



Norwegian Institute  
of International  
Affairs

## International trade policies 2015 – trends and challenges

EFTA Consultative Committee 199<sup>th</sup> Meeting

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# Plan

- NUPI and trade policy
- Conflicts of interest in Norwegian trade policy
  - Offensive and defensive interests
  - Fish vs. agriculture in Norway – was there a contradiction?
  - The EU as a trade policy actor
- Trade policy challenges
  - FTAs in the context of world trade
  - Some challenges for Norway and EFTA

# NUPI, some projects on trade policy

Short-term projects for users, and long-term research projects

- 2012: Trade policies for developing countries (MFA)
  - Melchior, Perry and Rich (2012). Norsk handel med det fattigste: Mellom profitt og utviklingspolitikk. NUPI-rapport, 142p.
  - Former studies in 2005 (GSP) og 2010 ("GSP" for services)
- 2013: Norway's economic relations with Asia (MFA)
  - Melchior, Lind and Lie (2013): Norway, Asia and the Global Value Chains, NUPI Report, 110p.
- 2013-14: TTIP and Trans-Atlantic free trade (Conf. of Norw. Industries, Min of Finance)
  - NUPI and Norstella (2014): Transatlantisk frihandel og Norge, NUPI Report, 152p.
  - Medin and Melchior (2014). Økonomiske virkninger av en frihandelsavtale mellom EU og USA, NUPI Report, 37p.

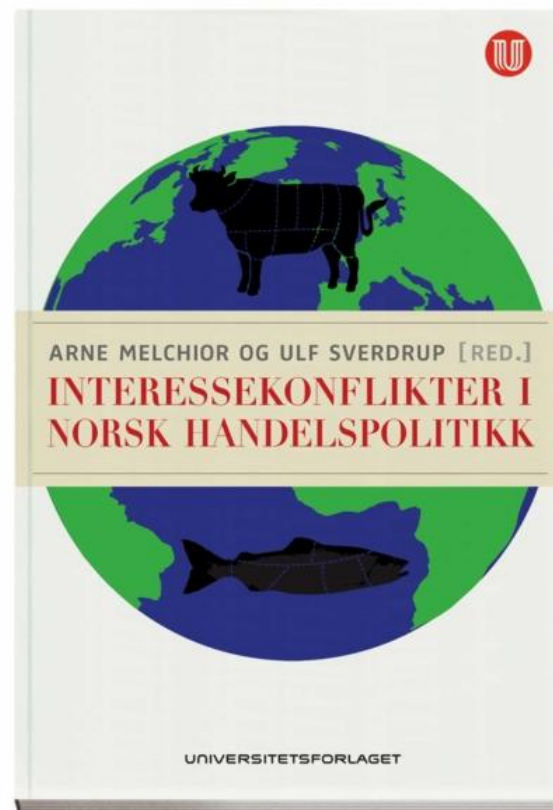
## NUPI projects on trade policy, continued..

- 2012-2015: Non-tariff barriers (RCN – Research Council of Norway)
  - About 20 publications
- 2014-2015: Conflicts of interest in Norwegian trade policy (Seafood Industry Research Fund, FHF)
  - Melchior & Sverdrup (eds.) (2015): Interessekonflikter i norsk handelspolitikk. Universitetsforlaget.
- 2013-2016: Trade integration in Russia (RCN)
  - E.g. Melchior (2015). Post-Soviet trade, Russia's Far East and the shift to Asia, Chapter 3, pp. 61-96 i J. Huang & S. A. Korolev (eds), 2015, Developing Asia Pacific's last frontier: Fostering International Cooperation in the Development of Russia's Far East and Siberia, Palgrave-Macmillan.
- 2014-2017: Intermediaries and the organization of international trade in food products (RCN)

