Government Report to the Parliament on Industrial Policy

PUBLICATIONS OF THE FINNISH GOVERNMENT
2025:65

FINNISH GOVERNMENT

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Abstract

Many things are changing in the operating environment of industry. In this situation, the Government considers that political decision-makers should discuss the big picture and long-term outlines of Finland's industrial policy. The Government hopes that the discussion will support the formation of a shared view on the factors contributing to the success of Finnish industry.

The report is based on an industrial policy strategy prepared under the leadership of the Ministry of Economic Affairs and Employment and submitted to Minister of Economic Affairs Wille Rydman in December 2024. The strategy includes sets of policies essential for the export industry, such as logistics, with the objective of boosting the growth of export-oriented and growth-oriented companies that provide employment and to keep industrial jobs in Finland. The strategy gives an overall picture of the Government's industrial policy priorities and means and examines the initiatives related to EU industrial policy that are most relevant for Finland and links them with the context of national industrial policy.

Keywords	Industry, industrial policy, investments, productivity, added value, enterprises, means of livelihood		
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Valtioneuvoston selonteko teollisuuspolitiikasta

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Toimittaja/t	Antti Valle		
Yhteisötekijä	Työ- ja elinkeinoministeriö		
Kieli	englanti	**Sivumäärä**	49

Tiivistelmä

Teollisuuden toimintaympäristössä on moni asia muutoksessa. Hallitus katsoo, että tässä tilanteessa Suomen teollisuuspolitiikan isosta kuvasta ja pitkän aikavälin linjauksista on syytä käydä keskustelua poliittisten päättäjien kesken. Hallitus toivoo, että keskustelu tukee jaetun näkemyksen muodostamista Suomen teollisuuden menestymisen tekijöistä.

Selonteko perustuu teollisuuspoliittiseen strategiaan, joka laadittiin työ- ja elinkeinoministeriön johdolla ja luovutettiin elinkeinoministeri Wille Rydmanille joulukuussa 2024. Strategia sisältää vientiteollisuudelle olennaiset politiikkakokonaisuudet, kuten logistiikan, ja sen tavoitteena on kasvuhakuisten, työllistävien ja vientiin tähtäävien yritysten kasvu sekä työpaikkojen säilyminen Suomessa. Strategia antaa kokonaiskuvan hallituksen teollisuuspolitiikan painopisteistä ja keinoista sekä tarkastelee Suomen kannalta keskeisimpiä EU:n teollisuuspolitiikan kysymyksiä ja kytkee ne kansallisen teollisuuspolitiikan kontekstiin.

Asiasanat	Teollisuus, teollisuuspolitiikka, investoinnit, tuottavuus, arvonlisä, yritykset, elinkeinot		
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Statsrådets industripolitiska redogörelse

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Referat

Det är mycket som håller på att förändras i industrins verksamhetsmiljö. Regeringen anser att de politiska beslutsfattarna i denna situation bör diskutera Finlands industripolitik ur ett större perspektiv samt inriktningen av den på lång sikt. Regeringen hoppas att diskussionen kommer att främja uppkomsten av en gemensam syn på de faktorer som gör den finländska industrin framgångsrik.

Redogörelsen bygger på den industripolitiska strategi som utarbetades under ledning av arbets- och näringsministeriet och överlämnades till näringsminister Wille Rydman i december 2024. Strategin omfattar de politikområden som är väsentliga för exportindustrin, till exempel logistiken, och dess mål är att antalet tillväxt- och exportorienterade företag med en sysselsättande effekt ska öka och arbetsplatserna stanna i Finland. Strategin ger en helhetsbild av regeringens industripolitiska prioriteringar och verktyg. Den granskar de industripolitiska frågor som är aktuella inom EU och som är väsentliga för Finland och kopplar dem till den nationella industripolitiska kontexten.

Nyckelord	Industri, industripolitik, investeringar, produktivitet, förädlingsvärde, företag, näringsgrenar		
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Contents

FOREWORD

Changes in the global economic operating environment have affected the competitive position of Finnish enterprises in the global market. However, there are also other factors behind the prolonged foreign trade deficit and the weak development of productivity, and the policy measures taken so far have not been sufficient to address these factors. The benefits gained by Finland from the business opportunities provided by technological changes and the country's capacity to scale promising new initiatives into significant business operations have fallen behind the level of the reference countries. The volume of investments targeting Finland has also not been adequate with regard to industrial renewal. Finland's current account has been primarily negative since the beginning of the 2010s. Similarly, general government finances have shown a deficit, as indicated by the development of indebtedness. Finland must thus also be able to boost export-driven economic growth to balance general government finances.

To address the aforementioned challenges, in its Programme, Prime Minister Petteri Orpo's Government decided to draw up a long-term industrial policy strategy. The strategy includes the sets of policies essential for the export industry, such as logistics, and aims to ensure the growth of growth-oriented and export-focused companies that provide work and to retain existing jobs in Finland

The industrial policy strategy was drawn up under the leadership of the Ministry of Economic Affairs and Employment and submitted to Minister of Economic Affairs Wille Rydman in December 2024[1]. The strategy offers an overall view of the priority areas and means provided in the Government's industrial policy, examines the EU's industrial policy issues that are the most central for Finland and links them to the context of national industrial policy.

1 Teollisuuspoliittinen strategia, ohjausryhmän raportti. Ministry of Economic Affairs and Employment publications 2024:49. https://julkaisut.valtioneuvosto.fi/handle/10024/165954

Many things are changing in the industrial operating environment due to the measures of president Trump's administration and the changes prepared by the new Commission to the EU's industrial policy, among other things. The domestic political agenda also includes concrete industrial policy issues, which relate to both the growth measures being considered in the Government's mid-term policy review session and the implementation of the decisions already made. For example, the investment aid programme launched by the Government in accordance with the EU's Temporary Crisis and Transition Framework and the new strategy of Finnish Industry Investment Ltd. (Tesi) make it possible to more selectively target measures to investments that are strategic for Finland.

The Government therefore considers it necessary for political decision-makers to discuss the overall picture and long-term positions of Finland's industrial policy in this changing situation. The Government hopes that the discussion will support the establishment of a common view of the success factors of Finnish industry. The report is based on an outline according to the seven objectives of the recent industrial policy strategy. The report introduces to the discussion the strategy steering group's proposals for new policy measures.

The industrial policy strategy was developed in collaboration with key stakeholders to ensure a shared understanding of the agenda for shaping the conditions for growth. The business community was represented in the strategy steering group by Finnish Energy, the Chemical Industry Federation of Finland, Technology Industries of Finland, Finnish Forest Industries, Finland Chamber of Commerce, Confederation of Finnish Industries (EK), and the Industrial Union. The steering group also included the Confederation of Unions for Professional and Managerial Staff in Finland (Akava), Service Sector Employers PALTA, Ministry of Transport and Communications, Ministry of Agriculture and Forestry, Ministry of Education and Culture, Ministry of Economic Affairs and Employment, Ministry for Foreign Affairs, Ministry of Finance, Ministry of the Environment, Business Finland, Finnvera, VTT Technical Research Centre of Finland, Finnish Industry Investment Ltd. and a representative of the Centres for Economic Development, Transport and the Environment (ELY Centres). The strategy project had an e-mail address for other actors to provide their comments. Two open stakeholder events were held on the strategy's policy guidelines, reaching a large group of interested parties. The progress of the project was reported to the ministerial working group on employment and entrepreneurship.

The report text was already completed when a working group led by Risto Murto published the Final Report of the Room for Growth Project[2]. The relationship between the working group's proposals and the emphases of the Government report on industrial policy should be analysed in discussions conducted based on the Government report.

2 Final Report of the Room for Growth Project. Publications of the Finnish Government 2025:25. https://julkaisut.valtioneuvosto.fi/handle/10024/166138

1 What is industrial policy?

Finland has a long tradition of policies that support the industrial operating environment and the preconditions for competition. After the Second World War, the state implemented an active industrialisation policy as part of the reconstruction effort and laid the foundation for many industrial clusters of today. Investments targeted selected sectors under strict state steering, and technology transfer played a central role in the range of methods. Internationally, steps were taken towards an increasingly rules-based economic model through the establishment of the World Trade Organization (WTO).

In the 1980s, the diversification of the economic structure and national clusters rose to front and centre in the policy. The 1990s started to see the state's role rather as a provider of opportunities, and the focus was on innovations and technologies. Innovation policy was integrated in the core of Finland's growth policy, investments targeted RDI activities while considering the opportunities provided and challenges posed by globalisation[3]. Next, the attention turned to the development of the innovation system and information society, and later a mission-driven innovation policy was highlighted as part of a broader transformative public policy.

