



NORWEGIAN MINISTRY
OF FOREIGN AFFAIRS

Meld. St. 29 (2014–2015) Report to the Storting (white paper) Summary

Globalisation and trade:

Trade policy challenges and opportunities for Norway





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Norway is a trading nation. Support for and dependence on open international trade are key features of Norway's international profile. In accordance with its political platform, the Government promotes freer trade and pursues an active trade policy that emphasises Norway's national interests.

Ensuring fair and equitable rules within the framework of an open global economy will continue to be the most important way in which foreign policy can make a difference to the Norwegian economy and business sector. The multilateral trading system is of particular importance to Norway. The World Trade Organization (WTO) agreements, the EEA Agreement and the EFTA free trade agreements are the cornerstones of Norwegian trade policy.

Trade agreements provide an opportunity to help shape the course of globalisation through international cooperation. The objective is to maintain and develop a trade framework that maximises Norwegian value creation while at the same time contributing to global growth and sustainable development. This is particularly important in a time of considerable geo-economic and geopolitical turmoil.

While the international community is becoming ever more closely integrated, there is a growing risk that Norway will have reduced influence on the development of the future framework for international trade. There has been a marked increase in regional initiatives and negotiations in recent years, partly in response to a lack of pro-

gress in the WTO. Extensive negotiations are being conducted to establish agreements across both the Pacific and the Atlantic, but Norway is not party to these negotiations and therefore has limited opportunities to influence the course of events. Moreover, Norway lacks free trade agreements with six of the world's ten largest economies.

The focus of both Norway's trade interests and the global economy is gradually shifting. Norway benefits from well-functioning trade relations with its closest trading partners, particularly through the Agreement on the European Economic Area (EEA), our most important trade agreement. As the focal point of the global economy shifts southwards and eastwards, however, it will become increasingly important for the Norwegian business sector to gain access to markets where the trade rules and regulations are as yet less developed. At the same time, Norwegian trade policy interests increasingly reflect changes in the Norwegian economy, with an added emphasis on investments and trade in services, areas in which the trade policy framework is often less well developed than for trade in goods. This means that Norway is not just dependent on trade; it also needs to have a strategic, active trade policy.

The Government aims to help build a world in which people's potential, creativity, and hopes for the future can be realised through cooperation, the exchange of knowledge and trade. The Government's values are based on the principles of democracy and the rule of law, and on Norway's Christian and humanist cultural heritage. A commitment to democracy, human rights, sustainable development and an international legal order is fundamental to our foreign and development policy.

Our long-term interests and fundamental commitment to an open, well-functioning and rule-based international trade regime have not changed, but our policies and approaches must be adapted to the changes that are taking place. By presenting this white paper to the Storting on trade policy, the Government wishes to promote political debate about the current and future path and priorities for Norway's trade policy.

Part I – A changing world

Chapter 1 describes Norway's economy and trade patterns. The Norwegian economy is small and open. In recent decades, Norway's ties to other countries have become even closer, through trade, labour migration and capital flows. Imports, exports and cross-border investments are enhancing our standard of living and influencing our industrial structure.

Income levels are higher in Norway than in most other countries. Extraction of oil and gas from the Norwegian continental shelf has yielded substantial revenues. However, human capital remains our most important asset, and the work performed by the current and future workforce is essential to our national wealth. Moreover, having an efficient and flexible economy is a prerequisite for a sustained high level of economic growth.

Foreign trade plays an exceptionally important role in the Norwegian economy. Production takes place throughout the country, with many export-oriented companies located outside the main cities. This is crucial for employment and growth in all parts of the country.

The markets for Norwegian exports have changed over the course of time. Europe's share of the goods exported from the Norwegian mainland has declined from 83 % to 67 % in the past 25 years. During the past decade, there has been substantial growth in the volume of goods and services exported to countries in Africa, Asia and the Americas.

In many important export markets for Norwegian companies, tariffs are relatively low. This being said, markets where Norway has not entered into free trade agreements comprise a steadily growing share of the global economy and world trade. In a number of these markets, significant trade barriers remain in place. Norway's dependence on trade makes us vulnerable to protectionist measures.