# Conflicts of interest in Norwegian trade policy

## Arne Melchior and Ulf Sverdrup: Introduction

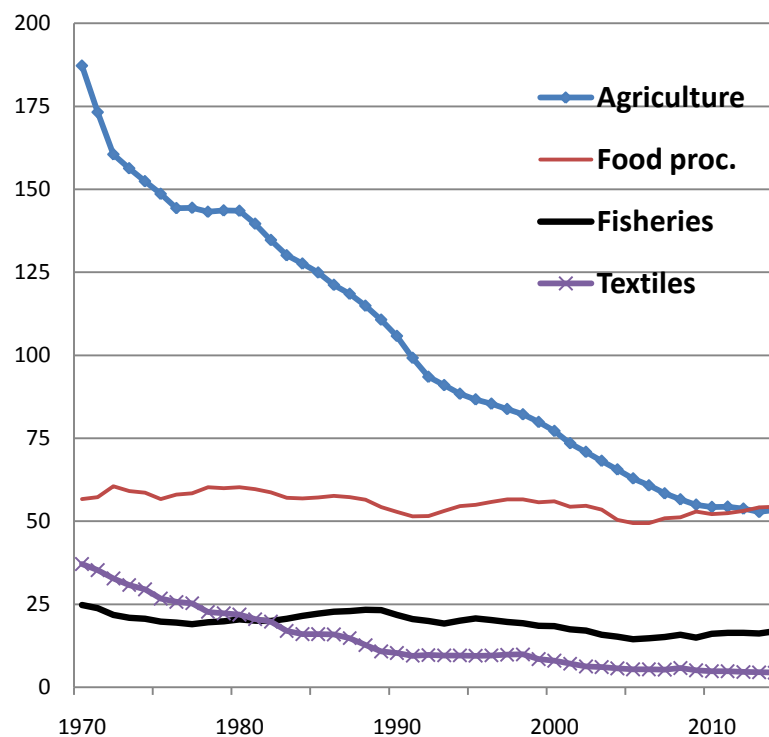
1. Arne Melchior: Conflicts of interest in Norway's trade policy
2. Ivar Gaasland: Fish and agriculture – who defines the national interest?
3. Arne Melchior and Ulf Sverdrup: The EU as a trade policy actor
4. Bård Harstad: Issue linkages and negotiations – background theory
5. Arild A. Farsund and Oluf Langhelle: National politics and international negotiations: Norway's trade policy after 1995
6. Hans Otto Frøland: Fish vs. agriculture in Norway's trade negotiations, 1947-1994
7. Lise Rye: Issue linkages in the EEA negotiations (1990-91)
8. Hans Otto Frøland: Market access for fish before 1960
9. Arne Melchior: Trade policy for textiles 1977-86



# A focus in the book: Offensive and defensive industries

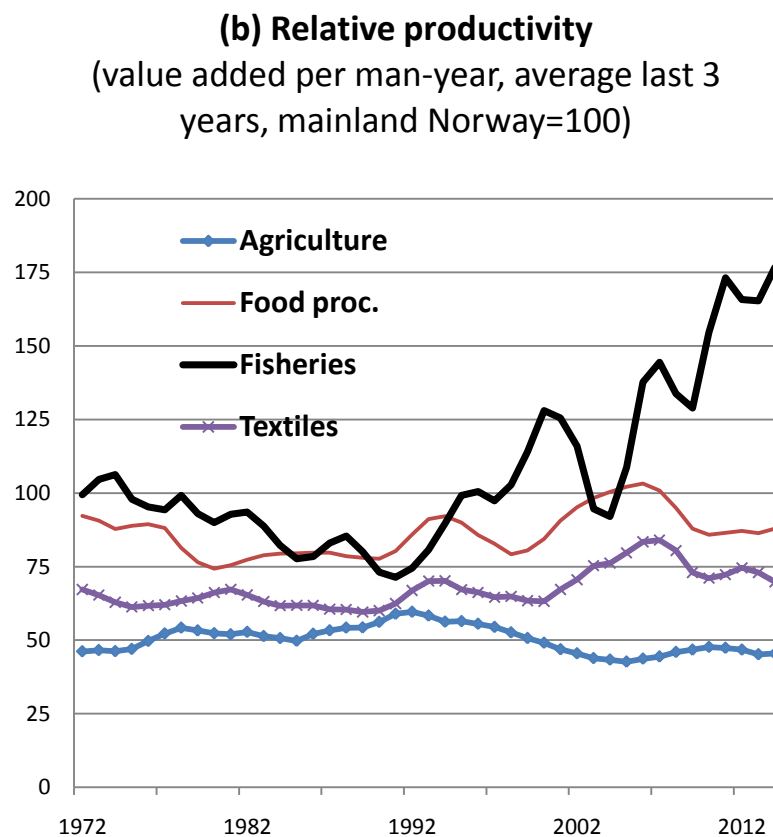
- Shifts over time due to changes in industrial structure
- Norway: Fisheries an offensive industry since 1200
- Other offensive industries less dependent on trade policy
  - Oil, gas, shipping
- Defensive industries
  - Textiles and clothing
  - Agriculture
  - Fish processing