In the 21st century, Finland has continued to focus on the promotion of innovation in supporting industrial development, but the recent developments and crises have generated a need to revisit the matter. While the innovation policy measures support industrial renewal, they are no longer sufficient to sustain the competitiveness of Finnish industry. Included in the discussion are both the mission-centred approach and securing the competitiveness and jobs in the traditional sectors of industry.[4] Industrial policy can be considered an umbrella concept that brings together different measures and is implemented through several different policy sectors. At the same time, the pressure to implement industrial policy that is vertical, or targeted, has increased.

3 Ylä-Anttila, P. & Palmberg, C. 2006. *The Specificities of Finnish Industrial Policy – Challenges and Initiatives at the Turn of the Century*, ETLA Discussion Papers, No. 973. URL: https://www.etla.fi/en/publications/dp973-en/

4 Nordic West Office. 2006. Teollisuuspolitiikka suurvaltakilpailun ja vihreän siirtymän maailmassa - Kuinka Suomi voittaa kamppailun investoinneista ja työpaikoista?

In the recent industrial policy race between the United States, the European Union and China, public subsidies, investments, capital investments, research and development inputs and procurement have been directed to the development of industrial sectors, value chains and technologies defined as strategic. Strategic significance has been given to renewable energy, electric vehicles, microchips and critical raw materials. In a broader sense, industrial policy includes measures that create preconditions for the operations of enterprises, such as a functioning infrastructure, public funding for research, development and innovation, education, efficient public administration, and regulation. However, selective, targeted policy measures have gained additional ground in the industrial policy of the recent years[5].

According to the OECD's definition, industrial policy means[6] **"interventions that intend to structurally improve the performance of the domestic business sector"**.

According to the OECD's broad definition, industrial policy does not necessarily focus on the manufacturing industry alone but concerns the private sector as a whole. It comprises a vast set of instruments, ranging from the design of intellectual property protection to public procurement, R&D incentives and public support to the provision of skills, as well as measures for infrastructure development. Industrial policy, given its focus on structural performance, needs to go hand in hand with competition policy, tax policy and trade and investment policy, and general business framework policies. Macroeconomic policies, however, do not fall within the present scope of industrial policy because they address the business cycle of enterprises, not the structural performance of the business sector.

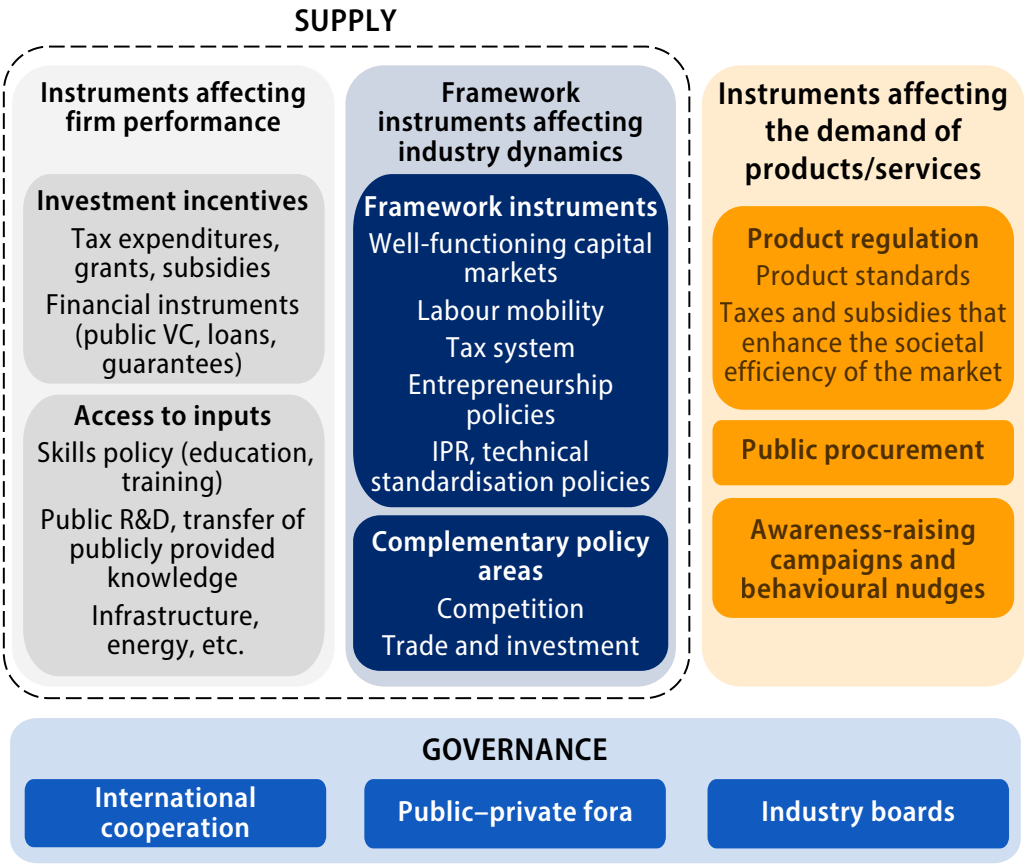
In addition to horizontal and targeted policy instruments, the OECD also distinguishes between demand-oriented instruments and two types of supply-side instruments. The supply-side instruments are split between those that affect firm performance ("within instruments") and those that affect industry dynamics ("between" / framework instruments). Additionally, governance, in other words cooperation and guidance or "management" practices and measures, is regarded as a separate policy instrument category. The OECD's definition shows how the

5 Mainettaan parempi teollisuuspolitiikka. The Finnish Centre for New Economic Analysis (UTAK), Reports 2/2024

6 An industrial policy framework for OECD countries, OECD 2022, https://www.oecd-ilibrary.org/science-and-technology/an-industrial-policy-framework-for-oecd-countries_0002217c-en

English-language concept of "industrial policy" is generally understood in broader terms than the manufacturing industry, and corresponds more closely to the concept of an economic development policy.

Figure 1. Taxonomy of industrial policy instruments



Source: An Industrial Policy Framework for OECD Countries, OECD 2022

The industry policy strategy prepared under the leadership of the Ministry of Economic Affairs and Employment in 2024[7] expanded on the OECD's general industrial policy definition with the following:

7 Teollisuuspoliittinen strategia, ohjausryhmän raportti. Ministry of Economic Affairs and Employment publications 2024:49. https://julkaisut.valtioneuvosto.fi/handle/10024/165954

The ***strategy's main focus is on the export industry***, while it also considers its close links to different sectors. As a rule, the strategy does not exclude any sectors but focuses on the functions that are the most central for the export industry. Exports are viewed on the basis of the value added, and this approach also considers sectors that primarily operate in the domestic market and are the most important for the creation of domestic value added in industrial value chains. This also further underlines the importance of services—particularly digital and data-driven ones—in value creation in the export industry. It should be noted that the statistical classification of the data concerning industry is based on the manufacturing industry and does not highlight the increasing importance of services in the operations of industrial enterprises.

The strategy is based ***primarily on horizontal measures that support renewal***, enhance the general preconditions of industry and impact business operating environment regardless of the sector, without distorting the functioning of the market. For this purpose, the central government can, among other things, develop an enabling regulatory environment and apply various instruments to promote education, the availability of experts, research, development activities, innovations as well as export and internationalisation. Changes in the operating environment, specifically the increased state aid competition, have increased the need for targeted/vertical industrial policy instruments. Targeted public interventions should effectively solve a known issue that cannot be solved by means of private market measures. The strategy does not include sector-specific figures but considers the special characteristics of different sectors and recognises the need for various policy measures.

The strategy describes industrial policy and the related measures by the central government ***at the national level***. The strategy considers Finland's regional strengths and opportunities in the clean transition and the location of the related investments, for example. It views the special characteristics and needs of regions from the perspective of how national development can best make use of the regionally decentralised resources and how the preconditions for industrial development should be considered throughout the country. The strategy recognises the importance of the Eastern and Northern Finland development programmes for national industrial policy. It also considers the central role of regional and local actors in the implementation of industrial policy. For example, the transfer of employment and economic development services to cities and municipalities in 2025 creates opportunities for improved coordination between land use planning, land use, and employment and business services—factors that are crucial for business location decisions.

Industrial policy and RDI policy (research, development and innovation policy) are intertwined in many ways, and the goal is to improve the support provided by these policy sectors to each other. There must be a close dialogue on the long-term investments made in RDI policy to strengthen competence and capabilities and on the allocation of resources in industrial policy to support growth in the most promising sectors and companies.