With few exceptions, Norway's economy is open to goods, services and investments from abroad. For the Norwegian economy and business sector, openness to imports is at least as important as market access for exports. Moreover, it is in Norway's interest to set a good example by not introducing protectionist measures or trade remedies.

Favourable and predictable conditions for international trade are essential if the Norwegian economy and business sector are to prosper in the period of adjustment that lies ahead.

- The Government will pursue an active trade policy that promotes Norway's interests and supports the process of adjustment in the Norwegian economy.
- The Government will continue Norway's established practice of not using restrictive trade measures. This also means that Norway will not make use of the opportunity it has to raise tariffs under its agreements with the WTO.

Chapter 2 describes a global economy that is undergoing major changes. A number of developing countries have experienced unprecedented economic development over the course of the past 40 years. In recent decades, this has been most noticeable in some of the densely populated countries of Asia. The world's economic centre of gravity is thus gradually shifting southwards and eastwards, away from the transatlantic marketplace. A key driving force behind globalisation is the reduction of national obstacles to cross-border economic activity.

Although significant shifts are taking place, the economic world order has not been turned upside down. There is still a considerable welfare gap between the more mature economies – such as the traditional developed countries – and the emerging economies, despite the fact that this gap has closed somewhat. Moreover, major disparities within countries remain.

Globalisation will encounter resistance if most people feel that it primarily benefits others. In order to gain public support for an open, globalised economy, it is essential to strengthen safety nets for vulnerable groups and address disparities.

The emergence of global value chains provides new arguments in favour of an open trade policy. For Norway and other traditional developed countries, the emergence of global value chains reinforces an economic shift in the direction of services and investments that are less dependent on a low-paid workforce. Global value chains are affected by tariffs on goods, barriers to the export of services and

investments, intellectual property rights, and a number of other trade policy constraints. In trade negotiations, the emergence of global value chains will thus generate a growing need to consider different negotiating areas in conjunction with one another.

International cooperation and coordination are crucial if all countries are to be able to prosper in a globalised economy. The economic changes that lie ahead will be accompanied by shifts in global power that could potentially cause friction, conflict and the deterioration of international cooperation. It is reasonable to expect that emerging economies will gain greater influence, but also to expect that they will assume greater responsibility in keeping with their increased economic importance. Although new structures and actors are emerging, the new distribution of power is not yet clear, stable or established.

The challenge lies in finding modes of promoting integration among groups of countries without this leading to the formation of blocs or a weakening of broader international cooperation. The question is not whether or not globalisation will continue. Rather, it is how it will do so, at what pace, and whether countries will manage to pull together to influence the direction it takes.

- The Government will seek to ensure that globalisation is underpinned by fair, rule-based international cooperation, which emphasises sustainable development, job creation and economic growth through a system of open trade.

Chapter 3 discusses trade as a policy instrument. There is a growing interface between trade policy and both domestic policy and other aspects of foreign policy. It is important to understand and try to influence the ways in which trade policy impinges on national policy development, and the extent to which it is possible or even desirable to use trade policy measures to achieve non-trade-related objectives. It is not possible within the scope of a white paper to cover all relevant areas of policy and related themes. This chapter focuses on *balancing openness and the right to regulate; trade and development; trade, the environment and climate change; and trade and labour rights*.

A key issue is whether the right to introduce national regulations (*'the right to regulate'*) is limited by international trade commitments.

Although it is nearly always possible to strike a balance between different considerations, this debate highlights a genuine dilemma. Norway, as a small country with an open economy, is best served by being part of a system based on common rules that are observed. It is in our own interests to meet our international commitments. At the same time, the WTO acknowledges that member states have a need to regulate areas of vital national concern. This balance is reflected in the WTO agreements, in the EEA Agreement and in all bilateral free trade agreements based on the WTO framework, including the free trade agreements Norway has entered into together with our EFTA partners.

- The Government will participate actively in the development of the trade policy framework on government regulations and standards, to ensure that Norwegian interests, including the right to regulate with a view to attaining legitimate national goals, are safeguarded.

