DISCUSSION PAPER

SUSTAINABLE PROSPERITY FOR EUROPE AND EUROPE IN THE WORLD PROGRAMMES

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Finland in the European Union: Frontrunner or follower?

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Introduction

Finland perceives itself as a constructive player in the European Union (EU). The rhetoric of policymakers, as well as the views of mass media and the public, echo this perception. This self-image of a 'good pupil' that implements regulations and stands at 'the core' of EU decision-making processes is in-built in the Finnish understanding of its standing in the EU.

Generally speaking, the overall appreciation of Finland as an EU player is positive. In many areas, such as the Single Market, innovation or the digital agenda, the country is seen as a constructive and forward-looking actor that acknowledges the benefits of cross-border collaboration. Finnish regions and businesses, which are active in these fields, contribute significantly to enhancing this image.

When taking a closer look at EU policymaking, different policy areas and perceptions of other member states and stakeholders, the story, however, is tainted with shades of grey. First, the rise of 'The Finns', a populist Eurosceptic party, has challenged the narrative of an unconditionally pro-integration member state. Second, Helsinki's role in EU policymaking is not as straightforward. Finland is not always as reliable or strong actor in driving the EU policy agenda forward as may be portrayed domestically. Also, there have been a number of instances where Finland has been underperforming or undermining common EU objectives. As such, Finland is a more ordinary member state than it is perhaps willing to concede.

Finland, like other EU member states, is keen to promote its national interests. This, however, can contribute to undermining EU integration, solidarity and commitment to shared principles while leading to unwanted consequences. For instance, while the country's hard stance on the Greek bailout deals and unwillingness to increase its financial liabilities was shared by, for example, Germany, it left a dent in Finland's reputation. In the eyes of southern member states, Finland became an 'austerity hawk'. And while Finland has accepted some migrants, overall, its share of the burden has been marginal compared to southern European member states or its neighbouring Sweden over the past years.[1] These examples raise questions about Finland's understanding of solidarity in the European context and to what extent it, as a result of its selective solidarity, could expect favours from other member states, if needed.

Since national debates usually overlook the standing and relative contribution of each member state in advancing the EU agenda, this paper aims to foster such awareness. It analyses the perception and position of Finland, with a particular focus on three areas: (i) the Single Market, (ii) the circular economy, climate and energy policies; and (iii) foreign and security policy. The authors have selected these areas because of their implications for competitiveness, prosperity and security, and Finland's keen interest in these issues. The hope is that the findings will provide some new input for the national debate.

The underlying assumption is that Finland wishes to remain at the centre of the efforts that will shape the future of the EU. This paper attempts, therefore, to position Finland on the EU policy map. It includes an overview of the state of play, ongoing developments and how Finland has contributed to advancing the EU agenda in the given policy areas. When relevant, it considers which 'likeminded' countries Finland aligns itself with and the implications of this. The paper also provides recommendations on how Finland could become a more effective and constructive player within the EU. It identifies the areas in which it could do more to align its interests with those of the EU.

CAVEATS

This study focuses on 'official' Finland, meaning its policymakers and the government. It is worth keeping in mind, however, that Finland is much more diverse. Its people, regions and businesses do not always align with the official picture.

The sources used in the study include existing literature (see references p. 18-19). Official statistics from EU institutions serve as the basis for the member state comparisons. The EPC has also interviewed ten experts and professionals from different member states and across sectors on the three focus areas.

The study, which received financial support from the Confederation of Finnish Industries (EK), has been carried out independently by the EPC analysts.

1 Eurostat (2017), Number of first instance and final decisions on (non-EU) asylum applications; Ceaseval (2018), Sharing Responsibilities in the Common European Asylum System

1 Finland as a team player

The EU Cohesion Monitor and the EU Coalition Explorer provide a good starting point for assessing Finland's level of engagement with the European Union. The EU Cohesion Monitor relies on the Eurostat data and Eurobarometer surveys, while the EU Coalition Explorer presents the results of expert surveys. Both are projects carried out by the European Council on Foreign Relations.

The EU Cohesion Monitor assesses the readiness of member states for joint action and cooperation on the basis of a number of indicators.[2] According to the Monitor, Finland ranks as average when it comes to individual (e.g. people's experience with, engagement and attitudes towards the EU as well as the support for economic and monetary, common foreign, defence and security policy) and structural cohesion (e.g. a country's level of policy integration, as well as economic ties and security cooperation with other member states).

The EU Coalition Explorer considers the coalition-building potential of member states in security, defence, foreign, development, fiscal, economic, and social policies.[3] It considers those most contacted by others and their responsiveness, the extent to which interests are shared with others, and the commitment to deeper integration.

Finland ranks ninth out of 28 in the overall comparison, which is a pretty good position for a relatively small member state. It is preceded by Germany, France, the Netherlands, Sweden, Italy, UK, Belgium and Spain.

The Explorer also indicates who aims to cooperate with whom. In economic and social policy, Finland seeks to partner with Sweden, Germany and Denmark – while especially Denmark, Austria, Sweden and Lithuania see Finland as an essential partner. In fiscal policy, Finland seeks to cooperate with Germany, Sweden and the Netherlands. It is ranked as the fifth most contacted member state in this field, with Sweden, Austria and Denmark in particular wishing to cooperate with Finland. In foreign and development policy, Finland seeks to build coalitions with Germany, Sweden, the Netherlands, Denmark and France – while Latvia, Ireland, Croatia, Denmark and Sweden see Finland as an important partner. In the fields of security and defence, Finland wishes to partner with Sweden, Germany, France and the UK – while Austria, Latvia, Ireland and Sweden like to cooperate with Finland.

The Explorer shows that Finland has strong ties especially with Sweden, with a mutual interest to cooperate. Germany stands out as another country with which Finland seeks to cooperate in many different policy areas, however, this relationship is more one-sided. Estonia and Denmark see Finland as a somewhat more important partner than how Finland views them.

As will be shown also below, Finland's convening power in EU policymaking differs across policy areas. However, as demonstrated by the Explorer, it has a good basis to build on its potential.

2 The Single Market

Finland is a relatively small and open, export-driven economy. In EU policy debates, Finland usually advocates for the completion of the Single Market. In principle, it appreciates the benefits that free movement of people, goods and services bring to the economy.

Domestically, however, Finland could do more to contribute to and benefit from the Single Market. In 2016, according to the European Commission, the country's integration with the Single Market for goods was below the EU standard. For services, it was in line with the EU average. A closer look also reveals that its backing for the Single Market is selective. For example, Helsinki opposed the establishment of foreign operators in the retail sector and cabotage in the road freight transport. This section will examine Finland's track record with the Single Market and show that there is untapped potential that warrants further integration.

2.1 FOUR FREEDOMS

According to the authors' calculations based on Eurostat data, Finland's intra-EU trade in goods, measured as a sum of imports (EUR 44.79bn) and exports (EUR 30.67bn) accounts for 36% of GDP in 2017, lower than the EU average of 46.4%. Finland's intra-EU trade in services (7% of GDP) is closer to the EU average (6.8%).[4]

According to LE Europe,[5] based on Eurostat data, the country is above the EU average regarding intra-EU foreign direct investment, which accounts for 48.4% of GDP compared to the EU average of 35.9%. This good performance is in line with Finland's position in the Ease of Doing Business ranking of the World Bank, where

2 European Council on Foreign Relations (2018), EU Cohesion Monitor 2018

3 European Council on Foreign Relations (2017), EU Coalition Explorer 2017

4 See Eurostat (2018), International Trade in Goods and European Commission (2018), Single Market Scoreboard – Trade in Goods and Services

5 LE Europe (2017), The EU Single Market: Impact on the Member States, p82

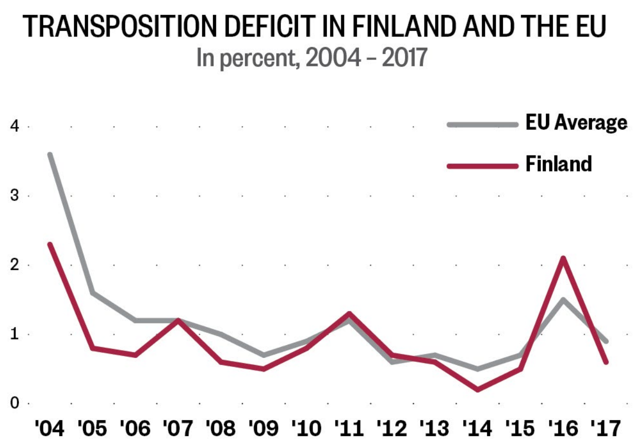
the country ranks fifth in the EU.[6] However, employees from other EU countries amounted to only 1.6% of total employment, less than half the EU average of 3.3%.[7] Finland's language and peripheral location may partly explain why so few European workers integrate into its labour market.