(a) Employment (1000 man-years)



# Defensive industries – relatively low productivity

- Gaasland: Economic case for agricultural liberalization (chapter 2)
- Figure: Value added per man-year, relative to mainland Norway
  - From intro chapter, Melchior
  - Subsidies not deducted
- Agriculture – less than 50
  - Even with subsidies
- Fisheries: Sharp increase over the last 20 years
  - Mainly due to aquaculture



# Overview of the book

- Introduction (Melchior & Sverdrup)
  1. Conflicts of interest in Norwegian trade policy (Melchior)
    - Overview + analysis of some industries
    - Protectionism did not stop the decline in the «defensive» industries agriculture and textiles&clothing
  2. Seafood and agriculture – who defines the interests of Norway (Gaasland)
    - Agricultural policies have a cost of 40 billion NOK
    - Seafood industry faces tariffs of 2 billion NOK abroad
  3. EU as a trade policy actor (Melchior & Sverdrup)
    - EU's enlargements and treaty revisions have changed the EU as a counterpart in negotiations
    - Issue linkages between EEA/Norway financial contribution, agriculture and fish?



# Overview cont.

4. Issue linkages and negotiations – background theory (Harstad)
  - Issue linkages expand the policy space and often facilitate agreements
5. National politics and international negotiations (Farsund & Langhelle)
  - Norway keeps agriculture and seafood separate when possible
  - When this is not possible, there is a conflict and agricultural interests had the upper hand
6. Fish vs. agriculture in Norway's trade negotiations, 1947-1994 (Frøland)
  - In GATT, agriculture was an obstacle to liberalization for seafood
  - In EFTA it took 28 years before free trade for seafood was implemented, partly because Denmark's interests in the field of agriculture
  - In negotiations on Norwegian EU membership, access to fish resources was a more important obstacle than agriculture
  - In NORDØK and the membership treaties with the EU, more free trade in fish was obtained, but the agreements were never implemented

## Overview cont....

7. Issue linkages in the EEA negotiations (1990-91) (Rye)
  - Access to fish resources was the most important reason why the EEA did not lead to free trade in fish products
8. Market access for fish before 1960 (Frøland)
  - Trade agreements with a number of countries: Often «give and take» negotiations where market access for fish was exchanged against agriculture and many other goods
9. Trade policy for textiles 1977-86 (Melchior)
  - 1980s: Norway one of the most protectionist in the world
  - Today: Norway one of the most liberal
  - Policies were costly and of little help

# Fish vs agriculture in Norway's trade policy

- Not exceptional to have offensive and defensive interests in trade policy
- But: is the span in Norway's position excessive?
- The debate is about:
- WTO: Has agricultural protectionism hindered an agreement that could be of great value for the seafood industry?
- EU: Should Norway give more concessions in agriculture in order to obtain free trade for seafood?
- Free trade agreements: Will Norway's stubborn position in agriculture render it impossible to obtain FTAs with important countries?

## Was Norway always a protectionist in agriculture?

- No, it happened after the second world war
- Agricultural protection system consolidated from the 1950s
- But Norway was sloppy on the legal basis for protection in GATT
- 1988: Apple conflict with the USA, Norway lost 5-0 in the panel case
- The Uruguay Round of the WTO (1986-93) became Norway's rescue
- For sensitive sectors, Norway obtained extremely high bound tariffs for agriculture
  - Grains, meat, milk, some vegetables

# Tariffs in agriculture – Norway in the world top

Figures for 2012, 2013 from [www.wto.org](http://www.wto.org).

