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Directorate-
General for
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**SERVICES OF GENERAL ECONOMIC INTEREST (SGEI)
FINNISH REPORT ON THE IMPLEMENTATION OF THE COMMISSION DECISION
(2005/842/EC) BETWEEN 2009 AND 2011**

Under Article 8 of the Commission Decision (2005/842/EC), periodic reports on the implementation of the Decision shall be submitted to the Commission by each Member State every three years. Finland submitted its first report to the Commission on 18 December 2008. As the Commission has not provided the Member States with a separate reporting template for the second report, which covers the years 2009 – 2011, Finland submits its second report using a layout that, though not based on any particular template, broadly follows the structure of the first report.

In this report, SGEI services are divided into three groups as follows: ensuring transport links, social housing and other SGEI services. The SGEI services that are defined in accordance with the Commission Decision and reported by the Province of Åland are described in Annex 1 to the report. The report submitted by Åland also contains the statistical information for the Province. The statistical information on other services reported by Finland is provided as Annex 2 and the Act on Discretionary Government Transfers as Annex 3.

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1. Ensuring transport links

1.1 Pilotage in the Saimaa waterways system

Pilotage in the Saimaa region has been defined as a service of general economic interest. In order to cover the costs arising from the pilotage services provided under the Pilotage Act, the Finnish State Pilotage Enterprise charges piloted vessels a fee based on a fixed unit price. The fee is determined in accordance with the net tonnage of the vessel in question and the actual distance piloted. In the Saimaa Canal and the Saimaa waterways, a fee based on a reduced unit price is charged. The Finnish State Pilotage Enterprise is compensated for the loss of income arising from the reduced unit price from an appropriation included in the Budget for this purpose. Further provisions on the unit price and the reduced unit price are issued by law.

The intention is to keep the pilotage fee charged at Saimaa about 74 per cent lower than the basic pilotage fee. As a result, the intention is to provide the Finnish State Pilotage Enterprise with price support for unprofitable business activities. As a result of the price support, vessel traffic at Saimaa pays the same pilotage fees as maritime traffic when the volumes transported are considered. Piloted distances at Saimaa are considerably longer than in maritime traffic. The compensation for the difference between the basic pilotage fee and the pilotage fee charged in the Saimaa region paid to the Finnish State Pilotage Enterprise is at most equal to the deficit generated in the Saimaa region (including the Saimaa Canal).

1.2 Procurement of passenger ferry services in Kvarken

The passenger ferry service between Vaasa and Umeå is a service between Sweden and Finland operated all year round and subjected to competitive tendering by the Centre for Economic Development, Transport and the Environment for South Ostrobothnia. In addition to the Finnish government, the City of Vaasa, the Regional Council of Ostrobothnia and the Municipality of Umeå also contribute to the financing of the service. The service is operated using a ropax vessel that carries both passengers and freight. The vessel has a passenger capacity of 300. Slightly more than 70,000 passengers were carried in 2010 and the share of freight has been on the increase.

The passenger ferry service makes an important contribution to the traditional links between the Finnish and Swedish regions on both sides of Kvarken. After the end of the tax free sales, losses became so high that it was no longer possible to continue the service without support from public sector actors. It has been difficult to generate competition in Kvarken. Passenger flows are relatively small and for shipping companies services based on them are not profitable. Freight traffic has helped to cut losses but is yet to make the service profitable. Competition is also hampered by the small number of suitable vessels. The short duration of the contract periods and the fact that financing decisions are made separately for each year make long-term planning difficult.

The passenger ferry service between Vaasa and Umeå has been subjected to competitive tendering and the resulting procurement contracts have mostly been for two or three years. Tender notices have been published in the Official Journal of the European Union, as

provided in the procurement legislation of the EU. The shipping company that wins the tendering process is not granted the exclusive right to operate the service. However, as the market is very small and the operations loss-making, there has not been any competition. Under the procurement contract concluded with RG Line Oy, the winner of the competitive tendering process, a round-the-year passenger ferry service is provided between Vaasa and Umeå. It is difficult to attract new undertakings to the route. The small number of passengers deters potential operators and profitability has been poor even though the amount of freight has been on the increase. There are few vessels available that are suitable for traffic in Kvarken.