2.2 TRANSPOSITION AND COMPLIANCE PERFORMANCE

According to the latest EU Single Market Scoreboard, Finland's overall transposition record was high (99.7% of all directives) and slightly above the EU average (99.3%) in 2017.[8] The average transposition delay is reported at 5.1 months, lower than the EU average of 8.7 months. Six directives were overdue in 2017, including three in financial services.

As for the compliance deficit, the latest scorecard highlighted a decrease from 0.8% to 0.7%, which is higher than the EU average (0.6%) and the proposed target in the Single Market Act (0.5%). It demonstrates that despite Finland's support for the Single Market in rhetoric, the country does not implement and enforce EU rules more dutifully than others.

Fig. 1



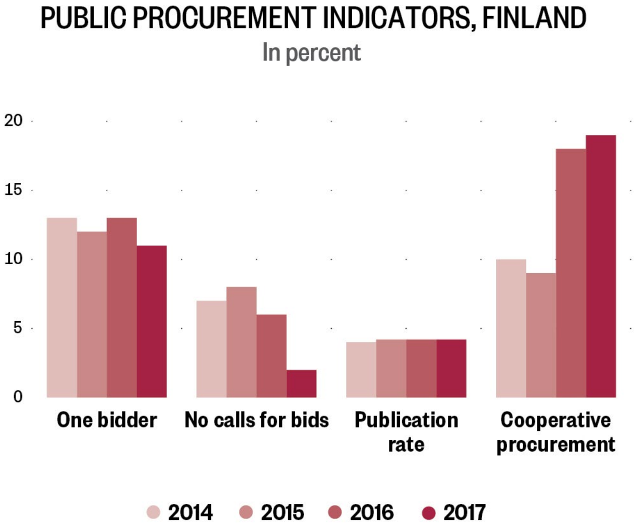
Source: authors based on data from the European Commission

2.3 PUBLIC PROCUREMENT PERFORMANCE

According to the EU Single Market Scoreboard, Finland's performance in public procurement is satisfactory by EU standards.[9] The good news is that between 2015 and 2017, cooperative procurement jumped from 9 to 19% of the total bidding.[10] As for award criteria, only 54% of contracts are awarded solely on the basis of a lower price, against an EU average of 80%. Regarding decision speed, it took 88 days in 2016 to award a contract, compared to an EU average of 120 days. In 2017, the country performed in line with the EU average regarding the share of contracts that are awarded to the sole bidder (11%). From 2015 to 2017, Finland significantly reduced the percentage of procurement procedures negotiated with a company without a call for bids (from 8% to 2%). Over the past three years, the value of advertised procurement to GDP remained constant at 4.2%.

Finland could do more to disclose more detailed information on the value of contracts. In 2016, 28% of deals were still awarded without information on their value. It was, nevertheless, a marked improvement from 2015, when Finland ranked among the EU's worst performers. As for disclosing more information on the name and conditions of the procedures, 11% of procedures were still lacking in clarity in 2016.

Fig. 2



Source: authors based on data from the European Commission

2.4 DIGITAL SINGLE MARKET

In 2018, Finland ranked third among the 28 member states in the aggregate Digital Economy and Society Index.[11] People's digital skills and digital public services remain the best assets of Finland's digital economy, and Finland ranks as the leader in these fields.

Although Finland shows an overall good connectivity performance compared to the EU average, it has been declining for some time now. There is still room for improvement with the 4G broadband coverage, especially in sparsely populated rural areas. Ultra-fast broadband coverage reaches only 59% of households, and Finland ranks 21st out of 28. With a low fixed broadband uptake, Finland ranks 27th out of 28. It is, however, largely

6 The World Bank (2018), Ease of Doing Business Ranking, Finland Country Profile

7 LE Europe (2017), The EU Single Market: Impact on the Member States, p82

8 European Commission (2018), EU Single Market Scoreboard 2018

9 Ibid.

10 Cooperative Procurement is combining the requirements of two or more public procurement entities to obtain the benefits of volume purchases, delivery and supply chain advantages, best practices and reductions to administrative expenses and time savings.

11 European Commission (2018), Digital Economy and Society Index 2018 – Country Report Finland

compensated by its excellent mobile broadband uptake, ranked first in the EU.

Over the past year, Finland has improved its integration of digital technologies, although unevenly across the economy. While services have readily harnessed the opportunities of digitisation, manufacturing seems to have fallen behind.

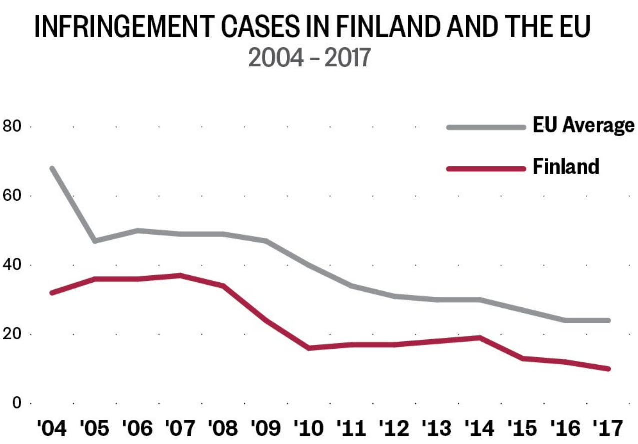
As the EU is lagging in the global race in new technologies, including artificial intelligence (AI), Finland is well positioned to take advantage of its digital primacy and ensure that the next European Commission builds on the digital opportunities. This includes promoting the Digital Single Market and enabling conditions for technological development and uptake for the benefit of the wider economy and society.

2.5 INFRINGEMENT CASES AND SECTORAL ISSUES

According to the EU Single Market Scoreboard, Finland had ten pending infringement cases in 2017.[12] This makes it among the best performers in the EU, where the average is 24 cases per country. The average case in Finland lasts slightly more than 31 months. Even though the length has increased by 50% since the previous report, the country still outperforms the EU average (39.8 months). It takes about 10.5 months for Finland to comply with court rulings compared to an EU average of more than 23 months.

As an example, in its infringement package of January 2018, the Commission requested that Finland take measures to ensure the correct implementation of the EU legislation on **unfair commercial practices** (e.g. Directive 2005/29/EC). Following letters of formal notices sent in April 2014 and March 2015 concerning several aspects of the directive, the Finnish Parliament has taken its time to blacklist the practice of publishing sponsored editorial content without acknowledging that a commercial entity has paid for it.

Fig. 3



Source: authors based on data from the European Commission

Transport remains one of the most problematic sectors. In freight rail transport, only three other EU countries show the same monopolistic market structure. In passenger rail transport, nine member states show a similar form of monopoly. In 2017, there were seven pending infringement cases related to transport, including two for road transport, three for aviation, and two for maritime and inland waterways. Finland has transposed 98% of EU transport directives into national law, which is low in comparison to the EU average. Only four member states have transposed less.[13] The government has now reacted to the concerns. It recently decided, for example, to open passenger rail transport to competition as of 2020, thus breaking the monopoly of the national operator VR.

Product markets regulation is another area of concern. The grocery retail market remains hugely concentrated, with the two leaders accounting for 80% of the market. Prices for food and non-alcoholic beverages are the fourth highest in the EU, although on a downward trend due to recent improvements in competition. Recent consumer-friendly reforms in the retail market include liberalising opening hours and giving retailers more flexibility to adapt to consumer preferences. Meanwhile, another challenge stems from the fact that municipalities hold many planning powers. To avoid fragmentation and ensure more effective implementation across the country, Finland could consider some re-centralisation of competences currently assigned to cities and towns.

When it comes to regulated services, Finland is liberalising its **taxi sector** by abolishing quotas per geographical zone, reducing requirements for obtaining licenses and allowing more flexibility in tariff settings.

The **pharmacy sector** remains heavily regulated, with much work to do to reform the system. In the pharmacy sector, three wholesalers have exclusive agreements with pharmacies. Finland would benefit from shifting to a multichannel distribution system, which is widely used across the EU. It allows for more flexibility in sourcing supplies.

Finland has a fairly favourable attitude toward the **collaborative economy**, which accounted for EUR 100 million in 2016. However, while regulation is supportive of peer-to-peer accommodation – through a full integration in the income tax system – peer-to-peer transport services remain a subject of debate. The latter raises questions with regard to Finland's readiness to provide a conducive environment for the development of new business models that could benefit consumers and rejuvenate the economic fabric.

