable in the efforts to develop the EMU, at least not for the time being. Guidance given by the European Council has not included such proposals for reform. Usually reforms implemented through Treaty amendments are not the most appropriate line of action in addressing crises.

As far as the development of the EMU is concerned, the Treaties provide an adequate range of options for tackling the crisis. However, a specific amendment was made in 2012 to the Treaties (Article 136 of the Treaty on the Functioning of the Union) in order to ensure the establishment of the European Stability Mechanism (ESM). Potential needs for a Treaty change will also be explored in order to achieve more efficient banking supervision. Moreover, the incorporation of the Fiscal Compact into the Treaties will be assessed in 2018, if not earlier.

So far, the proposals for a political union have been fairly general and a clear shared perception of the objectives of such a union is still lacking. Among the ideas put forward is the reinforcement of the political position of the European Parliament ('bicameral parliament') and the election of the President of the Commission by popular vote. From the Finnish point of view, amendments affecting the institutional balance or the equality between Member States are not something that should be pursued.

Any revision of the Treaties with the aim of **redefining competences** and the ambitions of individual Member States to gain extensive exemptions from the common rules would compromise the very basis of integration. Moreover, a thorough perusal of the existing rules in order to annul individual regulations or directives would be a heavy process and one that would drain resources from other efforts to develop the Union.

The European integration is an on-going process and, as such, it also calls for the revision and amendment of the Treaties from time to time. However,

it appears that currently there is no broad-based will to amend the Treaties. The efforts to develop the EU will be continued by making efficient use of the possibilities offered by the existing Treaties and the simplified procedures provided by the Treaty of Lisbon for the purpose of improving decision making within the EU.

When future amendments to the Treaties are considered and – more importantly – prepared, special care must be taken to assess what amendments are actually needed, what depth of integration is desirable and what the timing would be. At the same time, it is important to ensure that such changes are duly justified in the eyes of the citizens.

## 7 A unified Union

In the 2010s, the European Union has become increasingly diversified and its activities have extended into new areas. The Union has enlarged and its powers have been widened. For these reasons and the problems associated with the Economic and Monetary Union, **differentiated integration** – closer cooperation between only some of the Member States – is more and more frequently chosen as the preferred way forward. Several models exist for differentiated integration.

Prime examples of sectoral cooperation between a limited group of Member States based on the Treaties are the euro and Schengen. This type of cooperation is open by nature and its ultimate goal is to get all the Member States involved.

Another model is to opt out. When amendments have been made to the Treaties, some Member States have chosen not to participate in cooperation in certain policy sectors. Examples of this include the opt-out and opt-in models applied by the United Kingdom and Denmark, among others.

A third option is the enhanced cooperation or the permanent structured cooperation defined in the Treaties. Enhanced cooperation is a means of a last resort to move ahead in areas other than those falling within the exclusive competence of the Union provided that the scheme is supported by a minimum of nine Member States. Such enhanced cooperation may not interfere with the internal market or distort competition. So far, enhanced cooperation has been invoked in three cases (divorce, patents, and the financial transaction tax). The reasons given for resorting to enhanced cooperation were very different in all the three cases.

According to the Treaty of Lisbon, Member States with military capabilities fulfilling higher criteria that have given mutual commitments with a view to the most demanding missions may engage in permanent structured cooperation. Finland supports closer EU cooperation in defence. At present, defence cooperation advances without any permanent structured cooperation in the form of pooling and sharing of capabilities.

The economic crisis has also led to cooperating partly outside the Union structures. Examples of this include the European Stability Mechanism, the Europlus Pact and the fiscal compact including only some of the Member States.

Cooperation between a limited number of countries usually reflects difficulties in finding solutions in a wider group, perceived excessive speed of progress, or the unwillingness of a Member State to commit to common goals. Differentiated integration cases demonstrate that under certain circumstances integration can be deepened when only some of the Member States are engaged - at least initially. However, the premise should be that the Union is developed in ways that preserve unity whenever possible. For example, no unnecessary gap must be allowed to develop between the eurozone and other Member States.

Differentiated integration must primarily be realised within the EU structures in accordance with the common rules. This guarantees that cooperation proceeds with open doors without excluding any Member States, while ensuring that the EU's common institutional framework or external integrity is not jeopardised. Other options should be considered only under exceptional circumstances.

For the sake of Finland's own influence, it is important to be involved in all essential cooperation, but differentiated integration projects will be evaluated on a case-by-case basis. The policy is to participate in key differentiated integration projects when it is in Finland's best interest.

The debate on the **repatriation of powers** has been going on since the early 2000s. The loudest advocate is the United Kingdom, which has recently launched a comprehensive audit of European Union powers.

Re-evaluating powers with a view to repatriation is not topical. The Union operates within the framework established by the Treaties in order to achieve the objectives determined in those Treaties with due regard to the principles of proportionality and subsidiarity. When making proposals in the future, the Commission should pay more attention to the application of these principles. Additionally, the Commission could exercise its powers by proposing changes to the existing legislation including repeal of it as long as the Union's ultimate



objectives are not jeopardised. This would be appropriate in situations where the circumstances have radically changed, the legislation become outdated or when it is no longer felt to be relevant. During Finland's EU membership, the Government and Parliament have evaluated the Union's powers and the need to expand these powers when preparing for Treaty changes and intergovernmental conferences.

## 8 A sustainable economic and monetary union

The economic and financial crisis has demonstrated how important it is for the EU and, in particular, eurozone Member States to abide by the jointly adopted rules and principles in good times as well as bad. The biggest mistakes in the eurozone were made during the good times preceding the crisis before overall macroeconomic surveillance was incorporated into the coordination framework of the economic and monetary union. The same applies to bank supervision and regulation that are now being reinforced in the context of the banking union.

Failures in compliance and surveillance of commonly agreed rules were made possible by political mistakes, which led to and aggravated the crisis. The reforms in the area of economic policy coordination, as well as the reforms to be carried out in connection with the banking union, will be instrumental in addressing the flaws afflicting the efficient operation of the economic and monetary union. What is decisive is that the reforms already made to multilateral surveillance are implemented effectively. At the same time, a number of steps have been taken at the national level, as part of the budgetary framework directive, to strengthen the economic and monetary union.

The crisis has triggered extensive reforms to reinforce the Economic and Monetary Union. The most important of these reforms already made or being prepared are related to the fiscal policies of the Member States, improvements to the economic policy coordination, and the establishment of the banking union. At the same time, special measures have been taken to avert acute crises in the Member States. If effectively implemented on a broad front, these actions will create the necessary preconditions for recovering from the current crises and offer a sound basis for the sustainable operation of the Economic and Monetary Union in the long term. An essential element of success is that the Member States truly commit to the common rules.

The **budgetary discipline** of the Member States has been reinforced to ensure that the objectives related to budgetary balance and reduction of debt

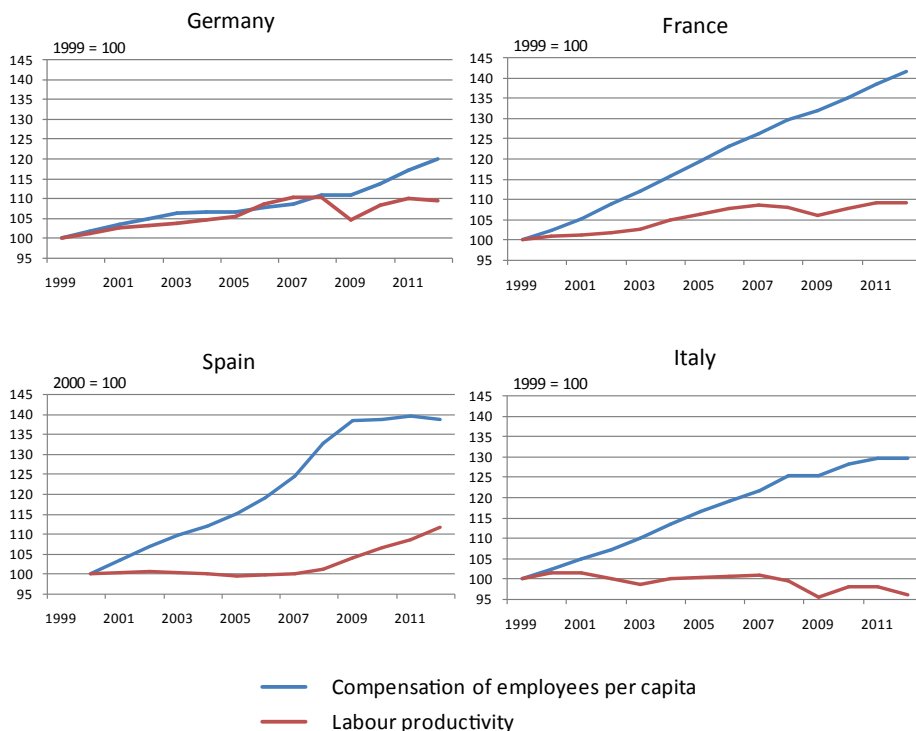
as defined in the Treaties will be achieved more effectively in the future. What needs to be done right now is to rigorously enforce the new fiscal policy rules and mechanisms both at the Union and national levels. Without amendments to the Treaties, it will be difficult to go beyond the present level in monitoring and evaluation of national budgets because stricter rules would most likely require the transfer of further powers from the Member States to the Union.

The crisis has lent credence to the viewpoint that, in addition to monitoring public finances, it is important to focus on the **overall macroeconomic balance** in the Member States because the crisis was allowed to come to a head in several Member States despite a reasonable state of public finances (figure 5). The new legislation allows the Union to monitor macro-economic imbalances more systematically than in the past by making full use of the new procedure and the sanctions foreseen in it.