1.3 Ensuring waterways services of the Finnish government for a specific period - Meritaito Ltd

Meritaito Ltd is an undertaking owned by the Finnish government that specialises in the maintenance and development of waterways. It provides a comprehensive range of waterways maintenance and hydrographic surveying services designed to promote efficient, safe and environmentally responsible operating and transport on water. The purpose is to ensure the availability of waterways services required by the State for the duration of the transition period connected with the opening of the waterways services market (in 2011 and 2012) and open hydrographic surveying and waterways maintenance services and the services covering the maintenance and operations of canals to competition in a managed fashion. This obligation is laid down in the Act on ensuring government waterways services for a specific period (1239/2010) and the Order issued by the Finnish Transport Agency in connection with the act.

The obligation covers the management of hydrographic surveying services, waterways maintenance services and the services covering the maintenance and operations of canals for a specific period. Under section 2, paragraph 1 of Act 1239/2010, the Finnish Transport Agency may, during the transition period covering the years 2011 and 2012, oblige a company referred to in section 1 of the Act on converting the production activities of the Finnish Maritime Administration into a company (875/2009) to provide hydrographic surveying and waterways maintenance services and services covering the maintenance and operations of canals in all parts of Finland and in the leased area of the Saimaa Canal. Under section 2, subsection 2 of Act 1239/2010, the Finnish Transport Agency shall subject the services referred to in subsection 1 to competitive tendering so that in 2011, a maximum of one third is subjected to competitive tendering and in 2012, a maximum of two thirds are subjected to competitive tendering, as calculated on the basis of the contract prices of the services.

1.4 Procurement and development of commuter ferry services in the archipelago

Under the Archipelago Development Act (494/1981), the government must see to it that people permanently residing in the archipelago have access to transport services. The aim is that the existing transport services will continue. The commuter ferry services come under the Centre for Economic Development, Transport and the Environment for Southwest Finland and cover inhabited islands in the Turku Archipelago that do not have any road connection. The Centre for Economic Development, Transport and the

Environment for Southwest Finland procures the commuter ferry services through competitive tendering.

Commuter ferry services are provided by a number of undertakings operating in the Archipelago Sea and the archipelago of Eastern Uusimaa. There are nine operators, the largest of which is Finstaship. Access to the market is hampered by short contract periods, shortage of special vessels and low profitability of the operations.

The aim of the grants is to secure transport services for residents on islands that are not served by commuter ferries. Most of the grants are used for providing passenger and freight services for permanent residents on islands off Kotka-Pyhtää, Porvoo and Tammisaari.

The transport operators providing services that meet the requirements laid down in the government decree on the grants supporting transport services in the archipelago decide on the amount of the transport fees themselves and charge the fees from their passengers without paying the sums to the Finnish Maritime Administration. However, aid may only be provided if the persons listed in the Ministry of Transport and Communications decree on chargeable services of the Finnish Maritime Administration are exempted from the fees.

Subjecting ferry services to competitive tendering has not produced the desired results. On the contrary, it has led to substantially higher expenditure, partially as a result of limited service offerings and short contract periods. There are also two additional concerns for the future: the vessels are old and need replacement and the quays they use are in poor condition and in need of renovation.

2. Social housing

Housing policy subsidies intended for undertakings have always been granted in Finland to specific groups and in accordance with the requirements. The purpose of the subsidies is to provide high-quality and reasonably priced housing for individuals who, on account of such factors as low income, illness, disability or other similar reasons, are unable find suitable housing on the market.

Detailed provisions on the preconditions for granting and paying the subsidies and the parameters used in the calculating, controlling and reviewing of the amounts paid are laid down in legislation and official acts. The Housing Finance and Development Centre of Finland (ARA), which decides on the granting of the subsidies, issues all decisions on the granting of subsidies in writing. The decisions detail the public service obligation imposed on the beneficiary and the compensation paid for it and the terms and conditions connected with the compensation. No subsidies are granted if the operator is paid other subsidies for the same purpose through State resources or if the operator has outstanding loans granted for the same purpose through State resources.

The systems supporting social housing have been built so that all State aid is used for the benefit of the residents. This is achieved through three complementary mechanisms: correctly sized subsidies, non-profit provisions and restrictions

concerning the use and assignment of the dwellings, such as resident selection and cost price rents.