[12] European Commission (2018), EU Single Market Scoreboard 2018

[13] European Commission, EU Transport Scoreboard

2.6 COMPARING WITH ESTONIA, IRELAND AND SWEDEN

Estonia and Sweden, as Finland's close partners and neighbours, and Ireland, due to its size and peripheral location, provide interesting points of comparison on the Single Market.[14]

Regarding trade in goods, Finland's performance is far below that of Estonia, while it is comparable to that of Ireland and Sweden. In services, Finland is close to Sweden and the EU average. However, it ranks well below Ireland and Estonia, which are significantly above the EU average. Regarding intra-EU foreign direct investment, Finland is in line with Sweden and Estonia, with whom it shares similar economic and geographic characteristics, but stands well behind Ireland. The latter, however, is an outlier due to its privileged position in international value chains.

On the number of employees from other EU countries, Finland scores better than Estonia but performs worse than Sweden and Ireland, with the latter standing far above the EU average. Besides its geographical and linguistic predicament, Finland has belatedly implemented the EU Directive on the recognition of professional qualifications, which has limited the possibilities for other EU nationals to find jobs in Finland.

Overall, the transposition of directives is better in Finland than in Estonia, Ireland and Sweden, all of which are ranked beyond the EU average. Concerning public procurement performance, Finland is overall in line with the selected countries mentioned above. It shows, however, a better performance than Ireland on decision speed. On cooperative procurement, it performs better than Sweden and Estonia. Meanwhile, Estonia performs better than Finland when it comes to the share of procedures where information about the registration number of sellers or the procurement activities of public buyers is explicitly provided.

2.7 IMPLICATIONS OF BREXIT

With Brexit, the EU is set to lose one of the most consistent advocates of the Single Market. In the case of member states like Germany and France, there is an increasingly wide gap between rhetoric and action on the ground. Both profess support for a better functioning Single Market, while in practice, thwarting new measures or delaying enforcement. It is, therefore, in the interest of Finland to continue working with the likes of Sweden, Denmark, the Netherlands, Belgium, Ireland, Czech Republic, Poland and Spain that tend to appreciate the benefits of a properly functioning Single Market with more conviction. Finland could, therefore, use its presidency of the Council of the European Union in 2019 to unite the pro-Single Market bloc and attempt to persuade Germany and France to make a joint effort to improve its functioning.

As a relatively small and rather open economy, Finland has a keen interest in improving the functioning of the Single Market. To strengthen its voice as an advocate of the Single Market, Finland would benefit from practising at home what it preaches in Brussels. For example, the priority could be given to implementing its retail sector reform, breaking the monopolistic structure of its transport services, recognising professional qualifications and liberalising regulated sectors. At the same time, it is in Finland's interest to actively coordinate and cooperate with like-minded countries – and challenge the reluctant member states – to ensure the ambitious implementation of the agreed goals and the realisation of the benefits that a properly functioning Single Market would bring.

3 Circular economy, climate and energy policies

Finland has a robust, nature-based economy, and it puts a great emphasis on the importance of the bio-economy in meeting environmental, climate and energy goals of the EU. The environment in Finland is generally in a good state. Nevertheless, the country also has its specific challenges in creating a sustainable economy that limits greenhouse gas emissions, uses resources in a smart, resource-efficient manner, and provides sustainable, secure and affordable energy.

Finland's nature-based economy is both an opportunity as well as a challenge. On the one hand, an abundance of some natural resources (such as wood and minerals) creates numerous business opportunities. On the other hand, such wealth can undermine efforts to use resources efficiently or effectively, in a way that produces the highest value. It has also contributed to the decline of biodiversity: approximately one-tenth of Finnish species were classified as threatened in 2010.[15]

In the European context, the debate on bio-economy and the prospects with bio-based materials in the circular economy, climate mitigation and energy systems would benefit from a more frank discussion and a broader awareness around the possibilities and challenges.

14 The comparison is based on indicators from European Commission (2018), EU Single Market Scoreboard 2018.

15 European Environment Agency (2015), Finland country briefing – The European environment: State and outlook 2015

Finland is well positioned to contribute to this discussion. Meanwhile, it could adopt a more comprehensive approach that aims to address the interconnected challenges, from climate change to unsustainable use of resources. This section explores Finland's path-dependencies, its position in the current EU debates and suggests areas for improvement.

3.1 CIRCULAR ECONOMY

On environmental issues, from biodiversity to the protection of nature, Finland is traditionally seen as more of a follower than a vocal frontrunner. In the background, however, the work of Finnish environmental researchers has been appreciated and they have played an important supporting role in EU decision-making.

Recently, Finland's stance in the environmental debates has shifted as a result of its new interest in the circular economy.[16] The government's aim to make circular economy one of its key projects is exemplary in the European context. It has adopted an action plan to promote the circular economy, with the aim of becoming a world leader by 2025. Prepared jointly by the Finnish Innovation Fund Sitra, relevant ministries and other stakeholders, the Finnish roadmap demonstrates broad political support for this effort.[17]

FROM THEORY TO PRACTICE

In the European debate on the circular economy, Finland has focused on the role of bio-economy and cleantech solutions. While this approach builds on Finnish strengths and is needed, it is, however, not sufficient. A transition to a circular economy is a compound exercise that requires a comprehensive effort to close the loops.

A number of indicators are used in the EU to measure the transition towards a circular economy.[18] One can be critical about the indicators and argue that greater focus should be put, for example, on reducing overall consumption and ensuring that the use of secondary raw materials creates value. However, the current indicators already reveal how complex the issue is.

This paper will take a closer look at different groups of indicators used by the European Commission. These demonstrate that while citizens' engagement and business operations are well above the EU average, Finland's performance in sustainable resource management (production, consumption and waste management) is average. Thus, while Finland's commitment to a circular economy is welcome, the measures it has implemented so far do not yet respond to all the challenges. To become an even more influential voice on the topic, Finland would benefit from addressing the internal problems it still faces.

- The established **production and consumption** indicators look at the generation of waste, where Finland is close to the EU average.[19] The EU comparisons for green public procurement are not yet available, however, it is worth noting that this is an area that Finland has been promoting for years.[20]

- On **waste management and recycling**, Finland is below the EU average. Finland recycled 42.0% of the generated municipal waste in 2016 against an EU average of 45.3%. Sweden and Germany achieved a recycling rate of 48.9% and 66.1% respectively.[21]

  A closer look at recycling shows that more remains to be done. For example, Finland is leading in the recycling of paper and cardboard packaging,[22] but its recycling of packaging waste in general (64.7%) is lower than the EU28 average (67%) and much lower compared to countries such as Belgium (81.9%).[23] Finland also has one of the lowest rates of wooden packaging recycling in Europe (14.4%), far below the European average (39.8%).[24]

  Finland is just above the EU average in terms of e-waste recycling. While the EU average was 41.2% in 2016, Finland's recycling rate of e-waste was 42.1%. In comparison, Sweden's recycling rate for e-waste was 55.4%.[25] Also, recycling rates for bio-waste are slightly lower than the EU average (65 versus 78 kg per capita in the EU28), and around 1/3 of that of Austria's bio-waste recycling in 2016 (181 kg per capita).[26]

  Regarding the recovery rate for construction and demolition waste, Finland was slightly below the European average (87 against 90% in 2016).[27] Also, Finland has one of the lowest rates of plastic recycling in the EU. A national system for collecting household plastic waste was set up as late as 2016. While the plastic packaging recycling rate had increased from 14.6% in 2004 to 25.4% in 2016, this figure remains

16 The circular economy stands for keeping the value of products, materials and resources in the economy for as long as possible, recovering and regenerating products and materials, and minimising the generation of waste.

17 Finnish Ministry of Environment (2018), Circular Economy

18 The European Commission proposed a monitoring framework for the circular economy with indicators for (i) 'production and consumption', (ii) 'waste management', (iii) 'secondary raw materials' and (iv) 'competitiveness and innovation' in January 2018. The monitoring framework aims to build on existing data, available at the Eurostat. The European Commission has also used Circular Economy Indicators that have looked at (i) sustainable resource management, (ii) societal behaviour and (iii) business operations.

19 Eurostat (2016), Generation of municipal waste per capita, Generation of waste excluding major mineral wastes per GDP unit and Generation of waste excluding major mineral wastes per domestic material consumption, Eurostat database

20 Ministry of the Environment (2018), Programme to Promote Sustainable Consumption and Production

21 Eurostat (2016), The recycling rate of municipal waste, Eurostat database

22 Eurostat (2016), Recycling rates for paper and cardboard packaging waste, Eurostat database.

23 Eurostat (2016), Recycling rates for packaging waste, Eurostat database

24 Eurostat (2016), Recycling rates for wooden packaging waste, Eurostat database

25 Eurostat (2016), The recycling rate of e-waste, Eurostat database

26 Eurostat (2016), Recycling of bio-waste, Eurostat database

27 Eurostat (2014). The recovery rate of construction and demolition waste, Eurostat database

well below the EU28 average of 42.4% (in comparison, Slovenia had a 62% recycling rate in 2016).[28]

- The established indicators for **secondary raw materials** look at, for example, the share of material that is recovered and fed back into the economy. Finland is well below the EU average in substituting primary raw materials with secondary materials,[29] largely due to its bio-based economy. Also, while trade in secondary raw materials is increasing both in the EU and with third countries, Finland's imports and exports remain low in comparison to the rest of Europe.[30]

- It is also interesting to look at the **societal behaviour** such as citizen awareness, engagement and participation in the circular economy.[31] Finnish citizens are leading in the use of sharing schemes. Compared to fellow EU citizens, they are slightly better at leasing or renting products. They are close to the EU average when it comes to buying remanufactured products. Finnish electronic media has been very active in promoting the discussion on the circular economy, above the EU average.

