



Norwegian Institute
of International
Affairs

International trade policies 2015 – trends and challenges

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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

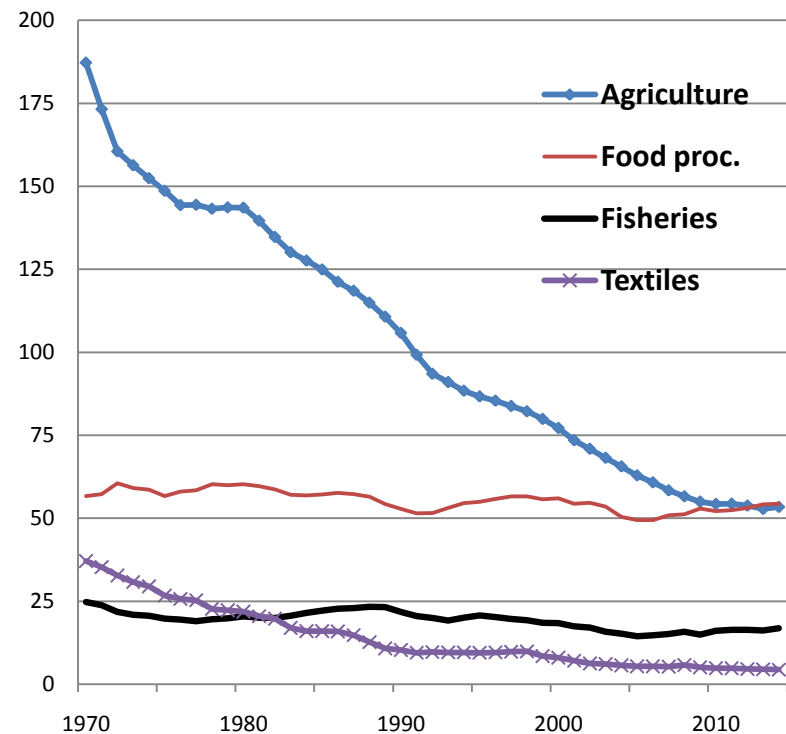
1. Arne Melchior: Conflicts of interest in Norway's trade policy
2. Ivar Gaasland: Fish and agriculture – who defines the national interest?
3. Arne Melchior and Ulf Sverdrup: The EU as a trade policy actor
4. Bård Harstad: Issue linkages and negotiations – background theory
5. Arild A. Farsund and Oluf 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

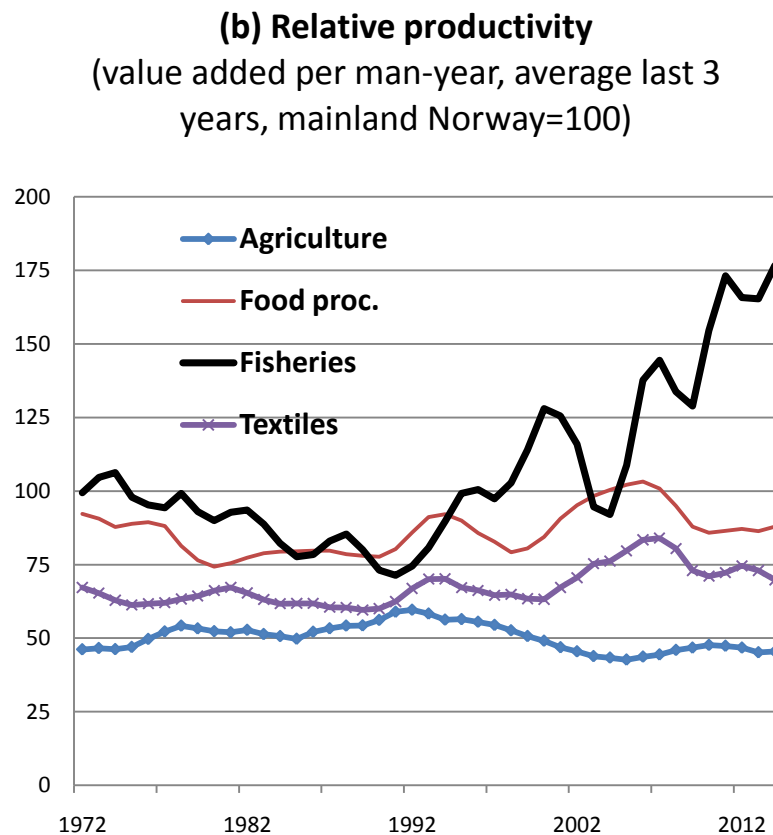
- Shifts over time due to changes in industrial structure
- Norway: Fisheries an offensive industry since 1200
- Other offensive industries less dependent on trade policy
 - Oil, gas, shipping
- Defensive industries
 - Textiles and clothing
 - Agriculture
 - Fish processing

(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.