To provide for improved **coordination of economic policy**, the Commission has – as requested by the European Council in December 2012 – put forward ideas regarding advance coordination of major economic policy reforms that have significant cross-border implications for other Member States. This ex-ante coordination should be carried out in such a way that the democratically elected institutions of the Member States and the civil society will not be bypassed in the preparation, adoption and implementation of the reforms.

Additionally, the Commission has made a proposal for greater commitment to essential structural reforms on the part of the Member States. The proposal could also be accompanied by financial aid conducive to reforms. At this point, it is vital to focus on the efficient implementation of the instruments designed to steer the structural reforms already agreed upon, and to avoid duplication of arrangements liable to undermine national ownership of the reforms and postpone the necessary measures. Any financial aid should primarily draw upon the existing sources of funding, such as the structural funds, within the limits imposed by the multiannual financial framework.

The strengthened economic policy coordination system is complicated. Therefore, future measures should primarily seek to create added value, streamline the existing procedures and instruments, promote the exchange of best practices, and evaluate the social implications across the board. All coordination efforts should focus on reforms that truly contribute to the competitiveness, growth, employment and social sustainability of the Member States, and thus the stability of the entire eurozone.



**Figure 5: Development of wages and productivity**  
(Source: ECB)

To encourage a lasting commitment by the Member States, due consideration should be given to national circumstances – such as the role played by labour market organisations – and democratic procedures, while at the same time considering the effects on other policy sectors. This will help avoid misunderstandings that reforms would be undertaken ‘at Brussels’ insistence’. The Commission should exercise its powers fully yet equitably and encourage the exchange of best practices between the Member States. Political peer pressure among the Member States is also of great significance.

However, ultimate responsibility for fiscal policy and structural reforms will continue to rest with the Member States, an important consideration in terms of ownership and the principle of subsidiarity. National latitude in fiscal and economic policies shrinks in countries experiencing difficulties in looking after their own economies and raising financing from the markets at affordable terms. Thus, political and market pressure creates incentives for the pursuit of a sustainable economic policy.

As a result of the current crisis, there is now greater understanding of the importance of supervision and resolution of the banking crises in order to avoid systemic crises. Underlying these developments is the highly advanced integration of the financial markets, which entails Europe-wide supervision and regulation. Brisk progress needs to be made in establishing the **banking union**. The Commission's proposal for a Single Resolution Mechanism (SRM) should be processed during the current electoral period. No measures are currently under way to introduce an EU-wide deposit guarantee; instead, the efforts focus on harmonising the national deposit guarantee systems.

An efficient banking union would prevent new bank crises, help manage their consequences and make a clear distinction between the banking sector and government, while at same time mitigating the pressures that public finances are subjected to. The establishment of the banking union must not lead to the moral hazard of actors assuming greater risks because the bill will be footed by others. An efficient banking union requires that the resolution of banking crises is based on broad investor liability (bail in) and due protection of the taxpayers. Additionally, it is important to ensure that the regulatory duties to be assumed by the European Central Bank remain independent from its monetary policy and to seek to integrate the Member States outside the euro zone into the new systems.

In addition to the Single Supervision Mechanism and a Single Resolution Mechanism, the Union would need a credible fiscal backstop for covering the cost of managing bank crises. Before that, it is necessary to ensure that the solution to bank crises is based on clear common rules. Primarily, financing for any rescue operation should be raised within the banking sector through payments to be made in advance or, if appropriate, ex-post. Use of taxpayer funds must always remain the last option and any financial aid provided must be temporary and conditional. One option proposed is to use the European Stability Mechanism as part of such a backstop. In this respect, due consideration must be given to the ESM's resource constraints and the primacy of other financing arrangements.

One component related to the clarity and stability of the financial system is the proposal by the high-level working party appointed by the Commission (Liikanen working group) to separate retail banking from proprietary trading in order to bolster the EU banking sector. It is advisable to implement the proposals of the working group as extensively as possible at the EU level.

A beneficial side effect of the monitoring and supervision of fiscal and structural policies and the reforms aiming at the creation of a banking union is that

future borrowing by the Member States will increasingly be steered by financial performance and so influence government actions automatically. However, to accomplish this, it is all the more important to adhere to the principle that each Member State is liable for its own commitments ('no bailout' principle). Following this principle, the Member States will be able to balance their budgets and reverse the trend in borrowing as the price of money influences the policies pursued by the Member States. National parliaments must control and assume responsibility for the budget deficits incurred by the respective Member States. In the course of the current crisis, the 'no bailout' principle has been put to test. Another important consideration regarding the functioning of the monetary union is that funding is raised in the markets and that there is no possibility for financing of last resort by the national central banks.

According to the Treaty, the **European Central Bank** is to maintain price stability as well as support the other goals of economic policy without putting price stability at risk. In the current crisis, the ECB has been compelled to operate at the limits of its mandate. That the ECB remains independent is an important element contributing to the credibility and stability of the eurozone.

When the no bailout principle is honoured and the reforms undertaken to balance budgets and reduce debt are duly implemented, the operation of the Economic and Monetary Union will be put on a sound footing. Aside from the enforcement of the new rules, it is important to intensify the mutual political peer pressure between Member States while making sure that market pressure is not weakened in the process. A necessary prerequisite for the efficient functioning of the Economic and Monetary Union is that rule-based, market-based and political controls are mutually complementary.

The economic crisis has highlighted the issue of **solidarity** and influenced public opinion as to what is just and fair. Calls for solidarity have translated into ideas of common eurobonds or a redemption fund for countries with excessive national debt. Eurobonds are at variance with the notion of national liability for debts and the EMU architecture based on market pressure. To a large part, the current debt crisis in the euro zone is due to the inability of the markets to determine the price of financing made available to countries heading for a crisis in relation to the state of their national economies (figure 6). Permanently severing the link between the real economy of the Member States and the financing available to them cannot provide a workable solution. It would result in a permanent moral hazard, conservation of inefficient structures and unending transfers of wealth between the Member States. Sustainable economic growth cannot be based on additional borrowing and clouding of inefficient structures in the guise of solidarity. Any introduction of eurobonds

### Secondary market rates for 10-year central government bonds

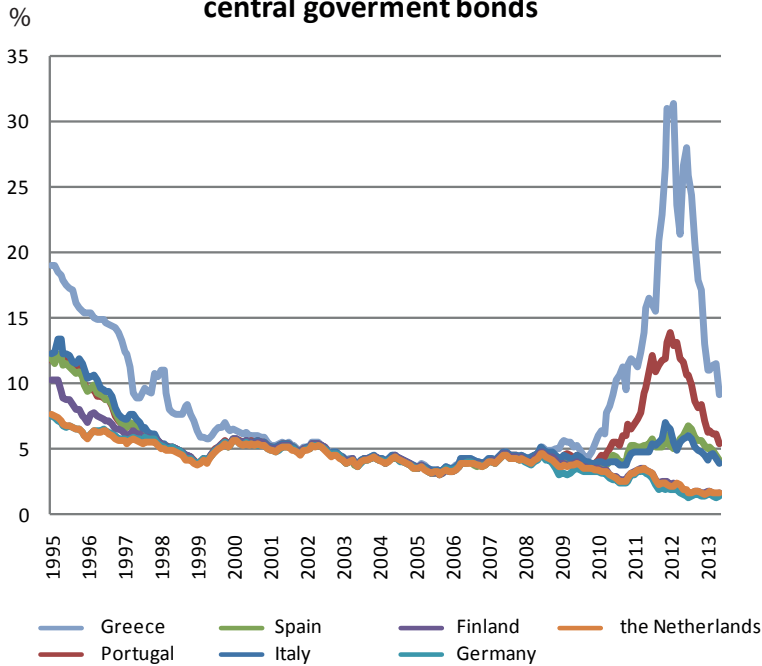


Figure 6: Secondary market rates for 10-year central government bonds  
 (Source: Ministry of Finance/Macrobond)

or similar arrangements would require amendments to the Treaties as well as a re-division of competences between the Member States and EU institutions.

Also, from the standpoint of mutual trust between the Member States and political acceptability, new risk-sharing and wealth transfer systems are not justified. As it is, the actions taken to address the current crisis have already created tension between the eurozone countries. Often, the positions taken by the Member States have been motivated by anticipated potential financial gain or loss while the development of the Union and the eurozone should be assessed independently of the current economic and political circumstances.

A number of new solidarity instruments have been introduced in the efforts to address the acute economic crisis and maintain the stability of the euro, and each eurozone country has demonstrated a fair degree of solidarity by contributing to the financial aid granted in the form of loans to the countries in crisis. Additionally, the European Stability Mechanism was created to avert exceptional liquidity crises encountered by the Member States and secure the

stability of the euro zone. Moreover, the European Central Bank has taken steps to help the affected Member States raise financing. Once the acute crisis is over, it will be time to evaluate any future need for such exceptional measures on the part of the ESM and ECB. At any rate, such measures must remain exceptional and be taken only in response to acute crises instead of aiming at transfers of wealth between the Member States. A functioning crisis-resolution mechanism should be put in place for the further development of the banking union to ensure that public sector funding truly remains an option of a last resort.

## 9 New jobs through competitiveness and growth

During the past few years, the European economy has lagged behind its chief competitors. Europe's long-term prospects for growth are bleak, and its economy is burdened by the slow recovery from the financial crisis of 2008. The main problems are low productivity relative to the competition; high unemployment rate; weak demand due to the efforts to reduce debt in the public and private sectors; and problems in the financial market caused by the financial crisis. Moreover, the deterioration of the dependency ratio due to ageing populations aggravates the sustainability gap in most Member States.

