

Trade Policy Review Body

TRADE POLICY REVIEW

NORWAY

Report by the Secretariat

This report, prepared for the fourth Trade Policy Review of Norway, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Government of Norway on its trade policies and practices.

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Document WT/TPR/G/138 contains the policy statement submitted by the Government of Norway.

Note: This report is subject to restricted circulation and press embargo until the end of the meeting of the Trade Policy Review Body on Norway.

CONTENTS

	<i>Page</i>
SUMMARY OBSERVATIONS	vii
(1) THE ECONOMIC ENVIRONMENT	vii
(2) INSTITUTIONAL FRAMEWORK	vii
(3) TRADE POLICY INSTRUMENTS	viii
(4) SECTORAL POLICIES	ix
(5) TRADE POLICY AND TRADING PARTNERS	x
I. ECONOMIC ENVIRONMENT	1
(1) MAJOR FEATURES OF THE ECONOMY	1
(2) RECENT ECONOMIC DEVELOPMENTS	2
(3) DEVELOPMENTS IN TRADE AND INVESTMENT	6
(i) Trade in goods and services	6
(ii) Foreign direct investment	10
(4) OUTLOOK	11
II. TRADE AND INVESTMENT REGIMES	12
(1) INSTITUTIONAL FRAMEWORK, AND TRADE POLICY FORMULATION AND IMPLEMENTATION	12
(2) TRADE POLICY OBJECTIVES	13
(3) MAIN TRADE LAWS AND REGULATIONS	13
(4) INVESTMENT REGIME	14
(5) TRADE AGREEMENTS	15
(i) World Trade Organization	15
(ii) Preferential trade agreements	17
(iii) Generalized System of Preferences (GSP)	23
III. TRADE POLICIES AND PRACTICES BY MEASURE	24
(1) OVERVIEW	24
(2) MEASURES DIRECTLY AFFECTING IMPORTS	24
(i) Documentation, and customs procedures and valuation	24
(ii) Rules of origin	26
(iii) Tariffs	27
(iv) Other taxes and charges	33
(v) Import prohibitions, restrictions, and licensing	36
(vi) Contingency trade remedies	39
(vii) Standards and other technical requirements	41
(viii) Other measures	43
(3) MEASURES DIRECTLY AFFECTING EXPORTS	44
(i) Registration and documentation	44
(ii) Export taxes, charges, and levies	44
(iii) Export prohibitions, restrictions, and licensing	44

	<i>Page</i>
(iv) Export subsidies, and duty and tax concessions for exports	45
(v) Export finance, insurance, and guarantees	46
(vi) Export promotion and marketing assistance	47
(4) MEASURES AFFECTING PRODUCTION AND TRADE	47
(i) Incentives	47
(ii) Competition policy and price controls	54
(iii) Government procurement	55
(iv) State-owned enterprises and privatization	58
(v) Intellectual property rights	61
IV. TRADE POLICIES BY SECTOR	69
(1) INTRODUCTION	69
(2) AGRICULTURE	70
(i) Main features	70
(ii) Policy developments	72
(iii) Policies by group of products	78
(3) FORESTRY, WOOD, AND PAPER PRODUCTS	80
(4) FISHING AND AQUACULTURE	82
(i) Main features	82
(ii) Policy developments	83
(5) MINING AND QUARRYING	87
(6) ENERGY	88
(i) Hydrocarbon	88
(ii) Electricity	91
(7) MANUFACTURING	92
(i) Main features and policy framework	92
(ii) Selected manufacturing activities	93
(8) SERVICES	94
(i) Overview	94
(ii) Financial services	96
(iii) Telecommunication and postal services	99
(iv) Transport	101
(v) Tourism	105
REFERENCES	107
APPENDIX TABLES	109

CHARTS

Page

I.	ECONOMIC ENVIRONMENT	
I.1	Structure of Norway's merchandise trade, 1998-03	8
I.2	Direction of Norway's merchandise trade, 1998-03	9
III.	TRADE POLICIES AND PRACTICES BY MEASURES	
III.1	Applied MFN tariff distribution, 2004	28
III.2	Tariff escalation by ISIC 2-digit, 2004	30