ARA, the State Treasury and municipalities supervise the process so that it can be ensured that the beneficiaries adhere to the preconditions and restrictions laid down in the law. Activities in violation of the provisions may lead to the termination of the subsidy payments, excessive or unjustified subsidies may be recovered and the borrower may be imposed a penalty fee. All information about subsidised projects is kept for 50 years. Checks have shown that the compensations paid and the activities have mostly been in accordance with the law and the decisions made.

2.1 Interest subsidy loans for social housing

Interest subsidies can be paid and collateral security granted for a loan through State resources if the loan has been granted for the construction, acquisition or renovation of social rental dwellings, right-of-occupancy dwellings or part-ownership dwellings. For rental dwellings, the interest subsidy loan may not exceed 95 per cent and for right-of-occupancy dwellings 85 per cent of the construction, acquisition or renovation costs approved for the housing project.

ARA selects the housing projects to be subsidised on the basis of the applications submitted to it and approves a loan as an interest subsidy loan only if the applicant and the housing project meet the requirements for granting interest subsidies laid down in the law. ARA can only approve a loan as an interest subsidy loan if the housing project in question has been recommended by the municipality where the project is located. The loan can only be approved if ARA approves the project construction plan and financing before the work is started. When carrying out the subsidised project, the beneficiary must observe all provisions on competition and public procurement. New construction and renovation must be based on competitive tendering and contracts for interest subsidy loans may only be awarded through competitive tendering. The interest subsidies are paid by the State Treasury.

Interest subsidies can be granted to municipalities, other public corporations, corporations granted non-profit status by ARA or companies in which corporations referred to above have direct control. All corporations may apply for a non-profit status from ARA and objective, proportional and non-discriminatory criteria for the designation have been laid down in the law. The number of corporations granted non-profit status has not been restricted and at the moment it stands at about 500.

Price-quality steering allows ARA to ensure that the dwellings are correctly located in terms of regional development and demand, that they are of high quality and that the prices are correctly calculated. Price-quality steering and other legislation are important factors in ensuring that housing costs stay at reasonable levels and the residential areas become diverse and attractive. Interest subsidy legislation and the terms and conditions laid down in the decisions made by public authorities prevent the payment of excessive subsidies.

For rental dwellings, the borrower must pay a deductible interest of 3.4 per cent and for right-of-occupancy dwellings, 3.5 per cent. The part of the interest above this amount is paid to the credit institution as interest subsidy. However, for loans granted for the construction of new rental dwellings and approved by ARA as interest subsidy loans between 1 October 2011 and 31 December 2014, the deductible interest has been lowered to 1.7 per cent. The maximum loan period for interest subsidy loans is 45 years. However, the interest subsidy is not paid for the whole loan period as the amount of interest subsidy paid gradually declines to zero during a period of 23 years. The interest charged by the lender on an interest subsidy loan may not exceed the interest generally applied to loans with similar risk and terms in each case.

The interest subsidy is entirely used for the benefit of the resident and does not generate any profits for the owner. Under the non-profit provisions contained in the law, a corporation granted non-profit status may only enter as income to its owner a reasonable profit of the funds invested by the owner in the corporation. More detailed provisions on the size of the profit have been given by government decree.

A non-profit corporation must arrange the ownership of the dwellings so that the rents or maintenance charges can be equalised. The corporation may not arrange the structure of the corporation so that the carrying of responsibility for rental or right-of-occupancy buildings in financial difficulties is put at risk. The corporation may only take risks that are related to non-profit activities. There are provisions in the law severely restricting the right of non-profit corporations to grant loans or collateral. The shares of the corporation may not be publicly traded. ARA supervises the process so that it can be ensured that the corporations meet the preconditions laid down in the law and act in accordance with them.

In addition to the non-profit provisions binding on the owner corporations, the restrictions on use and assignment laid down in the law apply to all housing projects granted interest subsidies by the State. The residents may only be charged a cost price rent or a rent that does not exceed the amount that is needed, in addition to any other income generated by the property, to cover expenses arising from financing the dwellings and premises connected with them and expenses arising from sound property management. Selection of residents is based on social appropriateness and financial needs. The dwellings must be assigned to households with the greatest need for housing so that at the same time the composition of residents in the rental building remains diverse and the residential area socially balanced. The housing needs, wealth and income of the applicant households are considered as selection criteria so that the applicants with the most urgent need for housing, with the most limited means and the lowest income are given priority. Municipalities supervise the resident selection process so that it can be ensured that the selection criteria are met.