- Finland does pretty well when looking at the indicators for **competitiveness and innovation**, such as private investments and gross added value related to circular economy sectors.[32] It is above the EU average when it comes to patents related to recycling and secondary raw materials. However, as is the case across the EU, the recorded share of employed people working within the circular economy remains low.[33] For example, the number of enterprises and people employed in those enterprises that repair computers and personal and household goods is low. In 2014, Sweden had over 4,400 such repair sector companies compared to less than 1,700 in Finland.[34]

- The Commission has also looked at the ability of companies to implement circular economy activities and access finance.[35] European SMEs perceive Finland as the best environment for circular activities, after the UK and Sweden. In terms of either facilitating recycling or extending the durability of their products, the Finnish manufacturing and service companies outperform most of their EU competitors. Also in the share of enterprises that recycle waste, water or other materials, the Finnish manufacturing companies do well in comparison with the rest of the EU.

ECO-INNOVATION

Finland's strength lies in promoting eco-innovation and its measures to promote entrepreneurship in that area are bearing fruit. Finnish cleantech solutions help to improve energy efficiency, product and material recycling, waste management, renewable or bio-energy production, as well as bio-based manufacturing. Finland ranks second in the WWF Global Cleantech Innovation Index because it provides favourable economic, social and environmental conditions for innovation.[36] Meanwhile, challenges remain in getting products and services to the market due to long payback periods and uncertain returns over investment. The investment in research and development has also decreased in recent years. Nevertheless, overall, the Finnish business sector has demonstrated great interest in the opportunities that a transition to a circular economy could bring.

However, closing the loops and creating value through circular practices will require more work. Finland could encourage new production and consumption patterns, with more recycling, re-use, repair, remanufacturing, product sharing, as well as new business models. Such a transformation calls for actions on both the supply and the demand sides. Thus, Finland could look at which subsidies to phase out, or which taxes to use to create incentives for smarter use of resources. It could also review current regulations (e.g. will Finland continue to promote biofuels in transport?) and public procurement.

CIRCULAR BIO-ECONOMY

In the wood-based circular bio-economy, using resources for products and services that create the highest value comes with great possibilities. Finnish businesses have many good examples to share in this field. Wood is already used to produce, for example, biochemicals. As a renewable and recyclable resource, wood-based products can provide an attractive alternative to textiles or fossil-based plastics. Also, while the forest industries' side streams for other industrial purposes could be further improved (e.g. turning leftovers into products such as fertilizers or biochemicals), Finland can already share valuable lessons with its EU partners about the enabling conditions and innovations for a smarter use of resources.

From a circular economy perspective, however, Finland's approach to bio-based materials is flawed. The current policy framework and incentives in place encourage burning wood for energy and turning valuable bio-based materials – that could be used for other higher value purposes – into biofuels. This is contradictory to the objectives of the circular economy, which seeks to extend the value of products and resources for as long as possible and use them for energy only as a last resort. Use of biomass for energy, via direct burning or biofuels, also contribute to increasing rather than reducing greenhouse gas emissions, and thus undermine Europe's climate mitigation and air quality objectives.

28 Eurostat (2015), Recycling rates for plastic packaging waste, Eurostat database
29 Eurostat (2016), Circular material use rate, Eurostat
30 Eurostat (2016), Trade in recyclable raw materials, Eurostat
31 European Commission, Environment, Eco-innovation
32 Eurostat (2015), Private investments, jobs and gross value added related to circular economy sectors, Eurostat database
33 Eurostat (2015), Jobs related to circular economy sectors, Eurostat
34 European Commission, Environment, Eco-innovation
35 European Commission, Circular Economy Indicators for business operations
36 Sworder, C. (2017), The Global Cleantech Innovation Index 2017

If Finland is serious about promoting a circular bio-economy, it could pay more attention to the incentives it gives to different wood uses, and for what purposes. In general, a more future-oriented and comprehensive approach to the use of bio-based materials would aim to be good, not just for the business, but also for the climate and environment, including biodiversity.

When it comes to its influence on the ongoing EU policy debate regarding the circular economy, Finland has been less visible. For example, in the discussions on the Plastics Strategy and the Single-use Plastics Directive, which will have implications on bio-based materials, Helsinki has been surprisingly silent. It should be in the interest of the Finnish government to ensure that the EU measures, currently under development, provide a comprehensive approach to tackling the current challenges with plastics, while also recognising the possibilities and challenges with bio-based alternatives.

As the EU debate on achieving a smart transition to a circular economy continues, Finland is in an excellent position to contribute. It could help by creating more awareness about the interlinkages between the bio-economy and circular economy, including both the possibilities and challenges of using bio-based materials. This could entail becoming a voice for the 'cascading use' of wood, meaning using, re-using and recycling wood products, and burning them for energy only at the end of their life-cycle. Finland could also actively share its lessons learnt in encouraging the development and uptake of new solutions for the benefit of the circular economy. However, to have a stronger voice in the circular economy developments in the EU in the long-term starts with addressing the domestic problems in the value chain and adopting a truly comprehensive approach to the circular economy.

3.2 CLIMATE AND ENERGY

Following the Paris Agreement, the EU has set new targets to attain by 2030. These include a 40% reduction target for greenhouse gas (GHG) emissions compared to 1990 levels, a 32% share of renewable energy sources (RES), and a 32.5% energy efficiency target.

In 2016, Finland published its energy strategy for 2030. The plan foresees at least 50% of renewable energy in final energy consumption, with no specific target for emissions, and a 39% reduction target in emissions from the non-ETS (emission trading scheme) sector, including agriculture and transport.

The strategy represents a move towards a more holistic approach to the energy transition, although it is less ambitious than the plans of other Nordic countries. Denmark has a 100% target of electricity and heating from RES by 2035. Sweden foresees a 100% RES-based electricity system by 2040. As for emissions, all Nordic countries except Finland envisage carbon neutrality by 2050. That said, Finnish regions are showing greater

ENERGY POLICY TARGETS IN NORDIC COUNTRIES

SHARE OF RENEWABLE ENERGY SOURCES

	2020	2030	2035	2040
Denmark	50% (electricity)		100% (electricity and heat)	
Finland	38%	50%		
Norway	67.5%			
Sweden	50%			100% (electricity)
EU	20%	32%		

EMISSION REDUCTION TARGETS

	2020	2030	2045	2050
Denmark	40%			Carbon neutrality
Finland	21%			80%
Norway		Carbon neutrality		
Sweden			Carbon neutrality	
EU	20%			80%

ambition: over 40 municipalities have joined a 'Carbon Neutral Municipalities' project. They are committed to reducing their emissions by 80% by 2030.[37]

In the EU context, Finland's position in the climate change mitigation debate (for example on renewable energy) has been quite narrowly focused and relied heavily on the possibility to use forests as a source of biomass and biofuels. As the sections below demonstrate, Finland could do more across the board to reduce its GHG emissions in line with EU objectives.

GREENHOUSE GAS EMISSIONS

Finland is on track with its 21% emission reduction target by 2020.[38] After decreasing steadily since 2010, however, emissions have been rising again since 2015. Two factors can explain the upturn. First, in terms of energy production, there has been an increase in coal use since 2015 to compensate for underperforming hydropower production. Second, the contribution of land use, land use change and forestry (LULUCF) in negative emissions, that is withdrawing emissions from the atmosphere, has been lower.[39]

37 Hinku Forum, Towards carbon-neutral municipalities

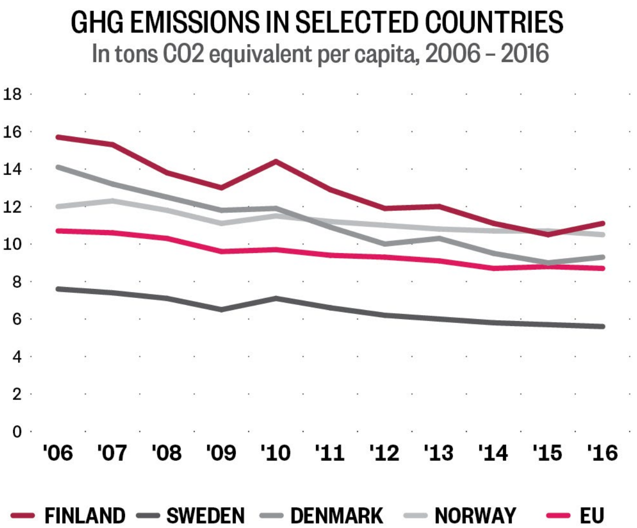
38 Eurostat (2016), Greenhouse gas emissions statistics – emission inventories, unless specified otherwise

39 Negative emissions refer to the CO2 withdrawn from the atmosphere through a variety of technologies including carbon capture and storage, reforestation, ocean fertilisation, enhanced weathering, biochar. In the case of Finland, this means in principle improved land use and reforestation.

