

# WORLD TRADE ORGANIZATION

RESTRICTED

**WT/TPR/G/15**

9 May 1996

(96-1825)

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Original: English

## **TRADE POLICY REVIEW**

### **NORWAY**

#### **Report by the Government**

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Government of Norway is attached.

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**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.



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## **I. MAIN TRADE POLICY OBJECTIVES**

1. The Norwegian Government's policy is designed to promote and sustain economic growth within the limits set by the environment. Norway's open economy underpinned by a liberal trade policy provides the means for economic growth and adaptability to an increasingly globalized economy. It is the objective of the Government that the beneficial effects of economic growth and trade be translated into increased welfare, full employment, an equitable distribution of income and improved social standards.

2. The Norwegian Government attaches great importance to pursuing a policy of sustainable development at home as well as globally. Trade policy and environmental policy must be mutually supportive.

3. Trade is not only essential to achieving economic growth domestically, but also a means for promoting economic growth and political stability in other countries. Trade is therefore also an important part of Norway's foreign policy.

4. In order to benefit from comparative advantages and economies of scale, Norwegian companies need to participate in markets extending beyond the domestic one. Thus, an important policy aim is to strengthen the international competitiveness of Norwegian trade and industry. Continuous efforts are being made to secure and improve access to foreign markets for Norwegian enterprises. Consequently, Norway has strong interests in trade policy negotiations. Extensive involvement in foreign trade also makes Norwegian companies vulnerable to trade actions, both those directly aimed at Norwegian economic operators and more indirectly through international trade disputes. The best way to address these challenges is through a rules-based multilateral trading system.

5. The World Trade Organization provides a global means of ensuring that no member country pursues national policies to the detriment of other members' trade interests, and that global trade is conducted according to an open, multilateral trading system based on rules. Since 1947, Norway has played a supportive and active role in the development of the GATT. Active Norwegian participation to strengthen and further develop the multilateral trade rules will continue in the WTO in order to ensure the stability, security and predictability needed by Norway, as an open, outward-oriented country.

6. Norwegian trade policy towards developing countries plays an increasing role in the formulation of Norwegian development cooperation policy. Norway will continue to promote improvements to the multilateral trading system (MTS) and encourage greater integration of the developing countries, especially the poorest developing countries, into it by means of transitional arrangements, technical support and other measures. To this end, Norway proposed the establishment of a Fund in WTO for financing technical assistance to Least Developed Countries in particular and has contributed US\$ 2.5 million to the Fund.

7. Norway will also target and strengthen efforts to promote trade with developing countries, for instance by channelling aid to measures in the productive sector and the development of trade expertise, and by implementing improvements to the Generalized System of Preferences (GSP), in particular for agricultural products and textiles.

8. The process of making trade policies and environmental policies mutually supportive is one to which Norway attaches particular importance. Norway therefore participates actively in the ongoing trade and environment discussions in the WTO, i.e. the work to ensure compatibility between multilateral trade rules and international environmental agreements.

9. Norway actively supports international compliance with fundamental rights as established in core ILO conventions. Norway therefore advocates a thorough analysis and discussion in relevant multilateral fora of possible links between trade and social standards and of means to enforce core ILO conventions.

10. Given the increasing globalization of the world economy, it is also necessary to devise rules that encompass areas of trade that have not been part of traditional trade policy. This is clearly demonstrated by the growing significance of trade in services and by the negotiations of the General Agreement on Trade in Services (GATS). Investment policy related to services is already covered by the GATS, but there are no global rules for international investment that affect trade. The proliferation of bilateral investment agreements underlines the need for global rules. Norway therefore supports the efforts to initiate discussions on this issue in the WTO.

11. Trade and competition is also an area that merits greater attention in the WTO. Norway has followed a cautious line concerning the use of restrictive trade policy measures. No Norwegian anti-dumping or countervailing duties have been imposed during the past ten years. Norway would be in favour of WTO efforts to design multilateral rules for competition.