RDI policy promotes the generation of new information and competence in the long term, and companies can use it as a basis of their own capabilities to develop new solutions and introduce them to the market. The basic elements of RDI policy include generating and applying new information, supporting high-quality basic and applied research, a broad competence base and researcher education, as well as the promotion of companies' innovation activities. RDI resources are allocated considering the development of the demand for various new solutions and the incentives the solutions offer to private sector actors to invest in their development.

By contrast, industrial policy is tasked with supporting business growth and internationalisation particularly in functions with high value added, as well as promoting the competitiveness and renewal of companies and sectors. An objective shared by both RDI and industrial policy is to motivate an increasing number of companies to invest in competence-based growth, research and development and to support the utilisation of the developed new solutions and their introduction to the market. There are also other ways through which RDI policy measures are intertwined in industrial policy, related to the development of the IPR operating environment, standardisation, innovative public procurement and regulation that enables new solutions.

Geoeconomic risks and industrial policy

Increased geopolitical tensions have introduced the reduction of geoeconomic risks as a new factor in the state aid competition between states, alongside bridging market gaps[8]. Sectors that combine market gaps and geopolitics are the most important new sectors from the perspective of policy measures. An example is the transition to renewable sources of energy, where the technological transition should be supported while simultaneously reducing the dependence on fossil-based energy.

8 ETLA Economic Research, VN TEAS Policy Brief 2025. *Geotalous muuttaa elinkeinopolitiikkaa*.

According to ETLA, the change in the approach is also visible in Mario Draghi's report published last autumn. The report highlights improving security and reducing dependency on imports as key objectives, alongside increasing the EU's competitiveness. This has drawn renewed attention to the EU's policy measures concerning renewable energy. There was strong support in the EU region before for investments made by energy companies in renewable energy, but the manufacture of technology needed in energy production has received considerably less support. ETLA points out that there are risks in the competition for business subsidies even in the most promising growth sectors. Even if market gaps and geoeconomic risks are identified correctly, policy measures may also fail: the selection of the sectors or companies to be supported may turn out to be unsuccessful, lobbying by advocacy groups may be effective, or the scale of aid is excessive.

2 Finnish industry in the global economy

The challenges faced by the industrial operating environment are visible in the economy of Finland as a whole, which is dependent on a small number of large companies due to the business structure: the 100 largest exporters accounted for nearly 60 per cent of Finland's exports (2019), a ratio that is higher than in the other Nordic countries. At the same time, the share of SMEs in export and participation in global value chains is low in Finland[9]. The intensity of Finland's exports is low compared to other small open economies, as only slightly less than 10 per cent of Finnish companies are engaged in exports. The fact that a considerable share of value added comes from a few slowly growing sectors also increases Finland's vulnerability.

The chart below provides an overview of Finland's key sectors by gross export.

Figure 2. Overview of the key sectors

Sector According to the Standard Industrial Classification TOL	**Gross export,** EUR billion 2021	**Revenue,** EUR billion 2022	**Enterprises,** in thousands 2022	**Personnel,** thousand person-years 2022	**Return on total capital,** % 2022
Metal industry, excl. electrical and electronic industry	29,0	56,1	12,0	131,1	6,8
Chemical industry	15,0	38,3	1,1	32,5	12,1
Electrical and electronic industry	13,9	28,6	1,3	39,9	2,5
Forest industry	13,9	31,8	2,5	37,3	7,4
Information and communication	8,8	27,0	21,0	101,6	5,7
Transport and storage	4,9	25,1	23,7	107,7	2,7
Wholesale and retail trade	3,3	139,8	55,1	226,1	6,5
Professional, scientific and technical activities	2,6	19,7	68,2	115,6	4,2
Other manufacturing industry	2,2	8,8	8,9	32,2	3,1
Food industry etc.	1,6	13,0	2,6	34,7	4,3
Mining and quarrying	0,9	2,9	1,1	6,1	7,0
Other sectors	2,9	130,7	116,3	427,9	3,7

Source: Based on Statistics Finland's Tables 13vx, 12s7 and 124l

However, Finland is not exceptionally dependent on exports: the share of exports in Finland's GDP in 2023 was 41 per cent, while in the euro countries, the share was over 51 per cent. Nevertheless, developing exports positively is a necessary

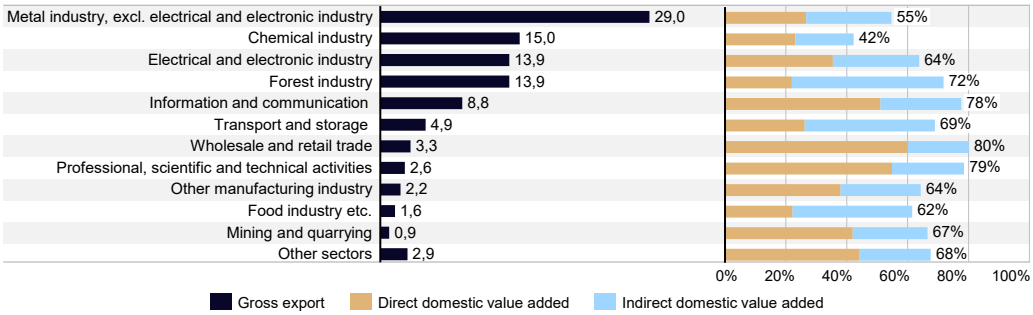
9 OECD Economic Review of Finland, 2022.

precondition for the maintenance of our standard of living. Exports expose companies to international competition and may also enable them to achieve a production scale in which RDI investments turn profitable. Currently, a significant share of Finland's largest export companies are not particularly RDI-intensive in terms of either products or the related services.

Traditionally, Finland's industrial structure has relied on the manufacturing industry. The share of industry in the GDP was slightly over 18 per cent in Finland in 2022. This ranks at the top among the Nordic countries and is slightly above the EU's average (16.8%). The manufacturing industry and in particular the traditional industrial sectors are also clearly among the largest export sectors in Finland. However, the domestic value added of exports, which varies considerably between sectors, should also be considered, alongside the gross export figures.

A high share of domestic value added in gross exports means, for example, that a sector centralises its subcontracting to Finland, thus increasing domestic production in other sectors as well—the export in the sector creates multiplier effects in the Finnish economy. When the sectors are viewed in this manner, the relative share of large companies decreases while the share of SMEs increases. This highlights the differences between sectors and the importance of small companies to domestic value added, which is greater than the SMEs importance to gross export[10].

Figure 3. Key sectors by export and domestic content of export



Source: Statistics Finland, Table 12s7

10 Statistics Finland has joined the OECD in developing the statistics on foreign trade in value added terms. This is based on the Trade in Value Added framework (TiVA) created by the OECD and the WTO.

Production that is exported directly creates approximately 150,000 jobs in industrial sectors and about 65,000 jobs in service sectors[11]. From the sectorial perspective, however, the indirect employment impacts from exports look considerably different from the direct impacts. Exports indirectly create more than 270,000 jobs[12], of which over 200,000 are in service sectors and particularly jobs for middle-income and highly educated employees.

Finland's industrial structure has moved powerfully towards a service and digital economy, along the lines of the other Western countries. However, distinguishing between industry and services is often difficult. In addition, industrial production utilises services considerably, which also integrates industry closely with the service sector. A significant share of the turnover of industrial companies is generated from the sales of maintenance services.

The value of the foreign investment portfolio in Finland was EUR 78 billion in 2022, of which nearly a third (EUR 21 billion) targeted industry. Foreign investments in Finland have stagnated; despite its numerous strong sectors, Finland has not succeeded in attracting significant capital. By contrast, Finnish companies have actively made investments and expanded abroad, the value of the Finnish investment portfolio abroad was EUR 130 billion in 2022, and the net impact of the returns on Finland's current account was a record-breaking EUR 6.9 billion. It seems that even the crises of recent years have done little to dampen Finns' enthusiasm for investing abroad: the investment portfolio abroad grew by more than EUR 40 billion between 2015 and 2022.

By EU comparison, Finnish companies and industry in particular have been leading the way and have utilised the global division of labour in outsourcing functions and moving them abroad. However, according to a survey covering 2018–2020, the pace of outsourcing has slowed down considerably in Finland. The most common outsourced functions include administration and support services, production, and information technology services. Digitalisation and information networks have also enabled the global production of and competition in services that industry uses as intermediate products.

11 Arvonlisäpohjainen ulkomaankauppa tilasto, käyttäjän käsikirja, Publication of the Parliament Committee for the Future 4/2022.

12 The same as above.

Positive signs starting to show in industry

Recent surveys indicate that large Finnish corporations are starting to see positive signs of recovery in their business environments[13]. They believe that demand is picking up in Finland and abroad. Lower interest rates are expected to bring relief by increasing the purchasing power of both end consumers and corporate buyers of investment goods. The majority of corporations expect lower rates to boost their business in the second half of 2025. For example, they may start to revisit investment decisions previously put on ice. The positive expectations are supported by the strong signals from Finnish and European decision-makers related to the streamlining of administration and lighter regulation.