The Government will use trade as *an instrument of development policy*. Trade is a necessary, if insufficient, instrument for achieving development, employment and growth. It is important to recognise the fact that the export interests of many developing countries have received too little attention in negotiations, and that this has hindered the integration of developing countries into the global trading regime.

Developing countries are a highly diverse group, and their potential for benefiting from international trade differs greatly. This makes it necessary to differentiate between countries to a greater extent when implementing trade policy. Special and differential treatment should not primarily mean that developing countries remain outside the framework, but that emphasis is placed on identifying what needs to be done in order for them to be included.

The WTO rules provide for special and differential treatment of developing countries, for example by allowing lower tariffs to be imposed on goods from poor countries than on goods from developed countries. Norway has a comprehensive generalised system of preferences (GSP) for imports from developing countries and offer duty-free, quota-free market access to the least developed countries (LDCs).

When seeking to integrate developing countries into the multilateral trading system, it may prove useful to provide assistance in implementing agreements and to develop agreements that are better adapted to the situation in the specific countries.

- The Government will consider changing the Norwegian GSP scheme to give further preferences to trade with countries that are just above the least-developed-country (LDC) threshold.
- The Government will increase support to trade-related development cooperation, also in connection with free trade agreements.

The world is facing major environmental challenges, such as pressure on natural resources and on the ecological balance, the global spread of substances that are hazardous to health or the environment, and climate change. Many previous environmental challenges have been solved by economic development and technological innovation, combined with political measures such as taxes and regulations. The current challenges must be solved in the same manner.

It is crucial that both the international trade regime established by the WTO and Norway's free trade agreements promote green growth and take climate change and environmental considerations into account. The international trade regime can play a role in facilitating more environmentally sound and climate-friendly development. It can also advance a 'green shift' by promoting increased trade in environmental goods and services and by reducing unnecessary barriers to such trade. Trade commitments must be designed to take into account countries' need to implement effective environmental and climate policies. At the same time, it is important that countries are not permitted to unilaterally implement discriminatory or protectionist measures that unnecessarily obstruct trade.

There is growing acceptance for the fact that trade regimes must recognise economic development, social development and environmental protection as mutually interdependent elements that are all required for sustainable development. Moreover, there is growing awareness of the way in which trade policy and international trade rules can be used and developed to support fundamental labour rights in countries where they are unsatisfactory.

- The Government will continue to include a separate chapter on trade and sustainable development in the free trade agreements Norway enters into.
- The Government will work to secure the conclusion of an ambitious agreement on environmental goods (EGA) in the WTO, if possible involving the participation of all WTO members, and including provisions on liberalisation of related environmental services.
- The Government will consider the opportunities for proposing changes to the WTO rules on subsidies in future negotiations, so as to ensure that they allow legitimate support measures for new environmental goods, to compensate for market failure in the field of energy. Norway will also continue its efforts to reduce fossil subsidies globally.

Part II – The international trading regime

Chapter 4 describes the multilateral trading system. The multilateral trading system is a remarkable triumph for international cooperation. Essentially, the World Trade Organization (WTO) is a forum for dialogue between governments on the interface between individual countries' political choices and the global common interest. The WTO is a regime that through shared norms, rules, regulations and dispute procedures seeks to ensure that the global economy is based on international cooperation and an open, rules-based trade policy.

The WTO is currently facing considerable challenges. The member states have not managed to meet their own expectations for further developing the multilateral trading system. If the WTO is to maintain its legitimacy in the long term, it is essential that rules are updated and commitments renewed.

The multilateral trading system is of particular importance to Norway. A decision-making process based on the principle of consensus, which allows small and medium-sized participants to build alliances and to refer to agreed principles when defending their interests, helps to prevent the dominance of the most powerful actors. Norway defends its own interests in the WTO, and makes active use of the formal and informal channels available to promote the interests of the

Norwegian business sector and the more general interests of safeguarding and maintaining the multilateral trading system.

- The Government considers safeguarding and strengthening the multilateral trading system to be Norway's main trade policy interest.
- The Government will continue and strengthen its efforts to promote Norwegian interests in the regular work of the WTO.