TABLES

I.	ECONOMIC ENVIRONMENT	
I.1	Basic macroeconomic indicators, 1998-03	3
I.2	Fiscal budget (including social security) and State Petroleum Fund before loan transactions, 2002-04	5
I.3	Balance of payments, 1998-03	6
I.4	Foreign direct investment by country, 1999-03	10
I.5	Foreign direct investment by sector, 1999-03	10
II.	TRADE AND INVESTMENT REGIMES	
II.1	Main trade-related laws and regulations, May 2004	14
II.2	Norway's notifications under the WTO Agreements, April 2004	16
III.	TRADE POLICIES AND PRACTICES BY MEASURES	
III.1	Overview of MFN tariffs in Norway, 2004	27
III.2	Norway's MFN tariff structure, 2004	29
III.3	Average tariffs under Norway's preferential agreements, 2004	31
III.4	Government revenue from duties and main excise taxes, 1999-03	33
III.5	Main excise duties, 2004	34
III.6	Types and scope of quantitative import restrictions, 2003/2004	36
III.7	Tariff quotas applied by Norway in 2004	37
III.8	Notifications by Norway to the WTO Committee on Technical Barriers to Trade, 2000-03	41
III.9	Industry-wide and selected sector-specific support programmes, 2002	48
III.10	Cases handled by the Norwegian Competition Authority, 2000-03	55
III.11	Government procurement statistics, 2001	58
III.12	Main state-owned enterprises, May 2004	59
III.13	Privatization of state-owned enterprises, 1999-03	60
III.14	Overview of IPR protection provided by Norway's legislation, 2004	62
III.15	Patent, design and trade mark applications, 1998-03	64
IV.	TRADE POLICIES BY SECTORS	
IV.1	Gross domestic product and value added by industry at current prices, 2000-03	69
IV.2	Value of agricultural production, 1999-01	71
IV.3	Number of farms, farm size, and employment in agriculture, 1999-02	71
IV.4	Tariff quotas and total imports for products under minimum access commitment, 2002-03	73

	<i>Page</i>
IV.5 Export subsidies, 1999-03	75
IV.6 Product-specific Aggregate Measurement of Support (AMS), 1999-01	75
IV.7 Support to the agriculture sector, 2000-03	76
IV.8 Measures exempt from the reduction commitment, 1999-01	77
IV.9 Target price for wheat and feed grain	79
IV.10 Assistance to the forestry subsector, 1997-02	81
IV.11 Quantity of catch by fish species, 1995-03	82
IV.12 TAC allocations, 2002 and 2003	85
IV.13 Transfers associated with Norway's fishery policies, 1998-03	87
IV.14 Oil and gas sector, key indicators, 1997-03	89
IV.15 Overview of Norway's GATS MFN exemptions	95
IV.16 Telecommunications basic indicators, 1997-03	99
IV.17 International trade vessels registered in Norway, 1997-03	102
IV.18 Civil aviation statistics, 1994-03	104

APPENDIX TABLES

I.	ECONOMIC ENVIRONMENT	
AI.1	Exports by product, 1998-03	111
AI.2	Imports by product, 1998-03	112
AI.3	Destination of exports, 1998-03	113
AI.4	Origin of imports, 1998-03	114
III.	TRADE POLICIES AND PRACTICES BY MEASURES	
AIII.1	Seasonal tariffs, 2004	115
AIII.2	Applied MFN tariff structure by HS2, 2004	118
AIII.3	Bound tariff structure by HS2, 2004	122
IV.	TRADE POLICIES BY SECTORS	
AIV.1	Summary of Norway's specific commitments in individual service sectors	126

SUMMARY OBSERVATIONS**(1) THE ECONOMIC ENVIRONMENT**

1. Norway's adoption of the 2002-05 Long-Term Programme and the implementation of structural reforms, as well as accelerating world demand and low interest rates helped its recovery from its economic slowdown in the second half of 2003. Moreover, in 2001, Norway further reformed its monetary and fiscal policy frameworks by setting a low and stable inflation target of 2.5% and new fiscal policy guidelines. Norway saves its "oil-boasted fiscal income" in a State Petroleum Fund (SPF), which invests in foreign bonds and other securities. Intended as a reserve for future expenditures, and not earmarked for any special purpose, the SPF helps Norway to weather fluctuations in the oil subsector, and (in recent years) to contain the public deficit.

2. Although real GDP growth slowed from 2.8% in 2000 to 0.4% in 2003 (led by a fall in gross fixed capital formation and the slowdown of world demand), Norway's performance in other macroeconomic indicators has been good since its last TPR in 2000: inflation and unemployment have generally remained low, interest rates have been falling, and Norway's current account has shown strong surpluses.