In areas not covered by the ETS, Finland is expected to miss its 16% reduction target for 2020. This failure is especially unfortunate since the goal was already less ambitious than in other Nordic countries. Such a low ambition cannot be justified by country-specific characteristics, as Finland shares similar economic structures to other Nordic countries in agriculture and forestry, similar temperatures impacting heating, and similar long distances and sparsely distributed population affecting transport.

Finland's greenhouse gas emissions from transport, heating of buildings and agriculture are around 14% higher than the EU average, with transportation and heating showing an upward trend in emissions since 2015 and agriculture remaining at a constant level since 2005.[40]

Fig. 4

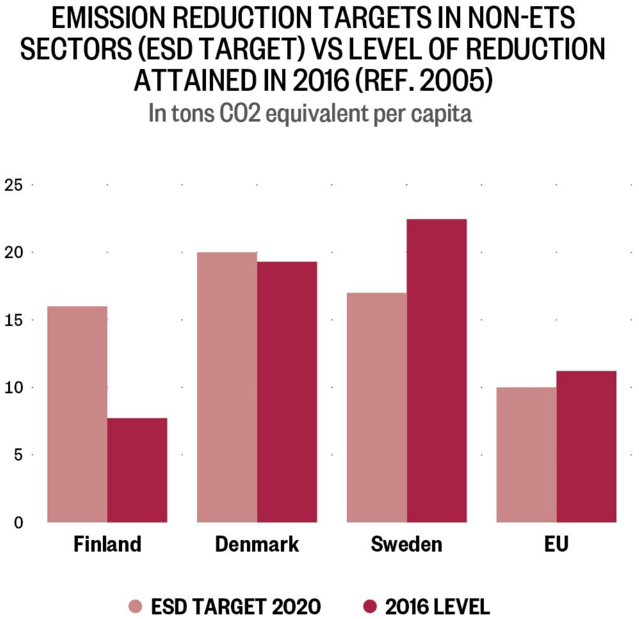


Source: authors based on statistics from Eurostat on greenhouse gas emissions

Heating remains a problematic sector, as 46% is provided by district heating (DH), which is fuelled by highly emitting coal and peat for 37%. As the share of district heating is on the rise for new buildings – to the expense of electricity and heat pumps – the role of coal and peat as DH and cogeneration sources would need to be reduced urgently. Biomass, which has become a significant DH source since 2008, is also a questionable source. While growing biomass contributes to capturing CO2, burning makes it a significant source of emissions and thus a highly controversial source of energy. Decarbonising Finland's district heating systems could be accelerated, especially by developing the country's vast geothermal potential. Fossil fuel-based combined heat and power (CHP) should become only a backup option.

Agricultural emissions are also a challenge. For instance, Finland missed its ammonia (NH3) emission reduction target for 2010 (31,000 tons). These emissions still remain at 38,000 tons.[41] Even though it has one of the lowest reduction rates in Europe, Finland is also set to miss its mark for 2020 (-22% since 1990 levels).[42] The agricultural sector generates 90.5% of these emissions. To

Fig. 5



Source: authors on data from Eurostat (2017), GHG emissions in ESD sectors

comply with the Effort Sharing Decision (ESD),[43] Finland will need to recur to the flexibility mechanism that allows to consider overachievements in the early years of the period. Structural interventions would be required to put the country in line with its planned reduction of ammonia emissions from agriculture.

Transport emissions account for about 20% of Finland's GHG emissions. Reducing these emissions has been difficult because of road transport. The share of older, highly emitting vehicles is one of the highest in the EU.[44] Also, the average distance from home to work has increased by about 20% between 2000 and 2010 and doubled since 1985.[45]

Finland prioritises the development of advanced biofuels as a means to reduce CO2 emissions in the transport sector. By 2030, it aims to raise the share of biofuels in transport to 30%. In 2015, the only three member states that used RES in transport beyond the agreed 10% target were Finland (22%), Sweden (24%) and Austria (11.4%).[46] This approach may lead to unwanted consequences for industry, the environment and the climate. First, there is

40 Statistics Finland (2017), Finland's greenhouse gases emissions

41 Environment.fi

42 Eurostat (2017), Agri-environmental indicators: ammonia emissions

43 The Effort Sharing legislation establishes binding annual greenhouse gas emission targets for member states for the periods 2013–2020 and 2021–2030. These targets concern emissions from most sectors not included in the EU Emissions Trading System (EU ETS), such as transport, buildings, agriculture and waste. See Regulation (EU) 2018/842 of the European Parliament and the Council of 30 May 2018 for more information.

44 Eurostat (2018), Passenger cars in the EU

45 European Environment Agency (2015), Finland country briefing – The European environment — state and outlook 2015", p2

46 European Environment Agency (2017), Trends and projections in Europe 2017 – Tracking progress towards Europe's climate and energy targets, p41

an opportunity cost. Incentivising the use of bio-based materials for fuel, with targets and financial support, can undermine efforts to use the resource for purposes that have a higher added value. Second, boosting biofuels in transport also means increasing the use of diesel and biodiesel, and so risks increasing the levels of NOx and fine particle emissions that are harmful to the environment and people's health. Third, while biofuels may provide an alternative fuel source for the aviation sector, their overall prospects are under growing scrutiny. In conclusion, Finland's support of biodiesel goes against the developments in the rest of the EU that signal a shift away from diesel and an increasing interest in the electrification of transport. Restrictions on diesel cars in EU cities are further pushing for a shift in the mobility sector. Overall there is a growing recognition that Europeans must reduce all transport-related emissions (not just CO2). Finland does not seem to have fully taken these developments on board.

While in the EU context Finland is seen as more of a follower than a leader in climate discussions, it could have a stronger voice. To become a more constructive player in the climate debates would require Finland to adopt a more comprehensive, cross-sectoral approach that fully recognises e.g. the challenges with biofuels. It would also need to showcase that it is serious about reducing emissions across sectors, namely in heating, transport, and agriculture. Finland could also take a closer look at its energy sources, and try to ensure that its forests and land are properly used to capture emissions.

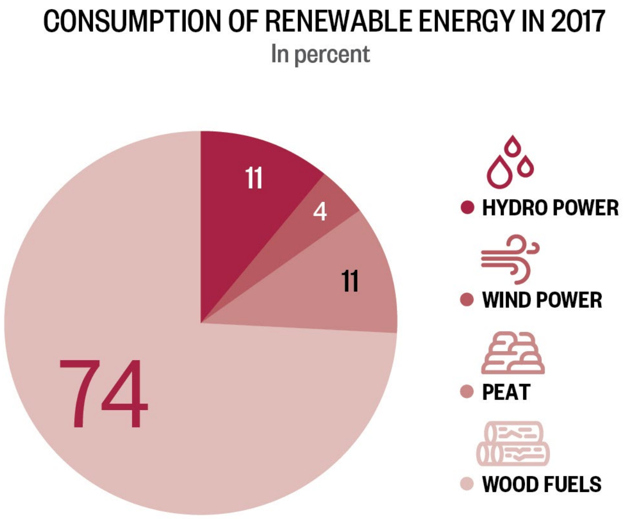
THE ENERGY MIX

In the beginning of 2018 the most important sources of energy were wood (25% of total consumption), oil (22%), nuclear (17%), coal (9%), gas (6%), peat (6%) and hydropower (4%). Wind power accounted for 1% of consumption, while other sources (heat from industry, recovered fuels, heat pumps, hydrogen, biogas, other bioenergy and solar energy) accounted for 5%.[47] Finland has one of the highest shares of renewable energy use in Europe. In 2014, Finland had already exceeded its national target of 38% for 2020. By 2030, the National Energy and Climate Strategy of Finland aims to fuel more than 50% of final energy consumption with renewables (RES). Given that the majority of the renewable energy is wood-based, it is no surprise that in the EU context, Finland is known as a strong advocate for using bio-based materials for energy production.