Project-specific restrictions remain in effect for 30 or 40 years, depending on the purpose of the loan. The public service obligations remain in effect as long as the corporation owns property subjected to project-specific restrictions.

Between 2009 and 2011, ARA was also able to provide start-up grants connected with interest subsidy loans. These grants could only be provided for new rental and right-of-occupancy dwellings funded with interest subsidy loans and thus all provisions on interest subsidy lending, beneficiaries and projects receiving lending apply to them. The aim of the start-up grants has been to boost the production of ordinary rental and right-of-occupancy dwellings in the Helsinki area as the region has seen a shortfall in the construction of such dwellings in recent years and to compensate for construction costs that are higher in the Helsinki region than in the rest of Finland. The grant has amounted to EUR 10 000/dwelling. In 2009 and 2010 the grants could also be provided for housing projects in other parts of Finland and were increased to EUR 15 000/dwelling in the municipalities of the Helsinki region as part of the stimulus measures introduced after the financial crisis. The start-up grant was deducted from the interest subsidy loan.

In the largest growth regions, particularly in the Helsinki area, shortage of reasonably priced housing is a chronic problem. The supply of rental housing vis-à-vis the demand is too low, which means higher rents, makes the position of low-income and middle-income employees of the service sector in the housing market particularly problematic and prevents employees from moving to areas where the demand for workforce is highest. The financial crisis that started in 2008 made the situation worse. In order to solve these problems, Finland has introduced two types of subsidy complementing interest subsidy lending: State guarantees for rental housing construction (in 2008) and an intermediate arrangement allowing the construction of interest subsidy rental housing without restrictions normally applying to such dwellings (in effect in 2009 and 2010). Ultimately, the aim of these types of subsidy has been to secure housing for people in weak position. Thus they, too, can be considered social housing even though the resident selection criteria of ordinary interest subsidy housing do not need to be applied to them.

Both State guarantees for rental housing construction and interest subsidies provided under the intermediate arrangement have been granted for loans that are used for the construction of rental dwellings. The State guarantee for the construction of rental dwellings is in the form of collateral security. The purpose of the intermediate arrangement has been to increase the supply of rental dwellings at a time when rental housing production has declined as a result of the financial crisis. The interest subsidies granted under the intermediate arrangement are also equipped with State-granted collateral security. Unlike in ordinary interest subsidy loans, in the State guarantees for rental housing construction and in the intermediate arrangement, the borrower is only required to possess sufficient capability to repay the loan and own rental housing units. Dwellings constructed using the State guarantees for rental housing construction must be used as rental dwellings for the guarantee period (at least 20 years) and those constructed under the intermediate arrangement for 10 years. There are no other restrictions on use and the non-profit provisions are not applied. However, the provisions on the obligation of the borrowers to subject their contracts and financing to competitive tendering and observe public procurement legislation also apply to both arrangements. Furthermore, the terms and conditions of the loan and the interest

and the other loan-related costs charged by the lender must be reasonable when compared with the terms and conditions, interest and the costs of loans generally granted for similar purposes. The State guarantees are only in effect on the condition that the lender manages the guaranteed loan and its collateral in accordance with the law and in accordance with good banking and recovery principles.

2.2 Grants aimed at improving the housing conditions of special groups (interest subsidy loan referred to in section 8.1 is always a precondition)

Grants aimed at improving the housing conditions of special groups may be provided for the construction, acquisition and renovation of interest-subsidised rental buildings and dwellings intended for persons belonging to special groups. The following categories are considered special groups: the homeless, the disabled, refugees, students, people with mental problems, people with intoxicant problems, young people in need of special support, the elderly with memory diseases or that are in poor health and any other similar groups in weak position.

The purpose of the investment grants for special groups is to make it easier for people in the weakest position to acquire dwellings that meet their needs. The grants are used for compensating the special investment costs that arise from the greater-than-usual need for joint and service facilities among special groups and for helping to ensure that dwellings equipped with such facilities are built. The grant system also plays a central role when efforts are made to prevent people from becoming excluded from the housing market or to provide those already excluded with reasonable housing again.

The grants are provided and paid by ARA for projects recommended by municipalities. The grant can only be provided for a rental building and dwellings suited for a special group and on the condition that people belonging to the special group are in need of permanent housing in the locality. ARA approves the project plan, which must show that the project is, in overall terms, economically and operationally justified.