In terms of economic growth, the key elements are **restoring the competitiveness** of the EU countries and putting public finances on a sound footing. At the Union level, the actions are guided by the EU's economic and employment strategy (Europe 2020 strategy) which addresses employment, research and development, climate and energy policy, education, and the reduction of poverty.

The Member States – in particular the crisis countries – need to carry out thorough structural reforms in order to improve the competitiveness of their products and services. Until confidence is regained in the soundness of the economic policies pursued by the Member States, the uncertainty affecting consumption will not be dispelled and favourable conditions for sustainable economic growth will not be created.

Responsibility for structural reforms rests with the Member States, even though the EU too has a number of tools at its disposal to promote and monitor reforms by means of the European Semester and the new procedure for addressing macroeconomic imbalances. The EU should boldly apply political peer pressure as well as the sanctions offered by the new legislation and cohesion funding in pushing for the necessary reforms. Instead of creating new mechanisms,

the emphasis should be placed on implementing the rules and arrangements already agreed upon. High competitiveness, productivity and standard of living enjoyed by the citizens are closely linked to a high level of social security, education, labour market and consumer standards as well as equality.

From the point of view of sustainable growth, key measures include the development of the internal market and the conclusion of free trade agreements with the most important partners. Entrepreneurship should be promoted through EU actions by giving special consideration to small and medium-sized companies in EU acts, supporting internationalisation and improving access to financing for these companies. At the same time, care must be taken to thwart any protectionist developments in the various policy sectors.

It is important to encourage structural changes for a transition to a green economy as foreseen in the Europe 2020 strategy through employment and growth-enhancing investments in carbon-neutral technology; smart networks of the future; emission-free energy; and energy- and material-efficient solutions. Consequently, structural funds and other instruments of financing available to the EU should be used for an ambitious green economy investment programme to boost the competitiveness of the entire Union.

The Commission estimates that from 1992 to 2009, the **internal market** generated close to three million new jobs and substantially contributed to the growth of GDP. For consumers, the internal market has meant lower prices and more extensive selections of goods and services. Securing the efficient functioning of the internal market will remain a key objective for open economies like Finland. Aside from the freedoms guaranteed for companies and individuals, it is important to eliminate any unfair competition. To ensure the continued existence of fair and open markets in Europe, it is necessary to reinforce the rules governing an ethical market economy and maintain a high standard of consumer protection. The efforts to develop the internal market must respond to the new circumstances created by the progress achieved in the integration of the markets on the one hand while making a critical evaluation of the operation of current legislation on the other. In response to the financial crisis, the Commission has already given two extensive packages of legislation designed to deepen the internal market covering its operation on a broad front, including transport, energy and telecommunications.

In developing the internal market legislation, it is important to create a strong common market for European companies to serve as a launch pad to global competition. At the same time, efforts must be made to create and promote European standards worldwide. A prime example of such efforts was the



European GSM standard adopted in the early 1990s, which made it possible for European telecom companies to achieve and retain technological leadership for a long time.

Rigorous enforcement and strict compliance with the existing legislation call for greater attention on the political level as well. Cooperation between the Member States and the Commission in enforcing and implementing EU acts must be intensified. The Commission should be more active in exercising its powers. Additionally, political peer pressure and peer review are needed among the Member States.

One new important area in developing the internal market is the creation of a Digital Single Market. The Commission estimates that an efficient Digital Single Market would increase the EU's combined GDP by EUR 500 billion by 2020. The goods, services and digital content sold online in the Digital Single Market must be allowed to move freely across borders irrespective of the domicile of consumers and the registered seats of companies. This will require not only the removal of barriers and enactment of new legislation, but also a thorough examination of non-legislative means. Without a large home market, European companies are clearly at a disadvantage compared, say, to American corporations. When EU acts are developed, care must be taken not to hinder technological advancement or the operation of the markets unnecessarily.

Securing the efficient operation of the services internal market calls for full application of the legislative framework established by the Services Directive. When duly accomplished, this will have significant positive economic implications for the EU. Expanding the scope of application by initiating a process to revise the Services Directive would not appear feasible at present. Instead, steps must be taken to explore important sectoral initiatives conducive to economic growth and take action at the national level, as appropriate, to open and develop the markets for services.

The importance of **trade policy** has been highlighted in the current economic situation prevailing in Europe. Because of the stagnation of talks in the World Trade Organisation's Doha Round, the EU has recently focused on bilateral and multilateral arrangements in the efforts to liberalise trade and investments. In the circumstances, this is the best way of advancing Finland's interests in third-country markets. As an open and export-driven economy, Finland benefits from the Union's common trade policy in that it can join the EU's bilateral agreements and influence multilateral trade talks as part of the Union (figure 7).

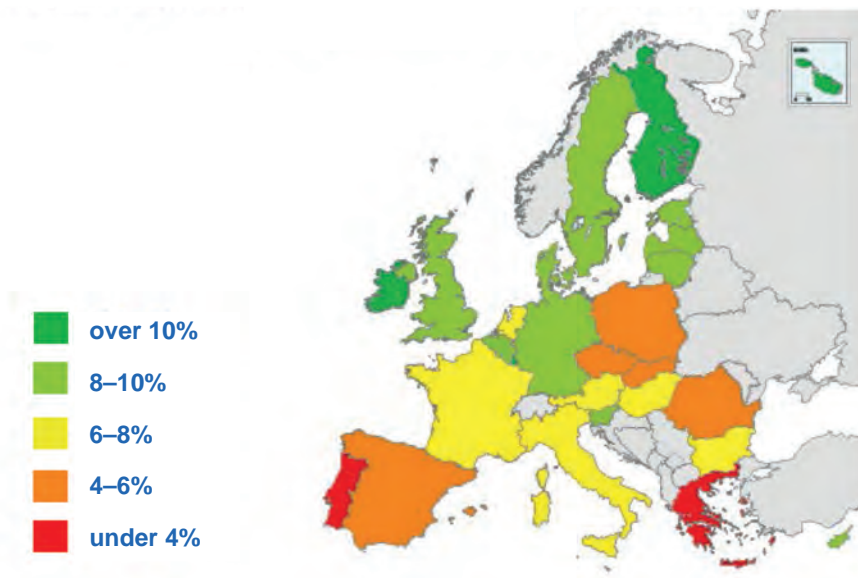


Figure 7: Export-oriented employment in total employment (about 30 million jobs depend on trade outside the EU, in %, latest available figures)  
 (Source: European Commission)

The EU should seek to enter into bilateral agreements with the most important trading partners and major emerging economies. The Commission estimates that all the existing and foreseen bilateral agreements could increase the EU's GDP by two per cent while creating close to two million jobs. Of special importance in this context is the conclusion of bilateral agreements with the EU's main trading partners the United States and Japan.

Similarly, the liberalisation of trade in services, information and communications technology, clean technology and public procurement should be promoted and the rules of international trade developed. The trade policy must be flexible in responding to changes in the economy and commercial value chains. This is especially so when it comes to the digitalisation of products and the growing role of services as well as the increasing importance of intellectual property and corporate social responsibility. Relatively speaking, the significance of customs tariffs as trade barriers is generally declining whereas other barriers, such as technical requirements and standards, are increasing in importance.

To secure Europe's competitiveness on the global scale, investments in **research and innovation** are called for to improve productivity and create

new business opportunities. Consequently, the relative share of funding for research and development should continue to be increased in the EU budget. EU funding should target the EU level and global challenges and growth opportunities requiring more resources than are available nationally. The projects to be funded should be put out to open tender and the selection made with due regard to the highest standard of quality. Special attention must be paid to more efficient commercial and social utilisation of the research findings.

The EU's **industrial policy** must seek to benefit from the structural changes taking place in the world economy. In real terms, this means that favourable conditions must be created for European companies to move up in the value chain towards more productive fields of activity and operations. An efficient state aid and competition policy ensures that the industrial policy does not distort competition or preserve inefficient structures. To respond to the structural change, social assistance and training services must be provided to help people and companies to move from one industry to another.

Quick, reliable and safe transport connections and a long-term **transport policy** create a favourable business environment and boost competitiveness. A sound transport policy creates new business opportunities and benefits regions in their efforts to improve sustainable growth, employment and competitiveness. It is important to ensure that due account is taken of Finland's specific conditions when the European transport policy is formulated. In shipping, favourable conditions must be created for a transition to cleaner and more energy-efficient fuels with due regard to the requirements imposed by the new sulphur directive.

## 10 A social Europe

Sustainable economic growth and a high employment rate provide the basis for the wellbeing for European societies and individuals alike. The economic crisis has increased unemployment and aggravated social problems in the EU countries. At the same time, the sustainability gap of public finances and demographic change bring pressures to reform welfare services.

Further development of the social dimension is of primary importance in order to avert a social crisis, reduce wide-spread poverty and unemployment, increase social cohesion and mitigate the consequences of the economic crisis. The Europe 2020 strategy sets objectives for promoting education and employment, and decreasing poverty and social exclusion.

In the realm of social policy, decision-making powers are primarily exercised by the Member States. The Union supports and complements the actions taken by the Member States, for instance through the European Social Fund (ESF). The open coordination method provides a forum for developing national social policies by way of mutual comparison and learning from others.

The Nordic model combining high competitiveness, productivity and standard of living with a high level of social security, education, labour market and consumer standards and equality could serve as an example when defining the post-crisis policy. In particular, the sustainability of pension systems is of major common interest to all Europeans.

Other Europe-wide indicators should be developed beside the GDP to measure the progress made in socially, economically and ecologically sustainable development.