## Bound tariffs (= the upper bound for tariffs, in WTO)

Highest in the world:

- Lesotho 199%
- Bangladesh 192%
- Nigeria 150%
- Zimbabwe 141%
- **Norway 135%**

## MFN applied tariffs (= those in the customs book)

Highest in the world:

- Egypt 67%
- Korea 53%
- **Norway 51%**
- Turkey 42%
- Morocco 41%

# The book's verdict: Has agricultural "stinginess" hindered liberalization in other areas including fish?

- Yes, sometimes if the counterpart(s) had agricultural export interests
- GATT/WTO: Most often yes (Frøland)
  - But in 2008, Norway could accept a WTO agreement with considerable liberalization in agriculture
- Related to the EU: More no than yes
  - Access to fish resources was a bigger obstacle
  - In the future, the link to agriculture may become more important
- Free trade agreements: Both yes and no
  - Before 1950: Often «exchange» of fish against other issues
  - EFTA: Denmark's interests in agriculture slowed down liberalization for fish trade
  - Could also become more of a problem in the future

# EU as a trade policy actor – drivers of change

- EU enlargement
  - Induced changes in EU policies (e.g. treaties, agricultural policy, cohesion policy)
  - Larger economic heterogeneity, change in industrial profile
    - EU turned into net exporter in agriculture
    - New member states – exporters of agriculture and fish
- Lisbon treaty
  - Common policy area expanded, also for trade policy
  - European parliament – larger role
  - New "foreign minister" and "foreign ministry" (EEAS)
- Economic crisis?
  - Fatigue more than protectionism

# EU – one or many actors in trade policy?

- EU – only the sum of country interests?
  - Early days – trade policy settled in Article 113 committee
  - Bargaining between nations still important
  - But growing role for common policies and institutions
- Contradictions between DGs also play an important role
- EEAS – new face but so far not a radical shift in EU trade policy coordination
- Parliament – increased power due to “veto right”
  - Illustration: TTIP delay, spring 2015
  - May lead to more “politicizing” of trade policy



# Relevance: Norway-EU negotiations in 2015

- On EFTA/Norway contribution to economic and social cohesion in the EU (“EEA contribution”)
  - Large increases in earlier negotiations
- On about 50 tariff rate quotas for seafood
  - Accumulated over time, due to EU enlargement
  - Some quotas provided as “payment” for “EEA contribution”
- On market access in agriculture
  - Biannual reviews under Art. 19 of the EEA
  - Former agreements in 2002 and 2010
- Three issues, separate rooms, same leadership
  - Were they linked in “integrative” or “synergistic” bargaining?
  - Ex post: Two of them, but not the third

# Issues for Norway-EU trade negotiations

- New treaties and more majority voting render it less likely that individual EU countries block negotiations
- EU interests have changed over time
- EEA Agreement – stable framework leading to “business as usual”
  - EU perception of “balance” in relationship with Norway
  - Contrast: Switzerland – perception of conflict
  - Switzerland: All issues linked
- Norway-EU: Weaker issue linkages
  - EEA contributions and seafood quotas were linked
  - Agriculture: Not yet
  - Possible reasons on the EU side: “Balance”, pragmatism, fear of conflict, fatigue


# Should there be more issue linkages?

- Link between seafood market access and "EEA contribution" – less efficient then before since the "fish protagonists" are no longer receiving the EEA funds
  - Before enlargement: Spain received 59% of EEA contribution
- A linkage between market access for seafood and agriculture could work
  - But the EU must be interested in such a linkage
- Few other "tools" for Norwegian trade negotiators
  - Norway – politically forced to be careful on agriculture
  - Might change in the future, due to changes in the trade policy scene
  - Also strong economic arguments, analyzed in the book