Biomass (wood) dominates as a renewable energy source in Finland (see figure 6). Over the past decade, biofuels production in Finland soared by 305%, against an EU average of 102%. Between 2016 and 2017, biofuel production surged by 101.9%, compared to a rise of only 4.1% at EU level.[48]

The Finnish government's support for the expansion of the Finnish biofuel industry has translated into bold advocacy in support of forest logging as a source of

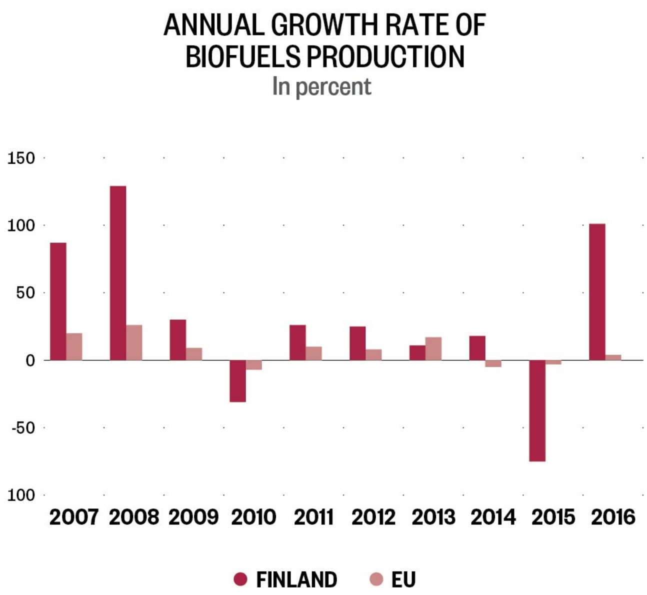
Fig. 6



Source: authors on data from Statistics Finland (2017), Total energy consumption by source

renewable energy. During the EU negotiations on the revision of the Renewable Energy Directive (REDII) and the discussion on the accounting rules for Land Use, Land Use Change and Forestry (LULUCF), Finland, together with Sweden, successfully argued against restricting the use of roundwood, capping logging based on past levels and limiting the use of biomass in inefficient energy installations. They also wanted to water down sustainability criteria for biomass.

Fig. 7



Source: author based on data from BP

47 Statistics Finland (2018), Energy supply and consumption
48 BP (2018), Statistical review of world energy

Another controversial issue is peat. Finland is one of the largest users of peat in the EU. It accounts for 6% of the national energy consumption. Finns use it for combined heat and power (CHP) in district heating. Although its CO2 emissions are comparable to those of coal and it takes around hundred years to form, Finland wants peat to be considered a renewable source so that it can be taken on board to reach the 50% RES target foreseen for 2030.

This interest in bio-based materials as a source of energy is not without its problems. It has been estimated that burning biomass emits more greenhouse gases than coal.[49] A growing number of experts also challenge the carbon neutrality of biomass.[50] Concerns are mounting regarding the ability of biomass to grow fast enough to offset the emissions related to its burning. The CO2 absorption capacity of forests stabilises also above a certain point, making some of the trees redundant as carbon sinks.

In addition, as was already noted under the circular economy section, using wood for energy when it could be used for higher value products, is short-sighted. This was recognised in a study commissioned by the Finnish government in 2017, which warned that a high biofuel production scenario could have adverse effects on other sectors using wood.[51]

Finland could take a more comprehensive and ambitious approach to reducing its emissions and transforming its energy system. Its energy transition risks remaining below its potential as a result of the country's heavy focus on bioenergy. Finland's advocacy for biofuels and the incentives it provides for using bio-based materials as a source of energy raise wider economic, societal and environmental concerns. Using valuable resources for energy undermines the objectives of the circular economy. The emissions contribute to climate change as well as air pollution. As the long-term prospects for biofuel and biomass are increasingly disputed, Finland could more readily acknowledge and address these concerns, and explore the potential of other renewables like wind and geothermal.

ENERGY EFFICIENCY

Primary energy consumption decreased in Finland by 15% between 2007 and 2017, against an EU performance of -7.3%.[52] Heat and electricity cogeneration, voluntary efficiency agreements and energy auditing have all contributed to maintaining consumption below the national target of 35.9 MToe.

Nevertheless, Finland is not one of the EU countries advocating bolder ambitions in energy efficiency. Its high level of energy intensity is due to an industrial structure based on heavy industry, long distances, a sparsely distributed population, and low temperatures during winter. Improving the efficiency and switching to cleaner fuels in manufacturing and transport are essential for reducing some of the path-dependencies that constrain a more ambitious approach to decarbonisation.

The country lobbied against a rise of the energy efficiency target during the internal negotiations for the Council position in the trilogue on the review of the Energy Efficiency Directive, insisting that the goal should not be binding. In particular, Finland voiced concerns regarding the potential overlap of efficiency policy with the EU Emissions Trading Scheme (ETS). At the same time, it lobbied for handing out free allowances to industry during the discussions on the ETS reform, thereby supporting one of the leading causes of the ETS underperformance.

ENERGY PROJECTS WITH RUSSIA

While Finland's energy sources are diversified and its overall dependency on Russia for energy is limited, its energy relations with the country are becoming more complicated. Finland is involved in energy projects that contradict the EU's efforts to diversify energy sources and suppliers.

Finland is known for being 100% dependent on Gazprom for its gas imports. However, the total amounts are limited and efforts are ongoing to break this lock-in, which is in line with the EU diversification objectives.[53] So, this dependency is becoming less of an issue.

What is raising more questions today is Finland's position on the Fennovoima nuclear plant and Nord Stream 2 (NS2). The Fennovoima nuclear plant will be designed, built, supplied and primarily financed by Russian state-owned Rosatom. The latter is the world's only 'full cycle' nuclear firm, operating under a 'build-own-operate' model aimed at strengthening its strategic presence and locking partners into long-term mutual dependence.[54] Arguably, giving a Russian government-controlled entity a substantial control over Finnish nuclear power generation risks undermining Finland's security. The project also puts Finland in odd company in the European context: the other member state that is expanding its nuclear cooperation with Russia is Hungary, whose increasingly warm relations with the

49 GrzegorzWielgosiński et. al. (2017), Emission of some pollutants from biomass combustion in comparison to hard coal combustion in Journal of the Energy Institute, vol 90, issue 5

50 Johnson, E. (2009), "Goodbye to carbon neutral: getting biomass footprint right", in Environmental Impact Assessment Review, 29(3), pp165-168. Röder, M., Whittaker, C., Thornley, P. (2015), "How certain are greenhouse gas reduction from bioenergy? Life cycle assessment and uncertainty analysis of wood pellet-to-electricity supply chains from forests residues", in Biomass and Bioenergy, 79/2015

51 Pöyry Management Consulting Oy (2017), Metsäbiomassan kustannustehokas käyttö, Prime Minister's Office

52 Authors' calculation on data from BP (2018), Statistical Review of World Energy, June 2018

53 LNG World News (2014), "Finland, Estonia agree on LNG future", 18 November 2014

54 These concerns have been recognised also in Finland: Helsinki Times (2016), "Report: Fennovoima's nuclear power project could undermine sovereignty of Finland", 1 September 2016, and Martikainen, T., Pynnöniemi, K., Saari S., & Ulkopoliittisen instituutin työryhmä (2016), "Russia's changing role in Finland's neighbourhood" (in Finnish).

Eastern neighbour is raising eyebrows.[55] These projects run counter to the European Parliament's call for the EU to exclude Russia from civil nuclear cooperation because of its military intervention in Ukraine.[56]

The experts that see Russia's energy investments as a possible political instrument, also challenge Finland's position on Nord Stream 2. The NS2 gas pipeline would lead to a sizeable capacity increase of the gas route connecting Russia and Germany, and it raises several political, economic, security and legal concerns that are dividing the EU. Politically, the pipeline goes directly against various objectives of the Energy Union, a flagship initiative of the Juncker Commission. Economically, it will cement Gazprom's dominant position in the eastern parts of the EU market,[57] and give the company a competitive advantage over newcomers, notably in the liquefied natural gas (LNG) market.[58] Geopolitically, it would deprive Ukraine of its transit role, a strategic asset and a vital source of financial resources. As such, NS2 is starkly at odds with the EU's commitment to support Kyiv following Russia's annexation of Crimea and its continued support to separatist forces. On these grounds, the European Commission, a majority of MEPs in the European Parliament, and several EU member states have openly criticised the pipeline.