12. It is the Norwegian experience that the dynamics of regionalism are complementary to the multilateral system and contribute to increased global trade, provided that regional agreements are consistent with multilateral trade rules. Norway's regional agreements accommodate the need for deeper economic integration with near markets and have been instrumental in paving the way for liberalization of Norwegian trade policies at the global level. Consequently, Norway will continue to pursue regional and bilateral agreements in order to expand trade and economic cooperation with other European countries and to safeguard Norwegian business opportunities within the global framework of the WTO.

13. Norwegian trade policy has broad support in the public at large. It is drawn up based on extensive consultations on the national level with various sources, including representatives of trade and industry, labour, consumer and other interested organizations, as well as with the Storting (the Norwegian parliament).

## **II. THE ECONOMIC AND TRADE ENVIRONMENT**

14. Economic growth in Norway has been strong since the first trade policy review of Norway in the GATT in 1991. The total GDP, fuelled by increased petroleum production, grew on average by 3 ¾ per cent per year from 1991 to 1995. The recovery of mainland activities (excluding the offshore sector) started in 1992 and gathered momentum during the second half of 1993. The main stimulus came from buoyancy in household spending, which was triggered by a significant easing of monetary conditions and a pickup in traditional exports.

15. The Norwegian krone has remained relatively stable since December 1992. The implementation of monetary policy will continue to be directed towards maintaining a stable exchange rate for the krone against other European currencies. Norwegian interest rates have fallen substantially since the last TPRM. The effective 3-month nominal interest rate, averaging 10 ½ per cent in 1991, was 5 per cent at the beginning of 1996. The Norwegian effective 10-year interest rate is 6 ¾ per cent compared to 10 per cent in 1991.

16. The policy of the Government is to cooperate with the trade unions and employer organizations in order to strengthen cost competitiveness and thereby secure the basis for full employment. Low

nominal wage growth has been an important factor behind the stronger Norwegian economy the last few years. Employment has improved during the past two years. Unemployment peaked at 6 per cent in 1993, but has fallen gradually to a level of 4.9 per cent for 1995 and 4.3 per cent (seasonally adjusted) for the last quarter of 1995. Inflation remains subdued. The rate of consumer price inflation was 1.4 per cent in 1994 and 2.4 per cent in 1995 and is estimated at about 1 per cent for 1996.

17. General government finances are sound. The general government balance showed a surplus (net lending) of 0.3 per cent of GDP in 1994 and is expected to show a surplus of 1.8 and 2.4 per cent of GDP in 1995 and 1996, respectively. A petroleum fund has been established to contribute to a budgetary process that safeguards long-term considerations in decisions regarding the extent to which the government's petroleum revenues are to be used in the Fiscal Budget. The general government gross debt represented 39 per cent of GDP at the end of 1995.

18. In recent years a number of important structural reforms have been implemented to improve the way the Norwegian economy functions and to achieve higher growth. Such measures include the tax reform, the reform of the electricity market, the elimination of financial support to Norwegian fisheries and the entry into force of the new Competition Act. Norwegian agricultural policy has changed over the past years. Important goals are the reduction of assistance to the agricultural sector, the lowering of consumer prices on agricultural commodities in order to achieve domestic consumer prices more in line with prices in neighbouring markets, and the reduction of costs and overproduction. The aim is to encourage the development of a more competitive agricultural sector both in terms of primary production level and in terms of processing. Labour-intensive production in rural regions is being given priority, as are environmental measures and measures to preserve the agricultural landscape and promote diversified employment opportunities.

19. Important Norwegian export sectors are the petroleum sector (crude oil and gas), which contributes with over 30 per cent of Norway's total export revenue, and fish and fish products, contributing with 8 per cent. This clearly illustrates Norway's dependency on natural resources. Traditional goods as such represent approximately 40 per cent of Norway's total export revenue, while the services sector represented about 25 per cent in 1995, half of which came from international shipping.

20. Trade relations with the European Union have become more important due to the accession to the EU of the former EFTA member countries Austria, Finland and Sweden as of 1 January 1995. With the accession of these countries, the EU received about 75 per cent of all Norwegian merchandise exports and provided about 70 per cent of all merchandise imports in 1995. Comparative figures for the Central and Eastern European countries are 2 and 3 per cent, for North America 8 and 10 per cent, while the figures for developing countries as a whole are approximately 9 per cent for both exports and imports, largely comprising trade with Asian countries.