# Mysteries of the "cheese tariff"

- Norway – "bound" agricultural tariffs are more than twice the level of "applied" tariffs
  - Can we use this "tariff overhang" and raise tariffs as we wish?
  - According to some, yes
  - From the legal WTO text it is possible
  - Example: Tariff increases for meat and cheese, 2013
- But international negotiations also establish norms of interpretation beyond the legal paragraphs
  - Textile trade policies of the 1980s – an illustration
  - If we violate the norms, there may be a recoil
  - Strong reactions on the "cheese tariff" in the EU
  - Remains to be seen how strong is the "cheese tariff recoil"

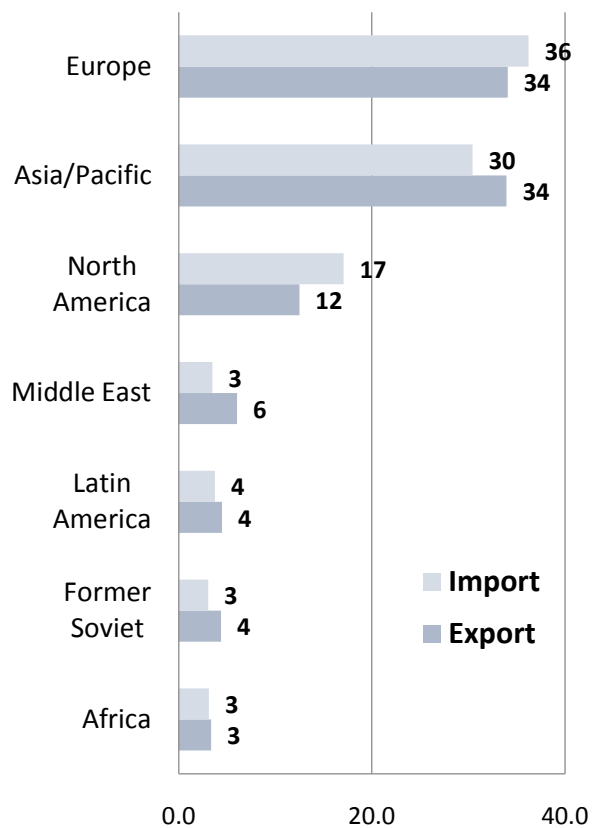
## Implications, negotiating with the EU

- Significant change in the EU as a trade policy actor
  - Important for Norway and EFTA to analyse and prepare
  - Negotiation strategy should be based on analysis of interests, institutions, legal framework
  - The chapter and the book are contributions to this endeavour
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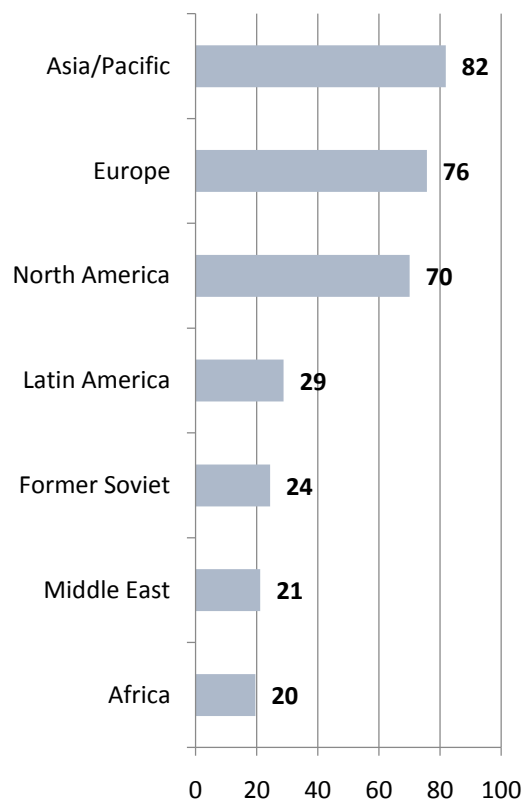
# Trade portrait of the world's regions, 2010

Based on Melchior (2012, 2015)