Amid this controversy, Finland has so far decided not to take a strong political stance. Alongside Germany, Finland considers the project as a mere commercial venture, and it has opted to focus its attention on the environmental aspects. Some have, however, challenged this claim as well. An environmental NGO, ClientEarth, has filed a complaint before the Finnish administrative court in Vaasa to halt the construction of Nord Stream 2. It maintains that the decision to grant the permit was ill-founded and that the project's impact assessment was poorly conducted.[59]

Finland's position may come under deeper scrutiny in the future. The Finnish energy company Fortum, in which the Finnish government has a 50.76% stake, recently became the largest shareholder in a German firm Uniper,[60] one of the western investors in the gas pipeline. This makes Fortum an investor in NS2. As a result, Finland is less likely to be seen as a neutral player as is the case with Germany, France and the Netherlands, the countries behind the other NS2 shareholder companies. This puts Finland in an incongruous position vis-à-vis other EU member states in the Baltic region, who openly criticise the project on political grounds or express grave concerns about the security implications of the project. It also puts key Finnish industrial players in an awkward position vis-à-vis the United States. The current administration has been extremely vocal about the use of unilateral sanctions on energy projects such as NS2.

Finland's energy cooperation with Russia could be re-assessed in light of related economic, political and security risks. Russia's aggression in Ukraine and its active efforts to create divisions within the EU would be additional grounds for Finland to consider its level of energy cooperation with Russia.

4 Foreign and security policy

Helsinki participates actively in the development of the EU's foreign policy. In the eyes of the Finns, the European Union provides security and stability to the continent. Finland considers the EU as a force multiplier and the most important channel of international cooperation where it can exert influence. It therefore supports the strengthening of the EU's role as an international player that acts with one voice on the international stage. Not being a NATO member, Finland is genuinely interested in enhancing its political and security links with EU and NATO members; even more so since the worsening of the European security climate.

EU Coalition Explorer, a 2017 survey of coalition building in the EU28, shows that with regard to foreign and development policy, Finnish experts see Germany (17%), Sweden (17%), the Netherlands (13%), Denmark (11%) and France (11%) as essential partners to Finland. The role of Germany as a benchmark for Finland in EU foreign policy, including in what concerns EU relations with Russia and the issue of sanctions, was also highlighted during the interviews. On the other hand, according to the EU Coalition Explorer, Finland is seen as an essential partner by experts from Latvia (10%), Ireland (8%), Croatia (7%), Denmark (7%) and Sweden (7%). The lower numbers show that the country is not a primary choice for partnerships. This result is not surprising given Finland's size and location. Nevertheless, Helsinki's activism has allowed Finland to punch above its weight in the EU context and in its relations with NATO. The fourth section focuses on two dossiers concerning Finland's contribution to the EU's external action, the developments in EU defence and regional security, especially regarding relations with Russia.

55 Bayer, Lili (2017), Why Putin needs Orbán, Politico, 1 February 2017

56 European Parliament (2014), "resolution on the situation in Ukraine and the state of play of EU – Russia relations (2014/2841(RSP)"

57 Kotek, Peter, Selei, Adrienn, and TakacsneToth, Borbala (2017), "The impact of the construction of the Nord Stream 2 pipeline on gas prices and competition", REKK, 24 February 2017

58 Giuli, M. (2018), Nord Stream 2: Rule no more, but still divide, EPC Issue Paper

59 ClientEarth (2018), ClientEarth takes legal action against the construction of gas pipeline Nord Stream 2 in Finland

60 Fortum (2018), "Fortum's Uniper investment" and Reuters (2017), "Finnish government backs Fortum's Uniper bid despite Nord Stream II link", 10 October 2017

4.1 DEVELOPMENTS IN EUROPEAN DEFENCE

A TRUSTED PARTNER

According to the EU Coalition Explorer, Finland is seen as an essential partner in defence and security in the eyes of experts from Austria (11%), Latvia (10%), Ireland (8%), Sweden (8%) and Estonia (7%). Meanwhile, Finnish experts name Sweden (17%), Germany (15%), France (13%) and the UK (10%) as Helsinki's main partners in this area. When developing projects in the field of defence capabilities, Finnish defence officials tend to look first at Finland's neighbours in the Nordic countries and Baltic region, followed by countries such as the Netherlands and the United Kingdom.

As EU cooperation in the field of defence is advancing, Helsinki's efforts to integrate into the Western security system and participate in European defence cooperation warrant consideration. Defence cooperation has in recent years become one of the critical drivers of Finnish external affairs, with implications for the country's policy of non-alignment from which it has partially divested itself. Finland sees very positively and is an active participant in the various initiatives in the field of EU defence. Being outside NATO and given the deteriorating European geopolitical landscape, Finland has shown particular interest in the development of an EU defence policy in terms of increased capabilities and ability to act as well as in the security guarantees that the EU could bring to Finland.

Finland has gradually increased its integration into the Western security system by pushing for closer cooperation at EU level but also by introducing and deepening other defence partnerships, such as the Enhanced Opportunities Partnership (EOP) with NATO and the extensive defence cooperation with Sweden and the United States. The deteriorating security situation in Eastern Europe has led to a growing importance of the Baltic Sea region for NATO and therefore also to a higher interests from the North Atlantic Alliance to enhance dialogue with Finland and Sweden. Both in the EU and in the NATO context, Finland is a respected actor in defence cooperation.

Finland is committed to putting into effect the Common Security and Defence Policy. It has participated in nearly all EU crisis management operations. The Finnish Defence Forces also take part in the projects of the European Defence Agency. In an informal paper circulated in September 2016, Finland called on the EU to be "a comprehensive security actor" alongside NATO. It also argued that EU member states "reiterate … [their] commitment to mutual assistance and solidarity" in times of crisis. In Finland's view, the objectives of EU defence integration should be "protecting Europe, managing crises and supporting partners" as well as "deterring against and responding to external threats". Helsinki wants the increased EU defence cooperation to target "hybrid threats", create security of supply arrangements and strengthen the defence industry and technology.

Finland supports joint spending on battalion-sized battlegroups and the improvement of the EU's security of supplies by harmonising defence industry markets. Support for European defence research is considered central in this endeavour. Whereas some EU member states have put forward more ambitious proposals regarding the establishment of an EU permanent military headquarters, Finland has supported the creation of a "joint permanent civilian-military planning and conduct capability" that could in future "take responsibility for … non-executive military operations". This proposal reflects Finland's national doctrine of 'total defence', which calls for the use of all resources of society for national defence in case of a crisis, and its well-recognised strong civilian crisis management expertise.

PERMANENT STRUCTURED COOPERATION

In the EU debate between an ambitious or a more inclusive Permanent Structured Cooperation (PESCO) in the field of defence, Finland is supporting a more ambitious policy, while being aware of the benefit of having an inclusive approach and recognising the importance of unity among the EU member states. Finland has decided to take part in several PESCO projects announced in the first wave: the European Secure Software defined Radio (ESSOR), Military mobility, Cyber Rapid Response Teams and Mutual Assistance in Cyber Security. Finland, together with France, Italy, Poland, Spain and Sweden, has sponsored ESSOR since its start in 2009 under the umbrella of the European Defence Agency. Finland has also continued to invest in the project's continuation, with Finnish company Bittium participating in the industrial consortium. Given Finland's geographical position, military mobility is an important topic that necessitates investment and where EU and NATO efforts are seen as complementary. At the same time, Finland sees cybersecurity as a critical component of its national security and a field in which it has and wants to develop enhanced capabilities. Finland will also take part in the second wave of PESCO projects. In the fall of 2018, it will submit a joint plan for an autonomous land system with Estonia and Latvia. Though Finland has chosen projects that fit its national interests, the level of ambition could be higher for a staunch advocate of defence cooperation.

Finland has also decided to join French President Macron's call for a European Intervention Initiative, a joint military project of ten European countries, set up outside the structure of the EU or NATO. Through this, Finland wants to increase its security cooperation with other European nations further and enhance its role as a security provider.

Not all member states share Helsinki's enthusiasm for an ambitious EU defence policy. Finland considers that the initiatives carried out in the EU, NATO or other smaller groups of countries (such as NORDEFCO) are not in competition, and that the strengthening of EU defence supports the further development of cooperation between the EU and NATO. Central and Eastern European NATO members tend to be reluctant towards an ambitious EU defence policy, fearing that this might weaken NATO, which they see as the primary security guarantor in Europe.

MUTUAL DEFENCE CLAUSE

Finland's understanding of the EU mutual defence clause and its implications is not entirely shared across the EU. Finland holds that the EU is also a security community. Helsinki often emphasises the importance of the defence and solidarity clauses in the Lisbon Treaty. Finland supports the EU's 'need for strategic autonomy' and is interested in the EU enhancing joint military capabilities and even contributing to territorial defence. During the preparation of the EU Global Strategy and, later, the PESCO notification, Finland advocated for the inclusion of a reference to the Lisbon Treaty's defence commitments.