The size of the grant is always on a case-by-case basis and in accordance with the additional costs arising from the facilities requirements of the special group that differ from what is normally incorporated in residential buildings. The maximum amounts of the grants (10, 25, 40 or 50 per cent of the ARA-approved construction costs) have been graded in accordance with the needs of the target group. The largest amounts (max. 50 per cent) are intended for financing housing arrangements of the long-term homeless suffering from intoxicant, mental or other similar problems and of the disabled requiring exceptional or expensive facilities or equipment.

The grants are only provided for projects granted interest subsidy loans (see section 8.1). This means that all provisions on interest subsidy lending, beneficiaries and projects for which loans are granted, such as the non-profit provisions, resident

selection criteria and the principle of cost price rent, also apply to the projects for special groups. The dwellings to be built must also be used as dwellings of the special group mentioned in the grant decision for 20 years.

2.3 Social housing loans granted by the State

Previously, loans were granted through State resources for the construction, acquisition and renovation of rental and right-of-occupancy dwellings. State subsidies for these ARAVA loans meant that the interest charged on them was below the market rate. Due to the low level of market rates, no low-interest subsidies have been granted in recent years. The granting of ARAVA loans has been discontinued and they have been replaced with interest subsidy loans (see section 8.1). However, as there are still outstanding ARAVA loans, the legislation on them remains in force. At the end of the year 2011, outstanding ARAVA loans totalled about EUR 8.0 billion.

ARAVA loans were granted by ARA for projects recommended by municipalities. The precondition was that ARA approved the construction plan and budget before the work was started. The loan was paid by the State Treasury. ARAVA loans were granted to municipalities, other public corporations, corporations granted non-profit status by ARA or companies in which corporations referred to above have direct control. The non-profit provisions (including the entering of profit as income) and project-specific restrictions on use and assignment described in section 8.1 also apply to recipients of ARAVA loans.

The maximum amount of the ARAVA loan granted was between 80 and 95 per cent of the approved costs, depending on the project in question. The loan periods have been between 30 and 40 years (max. 45 years). If the loan has been granted after 1 March 2003, the deductible interest payable by the borrower is 3.4 per cent and the average rate of the last three years of the ten-year government bond quoted by the State Treasury is used as the reference rate. Maximum interest is six per cent.

Additional subsidies may be granted if the preconditions laid down in the law are met. The loan terms and conditions may be changed for a specific period, the ARAVA loan may be partially forgiven, or rental housing corporations may be provided with financial assistance or assistance for covering demolition costs. Only small amounts of these complementary subsidies are granted each year. They are granted for rental buildings that, as a result of unexpectedly strong decline in local population, have been underoccupied for years. If no complementary subsidies were granted, the loan terms and conditions based on the situation at the time of the granting of the ARAVA loans would become unreasonable for the rental housing corporations, while rents would, as a result of underoccupation, become too high for the residents.

3. Other SGEI services

3.1 Tunturiverkko Oy

This service involves the carrying out of replacement investments in the electricity system in the area of the former Utsjoki electricity cooperative. The service is provided by Tunturiverkko Oy, a new distribution system operator that continues electricity system operations in the former distribution areas of the Utsjoki electricity cooperative and Inergia Oy.

Electricity system operations are subject to authorisation and the merger of two system operators has produced a situation where the new system operator will, after the completion of replacement investments for which State aid is provided, be able to fund all future costs arising from the system operations (such as investments) without State aid.

The public service obligation, which applies to all electricity system operators in Finland and thus also to Tunturiverkko Oy, has been laid down in the Electricity Market Act (386/1995). Electricity system operations are natural monopoly activities and provisions on them are contained in the Electricity Market Act. General obligations concerning system operations are laid down in Chapter 3 of the Electricity Market Act. These include the obligation to develop the electricity system.