3. Norway's services sector remains the backbone of its economy, with a GDP share of over 56%. Norway's services balance on external account has posted an increasing surplus since 2000, with shipping services being the single most important exported service. Norway is the world's third largest exporter of oil. Crude petroleum and natural gas (more than 17% of GDP in 2003) remain Norway's most important export products; together they accounted for 60% of merchandise exports in 2003, but this share has fluctuated significantly over the years. Manufactured goods (around 9% of GDP) and fish account for about 20% and 4% of merchandise exports respectively. The contribution of agriculture (excluding

fisheries) to GDP and merchandise exports is negligible. Norway's imports are dominated by manufactured goods. Its main trading partners are the members of the European Union, most notably Germany, Sweden, and the United Kingdom. Norway's direct aid to developing countries continues to represent some 0.9% of its GDP.

(2) INSTITUTIONAL FRAMEWORK

4. Norway is an original Member of the WTO, and accords at least MFN treatment to all its trading partners. Since its last TPR, Norway has maintained broadly unchanged its overall institutional framework for trade policy formulation, with the Ministry of Foreign Affairs having overall responsibility in this regard. Trade liberalization in Norway follows several tracks: multilateral; regional (Norway's membership of the EEA); reciprocal (through bilateral agreements with other trading partners negotiated under EFTA); and non-reciprocal (through Norway's preferential schemes for developing and least developed countries). Since Norway's last TPR, changes in trade-related legislation have been driven mainly by a combination of autonomous policy initiatives and the need to comply with EEA commitments.

5. In the context of the Doha Development Agenda, Norway seeks improvements in market access for non-agricultural products through a comprehensive reduction in tariffs and the dismantling of quantitative restrictions; stronger disciplines in the area of anti-dumping measures in order to eliminate trade distortions resulting from their use; further liberalization of the services sector; and the elimination of fisheries subsidies that lead to increased fishing capacity. It is of the view that non-trade concerns have to be taken into account in the context of agriculture liberalization. Since its last TPR in 2000, Norway has been a complainant in one WTO dispute, and a third party to five others.

6. Norway is a founding member of EFTA and the European Economic Area (EEA). The EEA Agreement provides principally for freedom of movement of goods, persons, services, and capital. However, trade in agriculture and fisheries has been liberalized only to a limited extent under the Agreement. Through its membership of EFTA, Norway is part of an expanding network of free-trade agreements. Since Norway's previous TPR, EFTA has concluded bilateral free-trade agreements with Croatia, Chile, Jordan, the Former Yugoslav Republic of Macedonia, Mexico, and Singapore. In addition, EFTA has preferential agreements with Bulgaria, Croatia, Israel, Morocco, the Palestinian Authority, Romania, and Turkey. In general, the preferential margins of these agreements tend to be low, as Norway has liberalized its trade in most non-agricultural products.

7. Norway's investment regime is liberal. However, nationality restrictions exist with respect to activities and ownership in the fishing and maritime transport subsectors. Since Norway's last TPR in 2000, the Government has taken a number of measures to improve the investment environment, most notably, the abolition of specific reporting requirements for investors owning more than certain thresholds of a company's share capital, and of the investment tax of 7% that applied to purchases of business assets.

(3) TRADE POLICY INSTRUMENTS

8. Norway's trade policy regime remains generally open, with the principal exception of agriculture. Its average applied MFN tariff has fallen from 8.1% in 2000 to 7.2% in 2004, with rates ranging up to 2,356% (an ad valorem equivalent (AVE)) on meat offal. While tariffs on agricultural goods (WTO definition) remain high, with an average rate of 38.2%, the average MFN tariff on non-agricultural products is 0.9%. In July 2002, Norway reduced its MFN tariffs on a number of non-agricultural products to zero. These cuts, combined with tariff reductions undertaken in previous years, mean that some

94% of industrial tariff lines (84% of all lines) are currently duty free. Some limited liberalization of trade in agricultural products has also taken place (on a reciprocal basis), both in the EEA context and under free-trade agreements concluded under EFTA. Norway has bound all its tariff lines; the average bound rate is 29.5%, with rates ranging from 0% to 2,356% (an AVE).

9. Norway expanded its GSP scheme in 2000 by extending product coverage and simplifying rules of origin requirements, and on 1 July 2002 extended duty-free and quota-free market access for all products originating in least-developed countries. Thus, the zero rate applies to all imports from LDCs, while the average tariff on imports from ordinary, non-LDC beneficiaries is 5.5%.

10. Internal indirect taxes remain relatively high, with the normal rate of VAT at 24%. Although these taxes apply equally to imports and locally produced goods, for a number of products (motor vehicles, alcoholic beverages, tobacco) they fall mainly on imports, since there is no substantial domestic production. A food production tax and inspection fees are levied at varied rates.