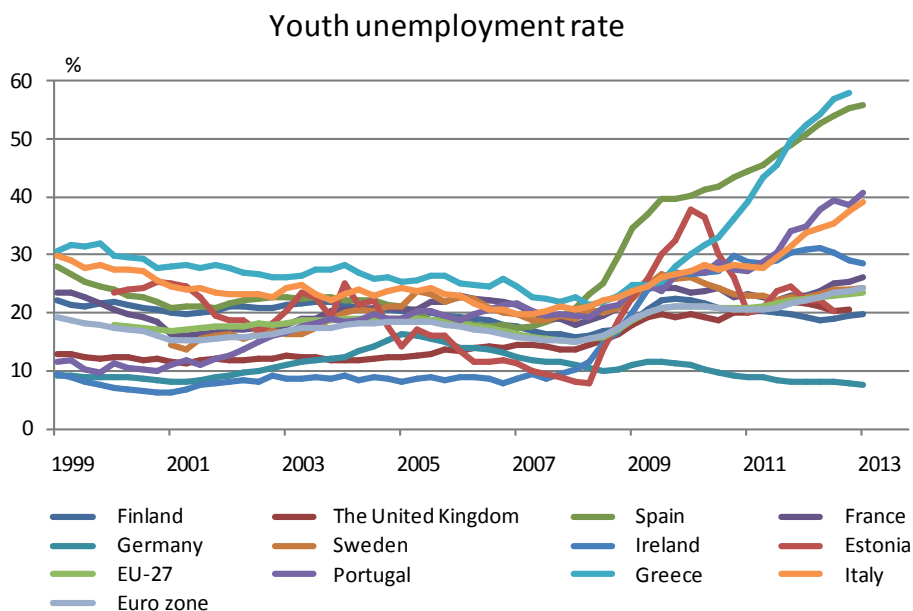
**Employment and labour policy** is also determined by the Member States and coordinated at the EU level. However, the Union may issue regulations on minimum requirements regarding occupational safety and, subject to certain restrictions, labour law, to promote gender equality and the assurance of non-discrimination of employees. Regulation may also be complemented by collective agreements between labour market organisations. However, the legal bases related to the EU's employment and social policy do not permit regulation of minimum wages. Such wage regulation by the EU is not to be pursued because cost levels vary considerably from one country to another. Moreover, wages and salaries are in many countries determined by collective agreements. All attempts to interfere with the labour market organisations' right to collective bargaining with regard to wage formation must be resisted.

The EU's employment policy is closely linked to the coordination of economic policy, the integrated guidelines for economic and employment policy and the country-specific recommendations related to the European Semester. Because of the bleak prospects for growth and high unemployment, the EU and the Member States are required to take more decisive action to solve the economic and employment crisis as well as the more long-term structural problems. Economic growth is the necessary prerequisite for improving employment. The employment policy aims at increasing the employment rate; reducing unemployment; securing the availability of skilled labour; increasing the supply of labour; helping jobseekers and vacancies meet; promote the vocational and geographical mobility of labour; and prolong job careers. The measures to reduce unemployment target specifically young people, immigrants and the long-term unemployed. While responsibility for things like skills development

rests with the Member States, EU action and tools are also required; for example, the resources of the European Social Fund and the Globalisation Adjustment Fund could be drawn upon. The EURES network should also be used more efficiently and developed further to advance the free mobility of labour.

The growth of **youth unemployment** in the EU, particularly in the debt-ridden countries, gives rise to serious concerns. While the main responsibility needs to be borne by the Member States themselves, funds have been allocated in the EU budget to countries with the highest youth unemployment rates; moreover, all Member States have been urged to put in place a youth guarantee that ensures work, education or a traineeship to all young people. Additionally, several Member States have been issued recommendations for the reduction of youth employment within the framework of the European Semester.

Free movement is a useful tool in the promotion of employment and expertise. Workforce mobility fuels economic growth in regions suffering from the shortage of labour supply and alleviates the pressure on social security systems



Source: Eurostat

Figure 8: Youth unemployment

in regions with a high unemployment rate. The EU must continue to implement measures that remove practical-level barriers to the free movement of people.

To promote mobility, the **social security systems** of the Member States are being coordinated. As it is, they differ greatly from one another. In Finland, social security is based on residence whereas in most Member States it is provided through employment. The latter system has proved to be easier to reconcile with the principle of free movement. The dissimilarity of the Finnish system is increasingly leading to situations where national and EU-level legislation is hard to reconcile. When the national social security system is developed, the needs brought about by growing mobility and immigration are to be considered.

To secure growth, employment and welfare, it is necessary to reform the labour markets and service systems. Responsibility for this rests with the Member States. At the EU level, these reforms are monitored as part of the European Semester and its country-specific recommendations.

The objective of the EU **structural funds** is to reduce economic, social and regional disparity. During 2014–2020, funding will be provided to promote growth, employment and social inclusion in accordance with the priorities set out in the Europe 2020 strategy. One of the criteria applied by the European Social Fund in distributing aid is the unemployment rate. A minimum of 20 per cent of all the financing provided by the fund is intended to be used for increasing social inclusion and eradicating poverty. Also, there are a number of other funds and programmes, such as the Globalisation Adjustment Fund, that lend support to the Member States facing structural changes. But the proposal – made in connection with the plans to develop the EMU – for a European unemployment insurance system that would complement or partly replace national insurance schemes cannot be deemed viable.

Participation by the **labour market organisations** in shaping the employment and social policies of the EU and the Member States will be encouraged and their commitment to reforms reinforced through social dialogue. As far as the monitoring of wage developments is concerned, it is advisable to underline the need to honour national wage formation systems and the roles of the national labour market organisations and their right to negotiate and agree on wages and other terms of employment between themselves.

## 11 A leader in energy and climate policy

Energy, climate and environmental issues form a coherent area where the decisions affect not only these three but also other policy sectors.

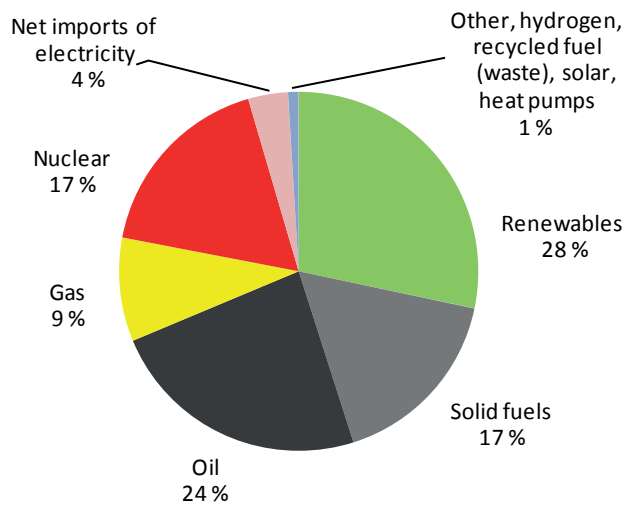
The **energy policy** scene is in transition. Efforts to mitigate climate change and changes in access to energy raw materials affect the global operating environment creating uncertainty about the availability and price of energy, and raising the threshold for major energy investments in the EU. As a result of the bleak economic prospects and the deterioration of the EU's competitive position especially relative to the United States and China, many Member States are increasingly underlining competitiveness as the primary aim of energy policy.

Oil production is now at its peak; however, total production will probably begin to decline already during the current decade and the price of oil will increase. For one thing, the exploitation of the shale gas resources in the United States has increased the supply of gas and also reduced the price of coal even though it is not an attractive fuel for climate reasons. Almost invariably, all increases in renewable energy sources have been due to greater-than-anticipated public subsidies; solar energy generation in China, however, is believed to become commercially competitive within a few years. Germany's decision to phase out nuclear power by 2022 will only increase demand for renewable energy sources, and accordingly, Germany is considering to discontinue wind power subsidies in the next few years.

While each Member State is free to choose its energy mix independently, certain framework conditions for these choices are imposed by the changes in the operating environment and the Union regulations pertaining to the environment and climate change, among other things. Finland seeks to secure access to reasonably affordable energy by putting in place a diversified energy programme, investing in renewable domestic energy, making wider use of the gas markets and cutting down on the use of mineral oil.

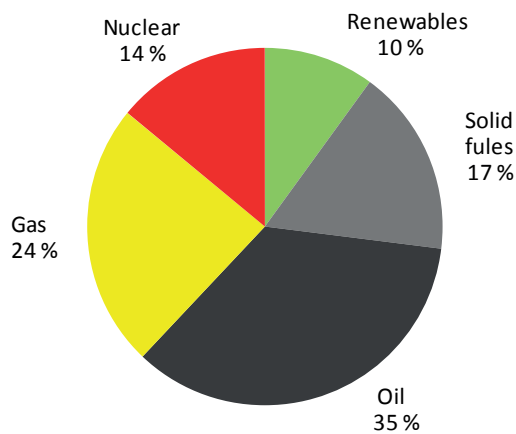
An efficient internal energy market needs to be created for the European Union by 2014. It would strengthen the EU's position globally, lower the price of energy and improve the security of supply. To achieve this, it is necessary to implement the internal market legislation more efficiently in the Member States. In many of them, access to the electricity and gas markets has not been provided on an equal basis even though this is required under EU law.

### Final energy consumption in Finland in 2011



Source: Statistics Finland

### Final energy consumption in EU in 2011



Source: European Commission

Figures 9 and 10: Final energy consumption in Finland and in EU in 2011



The project to create an internal energy market should be advanced transparently on market terms, while rejecting subsidies and capacity mechanisms distorting cross-border trade. In implementing these principles, the well-functioning Nordic electricity market could serve as a model for a Europe-wide power market. While efforts should be made to coordinate subsidy regulations, a harmonised subsidy level is not feasible because of different natural conditions.