The same optimism is also visible in the recent investment survey by the Confederation of Finnish Industries (EK), according to which industrial investments are expected to start growing moderately in the current year. Investments would increase by nearly four per cent, amounting to EUR 9.7 billion. Fixed investments would accelerate sightly more than research and development activities, which would show a slow increase.[14]

The hopeful spirit of large corporations is also reflected in the expectations of Finnish SMEs.[15] It is forecast that growth in all sectors will be stronger than in the previous year: whereas turnover growth in 2024 is estimated at two per cent, companies forecast growth of up to eight per cent on average for 2025. The slight increase in order books is also a positive signal, anticipating an accelerated growth rate. The turn in the outlook of industrial enterprises is particularly positive: it is expected that both investments and turnover will return to a growth path, which will have repercussions elsewhere in the economy as well.

13 Survey of Large Corporations 2025 Bold renewal or falling behind?

14 Confederation of Finnish Industries (EK) 2025: Investointitiedustelu - tammikuu 2025 - Elinkei-noelämän keskusliitto

15 Finnish Industry Investment 2025: Kasvuyrityspulssi_250117.pdf

3 Changing operating environment of industry

3.1 Global tensions and state aid competition

The recent crises, such as the pandemic and Russia's military actions in Ukraine, as well as longer-term developments such as digital transformation, climate change and increased geopolitical tensions have changed the economic operating environment radically in Finland and the entire world. The changes have strengthened the state's role and coordination in the corporate sector. The role of policies emphasising market openness has decreased as state aid and protectionism have increased. These changes are problematic for the competitive position of companies in small open economies such as Finland in particular

The global economic operating environment is in a state of transition characterised by challenges to the multilateral rules-based system, increased protectionism, unilateral measures to restrict trade and an unbalanced competition environment. The functioning of value chains is being challenged both by the availability of raw materials and competence and by production costs. The pandemic and the Russian war of aggression have caused considerable disruptions in value chains. Recovery measures have included increasing domestic production, entering new markets and decentralising value chains. Import dependencies are being examined at both the national and EU level, and risk assessments related to value chains have become increasingly common in companies.

China has systematically pursued stronger self-sufficiency particularly in sectors that it finds strategically important, such as technology and the green transition. The state's support measures related to this goal are a central driver of the global acceleration of state aid competition. The United States' actions to respond to China's measures have included the Inflation Reduction Act (IRA) of 2022 in particular and, at the same time, the pursuit of reducing its carbon dioxide emissions, curbing inflation and creating new jobs in the domestic market. Donald Trump's second term as president is expected to introduce further reductions to corporate regulation and taxation and to increase protectionist trade policy measures. At the time of compiling this report, the Trump administration's plans to impose tariffs on products from Canada, Mexico and China as well as potentially

from Europe were among the topical issues. These plans create uncertainty in the economy and international trade. The powerful trade policy measures taken by the USA may also further amplify the formation of blocks in the global economy.

In the EU, the measures taken by the United States in particular have caused pressure to prolong state aid rules, which were relaxed due to the pandemic, concerning the decarbonisation of industry and projects promoting a net-zero economy. In 2023 and 2024, the Commission approved several support schemes for clean transition investments in the EU countries with a total budget amount of more than EUR 155 billion.[16] The accelerating state aid competition hinders the healthy functioning of the single market, which is harmful for Finnish companies. However, growing investments also offer opportunities for Finnish companies that provide competitive solutions.

3.2 EU industrial policy in transition

The first year of the European Union's new Commission and Parliament sets high expectations on EU's industrial and competitiveness policy. EU-level decisions also provide a framework for Finland's industrial policy. Proactive influence is crucial as EU's industrial policy can considerably either weaken or alternatively enhance the impact of Finland's national industrial policy. This report covers industrial policy matters that are the most central from Finland's viewpoint and links them to the context of national industrial policy. Finland's positions on these matters are still prepared jointly with the Parliament in the coordination system for EU affairs.

The key objective of Finland's EU policy has been to ensure that the EU's long-term strategic competitiveness is based on developing the EU's own strengths further and on market-based solutions. A functioning single market and an effective state aid policy that secures equal operating conditions are the central starting point. Finland has emphasised in its statements that the EU's industrial policy measures should primarily promote industrial renewal and leave adequate room for industrial development and innovation.

The investments required by the industrial policy objectives in the coming years are considerable. However, compared to the situation within the United States, the EU has more limited opportunities to apply its industrial policy across the

16 Finland Chamber of Commerce 2024. https://kauppakamari.fi/wp-content/uploads/2024/07/EU-maiden-puhtaan-siirtyman-tuet_Valtiontukianalyysi202475.pdf

EU as a whole. This is due to the EU's budget and competence. The European Commission does not have actual authority over industrial policy but measures are implemented mainly through policy sectors and funding programmes. Industrial policy falls under each member state's own area of action, and the responsibility for responding to global competition and funding the measures have also been left to the member states. This has resulted in an increase in the weight of national state aid at the expense of the healthy development of the single market.

The number of measures targeting industrial sectors deemed critical for the EU increased considerably during the term of President Ursula von der Leyen's first Commission. The EU has worked to promote the competitive position of European industry through sets of measures targeting selected sectors and by reducing dependencies in supply chains, among other things. Funding industrial policy measures through a joint European solution has been proposed as an alternative to national state aid. A new kind of a European Competitiveness Fund aiming to promote investments has been under discussion. The Fund would replace multiple existing EU financial instruments with one programme and would be included in the EU's next multiannual financial framework. In addition to state aid and joint European funds, solutions facilitating the availability of funding through the European Investment Bank and the capital markets union, among other things, have been under discussion.

The EU's multiannual financial framework is the most central policy implementation instrument in the EU. The current financial framework includes several funding programmes which support competitiveness, investments as well as research, development and innovation (RDI) and through which the funding of EU's industrial policy takes place in practice. These include Horizon Europe, InvestEU, and the EU Space Programme.

Many of the EU's financial products are primarily market-based instruments channelled to the market by banks and private equity funds without public sector participation. The advantage of financial instruments is that compared to direct aid, they cause less distortion in competition between companies and make it possible to simultaneously leverage private money into the market.

In particular, Mario Draghi's report on the EU's competitiveness has provided direction for the agenda of Ursula von der Leyen's second Commission, calling for a better coordination of industrial policy at the EU level and in the member states. Alongside the financing of investments, key issues include linking climate goals and competitiveness, as well as the Clean Industrial Deal, which appears to continue on the path shown by the Green Deal while still considering the need

for regulatory simplification. Energy networks and a competitive price of energy for companies are key questions for Central European industrial powerhouses in particular. Initiatives accelerating industry decarbonisation have been brought up in the discussion to support industry's transition and to channel investments to the infrastructure and energy-intensive sectors. Important topics also include the significance of innovations and expertise in industrial renewal, the allocation of public subsidies to important joint European projects (of the Important Projects for Common European Interest (IPCEI) type), as well process simplification, acceleration of access to funding and the expansion of the scope to align it better with the promotion of strategic investments.

Similarly to the Draghi report, the Competitiveness Compass[17], published at the beginning of 2025, also identifies the lack of innovation as the root cause of the EU's competitiveness issues. The Compass outlines a new competitiveness model for the EU based on innovation-led productivity. Closing the innovation gap, a joint roadmap for decarbonisation and competitiveness, as well as reducing the EU's excessive dependencies and increasing security would be at the core of the model. The horizontal enablers of competitiveness would include simplifying the EU's regulatory environment considerably, fully exploiting benefits of scale offered by the single market, a refocused EU budget, promoting skills, as well as better coordinating policies at EU and national level.

Basic industry has become a higher priority on the Commission's agenda. Alongside innovative enterprises, the EU should also remain an attractive location for energy-intensive industry. According to the Commission, state aid could be used to support such industry's decarbonisation efforts more flexibly than in other sectors. Special attention has been paid to energy-intensive basic industry sectors such as the steel and chemical industries.

The Competitiveness Compass also brought up the Commission's intention to propose a Competitiveness Coordination Tool, which would promote shared competitiveness priorities in selected sectors and projects which are strategically important to the whole of Europe. A concurrent goal would be to align industrial and research policies and investments at the EU and the national levels.