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"

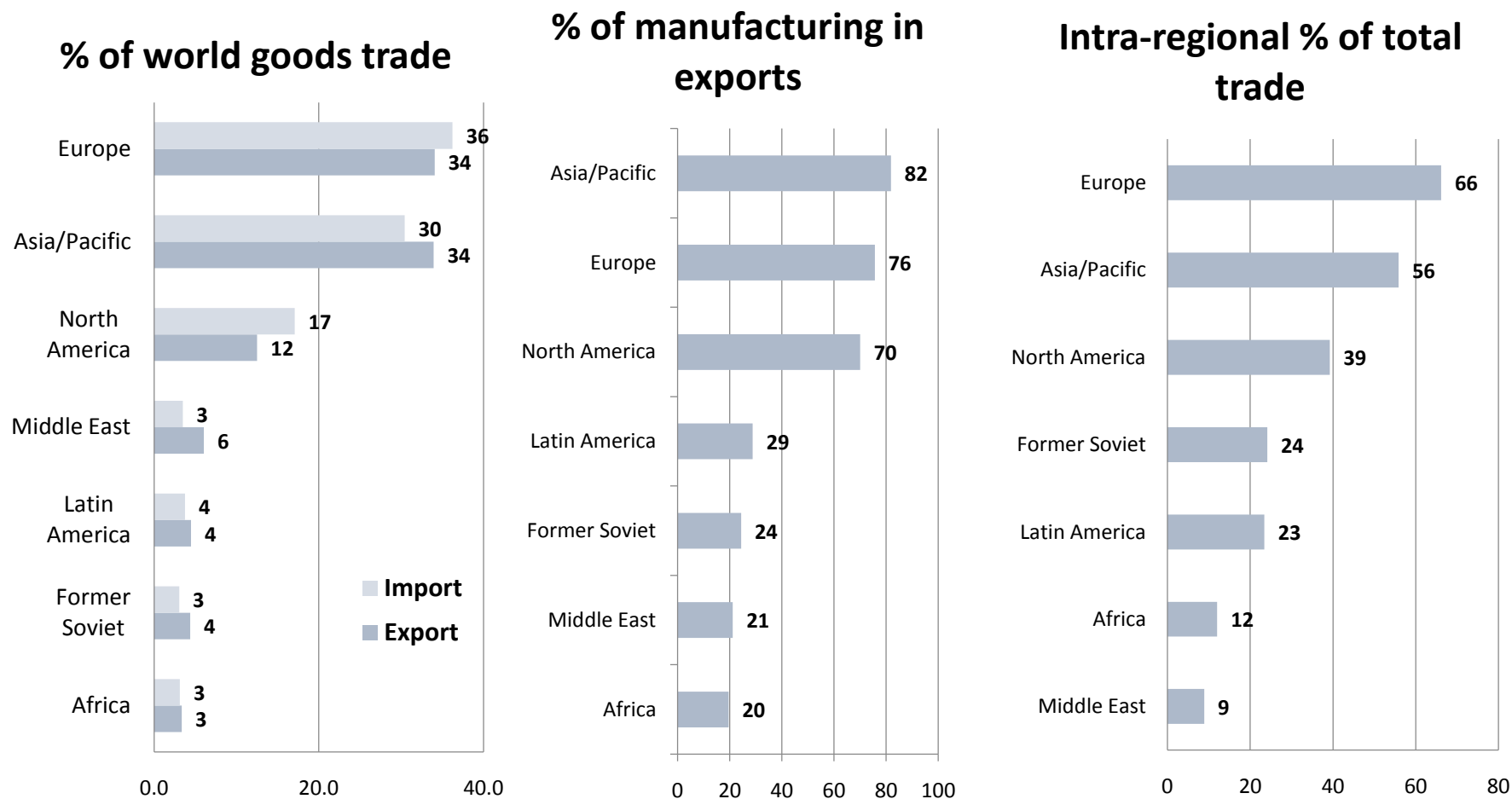
- Norway – "bound" agricultural tariffs are more than twice the level of "applied" tariffs
 - Can we use this "tariff overhang" and raise tariffs as we wish?
 - According to some, yes
 - From the legal WTO text it is possible
 - Example: Tariff increases for meat and cheese, 2013
- But international 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

Trade portrait of the world's regions, 2010

Based on Melchior (2012, 2015)