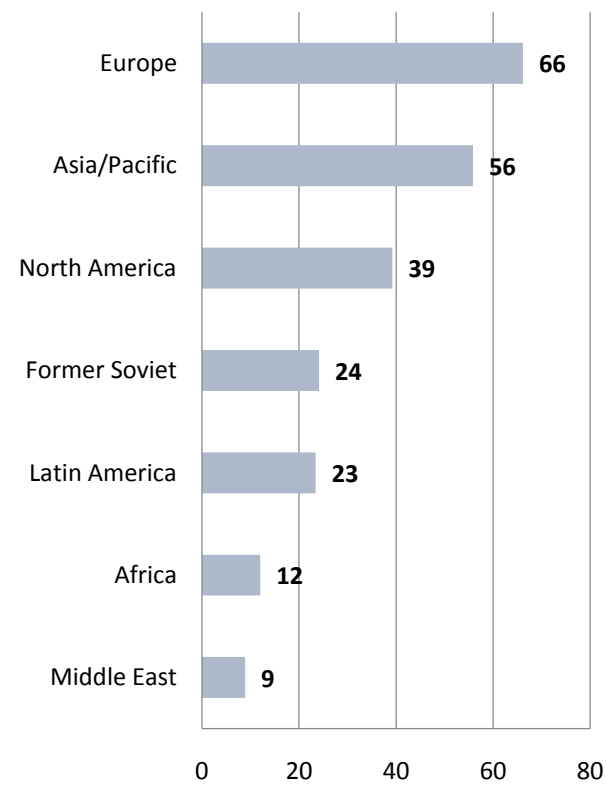
## % of world goods trade



## % of manufacturing in exports



## Intra-regional % of total trade



# World trade patterns, continued

- I. 73% of world trade in goods – between and within "Industrial-3"
  - II. 23% - between "Industrial-3" and "Commodity-4"
  - III. 4% - within and between "Commodity-4"
- FTA's – particularly for (I)

World trade patterns - 2010			
Billion USD		Exporting regions	
		Industrial-3	Commodity-4
		Manufacturing	
Importing regions	Industrial-3	8313	357
	Commodity-4	1204	235
		Other goods	
	Industrial-3	2492	1641
	Commodity-4	279	285
		Total	
	Industrial-3	10805	1998
	Commodity-4	1483	521

# Implications for FTAs

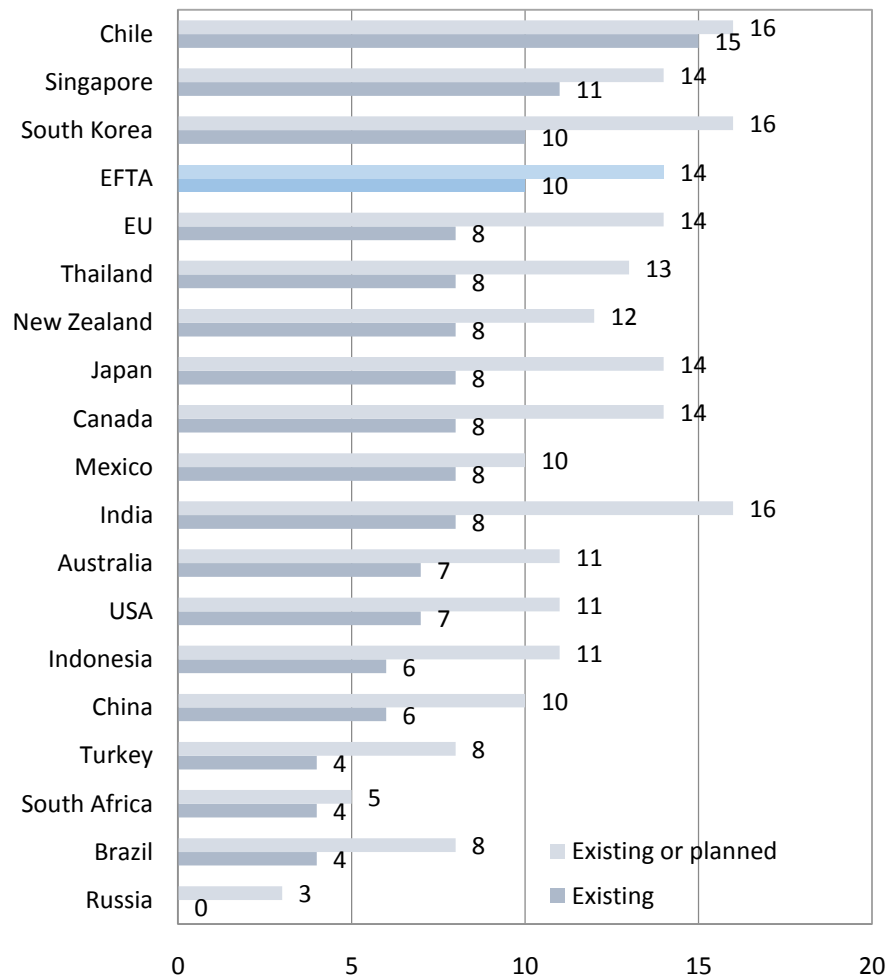
- FTAs mainly between "Industrial 3"
  - Stylized, some exceptions
- Motive: Global value chains
  - How much of you exports are "made in ...."
  - Singapore – 50%
  - Moral: Avoid trade barriers for inputs
  - Investment – core ingredient
- Agreements "Industrial-3" – "Commodity-4": More asymmetric
  - Commodities except agriculture – less protected
- Perhaps not FTAs all over the place