17 A Competitiveness Compass for the EU. European Commission, COM(2025) 30 final

The Commission published the Clean Industrial Deal in February 2025[18]. The objective of the Clean Industrial Deal is to create a foundation for the EU's competitiveness and decarbonisation and to collectively address challenges related to the climate crisis and its consequences, competitiveness concerns and economic resilience. The programme is broad-based and brings together focus areas of the industrial policy of Ursula von der Leyen's second Commission, with energy-intensive industrial sectors, the clean tech sector and circularity as special priorities. The programme proposes measures to ensure the availability of affordable energy, increase European demand of clean products manufactured in Europe, promote international partnerships and develop skills, among other things. The new Clean Industrial Deal proposes the creation of a new State Aid Framework to support clean-tech products and funding for the promotion of measures both in the multiannual financial framework and from other sources of funding.

In its working paper, the International Monetary Fund (IMF) also raises the need for coordinated implementation of industrial policy in Europe[19]. The IMF notes that a unilateral industrial policy may result in negative production externalities and over-supply without the pursued advantages being achieved.

3.3 Use of data and emerging and disruptive technologies as change drivers

The establishment of several emerging and disruptive technologies is expected in different industrial sectors in the next decade. Breakthroughs are expected, in particular, at the interfaces of various technologies while the opportunities for using data will expand. The rapidly evolving emerging and disruptive technologies which have extensive impacts on society and the economy as well as the more effective use of data will create new business opportunities for Finnish industry.

Finland has strong expertise in several emerging and disruptive technologies, such as microelectronics (semiconductors), quantum technologies, connectivity (wireless data networks), high-performance computing and artificial intelligence.

18 The Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation. European Commission, (COM (2025) 85 final).

19 Industrial Policy in Europe, A Single Market Perspective. International Monetary Fund WP/24/249

Finland is also a pioneer in new materials, biotechnology and certain energy technologies. The strong competence base, combined with a high-quality research and technology infrastructure, are Finland's trump cards.

Significant sectors (such as the data industry, microelectronics and quantum technology) have emerged around technological competence, and at the same time, these technologies offer leverage for the renewal of other sectors. Many of these technologies have been defined as critical technologies and are dual-use technologies. The changed security situation has increased the demand for these technologies and their importance in the building of Europe's strategic competitiveness and economic security.

3.4 Economic growth from investments in the clean transition

A clean transition will require system-level change throughout society. Estimates of the clean transition investment requirements in Finland by 2050 vary from more than EUR 100 billion (EUR 3.3 billion per year) to additional investments of up to EUR 242 billion (EUR 8 billion per year). At a global level, the annual need for additional investment is estimated at up to USD 3,500 billion. According to international estimates, to implement the existing climate commitments, the global demand for low-carbon solutions could increase by a minimum of 20 per cent compared to the current situation. This could mean a growth opportunity of more than EUR 3 billion for Finland's annual exports of investment goods.[20]

According to the Data Dashboard by EK, the value of the pending green transition investment projects in Finland is more than EUR 270 billion. Among them, EUR 14 billion is already in production while the majority is still in the early planning phase. If a fifth of the investment projects listed in the Data Dashboard by EK were realised, the estimated level of Finland's GDP would be EUR 3 billion higher annually. Employment would grow by approximately 12,000 people at an annual level. The cumulative increase in tax revenue could be more than EUR 16 billion over the 30-year lifespan of the projects.[21]

20 Vihreän siirtymän rahoituksen työryhmä, Loppuraportti, Publications of the Finnish Government 2022:73 https://julkaisut.valtioneuvosto.fi/handle/10024/164478

21 Vihreän siirtymän investointien talousvaikutukset, Sweco 2024. https://ek.fi/wp-content/uploads/2024/10/Loppuraportti_Vihrean-siirtyman-investointien-vaikutusten-arviointi-1.pdf

The opportunity to considerably increase the production of clean electricity for the growing needs of industry is Finland's strength. This requires an outlook that is plausible for the market of Finland pursuing growth from the clean economy and requires a guiding vision of creating a favourable operating environment for such growth. This requires investments in both the growing energy transmission needs and balancing the fluctuating production in the electricity system. Industrial participation in demand responses is crucial for both the competitiveness of companies and the functioning of the energy system.

3.5 Growing demand for defence materiel and dual-use technology

Finland's NATO membership creates new opportunities for the Finnish defence and technology industry. The networks created through NATO are central in particular for SMEs, which represent the majority of the actors in the Finnish defence industry. SME inclusion in defence industry ecosystem projects is essential for the continuous growth of the sector. The availability of technology and the capability to produce new technology and technical solutions and to integrate them cost-effectively into the defence system requires industrial production capacity and technological expertise.

Participation in research and development cooperation carried out within the NATO framework[22] enables Finnish companies and research organisations to expand their knowledge capital, benefit from new networks, test solutions, access additional funding and be included in purchases. At the same time, the EU's strengthening defence industry policy may generate considerable value added for industry through strong RDI cooperation and funding and joint procurement . Benefiting from the expansion of the dual-use product market requires that the functioning government-to-government connections serve the export efforts of the sector companies.

22 Finnish Industry Investment Ltd. (Tesi) has made an investment of approximately EUR 33 million in the NATO Innovation Fund (the fund value is EUR 1 billion), which aims to invest in companies focusing on dual-use technology directly or through fund investments.

3.6 Competition for skilled labour

The availability of skilled labour is critical for industrial renewal and new investments. The EU discussion on industrial policy has deemed the lack of skills to be a central obstacle to innovations, adopting new technologies and decarbonisation. The clean transition also has considerable impacts on new occupations and the information technology and environmental competence required of employees, for example. According to forecasts, the need for highly educated employees will be considerably higher in the future than their current share of the workforce.

The estimates of how growth and investments will be targeted should be better considered in the forecasting of competence needs. Responding to the workforce needs requires more precise sector-specific information about workforce demand and competence needs, targeting education at different levels of education for industry needs, as well as fast and flexible forms of education, and international recruitment. In addition to education provided by the public sector, it would be important to promote company-led models in which part of the education takes place in workplaces. The understanding of degrees earned abroad should be enhanced while promoting the measures of international recruitment—this should also apply to the corporate recruitment of foreigners who have earned their degrees in Finland.

3.7 Development of the funding environment

Investments by companies and the demand for investment funding have declined as a result of the increased uncertainty in the operating environment in recent years. Business funding—for SMEs in particular—is highly bank-driven and centralised in Finland, and stricter bank regulation has been a phenomenon in the past decade. At the same time, sustainability criteria have emerged as a factor in investment and financing decisions alongside other criteria. The EU has played a significant role through regulation and the allocation of funding by EU programmes.

In the long term, the availability of private funding and its allocation to the needs of industrial renewal are key for the realisation of innovation and investments that promote economic growth. The functioning of the financial markets is therefore the foundation for success for the business community, while public funding supplements this and serves as a catalyst for the market. According to Tesi's view

based on market data[23], the most significant financing bottleneck for Finnish investors can be found in late-stage venture capital investments and in funding industrial-scale projects. The financial market is also satisfactory in early-stage VC investments, with its gaps filled by the good supply of international growth financing. There is no bottleneck in the availability of domestic funding in seed-stage investments, but international investors are almost completely lacking in these investments.

The need for internationalisation and growth in exports generates new financing needs, and companies seek funding to conquer global markets in particular. Public actors such as the ELY centres, Business Finland and Finnvera are central providers of funding to SMEs in particular, supporting their growth, innovation and competitiveness. In Finland, venture capital investment has also developed for growth company funding where equity is needed to carry the risk. Finnish Industry Investment Ltd. (Tesi), the restructured state-owned venture capital firm, supports the growth of innovative, high-potential companies through direct and fund investments, offering long-term financing and expertise to foster their development and internationalisation. The Government Programme has considerably broadened Tesi's industrial policy mandate[24], which now includes the generation of competitively high value added sectors, acceleration of industrial-scale projects and serving as a catalyst for private equity, among other things.

3.8 Regional strengths as industry resources

The development of the population and economic structures together with the global drivers of change have contributed to increased regional differences in Finland for a long time. It is important that industrial policy measures recognise and make use of the different strengths and resources of the regions. Many sectors of industry are fairly location-specific due to aspects such as the logistics connections, the availability of raw materials, the subcontracting networks or the availability of skilled labour. There are vast differences between regions in the location of companies and new investments. Clean transition investments and planned investments focus on western and, in part, southern Finland. When attracting new clean transition investments to northern Finland, competition with other

23 Tesin toiminnan uudistaminen: tavoitteet ja sijoitusstrategia vuosille 2025–2029 – työryhmän keskeiset ehdotukset

24 The spring 2024 government spending limits discussion included a Growth Package in which Tesi was granted EUR 300 million in additional capitalisation for investing directly in industrial investments.