The public service obligation has been laid down in a decision of the Ministry of Employment and the Economy. In the Ministry decision (TEM/1456/560/2009) on a grant for expenditure arising from replacement investments in the distribution system of the Utsjoki electricity cooperative, the following conditions have been set for paying the grant:

- 1) The grant will be paid on separate application. The grant will be paid ex post facto, as the replacement investment progresses, using accounts-based financial reports as a basis.
- 2) The grant will amount to a maximum of 50 per cent of the total costs of each project. The system operator is responsible for the remaining costs. A valid report on the overall project financing must be provided in connection with the application for a payment.
- 3) Before the grant is paid, the applicant must present a statement issued by an approved auditor (KHT, HTM, JHTT) in which, on the basis of checks, it is stated that the expenditure items for which the grant is applied are based on net expenditure that has been paid for and that appears in the accounts of the undertaking and that the grant application has also otherwise been prepared in accordance with the terms and conditions that are laid down in this grant decision.
- 4) The investments for which aid will be applied must be treated in the accounts so that the costs arising from them can be easily separated from other costs, such as other system investments or repairs. This can be done by, for example, monitoring the costs arising from investment projects at separate accounts.
- 5) A plan on the carrying out of the investments, presenting the overall details of the investments on which the applicant intends to use the State aid, must be prepared (size and timing of the investments and the system structures covered by the investments). It must be possible to update the plan, if necessary. In connection with the application for the grant, it must be possible to provide details of which of the investment projects

presented in the preliminary plan submitted to the Ministry of Employment and the Economy will be funded with the grant.

- 6) The Ministry of Employment and the Economy has the right to check the business operations of the beneficiary to the extent necessary for ensuring the correctness and appropriateness of the manner in which the grant is used and to request the instruments and other material required for carrying out the checks from the beneficiary. The beneficiary must also otherwise assist in the carrying out of the checks. The Ministry also reserves the right to carry out reviews and checks the purpose of which is to examine in more detail the investment projects that have received aid or are to receive aid and the carrying out of the investments.
- 7) The grant may be paid between 2011 and 2019.
- 8) After the grant totalling EUR 1,000,000 has been used by the end of 2019, the electricity system company established with the merger of Utsjoki electricity cooperative and Inergia Oy must be able to fund all future electricity system replacement investments through income financing.
- 9) The beneficiary must keep all receipts related to the carrying out of the projects receiving aid for ten years from the date on which the aid instalment was paid.
- 10) Provisions on repayment and recovery of discretionary government transfers laid down in the Act on Discretionary Government Transfers apply to the repayment and recovery of the aid.
- 11) The assets acquired through the grant may not be permanently used for purposes other than those defined in this grant decision and the ownership or right of possession of the assets may not be assigned to others within a ten-year period starting from the date on which the last grant instalment was paid.

3.2 Expert and advisory services concerning the promotion of entrepreneurship closely related to the activities of public authorities – Finpro ry

With the general grant provided for supporting the activities of Finpro ry, the Finnish government offers SMEs reaching out to the international markets high-quality expert and advisory services in 53 export centres located in 42 countries. SMEs can use most of the services free of charge.

Finpro ry is a registered private association operating on a non-profit basis. Finpro was established in 1919 to promote the marketing of Finnish export products. The Ministry of Employment and the Economy funds the activities of Finpro by providing the association with an annual general grant. Finpro applies for the general grant provided for supporting its activities separately each year. Finpro is the official export-promoting organisation of the Finnish government and is the only corporation in Finland carrying out the task in this extent.

The practical implementation of the internationalisation services provided by Finpro is in accordance with the Act on Discretionary Government Transfers (688/2001, as amended), the government decree on general grants for corporations promoting foreign trade, economic policy and internationalisation of enterprises issued under it (1301/2010; preceded by decree 1186/2005), which is complemented by the Ministry of Employment and the Economy instructions on applying for and using general grants and on examining the use of general grants (3843/023/2008, 30.12.2008).

In addition to this, the financing of Finpro's service activities is mentioned in the rationale for item 32.20.41 of each year's Budget. The activities are also steered using a performance agreement concluded each year and a decision on the granting of general aid. These instruments state as follows:

- Contents of the service to be subsidised and the period during which the general grant can be used (one year at a time);
- Recipient of the general grant and the manner in which the general grant is used (service activities in Finland and export centres in 42 countries);
- Finpro does not have any special rights concerning the carrying out of its activities;
- Practical instructions concerning the general grant are laid down in the Ministry instructions referred to above (3843/023/2008);
- If the general aid granted to Finpro is not fully used, Finpro will repay the Ministry the proportion of the general grant paid in excess of the actual requirement, as laid down in the instructions.