## Fast spread of FTAs after 2000

- A number of inter-regional agreements
- A number in the making
- BRICS low on the list
- FTAs especially for rich or industrial countries
  - "Industrial-3"
- Global production networks increase the incentive

Existing or planned trade agreements between 19 countries or country groups, 2015 (max = 18)

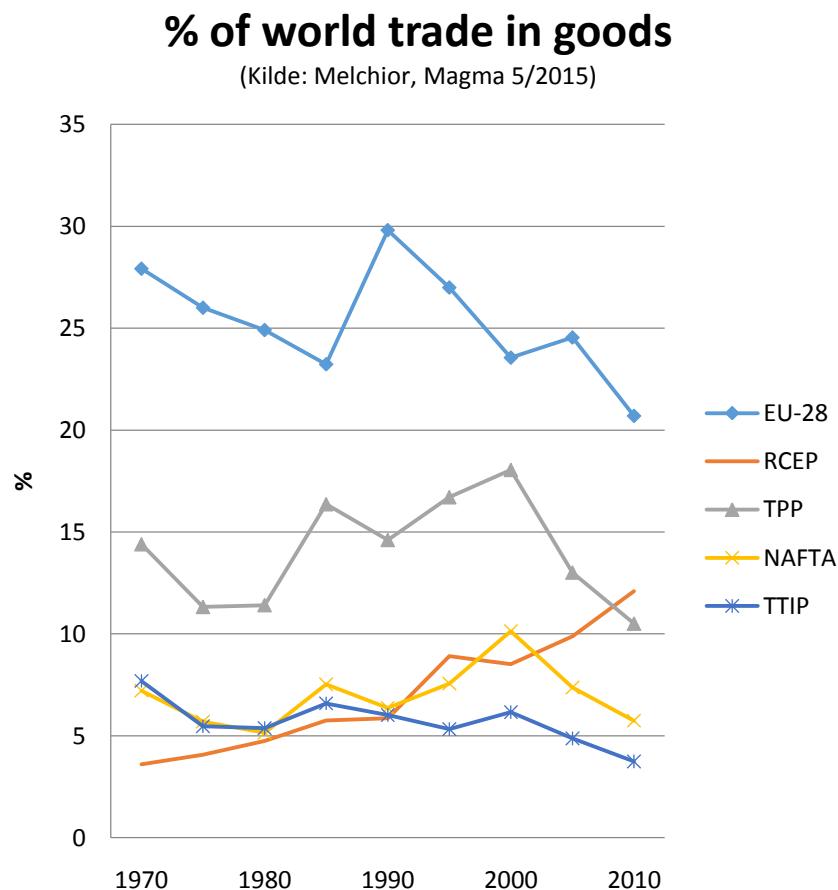


# The new trade policy is a conglomerate

- WTO – never more like the Uruguay Round
  - We participate but big reforms difficult
  - Doha results on the waiting list
- Megalaterals and plurilaterals
  - The latter is more equitable
- Bilateral and regional agreements
  - EFTA did good but some important agreements/countries missing
- Risk of greater large country dominance
- From reactive to proactive trade policy
  - We cannot wait for the Doha round any more
  - More demanding for the politicians

# The importance of "megilaterals"

- Geopolitics and economics/ trade
- Trade policy: Others obtain advantages that we do not have, or erode the advantages that we already have
- Trade policy/ geopolitics: Others have the initiative, set the rules, and EFTA/Norway is on the waiting list
- Geopolitics: With or without China?