Efficient operation of the energy market calls for further investments in the infrastructure, such as cross-border electricity and gas transmission capacity. The infrastructure projects must be carried out on market terms. Naturally, national subsidies and even EU funding may play a part. For Finland's part, one project requiring EU financing is the plan to join the European gas distribution network by establishing an LNG terminal and laying a gas pipeline between Finland and Estonia.

The main responsibility for nuclear safety rests with the national authorities. Of great importance in this respect is also the exchange of information between government agencies and other cooperation, such as peer reviews within the EU.

Dependent on imported energy as it is, the EU must take steps to further strengthen its unity in external energy relations by making full use of the new arrangements in this area. At the same time, the energy security of the Member States and the EU's position in the global competition for energy will be strengthened by developing the transboundary infrastructure and creating the internal market.

Like wind and solar power, bio-energy plays an important role in attaining the renewable energy objectives of the climate policy. As the use of forest-based biomass is important to Finland, it is vital to ensure the future sustainability of forest energy and its treatment as an emission-free source. Finland needs to develop its scientific knowledge of forest-based bio-energy and promote product development to make full use of the growth potential.

Over the next few years, improving energy efficiency will be a central theme at both the EU and national levels. In the EU context, the main emphasis will be placed on the implementation of the Energy Efficiency Directive which must enable sufficiently flexible and cost-efficient national-level solutions.

The EU is one of the leaders in international **climate policy**. It aims to achieve a sufficiently ambitious climate agreement with a view to mitigating climate change and the two-degree warming limit target. Finland is active within the

EU and internationally to put in place a global climate agreement in 2015. An agreement would not only intensify efforts to prevent global warming but also create a basis for investments in green energy. At the same time, steps must be taken to ensure that the agreement will not lead to carbon leakage, i.e., the relocation of production from Europe to countries with less stringent emission targets.

The Member States have agreed on targets for emission reductions, renewable energy and energy efficiency up to the year 2020. Additionally, emission reductions of 80–95 per cent have been established for 2050. The EU is offering to increase its emissions reduction to 30% by 2020 if other industrialised countries commit to equivalent reduction targets and emerging economies participate adequately in emissions reductions according to their possibilities.

The discussion on the EU 2030 climate targets has started. The post-2020 targets for emission reductions must be consistent with the overriding two-degree warming limit. This discussion is affected by the changes in the energy policy environment discussed above. By formulating overall climate policy outlines early enough, it is possible to clarify the operating environment and enable efficient energy investments in the private sector. Most likely, the best cost-efficiency is achieved by establishing a single objective – the emission reduction target – which can be expected to have the foreseen impact. An EU target for renewable energy would add predictability important to investors and technology developers. The target for the use of renewable energy for the EU or for the Member States individually should be for guidance only – or any binding objective moderate enough – to allow sufficient leeway for national energy policies and changing national situations. Three separate targets established at the EU level would prevent optimisation of the measures. For this reason, the energy-efficiency target to be defined by the EU should be indicative, and the national target specified by Finland.

Emission trading is the most competition-neutral mechanism to reach the emission reduction targets. However, its operation is hampered by an over-supply of emissions permits. In the future, it is important to ensure the functioning of emissions trading and make sure it will steer investments as planned. All forms of subsidies for renewable energy should be as competition-neutral as possible and gradually reduced.

Changes in climate and energy policies have had a significant impact on the market with the focus shifting from resources to expertise. The clean technology sector has been growing at a brisk pace. An important objective in establishing EU regulations for the climate and energy sector is to improve the

operating environment for green energy and promote economic growth and employment.

Finland is characterised by a number of particular features that need to be taken into account when climate and energy policies are formulated in the EU. Among these particular features are northerly climatic conditions and long distances; a high percentage of biomass in energy production; a high percentage of forests and peat lands of the land area; and the energy-intensity of industry. At the same time, the advanced expertise of the Finnish clean technology sector allows Finland to benefit from climate action. In the preparation of policies at the national level, the significance of these particular needs must always be evaluated in terms of Finland's overall interests.

The EU's **environmental and biodiversity policies** and related legislation are comprehensive. Future efforts should increasingly focus on efficient implementation and improving the existing legislation. A key undertaking in the EU environmental policy for the near future is the EU's 7th Environment Action Programme. It should formulate long-term objectives for the EU's environment policy to guarantee sustainable use of natural resources and a clean environment. At the same time, environmental issues are increasingly affected also by energy, transport and agricultural policies. The EU's evolving environmental legislation must treat the Member States equitably.

## 12 Wise spending and cohesion policy

The EU's **financial framework** for 2014–2020 is to be adopted in summer 2013. Finland achieved its chief objective in the negotiations on the framework in the European Council concerning years the 2014–2020. The overall level defined by the financial framework remained reasonable, equivalent to around one per cent of the combined GNI of the Member States. Also, this was the first time that the overall level of the framework was lower than that of the previous framework. At the same time, the focus was clearly shifted to competitiveness, even if agricultural and cohesion policies retained their position as the by far largest expenditure categories in the EU budget.

When new financial frameworks are implemented and agreements on future annual budgets made, more attention needs to be paid to the effectiveness of funding and the control of the use of the funds. The use of EU funding must be planned with greater care. In selecting the projects to be funded, greater emphasis should be placed on the added value generated for Europe, such as the transboundary nature of the projects. Annual budgets should focus on

maintaining a controlled balance between budget commitments and payment appropriations to prevent further growth in unpaid commitments.

Since the early years of membership, Finland has become a net contributor to the EU budget. However, the fact that Finland's contributions exceed the funding received will not dictate our positions on the development and action of the Union. After all, the total benefits of EU membership to Finland – thanks to the internal market alone – clearly outweigh any considerations related to the EU budget cash flows. Outside the EU, we would be need to pay for access to the internal market without being able to influence the regulations, just like Norway.

Before the upcoming negotiations on the financial framework, preparations must be made on a timely basis to advocate modifications to the system particularly with regard to the relative weight of expenditure categories and macro-economic conditionality. Finland's objective is to establish a simple, transparent and fair system of own resources in which rebates to individual Member States have been phased out. At the same time, steps must be taken to ensure that the overall level of the financial framework remains reasonable relative to the state of public finances in the Member States.

The EU's **cohesion, regional and structural policy** aims at reducing disparity of development between regions and creating favourable conditions for sustainable economic growth. An assessment needs to be made well before the next financial framework negotiations to decide how the funding of cohesion policy could be overhauled to make it support growth-enhancing structural changes and an innovation-driven economy more effectively than in the past. The effectiveness of cohesion funding must be improved and procedures simplified further.

Before the next round of talks, it would also be advisable to carry out a national debate on the extent to which cohesion policy should be implemented in the more developed parts of the Union. At the same time, an assessment could be made of how to pursue Finland's national regional and structural policy objectives using the cohesion funding provided by the EU in a way that best promotes Finland's overall interests; and how the particular features of the country related to its remote location and sparse population could be brought to bear more effectively in the context of the EU's cohesion policy.

## 13 A living countryside and clean and safe food

Originally, the **Common Agricultural Policy** was created to secure food production within the EU. Global developments over the past few years have underlined the value of sustainable food production in all areas of the Union and have also seen food safety gaining in importance. A common policy is the best way of responding to these issues.

The Common Agricultural Policy and a common food market call for a jointly formulated subsidy policy. The focus in the allocation of farm subsidies should be determined so as to ensure that they have a genuine effect on production. For Finland's part, it is essential that rural development will gain in importance as a tool of modern agricultural policy within the EU along with the Common Agricultural Policy. At the same time, the agricultural policy must provide for sufficient upgrading of the tools available to the Union and the cost-effectiveness of the subsidies system.

Agri-environmental support is paid for performance exceeding the level specified in legislation. These subsidies should be more environment-directed and conducive to the protection of waters.

Continuity of agricultural production in all areas of the Union – including the most remote and less-favoured areas – must remain as one of the basic objectives of the Common Agricultural Policy. The nature of the national 141 and 142 subsidies agreed upon in Finland's accession negotiations and designed to complement the community policy and compensate for Finland's special conditions should be preserved as a special form of support. The aid scheme must be as uniform as possible and secure the necessary preconditions for agricultural production also in southern Finland without any reduction in the support provided for northern areas.

The EU's agricultural policy should continue to pursue long-term reforms with a view to further liberalisation of world trade in agricultural products.

Improving **food safety** must remain a key objective. Special attention is to be paid to product labelling necessary for the verification of the origin and production chain. Efforts should be made to persuade third countries to adopt as rigorous standards as possible.

In the future, agricultural policy will increasingly evolve into a **natural resource policy**. Global competition for natural resources will intensify; arable land and water will become scarce; and demand for biomass will increase. The Finnish

economy is, to a great extent, based on natural resources and the added value they yield. In particular, an innovative bio-economy based on renewable resources will offer new potential for maintaining economic growth.

**Forestry policy** is determined by the Member States at the national level. However, the EU has issued climate, energy, trade and environmental regulations that affect the forestry sector. To guarantee the consistency and predictability of the regulation affecting the forestry sector, it is important to reinforce the coordination of EU actions in forestry matters.

The common **fisheries policy** must ensure sustainable fishing and anticipatory fisheries management based on the ecosystem. In the long-term, the fisheries policy must aim at the recovery of fish stocks to a level exceeding maximum yield. Sustainable salmon fishing will be promoted by means of a management plan for Baltic Sea salmon stocks and restrictions on longlining. The fisheries policy should be regionalised to ensure that greater consideration is given to the special conditions prevailing in the Baltic Sea.