Nordic countries for skilled labour is the region's current and future central special characteristic. The conditions for the development of livelihoods and industry in eastern Finland were hit particularly hard by the closure of the Russian border and markets.

The importance of industrial clusters as attractive investment environments is increasing, and developing them offers an opportunity to combine national and regional measures in an impactful manner. Electrification harmonises sectorial processes, which increases opportunities for synergy. The interest in utilising various side streams has also grown, which supports production plants being located close to each other. The centralised location of industrial plants also makes sense from the perspective of clean energy supply and other efficiency gains in logistics and infrastructure. Utilising clean energy near its point of production, combined with efficient logistics, infrastructure and material flows as well as cross-sector synergies, emphasises the importance of industrial clusters in attracting new investments and as growth centres. The importance of industrial clusters and industrial parks is growing and also recognised in EU's industrial policy.

4 Key industrial policy questions in Finland

The steering group for the industrial policy strategy[25] focused on the following four key questions when working on the strategy:

1. How do we attract more investments to Finland to strengthen the foundation of industry?
2. How do we support the renewal of the established sectors of industry to grow their productivity and value added and to strengthen competitiveness?
3. How do we promote the strengthening of new sectors to become significant growth sectors in industry for increased diversity of the economic structure?
4. How do we ensure the availability of the skilled labour needed by industry?

Attracting industrial investments to Finland is crucial for industrial renewal and long-term competitiveness. It is essential to attract investments in functions that grow domestic value creation, increase the value added of production and improve productivity. In the competition for investments, Finland has many strengths, such as an affordable supply of clean energy, strong energy transmission networks, predictable administration and a sustainable supply of raw materials. The global wave of investments in clean transition offers Finland a unique opportunity to reform the industrial foundation in new business operations based on hydrogen, for example.

Preserving the global competitive position of Finland's industry challenges ***the established sectors to embrace continuous change***. The rapid development of artificial intelligence and other emerging and disruptive technologies requires intensive utilisation of technology in production, the management of value chains and the development of solutions. The increased importance of services offers

25 Teollisuuspoliittinen strategia, ohjausryhmän raportti. Ministry of Economic Affairs and Employment publications 2024:49. https://julkaisut.valtioneuvosto.fi/handle/10024/165954

even greater opportunities for scalable growth. The advancement of digitalisation in companies is decisive for their productivity to reach the next level. This calls for increased investments in intangible capital. Similarly, the clean transition and increased sustainability requirements provide considerable growth opportunities for Finnish products and services.

Strengthening new growth sectors is related to strong expertise in many sectors and technologies in Finland. In the medium term, globally competitive business operations and new growth sectors based on them can be generated around the developed expertise clusters. Crucial factors include strong and comprehensive RDI activities, close cooperation between companies, the research sector and financing actors, as well as strategic choices that bring together public and private resources. Industrial policy measures are needed in particular to introduce new solutions to the market and to transform these blanks into industrial-scale operations. The growth of medium-sized enterprises is essential for a diverse business structure. Finland's NATO membership has introduced specific growth opportunities for the defence industry and dual-use technologies.

The challenges faced by many industrial sectors in ***the availability of skilled labour*** constitute a critical issue for industrial renewal and investments. Global competition for skilled employees is fierce, and there is also a need to raise the level of education in general. Currently, the educational level of personnel employed by Finnish export companies is lower than that of their Nordic peers, which also affects productivity development. There is a need not only for reforms of publicly funded education but also for the development of education that employers themselves implement and pay for. Business services such as reforms concerning TE services, can contribute to addressing these challenges. Responding to the shortage of skilled employees requires international recruitment, in addition to boosting the employment of people already living in Finland.

State aid policy and promoting competition

The question concerning Finland's position on the EU's state aid policy became more concrete when the Government issued a decree on the support programme for industrial investments for a clean transition at the beginning of January 2025. The programme concerns investments to be implemented in Finland with eligible costs of at least 30 million euros, and the programme has been allocated 400 million euros for the year 2025. The Government decided thus to seize the opportunity presented by the EU's Temporary Crisis and Transition Framework (TCTF) to accelerate considerable investments to decarbonise industry and improve energy efficiency.

The Minister of Economic Affairs justified this initiative by saying that we cannot ignore the changed operating environment if we want to ensure the realisation of central investments in Finland. International competition for investments is fierce, and countries also increasingly use investment subsidies in the competition. It is therefore essential for Finland to also have an investment tool in the form of subsidies in place for situations in which one is needed.

Despite the establishment of the investment subsidy programme, Finland's position on the EU's state aid policy remains unchanged. Finland is a small open economy, and it is to its advantage to promote a policy at the EU level that secures equal conditions in the single market and supports competition-based, open and competitive EU markets. Finland is of the opinion that the state aid policy supports growth best when the aid targets market gaps. Functioning and competitive markets are key for the productivity and development of the economy and encourage companies to develop their operations and create new business solutions. Finland has generally supported rule flexibilities that simplify the granting of state aid for industrial renewal—such as the green and digital transitions—while aiming to minimize distortions to competition.

Strengths, weaknesses, opportunities and threats of Finland's industrial policy

Based on the development of the operating environment and the drivers of change, the starting points of Finland's industrial policy can be summarised in the following SWOT analysis:

Figure 4. SWOT analysis of Finland's industrial policy

Source: Industry policy strategy secretariat

5 Objectives and proposals for policy measures

The steering group for the industrial policy strategy defined seven objectives and proposed policy measures to achieve them. The parallel projects initiated by the Government that are central for the industrial policy strategy objectives are listed for each objective. Each objective is also related to actively influencing EU policies, and the EU's industrial policy questions which are most central for Finland are recognised in the objectives. This outline based on the seven objectives is summarised below to facilitate Parliament discussion on industrial policy priorities and means.

The strategy is primarily based on horizontal measures that support renewal. These measures enhance the general operating conditions for industry and influence companies' operating environment regardless of the sector, without distorting the functioning of the market.

5.1 Develop the competitiveness of the operating environment to attract investments

Objective

The objective is to strengthen the appeal of Finland's investment environment by improving the functioning and predictability of regulation and permit processes, by offering a long-term outlook on the supply of reliable, affordable and clean energy and sustainable raw materials, as well as by ensuring the availability of skilled employees needed by industry. A sufficient selection of effectively targeted public subsidies is maintained to ensure the competitiveness of Finland's investment environment.

Ongoing projects

- A clean transition support programme for industrial investments based on the aid made possible by the EU's Temporary Crisis and Transition Framework. Government grants can be issued for significant investments to decarbonise industrial production processes and improve energy efficiency. The application period is in the spring of 2025; the Government will authorise an allocation of a total of 400 million euros to the support programme in 2025.
- A tax credit for large investments aiming for a climate-neutral economy. Based on the EU's Temporary Crisis and Transition Framework, the tax credit can be granted for projects scheduled for completion by the end of 2025. A company can deduct some of its investment expenses from its payable corporate tax. The application period will open in the spring of 2025.
- The operations of the state's new combined venture capital investment company (Tesi Group) will launch in the spring of 2025. Tesi's role in industrial policy will grow and be increasingly realised through direct investments. The session on spending limits in the spring of 2024 allocated additional capitalisation of a total of 300 million euros (100 million euros per year) to Tesi with the aim of boosting industrial-scale investments and technology companies' scaling stage.
- A new operating model for promoting investments includes an investment task force with the goal of developing and systematising the work carried out to promote strategic investments.
- Streamlined permit processes through cross-administrative coordination and permit procedure reforms will be carried out. The work is divided into a reform of the institutional structure of regional government, led by the Ministry of Finance, and the development of services and legislation, led by the Ministry of the Environment.

The agencies following the new structure will start operating at the beginning of 2026.

New measures to be considered

- We will allocate the resources required for the implementation of streamlined permit processes.
- We will improve the regulatory environment's predictability and positive attitude towards enterprises and innovation.
- We will strengthen the operating conditions of the investment task force by enhancing the knowledge base concerning the development of the investment environment.
- We will explore alternative incentives for investments and ensure that the potential prolongation of the EU's Temporary Crisis and Transition Framework beyond 2025 will also serve Finland's goals.

EU level: Promotion of investments

To promote investments targeting the EU, the Commission intends to propose a Competitiveness Coordination Tool which would be used to identify strategic investment needs related to innovations, decarbonisation and economic security, in particular. A concurrent goal is to align industrial and research policies and investments at the EU and the member state levels. Changes have been proposed to the process of Important Projects for Common European Interest (IPCEI). These changes would include streamlining funding and expanding the scope of application to new sectors and beyond breakthrough innovations. The possibility of allocating EU funding to the financing of IPCEI projects alongside state aid and private funding has been brought up in discussions.