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

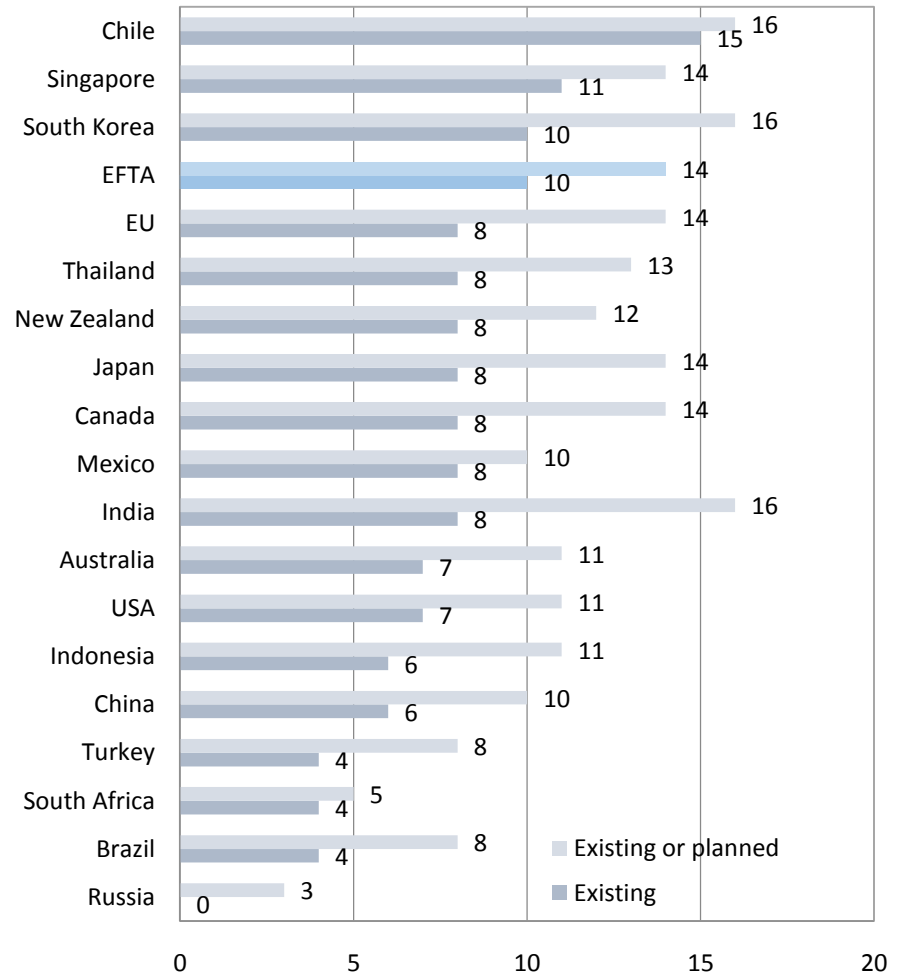
Implications for FTAs

- 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)

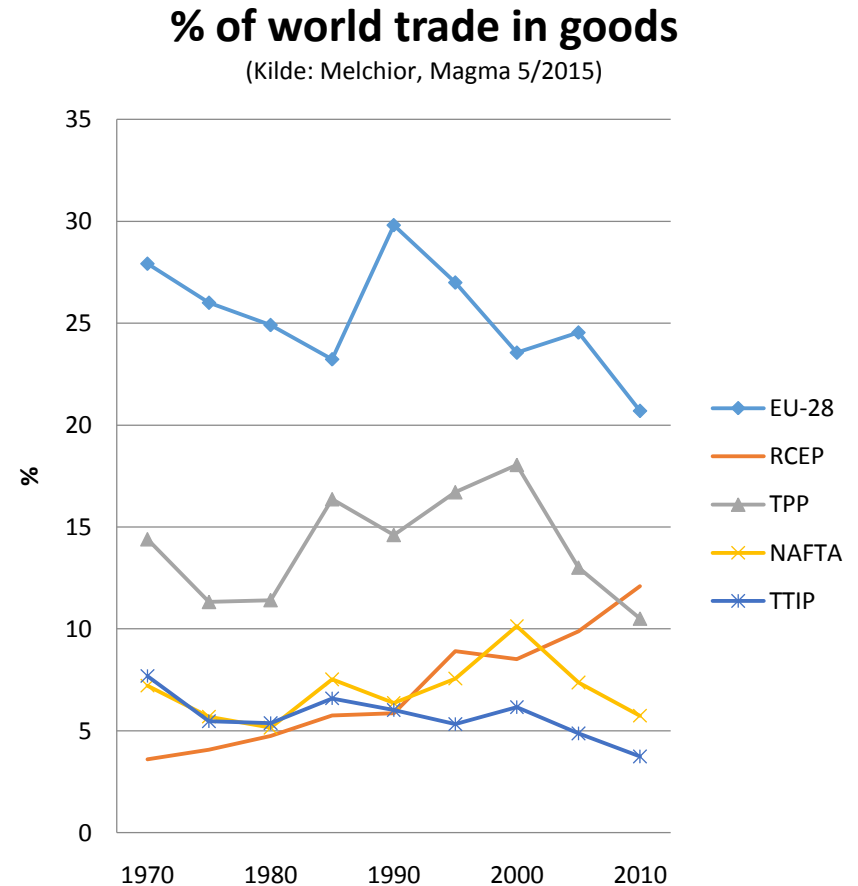


The new trade policy is a conglomerate

- 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

- [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?