## 14 Freedom, security and justice

Globalisation and the internal development of Europe are clearly reflected on justice and home affairs. The area of freedom, security and justice must be developed and reinforced in a comprehensive and balanced way by coordinating the efforts with other EU policies. Cooperation should focus on solving the problems encountered in daily life and corporate operations across borders. Citizens, companies and Member States would tangibly benefit from further facilitation of the mobility of labour, more efficient resolution of disputes, and clarification of the conflict of law provisions.

Multi-annual programmes are an efficient tool for developing justice and home affairs. After 2014, a new strategy will be needed to set out the long-term guidelines for cooperation in justice and home affairs. Such guidelines will also help avert the risk of differentiated integration and regional fragmentation. The unity of the Union will continue to remain a first priority.

In the EU's **justice policy**, greater emphasis should be placed on multilateral international cooperation, such as the Hague Conference on Private International Law and the international conventions of the Council of Europe. As in the past, **mutual recognition** of judicial decisions and judgments remains the cornerstone of judicial cooperation. In the future, it is important to ensure the

quality, usability and efficient enforcement of the EU instruments, and build up mutual confidence in the respective systems of the Member States.

The EU's criminal law policy should continue to underline the principle of mutual recognition instead of far-reaching harmonisation. Long-term efforts to reinforce the rights of victims and suspects and the accused must be continued: the decisions made must be implemented.

Strengthening **cooperation in the field of law enforcement** is necessary to combat organised crime, illegal immigration and human trafficking. As a form of serious cross-border crime, this is something that the Union must address with a full range of measures. When efforts are made to develop cooperation between law enforcement authorities, special attention should be paid to the fundamental and human rights of citizens of third countries and compliance with the principles of humane treatment.

The Internal Security Strategy for the European Union provides a workable framework for concrete cooperation in home affairs. A more unified approach is needed to defend against the threats and risks that affect all. The EU's internal security should be advanced on a broad front with due regard to the European security model combining judicial and law enforcement cooperation with border security and rescue services.

Legislation on the common **asylum system** should be efficiently implemented in the Member States. To improve stability, growth and employment, Europe should focus on more efficient provisions and implementation of legal immigration.

The **Schengen** system of freedom of movement should be further reinforced. Efficient administration of the Schengen area calls for full commitment by all the Member States. The EU's external border controls will be developed to improve the efficiency of border checks and streamline the process. Visa-free access for Russian citizens should be promoted on a broad front and in a controlled manner in accordance with the agreed-upon conditions. It is important to have the entry/exit system and Registered Traveller Programme in place before visa-free travel between the EU and Russia commences.

Protection of personal data is a fundamental right, the importance of which is only highlighted as the exchange of information increases, digitalisation advances and the role of the Internet grows. The EU's existing, partly fragmented and complex **data protection regulation** should be simplified and harmonised by providing at the same time a high standard of data protection

to all. Additionally, data protection regulation by the EU should support the internal market and offer new opportunities for the digital economy. The EU must adopt a unified approach to the transfer of passenger name record data to third countries. A long-term goal should be to explore the potential for establishing internationally applicable standards for the transfer and use of such information.

The **EU's cyber security strategy** intensifies EU-level cooperation in improving cyber security. Determined efforts are called for at the EU level to address data security, prevention of cyber crime, cyber defence and international cooperation in this field.

## 15 Global influence

The European Union must vigorously pursue its interests and defend its values both in the neighbouring areas and worldwide. The influence wielded by the EU is at its peak when the views and actions of the Member States are translated into concerted action with a definite goal. In its external relations, the Union needs to act **consistently on a broad front** so as to ensure that full use is made of all the tools available in order to attain the objectives. This need for a consistent and comprehensive approach is further accentuated in the context of the key issues of international politics, namely sustainable development, climate policy, peace and stability, and reduction of poverty. The means of influence available to the EU in external relations are broader than those of any single Member State alone.

External action covers the common foreign and security policy, trade policy and development policy as well as the external dimensions of the Union's internal policies. Separation of the common foreign and security policy and other external activity are likely to undermine the Union's influence. To have a say, it is extremely important for the EU to make **full use of the internal policies** in its external relations because the EU's main significance for its partners lies in the combined weight of its internal policies.

The **European External Action Service** must combine the individual aspects of external activities into a coherent policy that also draws upon the influence imparted by the EU's internal policies. So far, the External Action Service has not lived up to these expectations. At any rate, the sights should be set on comprehensive action based on the strong role of the High Representative of the Union for Foreign Affairs and Security Policy, also in his or her capacity as the Vice-President of the Commission. However, institutional arrangements



alone are not decisive to the Union's external action – what is essential is the **political will** to work together. Accordingly, the Union's external activities should be based on the understanding that if the European countries choose to act individually or as a limited group of Member States, they will wield far less international influence than could be achieved through concerted EU-level action.

The Union's common **foreign and security policy** offers more potential for furthering national aims than acting alone. The EU should show greater efficiency, unity and consistency in the context of the common foreign and security policy. Consequently, the strategic priorities of the foreign and security policy should be updated to reflect the developments in the Union's operating environment and the changes in the balance of power over the past ten years.

In particular, the European Union must be able to promote stability, democracy and economic reforms in its **vicinity**: North Africa, the Middle East as well as the neighbouring countries to the East. In the context of neighbourhood policy, deeper cooperation must be linked to the advancement of democracy and human rights in third countries. Also, the Union's internal policies have particular significance in the neighbouring areas. Most of Finland's objectives are related to the evolving partnership between Russia and the EU. The Northern Dimension offers one viable model for cooperation with Russia on the basis of an equal partnership. It is also important to develop the EU's Arctic policy and Baltic Sea cooperation.

The EU should assume a strong global role, in the United Nations and other forms of collaboration through more concerted action also in forums in which only some of the Member States are represented, such as the G20. For Finland, it is important that the issues to be addressed by international organisations and groupings are prepared and coordinated within the EU.

As far as the EU **development policy** is concerned, it is extremely important to increase coherence and effectiveness to ensure that the implications of the EU's other policies – such as trade, climate, agriculture and fisheries policy – are not in contradiction with development policy. The most important issue of development policy in the next few years is the review of the global development agenda, which offers the EU an important opportunity to further its development policy aims.

The **Common Security and Defence Policy** provides an important tool for the Union in its efforts to enhance stability in collaboration with the international community. The Union's **crisis management** capabilities should

be developed into a more comprehensive action combining military and civilian crisis management as well as a more long-term development policy and other EU action in the afflicted areas. At the same time, steps should be taken to improve the efficiency of internal decision making – including the financing of operations – in order to ensure that the Union is capable of responding to the needs of the crisis areas in a quick and flexible manner. The Union's crisis management capability should also be improved by increasing the usability of battlegroups and developing planning and conduct capability.

The importance of civilian crisis management should be underlined in the efforts to stabilise states resorting to international assistance in the face of crisis. Finland aims to continue to be one of the most active Member States in civilian crisis management. This will add to Finland's influence within the European Union.

The efforts to develop and maintain the **military capabilities** of the Member States are complicated by the increasing cost of defence materiel and budget constraints. Also, Europe lacks military capabilities in certain key areas in which it has relied on the United States. Since no single European country is able to provide all the necessary capabilities on its own, it is important to intensify cooperation between the Member States. Clear-cut EU-level objectives need to be established for this, and the cooperation in the pooling and sharing of resources should be further developed. Important areas of cooperation could include maritime surveillance, unmanned aerial vehicles, cyber security, space, air-to-air refuelling, tactical and strategic lift and situational awareness, all areas in which Europe is lacking.

Improving these capabilities also calls for a strong industrial base. More determined efforts need to be made to develop the **European defence industry and markets**. It would also offer opportunities for the Finnish defence industry as part of an international production chain. Also, closer cooperation and coordination between Member States in defence related research, development and innovation is needed. Implementation of the principles of the internal market also in the defence industry should be the aim simply in view of the costs. In this context also the question of further limiting offsets should be explored. An important prerequisite for the opening of the European defence materiel market is that further arrangements are put in place to guarantee the security of supply, with the ultimate goal of enhancing mutual trust between the Member States.

Most of the EU Member States belong to NATO. Finland works for the further development of cooperation between the EU and NATO, while taking into

account the significance of NATO as a central forum for European security policy.

## 16 An enlarging Union

Enlargement has been one of the most successful policies of the Union and its continuation is a sign of its enduring appeal. Croatia will soon become the 28th Member State. Since Finland's accession, the number of members has almost doubled. Enlargement has strengthened the Union's position as a European and global actor and has also expanded the internal market.

EU membership has also changed the acceding countries in a positive way. An integral part of the enlargement process is the **adoption of the *acquis communautaire* and Union's procedures**. Previous enlargements have shown that the implementation of the principle of rule of law, in particular, is difficult. It is positive, therefore, that the chapters on the judiciary and fundamental rights and justice, freedom and security are addressed in the early stages of the negotiations.

The Union should remain an open community, one which any European country can join as long as it meets the accession criteria, respects the Union's values and undertakes to promote them. This also defines the limits for enlargement: eligible for membership are only European countries that fulfil the applicable criteria in areas such as democracy, human rights, rule of law and market economy and meet the EU accession criteria. No compromise can be made with the criteria because the very core of membership is the adoption of the Union's rules and values. Accession should not be expedited for political reasons since the best incentives for reforms are provided by the actual negotiation process, not by the membership itself after accession.

Currently Iceland, Turkey and Montenegro are engaged in accession negotiations to join the Union. Resolute progress needs to be made in these negotiations, just as in the negotiations with Serbia and other West-Balkan countries once the decision on starting accession negotiations is taken. As long as the accession criteria are adhered to, further enlargement will strengthen the Union and motivate prospective members to move forward.