Target state for Finland:

- The requirement for preserving measures that aim for industrial renewal remains a precondition for funding in important joint European projects, and the conditions of funding will not be relaxed to enable using aid as life support for declining industry.

5.2 Enhance public funding to leverage private funding

Objective
To develop public funders' service offering ("a funding and service path") to provide increased synergies and minimise areas with gaps and overlaps. The objective is to maximise private funding, in other words to efficiently leverage it with minimal public funding, and to use EU funding more effectively in the financing of Finnish growth companies and investments.

Ongoing projects:

- To increase efficiency, the state's venture capital investment operations are centralised under the Finnish Industry Investment Group (Tesi). Tesi will be assigned a new, stronger industrial policy role and more powerful resources to carry out its mandate.
- Finnvera's legislative reform aims to strengthen the framework for promoting exports and to enhance Finnvera's role in export support, while taking into account the risks to central government finances associated with guarantee commitments.
- A growth strategy for the financial sector (the Ministry of Finance) will examine how the financial sector could further reinforce sustainable economic growth while creating more jobs and generating tax revenue to Finland.
- Establishing Economic Development Centres as part of the regional state administration reform.

New measures to be considered:

- We will intensify cooperation between public corporate funders and develop their division of work in funding projects with growth potential.
- We will increase growth funding through cooperation between private and public funding and investigate the most effective methods for public funders to participate in productization, commercialisation and pilot and demonstration projects as well as sharing the risks involved in scaling them.
- We will link the upcoming Economic Development Centres and the TE services that are transferred to municipalities closely to regional business service ecosystems and intensify the impactful use of the EU's regional and structural funds for the industrial policy objectives.

EU level: Funding instruments

EU-level measures can be funded through either national contributions or resources from the EU. A Competitiveness Fund aiming to promote investments has been planned for the term of the new Commission. The Fund would replace multiple existing EU financial instruments with one programme, and it would be included in the EU's next multiannual financial framework.

Target state for Finland:

- The EU's industrial policy measures are advanced primarily through market-based instruments.
- EU investment policy is being developed to reduce reliance on national state aid and to base support instruments on competitive project quality.

5.3 Increase the value added and productivity by investing in intangible capital

Objective

The objective is to increase companies' investments in intangible capital and to reach the level of the reference countries in terms of the use of information and communication technologies, with the aim to grow value added in business. Another objective is to apply new technologies that enhance productivity and competitiveness, such as artificial intelligence, in as many companies as possible, SMEs included.

Ongoing projects

- A programme for high-growth entrepreneurship to accelerate the growth of medium-sized enterprises, in particular. The programme aims to diversify the economic structure to strengthen the economy's resilience and capability to respond to changes in the market.
- A national intellectual property rights strategy pursuing an IPR operating environment that effectively supports innovation activities and creative work in 2030. The implementation of the strategy takes place in different organisations.

- A data economy growth programme to strengthen the capacity of businesses to harness data for the development of their products and services. The programme is launched in the spring of 2025 and will run until December 2026.

New measures to be considered

- We will encourage an increasing number of companies to invest in intangible capital by evaluating the experiences of the functioning of the new R&D tax deduction and by exploring its expansion so that it covers companies' investments in intangible capital more extensively.
- We will recognise data as a key input and the related capabilities and infrastructure as a precondition for industrial renewal. We will develop a standardised data infrastructure for the utilisation of data.

EU level: Strengthening industry's competitiveness

The EU has worked to promote the competitive position of European industry through sets of measures targeting selected sectors, among other things. Draghi's report on the EU's competitiveness lists themes which are analysed more closely and for which measures are proposed: energy, raw materials, digitalisation and advanced technologies, fast broadband connections, data processing and artificial intelligence, semiconductors, energy-intensive industry, clean technologies, automotive industry, defence, space, pharmaceutical industry and transport. The strengthening role of the defence industry may generate considerable added value for industry through the powerful R&D cooperation and joint procurement. Additionally, targeted measures have been planned for the energy-intensive basic industry and the automotive industry.

Target state for Finland:

- As a rule, the EU's industrial policy pursues horizontal measures that strengthen the general operating environment of all sectors.
- The use of funding from the European Investment Bank and funding that aims to enhance the EU's competitiveness (including Horizon Europe and InvestEU) could be allowed for the development of the defence industry and dual-use products. Finnish companies participate in and access EU-funded projects that have potential from the defence industry perspective.

5.4 Generate growth from research, innovations and international networks

Objective

The objective is for companies to increase their investments in R&D activities and to allocate public development investments more effectively to themes which have the best recognised growth opportunities and to which companies are eager to allocate their own resources. To increase companies' R&D investments, the aim is to direct additional funding to considerably strengthening joint research relevant to the companies as well as companies and their R&D competence. The development of internationalisation services targeting companies involves ensuring a functioning connection between the RDI activities and export promotion.

Ongoing projects

- Growing the state's R&D investments to support economic and productivity growth. The objective is to achieve a 1.2% share of GDP in 2030; private investments included, a share of 4%. In accordance with the Government's decisions, the state's R&D funding will increase to an estimated EUR 3.75 billion per year by the end of the spending limits period.
- The multiannual plan for research and development funding (13 June 2024) includes a description of the current state of the research, development and innovation system, the system's objectives and the strategic guidelines for the funding of the research and development activities. The implementation of the plan will be carried out by different administrative branches. The Research and Innovation Council will monitor the implementation and impact of the plan and outline strategic choices in the spring of 2025.
- The preparation of a technology policy roadmap supported by the appointed cross-administrative coordination group for technology policy.
- A research, development and innovation programme to boost growth and renewal in the health and wellbeing sector (including the use of health technology and export promotion) will be launched as a follow-up to the health sector RDI growth strategy.
- A quantum strategy to support the preparedness of companies and research organisations to use the possibilities of quantum computing and technologies in the development of radical new solutions and to strengthen sector competence and the long-term development of value added. To be completed in the spring of 2025.

- A national standardisation strategy to support the competitiveness of Finnish companies and to strengthen the EU's strategic autonomy in sectors critical for Finland.

New measures to be considered:

- To support the impactful targeting of public development investments, the Ministry of Economic Affairs and Employment will produce a view of themes which have the best recognised growth opportunities and to which companies are eager to allocate their own resources.
- We will encourage companies to increase their investments in R&D activities by directing the state's additional funding to joint research which is relevant to companies as well as to R&D competence. We will also invest in shared research and technology infrastructures, a data infrastructure serving companies, as well as high performance computing and quantum computing.
- We will improve the internationalisation and export promotion services intended for companies and ensure a functioning connection between the RDI activities and export promotion.
- We will use Finland's international networks strategically, consider the expanded markets of defence materiel and dual-use products and ensure that functioning government-to-government connections serve the sector companies' export efforts.

EU level: Innovations and the Framework Programme for RDI

The measures to increase industrial productivity are guided by the importance of new innovations and their commercialisation as well as bridging the innovation gap between the EU and its competitor countries. The key themes will include artificial intelligence and digitalisation in particular, as well as developing industry cooperation in data sharing. The objective is to streamline the regulatory framework, improve access to risk capital and implement new solutions and technologies.

Target state for Finland:

- The Framework Programme for RDI serves the needs of companies broadly and effectively. Competition based on project quality will remain the underlying principle of the Framework Programme for RDI.
- The next Framework Programme for RDI will promote cooperation between research and industry.

5.5 Exploit opportunities offered by the clean transition, the bioeconomy and the circular economy

Objective

The objective is to help Finnish companies to seize growth opportunities provided by sustainability requirements and to redeem their position in the reshaping value chains. Another objective is to succeed in the global competition for clean transition investments. Finland's assets in this competition include the production of clean energy and energy infrastructure in particular, as well as the considerable raw material and water resources. Finland will be profiled as a competitive enabler of the sustainable processing industry and a provider of solutions for the bioeconomy and the circular economy.

Ongoing projects

- The Energy and Climate Strategy produces updated scenarios and policies about the energy need, increasing production and emissions development, as well as reports related to electricity grids and markets.