Helsinki's emphasis on EU's "mutual assistance" and on "deterring (…) external threats" indicates that the potential security risks coming from Russia are high on its agenda. Among EU countries, Finland has the longest land border with Russia (1,340 km). The Kremlin has criticised Helsinki for its increased cooperation with NATO and the United States. However, even though France invoked the mutual defence clause after the November 2015 terrorist attacks in Paris, the real meaning and the implications of the clause are not yet entirely clear.

While Finland is interested in an increased role for the EU on issues of (territorial) defence, it is clear that for the time being NATO will remain the cornerstone of European defence for most (21 out of 28) EU member states. As the internal debate on NATO membership continues, Finland could strive to improve cooperation and interoperability with NATO. While enlarging the number of bilateral security arrangements matters, it will be essential to implement and develop the already signed bilateral and multilateral agreements. Agreements signed but not put into practice and reinforced continuously will not amount to much. While it strengthens its territorial defence, Finland should also contribute to the EU's external actions and crisis management operations in order to reinforce the EU's global role.

4.2 REGIONAL SECURITY

Given its non-aligned status, Finland holds in the eyes of its European partners a particular place in the European security architecture, one that is still in good part defined by its post-World War II history.

The deterioration of the European security order as manifested through, among others, the 2008 Russo-Georgian war, the illegal annexation of Crimea by Russia and the ongoing war in the Donbas, has worried Finnish decision makers and focused even more attention on the security challenges in Eastern Europe.

While Finland has played a part in the formulation of the EU response to the conflict over Ukraine and the sanctions vis-à-vis Russia, Helsinki has sought to avoid antagonising Moscow, and some Finnish political figures have sometimes criticised the sanctions and their effects. Affected by the Russian counter-sanctions to its agri-food exports, Finland has tried to strike a balance between its economic interests and European Union unity, with President Niinistö maintaining regular contacts with his Russian counterpart, President Putin. Finnish leaders, together with leaders from countries such as Hungary, Italy, Greece or Austria, did not seem to value highly the March 2014 European Council decision not to hold any regular bilateral summits with Russia, thus weakening the political message of the EU sanctions adopted through unanimity.

Despite the more stable *status quo*, the continuation of the rivalry between Russia and the West entails that maintening this balancing act is likely to remain challenging. Russia is also Finland's main potential military threat, a reality that has become increasingly clear after Russia's intervention in Ukraine. Russia's lack of predictability, large-scale military exercises and rearmament programs has increased worries in Finland, motivating the country to invest more in the military and enhance cooperation with NATO.

At the same time, Russia is an important trading partner for Finland, with billions in exports crossing the border. As a reaction to the EU sanctions, Russia imposed counter-sanctions on the import of meat, fish, fruit, vegetables and dairy from the EU member states. Finland has been among the most affected EU countries, although the impact has been smaller than for the Baltic countries, Slovakia, the Czech Republic or Poland. The Russian sanctions affected the dairy industry, which had to look for other markets or to switch to products with a lower added-value (industrial butter, milk powder). Despite some difficulties created for a number of producers, the Russian counter-sanctions had a limited effect on the Finnish economy (around 0.1% of GDP). The Russian counter-sanctions have had a trade deflecting effect to other trading partners of Finland, whilst Russia has remained Finland's fifth-biggest export destination, with exports growing in recent years. At the same time, some Finnish companies, such as energy company Fortum, are increasing investments in Russia. While the impact of the Russian counter-sanctions has been limited, it clearly showed that Finland and Finnish companies should avoid becoming too dependent on a particular market and seek to diversify export markets further.

Finland supports the EU measures taken after Russia's intervention in Ukraine, including the EU's sanctions policy, while at the same time trying not to provoke Russia. Finland has maintained a moderate position on the sanctions, neither hawkish nor dovish. In that regard, Finland is in an intermediary category of EU countries that neither publicly call for the lifting of the sanctions – as top political figures from Italy, Greece, Cyprus or Hungary have done – nor for their strengthening – as Lithuania, Poland, and the United Kingdom have done. It is worth noting that some of the countries most affected by Russian counter-sanctions, such as the Baltic countries and Poland, have remained firm in their support of sanctions and even pushed for stronger measures. Helsinki's position resembled those adopted by Germany, Luxembourg, The Netherlands, Spain, i.e. countries adhering to the common EU position but also favouring dialogue with Russia.

At the same time, Finland is interested in engaging with Russia in the context of regional formats they are both members of (e.g. Council of the Baltic Sea States, Arctic Council, Barents Euro-Arctic Council) and to deal with some environmental issues affecting the region. This stance seems consistent with one of the five guiding principles of the EU's policy towards Russia adopted in March 2016; that is, to engage selectively with Russia on a range of foreign policy issues, including climate change and other areas where there is a clear EU interest.

Facing itself disinformation and other hybrid challenges originating from Russia, Finland has also taken an active role in supporting the EU's efforts to combat hybrid threats. Since 2017, it hosts the new European Centre of Excellence for Countering Hybrid Threats, a hub of expertise meant to serve the participating countries as well as the EU and NATO. The initiative was received well, although the results will take time to materialise.

Given the deteriorated security environment in Europe, Finland should try to engage its European partners and Russia in an effort to push for the maintenance and reaffirmation of the series of agreements underpinning the European security order. At the same time, Finland should invest both in its defence and security capabilities and consider supporting those of its European partners, especially those situated in the Eastern part of the Union. It is very important for Helsinki to support EU unity and to coordinate with its European partners before reaching bilateral agreements with Russia. Finland should continue to support the EU consensus in favour of the sanctions related to the Russian aggression in Ukraine but also support efforts to implement the Minsk agreements. Finland could do more to strengthen its support to the Eastern Partnership countries on their reform processes and internal resilience.

Conclusions

The general perception of Finland as a constructive player in the EU remains broadly valid. In the EU context, Finland has been able to portray itself as a pro-European country that, in principle, favours deeper integration and collaboration across borders. The recent surge of populist parties in domestic politics and the current government have not tarnished this image.

Finland's self-proclaimed notion of being the "best/good pupil" standing ahead of the pack in the EU does not, however, match reality. This discrepancy is exemplified by the paradox of Finland's positive rhetoric in favour of further Single Market integration and its preservation of internal barriers at home. All in all, as this study has demonstrated, Finland is in fact a rather ordinary member state, which does well in some areas and less so in others. Its performance is close to the EU average in several policy areas.

Finland is often a quiet follower rather than a pro-active leader in policy debates, even when it could or should be in the country's interest to take the initiative. For example, if Finland does not actively engage in the ongoing policy discussions on the circular economy, it may miss an opportunity to influence the policy direction. This does not mean, however, that Finland should simply serve its national interests. The promotion of bio-based materials as a source of renewable energy provides an alarming example of how a narrow focus can lead to unwanted consequences for the country and the EU as a whole. Helsinki should be looking at EU challenges comprehensively and strategically. It should share its expertise and put forward solutions that would benefit the EU as a whole.

Simply promoting one's national interests carries risks. While fostering national interests is not unknown to member states and Finland does not stand out worse than its peers, Helsinki cannot ignore that such flag bearing can undermine EU values, principles and objectives. Undermining EU objectives by pursuing narrow national interests can weaken the country's credibility and negotiating clout in other files. Considering that mutual solidarity and assistance in security and defence is vital for Finland, one would assume that it would be in Finland's interest to demonstrate solidarity with its fellow member states in other policy areas.

To become part of 'the core' in the EU decision-making processes requires vision, coalition building skills and thought leadership in policy discussions. Finland can surely build on its strengths, such as its strong human capital, traditions in innovation and pro-European outlook, and ensure its voice is heard.

The EU matters. The bigger and smaller EU policy developments will have implications for Finland's competitiveness, prosperity and security, and thus it has an interest to be an active contributor to related discussions. The upcoming national as well as EU elections in the spring of 2019 are an opportunity to have a frank debate on Finland's role and objectives in the EU.

In addition, when Helsinki will hold the rotating presidency of the Council of the European Union (July-

December 2019), Finland will be able to leave its mark on the EU agenda. The Finnish Presidency will take place at a critical juncture. Brexit will be turning into a reality. The European Parliament elections in May 2019 will renew the leadership of EU institutions. Helsinki has a choice to make. It can display leadership by fostering a broad EU-wide debate on the response to the EU's current challenges and identify areas where more cooperation is needed. Or it can follow the examples of Ireland or Estonia. They have demonstrated that picking a single issue where 'more EU' coincides with vital national interests can enable a so-called 'small' country to build a legacy that benefits the whole bloc in the end.

Finland's vision will bring about change only if it becomes more pro-active in policy discussions. It involves both engaging in policy developments and speaking up when needed. Coalitions will remain important in the decision-making process. They are also likely to change after the UK leaves the EU, and Finland needs to prepare for this and look for constructive partners to take the EU agenda forward.

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