### III PURSUIT OF EU POLICY AND EXERCISE OF INFLUENCE TO FURTHER FINLAND'S INTERESTS

The previous chapters of the report have defined the objectives of Finland's EU policy and discussed the key development projects in various sectors of the Union's activities. The present chapter sets out guidelines on how to develop Finland's existing system of coordinating EU issues or procedures in order to attain the established objectives.

To be able to advocate Finland's interests and achieve results, it is important that the procedures applied in preparing EU affairs and wielding influence are efficient and appropriate. The pursuit of EU policy is based on systematic preparations at the ministries, close coordination of issues and a strong political engagement. The positions adopted by the Cabinet Committee on EU Affairs and active cooperation with Parliament are in a key role in political decision making.

The purpose of the coordination system is to ensure that all the positions taken in EU policy are in agreement with Finland's general policies in EU matters. This ensures broad-based preparation in which all the ministries and the Åland Islands participate. A well-functioning coordination system is one of the strengths of Finland's EU policy. Finland must be able to formulate its objectives with regard to upcoming issues and prepare its own initiatives for the development of the Union, sometimes within a short space of time. By its constructive, results-oriented and pragmatic approach, Finland also demonstrates its commitment to develop the EU and its ambition to influence this development.

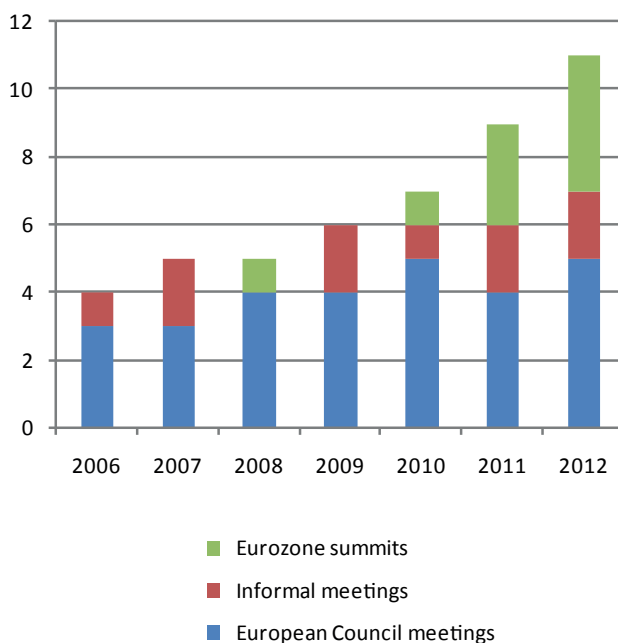
The adaptation of the preparatory and coordination system to the changes in the EU's operating environment calls for updating both at the individual ministries and the Prime Minister's Office. The government working group on the development of Finland's EU procedures and documentation appointed at the end of 2012 is due to present its proposals to the Committee for EU Affairs early next autumn.

As part of the preparation of issues, it is vital to be actively involved in shaping EU policies in areas important or problematic to Finland. In 2009 the Government published a report on effective EU policy (Prime Minister's Office Publication 32/2009) which defined the main policies and identified areas where improvements are called for. Many of the key findings are still valid today.

## 17 More efficient preparation of EU affairs

The amendments made to the Finnish Constitution in 2000 and 2012 have clarified and highlighted the role of the Government as a decision maker in EU matters as well as the position of the Prime Minister as the leader of Finland's EU policy. Finland now has a clearly identifiable leader in EU politics for liaison at the heads-of-government level.

The changes in the position of the European Council resulting from the Treaty of Lisbon and the efforts to manage the debt and financial crisis have highlighted the role of heads of state and government in the activities of the European Union. All the most important financial and EMU issues have been taken to the European Council for review and decision making. Similarly, in the field of climate and energy policy, the strategic lines have been adopted by the heads of state and government. At times, decisions have to be made at short notice. Over the past few years, meetings of the European Council and the eurozone heads of state and government have been held almost monthly.



**Figure 11: Development of number of meetings of heads of state and government 2006–2012**  
(Source: Prime Minister's Office, Government EU Affairs Department)

The Prime Minister informs Parliament of the issues addressed at the European Council and other meetings of heads of state and government both in advance and afterwards. In its statements, Parliament has found it appropriate that, as a rule, the Prime Minister is heard by the Grand Committee – not the plenary session – because of the Committee’s central role in the national coordination system for EU affairs. When the European Council deals with issues related to the EU’s common foreign and security policy, the Prime Minister informs the Foreign Affairs Committee in accordance with the established division of competences between parliamentary committees.

Preparation of the issues relate to the eurozone and the resolution of a number of topical issues related to the economic and financial crisis have introduced a completely new operational dimension to EU preparations that highlights the role of the euro group formed by the ministers of finance. It is important that the coordination of these issues as well as the formulation of Finland’s position by the Government and in consultation with Parliament proceeds as effectively as possible.

Finland’s EU policy is based on the guidelines staked out by the Cabinet Committee on EU Affairs. An arrangement in which government ministers meet weekly to discuss and formulate positions on EU affairs is highly exceptional among Member States. The central role played by the Cabinet Committee on EU Affairs underlines both the commitment of the ministers to EU policy and the importance of EU affairs in political decision making in Finland. (Tables 1–3)

In its proceedings, the Cabinet Committee on EU Affairs seeks to develop its existing way of working by focusing on early preparation, more extensive reviewing of issues and monitoring major developments. Although the work of the Cabinet Committee on EU Affairs is primarily based on the coordination carried out by sub-committees, the issues on the agenda of the European Council and other meetings of heads of state and government are coordinated by the Cabinet Committee because of the great significance of the issues involved.

With regard to the EU’s foreign and security policy, national preparation and political decision making also take place in the Cabinet Committee as part of the regular processing of EU matters. When Finland’s position on significant EU foreign and security policy issues is formulated, the government works in close coordination with the President of the Republic.

The Cabinet Committee on EU Affairs agrees on Finland's candidates for various positions in the EU institutions and makes decisions on supporting the candidates of other Member States in order to maximise its national influence and bargaining position. The same procedure is applied in dealing with the location of EU agencies and other similar issues. As a rule, the presentations of the nominations of candidates for EU institutions to be decided by the Government in plenary session are prepared by the Prime Minister's Office.

While the increase in the Prime Minister's duties related to the EU policy and the consolidation of his or her position at the helm of Finland's EU policy do not require any structural changes to the system of coordination, the procedures need to be developed and the resources put to more efficient use. Since the total resources of the central government will not grow, EU preparation can be improved through synergy effects. It is important to focus efforts on issues vital to Finland. By avoiding duplication of work, combining functions, improving the conditions for cooperation and increasing the efficiency of political guidance, it is possible to achieve more with the existing resources.

The EU Affairs Department at the Prime Minister's Office serves as the Government's EU secretariat. Its role is to coordinate the ministries' work related to the preparation and consideration of matters decided in the European Union. It is also responsible for coordinating issues related to amendments to the Treaties and any horizontal and institutional matters of central importance to the development of the EU and certain appointments to EU institutions. Recently, the Department's resources have been increasingly used for assisting the Prime Minister. At the same time, the Government EU Affairs Department serves as the secretariat to the Cabinet Committee on EU Affairs and prepares the agenda for its meetings.

In accordance with the division of competences between the ministries, all horizontal and institutional issues central to the development of the European Union are handled by the Prime Minister's Office. This principle is also to be implemented in practice. This guarantees the consistency of Finland's EU policy and the availability of efficient preparation resources to the Prime Minister.

Aside from the Government EU Affairs Department's role in preparation and coordination, it is clear that responsibility for preparation will continue to rest with the competent ministry. Broad-based participation in preparation throughout the government administration is vital in order to ensure that Finland's national interests can be duly identified and the impact of the EU policy on the economy and society taken into account.

An important part of Finland's EU policy is to see to it that the Åland Islands participates in the preparation of EU affairs, and that Åland is provided with ample opportunities to be heard.

## 18 Improved coordination

EU affairs are prepared by the competent ministries and coordinated by sub-committees and the Cabinet Committee on EU Affairs. With regard to issues within the mandate of Parliament, Finland's positions for presentation to the Council are formulated based on close cooperation between the Government and Parliament. Stakeholder groups also play a central part in the preparations.

The Committee for EU Affairs is not very closely involved in daily issues. Accordingly, it has assumed a role in duties related to the coordination of broader issues and the handling of administrative affairs.

In order to maximise Finland's influence, the coordination system should focus on early preparation. It should not be by-passed in any key EU policy issue. While cooperation between ministries at the early stages of preparations has recently been emphasised in coordination, this must not lead to a situation in which the sub-committees are by-passed. The procedures of the preparatory sub-committees must be developed and meetings held more regularly in all sectors. Those participating in the formulation of positions must see to it that the proposals are supported by the ministry's political leadership.

International organisations often pass decisions related to EU policy. With the Treaty of Lisbon, if not earlier, it became clear that all international decisions and conventions have their EU implications. Often, the implementation of international conventions requires new regulations at the EU level. Because of the coupling of the global and EU levels, Finland's positions on international issues should, as a rule, be formulated and coordinated by the sub-committees. If necessary, the most important issues to be decided by international organisations must be referred to the Cabinet Committee on EU Affairs for review.

In the preparation of EU affairs, various shareholder groups and the civil society at large should be consulted more frequently in the individual stages of preparation, also by the sub-committees. This will provide extensive information on the practical implications of the various legislative proposals and other projects for citizens, companies and other actors.