- The Working Group on the High-Voltage Grid has proposed measures to integrate the increasing electricity generation and the growing consumption in the high-voltage distribution system.
- The working group discussing the support mechanism for non-fossil flexibility will prepare measures to increase flexibility in the electricity market and ensure sufficient electricity generation.
- The Medium-Term Climate Change Policy Plan includes the measures for the burden-sharing sector (transport, building-specific heating, emissions from non-road mobile machinery and waste management, some of the agricultural emissions, and F-gas emissions), which will enable Finland to achieve the set emissions targets.
- The Circular Economy Green Deal is a strategic circular economy commitment led by the Ministry of the Environment and the Ministry of Economic Affairs and Employment, in which industrial companies, among others, can voluntarily commit to reducing their use of natural resources, improving resource efficiency and increasing resource productivity.
- The sectoral low-carbon roadmaps, which were updated in November 2024, are used in the preparation of the energy and climate strategy. Biodiversity roadmaps are a method to gain a more detailed understanding of sectorial impacts on nature and dependencies as well as the measures required to stop biodiversity loss.
- The national Mineral Strategy examines the current situation and development opportunities of Finland's mineral cluster as well as securing the raw material supply of industry and promoting the circular economy. The strategy was completed in December 2024.
- The National Forest Strategy 2035 is a coordinating strategy that describes the key objectives and priorities of the development of the forest-based sector. The renewal of the regional forest programmes was launched in 2024 under the Forest Strategy.
- The long-term strategy for Finnish food production will be published in December 2025 as a Government Resolution. In addition, the preparation of a growth programme for the food industry has been launched to increase the export of food.

New measures to be considered

- We will ensure the availability and security of supply of competitive clean energy and develop the energy network to meet the growing needs in accordance with the Government Programme.
- In accordance with the Government Programme, we will improve industry's capability to participate in balancing the electricity system

while maximising overall competitiveness and the added value to be gained from clean energy.

- We will support industry's electrification development, resource efficiency, utilisation of side streams and raw material sources, materials and derivatives that replace fossil fuels through measures outlined in the circular economy programme and the bioeconomy strategy.
- We will seek ways to streamline companies' corporate responsibility reporting and to lessen their administrative burden, as well as facilitate demonstrating sustainability in the value chain through tools aimed at SMEs.

EU level: Accelerating the clean transition, bioeconomy and circular economy

The objective of the Clean Industrial Deal is to ensure that companies have access to affordable, clean and reliable energy and raw materials and promote the circular economy. The programme shows the direction for the Commission's later regulations concerning the decarbonisation of industry, the circular economy and biotechnology. The EU Climate Law will also be reformed. In addition, the Commission will prepare a bioeconomy strategy, which considers biobased materials, biomanufacturing and biochemistry.

Target state for Finland:

- The objectives of the digital and clean transition remain central to the allocation of EU investments.
- Bioeconomy and circular economy solutions are recognised on a broad basis as promoters of the EU's competitiveness and resilience.
- The EU's climate and energy policy recognises all clean technologies, such as nuclear energy, as part of the range of measures to prevent climate change.

5.6 Invest in logistics, infrastructure and industrial hubs

Objective

The objective is to secure well-functioning logistics connections and infrastructure for the development of industrial operations and for the full utilisation of resources located in different parts of the country. Alongside the functioning and competitiveness of goods transport, the development of the energy infrastructure and the reliability and security of the digital infrastructure will be ensured in the use of the key technologies. The establishment of well-functioning industrial clusters will provide opportunities for attracting investments to Finland which seek synergies from the use of industrial side streams, the supply of clean energy and the efficiency of logistics and infrastructure, for example.

Ongoing projects

- The Government has made a decision to ensure the investment capability of Fingrid and Gasgrid to develop energy transmission networks through proper ownership steering and, when necessary, by strengthening the companies' capital structure.
- The significance of industrial parks and clusters for the operating conditions of industry, along with ways to strengthen them, was examined in a report commissioned by the Ministry of Economic Affairs and Employment, completed in January 2025[26].
- The objective of the programmes for northern and eastern Finland is to promote the full use of opportunities from the viewpoints of economic growth, regional vitality, boosting investments, competence development and the availability of labour. The programmes were published on 6 February 2025.

New measures to be considered:

- We will promote the objectives defined by the logistics subgroup[27] to address the industry's logistics development needs, related to security of supply, international accessibility and competitiveness in logistics.
- We will develop the digital infrastructure and ensure adequate server, computing and data transmission capacity.

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26 Teollisuuspuistot uuden teollisuuspolitiikan instrumenttina: Selvitys teollisuuspuistoista ja niiden kehittämistarpeista osana Suomen teollisuuspolitiikkaa, Ministry of Economic Affairs and Employment publications 2025:9

27 Teollisuuspoliittinen strategia, ohjausryhmän raportti. Ministry of Economic Affairs and Employment publications 2024:49. https://julkaisut.valtioneuvosto.fi/handle/10024/165954

- We will create a long-term development outlook concerning the energy infrastructure that best serves industry's needs, including a national hydrogen transmission network between regional industrial clusters.
- We will prepare a development programme for industrial clusters which combines the use of clean energy with efficient logistics, infrastructure and material flows as well as cross-sector synergies.

EU level: Development of logistics, infrastructure and industrial clusters

The importance of transport connections and a transmission infrastructure is considered in the development of the functioning of the EU's single market and strategic autonomy. The growing importance of industrial clusters and industrial parks to sectorial integration and competitiveness has also been recognised in the EU's industrial policy, including the Net-Zero Industry Act in which the objective of net-zero Acceleration Valleys is to create clusters of net-zero industrial activity.

Target state for Finland:

- Finland's special logistical characteristics are considered at the EU level, and Finland benefits from the EU's shared infrastructure projects.

5.7 Ensure the availability of skilled labour

Objective

The objective is to respond to the challenges faced by many industry sectors in the availability of skilled labour. The quality of education will be improved and the level of education will be raised to match the increased requirements of working life. Alongside publicly funded education, personnel training provided and paid for by employers will also be developed. The shortage of skilled labour will be addressed by promoting the employment of people already living in Finland and the increase in the supply of workforce and by improving incentives for work. International recruitment will also be promoted alongside these measures.

Ongoing projects

- Labour market reforms to develop and increase the flexibility of the labour market in Finland, with the aim of supporting employment, economic growth, competitiveness and productivity development. The Talent Boost 2023–2027 programme, which supports international recruitment through more streamlined processes for work-based residence permits and recognition of international competence as well by promoting foreign students' employment after graduation while preventing permit process abuses.
- The Finnish National STEM Strategy to promote competence in natural sciences, mathematics and technology.
- Transferring the TE services to municipalities as part of the municipalities' task to ensure vitality. The objective of bringing the services closer to companies and jobseekers is to improve the availability of thew workforce and the rapid employment of employees.

New measures to be considered:

- We will improve the opportunities for continuous learning in working life by setting up competence modules that are less extensive than degrees and by providing more flexible study paths at all levels of education.
- We will increase the recognition of short-term apprenticeship training leading to a part of a degree in vocational education and training and enhance the recognition of competence earned in working life.
- We will improve foresight on the skills needs of the workforce by considering planned investments and growth sectors more extensively in education intake and international recruitment.
- We will support the understanding of degrees earned abroad among recruiting companies and improve the service concept for people moving to Finland for work.

EU level: Ensure access to skilled labour

The lack of skills has been considered an obstacle to innovations generated in the EU, adopting new technologies and decarbonisation. The EU's economy is suffering from a talent deficit which is worsened by the reduction in workforce compared to competing economies. According to Draghi's competitiveness report, strategic sectors require targeted measures in competence development. The problems include not only the public sector but also insufficient participation by industry in the development of job-specific competence. The report by Enrico Letta proposes a fifth freedom, or the free movement of research, innovation, knowledge, and education.

Target state for Finland:

- A share greater than today of the EU's cohesion funds is used for measures promoting productivity and innovation.
- Cooperation between European institutes of higher education is deepened. The member states commit to the implementation agreed in the Bologna process to reduce administrative and legislative obstacles in cross-border cooperation in higher education.

6 Industrial policy reflects the times

The Government is submitting this report to the Parliament because the changes in the economic operating environment require political discussion on the overall picture and long-term positions of Finland's industrial policy. The report is based on an outline in accordance with the seven objectives of the recent industrial policy strategy and introduces to the discussion the strategy steering group's proposals for new policy measures.

At the time of compiling this report, the plans of president Trump's administration to impose tariffs on products from Canada, Mexico and China as well as potentially from Europe were among the topical issues. These plans create uncertainty in the economy and international trade. The powerful trade policy measures may also further amplify the formation of blocks in the global economy. As a result, Finnish companies must determine how to distribute business risks and adjust production and supply chains.

The rapid changes in the international economic operating environment increase the need for discussion on industrial policy. At the same time, they serve as an invitation to maintain an up-to-date understanding of the development of the operating environment. Industrial policy reflects the times, which is why the Government will provide updated situational awareness to committee sessions when the Parliament discusses this report during the spring.

The Government hopes that the discussion on the report on industrial policy will support the establishment of a common view of the success factors of Finnish industry and will help identify the policy measures that are the most effective in responding to the challenges.

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