# TPP (Trans-Pacific Partnership)

- 12 countries – perhaps more
  - USA, Canada, Mexico
  - Peru, Chile
  - Australia, New Zealand
  - Japan, Malaysia, Vietnam, Brunei, Singapore
- Comprehensive agreement but many exceptions and long transition periods
- Differentiated arrangements across countries
  - Example: Trucks, USA – tariffs for Japan for 25-30 years
- Nevertheless significant liberalization
  - Tariffs eliminated for most of goods trade

# TPP continued...

- Modern trade agreement far beyond tariffs and goods trade, e.g.
  - Exchange rate issues
  - Data transfer
  - Labor standardsetc.
- Still a question how far you can get without stronger common institutions

## Summary of the Agreement

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- [National Treatment and Market Access for Goods](#)
- [Textiles and Apparel](#)
- [Rules of Origin and Origin Procedures](#)
- [Customs Administration and Trade Facilitation](#)
- [Sanitary and Phytosanitary Measures](#)
- [Technical Barriers to Trade](#)
- [Trade Remedies](#)
- [Investment](#)
- [Cross-Border Trade in Services](#)
- [Financial Services](#)
- [Temporary Entry for Business Persons](#)
- [Telecommunications](#)
- [Electronic Commerce](#)
- [Government Procurement](#)
- [Competition Policy](#)
- [State-Owned Enterprises and Designated Monopolies](#)
- [Intellectual Property](#)
- [Labour](#)
- [Environment](#)
- [Development](#)
- [Competitiveness and Business Facilitation](#)
- [Small and Medium-Sized Enterprises](#)
- [Regulatory Coherence](#)
- [Transparency and Anticorruption](#)
- [Institutional Provisions](#)
- [Dispute Settlement](#)
- [Summary of the Tariff Schedule](#)

## Norwegian trade policy: Recent signals from the parliament (Innst. 101S 2015-16) (2 December 2015)

- Trade policy should be given high priority
- The majority supports further improvements under Norway's GSP scheme
- The majority supports the Government's work for freer trade in agricultural goods
- The majority supports that agricultural interests should be taken into account but these should not hinder the initiations of negotiations where agricultural interests may be affected
- Export subsidies should be phased out by 2019
- But AP, KrF, SP and SV also emphasize the importance of strong import protection for agriculture

# Challenges in future trade policy

- The new trade policy conglomerate – more demanding for small countries
  - EU can make agreements with 150 countries, hardly EFTA
  - Can plurilateral agreements succeed?
- In the "new trade policies" for investment, services etc. – how much can we achieve in FTAs beyond the EU?
  - Regulatory cooperation – not easy at the global level
  - Services trade – institutional complexity
  - "Tariff equivalents" – may not be accurate descriptions
- Investment – key issue
  - Sales from affiliates – often larger than trade across borders
  - Issues about money transfer and taxation important

# What do we bring with us to the bargaining table?

- Modest importance
- Small bargaining power
- Limited administrative capacity
- Little to give?
- Not a red carpet everywhere
- Formerly near the top of the table
  - GATT, OEEC, EU-EFTA
- We need activism, creativity, knowledge

Lloyd's input to a UK study recently: "... many major third countries would probably have limited appetite to engage in bilateral negotiations ... with the UK on its own, a significantly smaller country." (HME Government, 2014a, s. 44).



# The role of EFTA

- Forming a block increases your bargaining power in negotiations
  - EFTA plays an important role
  - Success in making FTAs
  - Can it be expanded?
  - What if there is Brexit?
- 