11. Norway has not carried out any anti-dumping or countervailing investigations since its last TPR, nor has it taken, maintained or initiated any safeguard measures. Most Norwegian standards and technical regulations follow those of the EU. On food safety, Norway attaches great importance to maintaining a high level of safety at all levels of the food chain.

12. Import prohibitions maintained by Norway are generally based on international conventions. Norway requires import licences for surveillance and quota management purposes. Non-automatic licences are maintained to administer 60 tariff quotas on agricultural products, including minimum access quotas, other global quotas, and bilateral quotas. Effective 1 January 2001, Norway eliminated quantitative import restrictions on fishing nets, its last remaining

restriction on imports of textile products under the WTO Agreement on Textiles and Clothing.

13. Norway requires export licences for arms and other strategic goods and minke whale products. Exports of fish and fish products are subject to a levy that varies from 0.25% to 1.05% of the value depending on the product. For a number of agricultural products, Norway continues to grant substantial export subsidies, although outlays declined by more than 45% between 1998 and 2003. The 2003 Producer Support Estimate was 72%. Apart from agriculture, industry-specific assistance is also available to the fishery, forestry, and ship-building subsectors. Sector-specific support is also dispensed, along with more generic support, in the context of regional support schemes, with the objective of promoting economic activity in remote areas.

14. Since its last TPR, Norway has renewed its legislation on public procurement. Its regime does not discriminate against EEA members and parties to the WTO Government Procurement Agreement. State ownership remains extensive in the economy, although some limited privatizations (mainly of Statoil and Telnor, the leading companies in the oil and telecommunication subsectors) have taken place since 2000. In May 2004, a new Competition Act entered into force, with expanded definitions of and stronger measures against anti-competitive conduct. Norway also amended its legislation on intellectual property rights, with a view to fully complying with its international obligations in this area.

(4) SECTORAL POLICIES

15. Agriculture (less than 1% of GDP) remains the most tariff-protected sector. Border protection is compounded by a complex system of extensive domestic support (more than two thirds of all budgeted state support). Tariff quotas apply to "sensitive" products, mainly goods covered by Norway's minimum access commitments under the WTO Agreement on Agriculture. As a result of high border protection, consumer prices for

agricultural products are higher in Norway than in neighbouring countries. Outlays for agricultural export subsidies have decreased significantly since Norway's last TPR but they remain substantial for dairy products. The contribution of forestry and fisheries to GDP is low and has further fallen since Norway's last TPR, as has state support for both subsectors.

16. The production of petroleum and natural gas remains the single most important activity in the Norwegian economy. The share of oil and gas extraction in GDP has fluctuated between 17% and 23%, mainly due to oil price variations. Although the hydrocarbons subsector is open to foreign companies and some limited privatization has taken place, public ownership remains substantial. The share of petroleum and petroleum products in Norway's exports has ranged between 43% and 63% in recent years. Norway's manufacturing sector contributes about 9% to GDP. Imports of a large category of manufactured products are duty free; processed agricultural products and textiles are the most tariff protected goods in the sector.

17. The services sector is, by far, the most important contributor to Norway's GDP and employment. New legislation on telecommunications has entered into force since Norway's last TPR, and ownership restrictions in financial services have been relaxed. Although the State has reduced its shares in a number of enterprises, state ownership in the services sector remains substantial, particularly in financial services and telecommunications. Norway has made specific commitments under the GATS in all service categories except health-related and social services. Norway's initial offer in the services negotiations provides for an expansion of its schedule of horizontal as well as sector-specific commitments. Most of these proposed commitments have already been implemented at the EEA level.

(5) **TRADE POLICY AND TRADING PARTNERS**

18. Norway has a long-standing commitment to the multilateral trading system, and participates actively in various free-trade agreements. It has been instrumental in advancing the Doha Development Agenda by tabling proposals in several areas, and is also an important donor for WTO technical assistance activities.

19. The Norwegian market is generally open to non-agricultural products, which are largely imported duty free. Continued structural reforms, including privatization, and further tariff reductions in agriculture would contribute to better resource allocation

in the Norwegian economy. Improvements of Norway's multilateral commitments, both on goods and services, would increase the predictability for trade regime. Moreover, the move to ad valorem tariffs would stabilize the level of tariff protection for its agriculture, where fluctuation of import prices (in Nkr) has raised the ad valorem equivalents of duties on certain products to levels up to 2,356%.

20. Norway's internal tax system on agricultural products (various inspection and control levies and taxes) is complex; it would gain in transparency if reforms were implemented, taking into account Norway's WTO commitment on other duties and charges bound at zero, and the GATT 1994 provision on national treatment.