Political State Secretaries also take active part in the preparation of EU Affairs at the respective ministries, and may represent the minister at Council meetings in his or her absence. Ways of integrating the Political State Secretaries more closely into the coordination system should be explored.

For the Finnish Parliament, a necessary prerequisite for securing its position in the preparation of EU affairs is timely access to information. After all, Parliament's involvement in the formulation of policies is an asset that makes Finland's positions firm at EU level negotiations while securing broad-based political support at home. The debate on the EU's democratic legitimacy has further underlined the significance of the participation of national parliaments in handling EU affairs.

Frequently, the time available for addressing EU issues is rather short, considering coordination and parliamentary involvement. In the Government Report on Effective EU Policy of 2009, special attention was attached to the presentation of EU affairs to Parliament as required by the Constitution. Progress has been made: fewer complaints of delays have been received from Parliament in recent times. Even so, zero tolerance must remain the goal in this regard. When preparations are made in consultation with Parliament, care must be taken to ensure that there is room for manoeuvre in respect of the positions adopted in the early stages of the process and that Finland's position can also be amended within a short space of time if necessary. This will improve the likelihood of achieving Finland's objectives in various issues.

The Permanent Representation to the European Union is the key tool of Finland's EU policy and it represents the Government as a whole. The Permanent Representation as well as the other diplomatic missions in the capitals of the Member States are in an important position in forwarding information to Helsinki to ensure that the formulation of Finland's positions is based on a realistic assessment of the situation. An on-going and timely exchange between the Permanent Representation, missions and the Finnish capital is the very basis of successful advocacy.

During the past few years, Finland has had several delays in implementing directives. A report on these delays completed in spring 2013 explores the reasons for the delays and proposes remedies. The state of implementation should be actively monitored by the ministries. More attention needs to be paid to working methods and resources. The political decision makers and law drafters in the ministries must be aware of the financial sanctions that may be imposed for delays. Overall responsibility for monitoring the state of play rests with the Government EU Affairs Department in the Prime Minister's Office.

## 19 Exerting influence and enhancing EU skills

Aside from the actual preparation of EU affairs, more attention should be paid to the challenge of exerting influence during the early stages of processes. As the coordination system is primarily intended for formulating positions with a view to processing in the Council, there is a risk that forward-looking strategic planning and the development of national initiatives are overlooked.

Increasingly frequently, it is necessary to launch own initiatives to promote Finland's interests. In recent years, Finland has been the only country – or one of the few – to launch initiatives that have, at some point, been integrated into the common guidelines, such as the pragmatic coordination of tax policy; the creation of the Digital Single Market; monitoring compliance with the principle of rule of law; and the rules of procedure for the euro summit meetings. Additionally, initiatives have been put forward pertaining to the measures to manage the financial and debt crisis, such as IMF involvement in the measures to create stability; the realisation of investor liability; the introduction of bank stress tests; and the imposition of stricter sanctions in fiscal policy.

The past few years offer a number of examples of EU policies where broad and comprehensive action for influencing has been conducted across ministerial boundaries. More long-term and exceptionally extensive efforts in this respect have been made in the preparation of the financial framework, the strengthening of the EU's fundamental rights dimension, and the promotion of good governance and openness within the Union. Also, a specific strategy for influencing the climate and energy policy has been drawn up and the various ministries have been involved in a joint survey of EU issues topical in terms of growth and employment.

Communicating the objectives of Finland's EU policy is part of the efforts to exert influence. The Prime Minister's Office and the sectoral ministries must strive for a more strategic and forward-looking EU communications. This calls for greater coordination between these actors and the Permanent Representation to the European Union.

The process to implement the recommendations given in the Government Report on Effective EU Policy of 2009 needs to be brought to completion. As far as EU institutions are concerned, improvements are urgently needed in the ability to exert influence during the early stages of processes both in respect of the Commission and the European Parliament. At the same time, a more active approach needs to be adopted in forming coalitions with other Member States and in wielding influence.

Efforts need to be made to identify figures important in terms of influencing developments, while paying due attention to the coordinating role of the Commission's Secretariat General. The efforts to influence Commission's proposals should start early enough and continue as part of the overall activities.

Since the completion of the 2009 Government Report on Effective EU Policy, the powers of the European Parliament have increased even further. Although the key role in relation to the European Parliament is played by the Member State holding the presidency of the Council, it is important to try to influence the positions of the Parliament and inform the central parliamentary figures of Finland's views and specific national issues. Cooperation with the Finnish MEPs should be further developed to promote Finland's interests.

The availability of qualified staff for key positions both in Finland and the EU is an extremely important consideration because Finland's ability to influence developments in the Union very much depends on contacts, the flow of information and the opportunity to have a say in the formulation of policy content early on.

EU skills and capabilities and their further development are an important part of the management of EU affairs in government. To accomplish this, a positive and encouraging attitude towards the accumulation of EU experience and networking by public officials is called for. An essential part of EU expertise is that some officials at the ministries are given the opportunity acquire expertise by working for EU institutions.

Dispatching seconded national experts provides an effective channel of early exercise of influence and may increase awareness of Finland's special circumstances within the EU institutions. At the same time, it will contribute to the Finnish public officials' EU expertise, expand their contact network and improve their recruitment prospects.

**Table 1: Distribution of issues discussed in the Cabinet Committee on EU Affairs in 1995–2012**

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
General Affairs	7	8	20	22	20	20	25	37	42	46	39	23	56	57	43	41	62	93
Foreign Affairs	6	6	14	8	20	13	23	17	16	14	9	13	10	16	13	6	10	10
Economic and Financial Affairs	52	55	34	3	9	5	6	7	10	10	6	5	5	7	10	11	8	14
Justice and Home Affairs	4	4	4	2	3	2	2	4	4	6	8	3	6	2	3	7	7	5
Employment, Social Policy, Health, Consumer Affairs	1	4	-	3	9	4	5	2	3	7	6	9	8	4	2	10	11	4
Competitiveness (internal market, industry, research and space)	8	5	4	3	4	3	2	6	4	4	9	8	7	5	4	4	6	1
Transport, Telecommunications and Energy	5	5	2	8	3	1	2	-	4	9	8	1	3	2	2	1	6	7
Agriculture and Fisheries	2	4	4	-	1	1	-	2	1	6	4	9	3	3	1	9	12	8
Environment	8	7	6	12	9	8	5	3	4	1	7	8	7	2	2	6	14	5
Education, Youth, Culture and Sport	-	-	1	-	-	-	-	-	-	-	1	-	4	1	1	1	-	1
European Council meetings	14	14	9	13	6	6	6	6	8	7	6	13	9	9	4	4	9	8
<b>Total</b>	<b>107</b>	<b>112</b>	<b>98</b>	<b>74</b>	<b>84</b>	<b>63</b>	<b>76</b>	<b>84</b>	<b>96</b>	<b>110</b>	<b>103</b>	<b>92</b>	<b>118</b>	<b>108</b>	<b>85</b>	<b>100</b>	<b>145</b>	<b>156</b>

Table 2: Distribution of Council meetings discussed in the Cabinet Committee on EU Affairs in 1995–2012

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
General Affairs Council	8	6	12	10	10	11	10	14	16	15	10	10	9	13	9	16	12	10
Foreign Affairs Council	15	8	17	18	16	20	21	28	26	30	20	19	15	13	6	6	3	3
Economic and Financial Affairs Council (Ecofin)	13	9	18	10	9	10	10	10	13	12	13	12	15	15	16	12	7	9
Justice and Home Affairs Council (JHA)	4	3	7	6	7	9	6	7	9	7	8	10	7	9	6	7	5	4
Employment and Social Policy Council (EPSCO)	4	4	10	6	8	10	10	7	7	9	7	9	9	12	11	13	8	7
Competitiveness Council	4	2	5	6	5	8	7	7	5	8	8	10	9	9	13	8	11	6
Transport, Telecommunications and Energy Council (TTE)	8	5	7	9	9	6	8	5	7	12	9	7	9	7	11	11	12	8
Agriculture and Fisheries Council	8	7	10	11	13	10	12	9	11	13	13	15	13	14	16	15	13	10
Environment Council	3	2	4	4	6	6	5	5	6	4	7	5	7	6	5	4	5	4
Education, Youth and Culture Council (EYC)	3	4	9	4	5	8	7	5	6	11	6	10	6	10	5	5	3	5
<b>Total</b>	<b>70</b>	<b>50</b>	<b>99</b>	<b>84</b>	<b>88</b>	<b>98</b>	<b>96</b>	<b>97</b>	<b>106</b>	<b>121</b>	<b>101</b>	<b>107</b>	<b>99</b>	<b>108</b>	<b>98</b>	<b>97</b>	<b>79</b>	<b>66</b>

**Table 3: Distribution of issues relating to the Court of Justice and other issues discussed in the Cabinet Committee on EU Affairs and number of meetings and handlings based on written procedure in 1995–2012**

\* Complete minutes of written procedures available only from 2005 onwards

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Issues relating to the Court of Justice	2	1	5	12	23	41	36	45	50	22	32	38	32	41	42	18	5	1
Other issues	1	1	-	-	1	1	-	-	-	1	2	5	1	2	-	7	6	16
Number of meetings	45	45	43	43	36	34	37	41	41	43	38	35	39	40	34	38	37	39
Number of handlings based on written procedure*	28	40	27	29	16	10	17	12	1	1	-	-	-	-	-	-	-	-

Source (Tables 1–3): Hyvärinen, Anna & Raunio, Tapio (2013), Bureaucratic hegemony or party interests? Explaining the level of national EU policy coordination in Finland. Presentation at the General Conference of the European Consortium for Political Research in Bordeaux on 4–7 September 2013





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