### **III. TRADE POLICY DEVELOPMENTS (1991-1995)**

21. Since the 1991 TPRM, the major trade policy developments for Norway have been the negotiations of the Uruguay Round and implementation of the WTO Agreements and the Agreement on the European Economic Area (EEA). Economic cooperation with Central and Eastern European countries (CEEC) and countries that are members of the Commonwealth of Independent States (CIS) has also improved significantly, in part due to the signing of a series of regional and bilateral trade agreements.

## 1. The World Trade Organization

22. The Uruguay Round of negotiations was of major importance for Norway. The stronger, broader and clearer legal framework resulting from the negotiations has laid the foundation for more equal terms of competition between small and large trading nations, thus reducing the risk of the utilization of unilateral trade measures. Furthermore, interaction between lowered trade barriers and domestic structural reform enhances efficiency as stronger competitive pressures from international markets make it easier to implement national structural policies. More efficient and competitive domestic markets will provide an incentive to conclude agreements on the further lowering of trade barriers.

23. It was important to strengthen and clarify the rules on subsidies in order to reduce the likelihood of differing, national interpretations. The changes to the dispute settlement system, which ensure that panel decisions can no longer be vetoed, were vital to the credibility and effective functioning of the WTO. Though the Uruguay Round succeeded in meeting many of Norway's concerns regarding rules, there is still room for improvement in future rule-making, for example on anti-dumping. Norway became involved in a dispute in this area during the TPRM-period, following the imposition by the United States of countervailing and antidumping duties on Norwegian fresh salmon. These duties virtually excluded exports of Norwegian fresh salmon from the United States market.

24. The conclusion of a TRIPs agreement represents a significant step towards safeguarding patents and other intellectual property rights. A fundamental advance towards trade liberalisation was made with the GATS Agreement, which outlines the framework for trade in services. However, it was a setback that binding market access and national treatment commitments were not included with respect to maritime transport. Maritime transport represents about 90 per cent of international transport of goods. Thus, liberalization should benefit all countries. As international shipping is a service of particular importance to Norway, we have taken active part in the continued negotiations in this field.

25. The market access negotiations of the Uruguay Round resulted in greater export opportunities for a number of industrial products. However, the results were limited for trade in fish and fishery products, and future negotiations should provide increased market access.

26. The Act to implement the WTO and its agreements was adopted by the Storting in November 1994. Supplementary acts were passed in December 1995.

27. The Norwegian import régime for agricultural products changed fundamentally following the implementation of the WTO Agreement on Agriculture. All non-tariff import measures have been replaced by customs tariffs. Internal support measures have been adapted and reduced in accordance with the WTO Agreement. Export subsidies have also been reduced in compliance with WTO commitments. The average reduction in import duties was 36 per cent for agricultural products (unweighted average). The reduction of duty rates related to agricultural products has been accelerated in relation to the WTO commitments so that the GATT-bound tariff levels for agricultural products set for the year 2000 were implemented as of 1 July 1995.

28. For all other products, the average reduction in import duties was 44 per cent (weighted average). The reductions resulted in a weighted average tariff rate of 2 per cent for manufactured goods. The reduction on manufactured goods will be implemented within a period of five years.

29. As concerns bilateral textile quotas, Norway is considering the elimination of the existing quantitative restrictions over a five year period.



30. Norway has seized the opportunity created by the transition to tariff-based protection to improve market access for agricultural products from developing countries, especially from the least developed countries. A temporary arrangement was implemented from 1 January 1995. This arrangement was revised, and the range of goods was extended as of 1 July 1995. In the revised scheme, all agricultural goods from the least developed countries are eligible for preferential treatment, with zero duty on all products except for grain, meal and feeding stuffs, which qualify for a 30 per cent cut in duties within certain quantitative ceilings. For other developing countries, all products except milk and dairy products, live animals and certain processed agricultural products, are included in the scheme. The preferences for these countries range from 100 per cent to 10 per cent cuts.