3.3 Finnish Game and Fisheries Research Institute

The Finnish Game and Fisheries Research Institute (FGFRI) is an authority whose tasks are based on the Act (1131/1987) and Decree (1070/1993) on the Finnish Game and Fisheries Research Institute. Under section 1 of the Act, the task of the Institute is to carry out research and experiments in the field of fisheries and game and reindeer management and to carry out State-managed fish farming to the extent that it is not a responsibility of other public authorities. Under the Act, the Institute has research stations and fish farming stations. Under the Decree (1070/1993), the FGFRI is responsible for State-managed fish farming. Decisions on the yearly tasks of the State-managed fish farming are made in the performance agreement between the Institute and the Ministry of Agriculture and Forestry, which is responsible for the performance guidance of the Institute.

The aquaculture carried out by the Finnish Game and Fisheries Research Institute has been organised as a separate unit. The tasks of the unit include the provision of expert services for administration in the sector and the production of farmed fish for State-owned waterways and experimental purposes.

The task of FGFRF aquaculture is to maintain the valuable fish stocks of Finland and their diversity through aquaculture and to ensure the quality and health of aquaculture production stocks to the extent that this cannot be achieved by other means (markets). Using broodstock rearing, the fish farms of the aquaculture unit produce fish eggs and fish larvae with known origins for on-growing. Other aquaculture products are also supplied. They help to maintain and enhance endangered fish populations and, consequently, improve opportunities for fishing and promote the aquaculture sector.

The most important task concerning the development of the aquaculture sector is the improvement of the qualities of production stocks through selective breeding and the sales of juveniles from breeding stocks to producers. This work ensures the availability of populations adapted to Finnish conditions and keeps Finnish waterways free of new fish diseases. The preservation of the original fish populations through aquaculture is done so that broodstock of the original endangered populations are acquired for the fish farms and their offspring are stocked in the waterways where the fish species in question occur. The rearing and stocking of the juveniles are the responsibility of private undertakings and owners of waterways.

The first parts of the operational chain, broodstock rearing and the production of fish eggs and fish larvae are considered to be a State responsibility as carrying them out in a market-based manner is not possible. Establishing broodstock with a sufficiently broad genetic base is very expensive. Maintaining valuable fish stocks requires expensive and biotechnically secure facilities. Sales of fish eggs and fish larvae only become profitable between six and eight years after the investments in broodstock, which is too long a time for entrepreneurs.

It is not possible to incorporate the additional costs resulting from special production into sales prices as the Finnishness of the population is a qualitative characteristic that the customers cannot recognise from the product. Stocking alien mass production populations in waterways is cheaper and serves the catching interests of the party carrying out the stocking but it also endangers the existence of indigenous populations. Ensuring the existence of indigenous fish species requires a public sector player.

The Finnish Game and Fisheries Research Institute, which provides the service, is a net budgeted agency and most of the financing of its activities is covered through State resources. Almost one third of the financing comes from external sources, in the form of joint and research funding or is collected through sales of products and services.

The Institute allocates a separate net appropriation for the aquaculture unit responsible for State-managed aquaculture and at the same time imposes an obligation to acquire external funding. Most of the external funding is collected through sales of fish eggs and fish larvae. In the Institute's accounting and cost calculation, aquaculture is treated as a separate unit. In the internal accounting of aquaculture, expenditure and revenue are broken down by product group, product

use and production facility. This means that accounting provides detailed annual information about the costs directed at the aquaculture products sold, the revenue received and calculated surplus or deficit.

4. Other issues

The parties that have provided information contained in the report submitted by Finland have stated that decision-making has been in accordance with the terms and conditions of the Commission Decision (2005/842/EC).

Responsibility for operation of the service of general economic interest has been entrusted to undertakings, as laid down in Article 4 of the Decision in question. The form of the official acts issued by public authorities varies, depending on the service. The obligation has been laid down in such official acts as laws or decrees, the Budget or decisions on discretionary government transfers issued by public authorities that may also have been complemented by agreements made each year. The other terms and conditions laid down in Articles 5-7 have also been observed in decision-making, including the ban on overcompensation, separate accounting, control and the obligation to store the information.

As a rule, service providers have not been assigned any exclusive or special rights. Exceptions have been made in the following cases:

- The company carrying out pilotage under the pilotage legislation has exclusive right to commercial pilotage.
- Electricity system companies have special rights under the Electricity Market Act. These include the carrying out of electricity system operations in their area of operations.

It can also be stated that, under the information collected, the application of the Commission Decision (2005/842/EC) has not led to difficulties or complaints by third parties in the case of any of the service categories.