## **2. The European Economic Area (EEA)**

31. The Agreement on the European Economic Area was signed by the member countries of the European Community and the European Free Trade Association on 2 May 1992. The Agreement came into effect for the EU and five of the EFTA countries on 1 January 1994, with Liechtenstein joining on 1 May 1995. The Agreement was jointly notified to the GATT by the EC and the EFTA member states on 17 July 1992 (see GATT document L/7048).

32. The Agreement on the European Economic Area substantially widens and deepens the free trade relations established through the Free Trade Agreement concluded in 1973 between the EC and Norway. The EEA Agreement - comprising 49 Protocols and 22 Annexes - aims at establishing a dynamic and homogeneous European Economic Area in which there will be free movement of goods, persons, capital and services (the "four freedoms") under equal conditions of competition. The EEA objectives will be achieved through EEA rules, which correspond to EU rules and their interpretation by the rulings of the EU Court of Justice (the "EU acquis"), if done before 2 May 1992, in all areas concerned. This includes competition policy and state aid, and the horizontal policies which are related to the four freedoms, e.g. company law, statistics, and relevant parts of social and environmental policy. The EEA Agreement also provides for strengthened cooperation in areas outside the four freedoms, such as R&D, training, small and medium-sized enterprises, consumer protection, audiovisual matters, culture and elements of environmental and social policy. Moreover, the Agreement contains provisions on an EFTA financial mechanism aimed at the reduction of economic and social regional disparities.

33. The EEA is not a customs union: it does not provide for a common external tariff or a common trade policy. Norway remains autonomous in its third country relations and retains its treaty-making power.

34. Secondary Community legislation is brought into the EEA by means of direct references in the Agreement to the relevant Community acts. Accordingly, the 22 Annexes and some of the Protocols to the Agreement currently make references to some 2,000 directives, regulations, decisions and other acts, which in accordance with the Agreement apply throughout the EEA. Around 750 of these acts apply to technical regulations and the removal of technical barriers to trade.

35. The Agreement provides for decision-making procedures for the integration of new, secondary Community legislation into the EEA. The EEA Joint Committee has added more than 600 new Community acts into the Agreement since its entry into force.

### 3. Free Trade Agreements

36. Starting in 1992, EFTA countries have concluded free trade agreements with Poland, Hungary, the Slovak Republic, the Czech Republic, Bulgaria, Romania, Slovenia, Israel and Turkey. The agreement with Slovenia was signed 13 June 1995 and has been applied on a provisional basis. The EFTA countries also signed free trade agreements with Latvia, Lithuania and Estonia on 7 December 1995. Until these agreements enter into force, Norway's bilateral free trade agreements with the three Baltic States continue to apply.

37. EFTA's free trade agreements cover free trade in industrial products, fish and marine products and processed agricultural products. In addition, each EFTA country has concluded bilateral agricultural protocols with each of the third country partners. The bilateral agricultural protocols are an integral part of EFTA's multilateral agreements. The free trade agreements incorporate provisions on a number of new trade issues, including rules of competition, state aid, public procurement and protection of intellectual property. The agreements also contain evolutionary provisions for services and investments, as the parties recognise the growing importance of these areas and will co-operate with the aim of achieving the gradual liberalisation and mutual opening of markets for investments and trade in services, taking into account developments in European integration and the WTO.

38. Since the dissolution of the former Soviet Union, Norway has developed a new set of trade and economic agreements with Russia and the other member countries of the Commonwealth of Independent States (CIS). Norway signed a bilateral agreement on trade and economic cooperation with Russia in March 1996. An agreement has also been concluded with Croatia. The agreement with Russia is based on the principles of the WTO for goods, services and TRIPs. It states that Norway and Russia shall give each other MFN-treatment, with exceptions specified, and stipulates that payments shall be made in convertible currency unless otherwise agreed. Countertrade transactions are to be regarded as exceptional, and access to public procurement markets shall be given on a mutual basis. Consultations shall be carried out in case of trade distortions.