Chapter 5 describes bilateral and regional trade cooperation. When it comes to economic and political significance, the EEA Agreement is Norway's most important free trade agreement. However, in terms of economic integration and institutional superstructure, it goes far beyond a traditional trade agreement. At the same time, the importance of trade in markets outside the EEA has grown in pace with the globalisation of Norwegian foreign trade over the past 20 years.

Largely due to the drawn-out WTO negotiations, trade liberalisation has increasingly been pursued through regional and bilateral agreements. Through EFTA, Norway has entered into 25 free trade agreements with a total of 35 countries, in addition to two bilateral agreements. These free trade agreements are based on the WTO framework, but offer better terms than those agreed on in the WTO, making them important instruments for ensuring market access and an enabling environment for the Norwegian business sector.

Norway needs to consider how its trade policy can best be developed in the new trade policy landscape, which is dominated by two important developments: regional agreements being negotiated across the Atlantic and the Pacific, and, of no less importance to Norway, an active EU that is negotiating free trade agreements with key markets.

In recent years, the situation has been dominated by the launch of mega-regional negotiation processes that aim to achieve far-reaching liberalisation of trade. Norway is not part of these processes and has limited opportunities to influence them, even though Norwegian interests are bound to be affected in various ways. Among the mega-regional free trade agreements that are currently being negotiated, it is the proposed trade and investment agreement between the EU and

the US, the Transatlantic Trade and Investment Partnership (TTIP), that would have the greatest potential impact on Norway.

- The Government will seek to safeguard Norway's overall interests while the TTIP negotiations are being conducted and will emphasise the Norwegian business sector's need for equal conditions of competition with companies in the EU and the US if the TTIP negotiations are brought to a successful completion.

Part III – Trade policy choices

There is broad agreement on the key premises of Norwegian trade policy. Trade policy is a tool for promoting value creation and employment in Norway. Moreover, at a more general level, trade policy plays an important role in helping us to reach our primary foreign and development policy goal: a peaceful world characterised by international cooperation, which offers opportunities for inclusive, sustainable development for all. The Government's trade policy priorities are to be based on these premises.

Part III of the white paper presents five areas in which changes at the national or global level are making it necessary to consider trade policy choices. These policy choices do not necessarily change Norway's main trade policy priorities, but they indicate that an area has become more relevant, or that the situation has changed, or that a political change of course is called for. The five areas that are presented are: *safeguarding and strengthening the multilateral trading system; priorities and considerations in connection with the opening of markets; agricultural trade policy; trade in services; and economic diplomacy and transparency in trade policy*.

Chapter 6 presents the Government's priorities for safeguarding and strengthening the multilateral trading system. The fact that the WTO is not achieving satisfactory results as a negotiating forum may undermine its ability to maintain and enforce international trade rules in the future. Safeguarding and strengthening the WTO is therefore above all a question of safeguarding and strengthening its role as a negotiating forum.

In the short term, it is important to focus on completing the Doha Round. This will probably mean finding negotiated solutions that differ substantially from the texts and expectations that have formed the basis for negotiations so far. In the Government's view, the overriding goal must be to conclude the Doha Round in such a way that the WTO is safeguarded and strengthened as an arena for international trade negotiations, and new negotiations in the WTO are made possible in the not-too-distant future.

In order to succeed in concluding multilateral trade agreements in the years ahead, there is a need to think along new lines about WTO and WTO-related negotiations. One of the main challenges is that the principle of consensus too often leads to a de facto veto. In the Government's view, the principle of consensus in WTO decision-making is fundamental to the legitimacy of the multilateral trading system, and must be upheld. In addition, it is important that the WTO remains an organisation based on binding, enforceable rules for international trade cooperation.

Having said this, a greater degree of flexibility will probably be needed in order to achieve multilateral agreements in the years ahead. It may be necessary to acknowledge that broad rounds of negotiations based on the idea of a 'single undertaking', under which nothing is agreed until everything is agreed, may make it too difficult to reach consensus in a rapidly changing world.

Plurilateral agreements within the WTO framework, or as closely linked to it as possible, are an important element of a multi-track trade agenda. They are an alternative to geographically limited regional agreements, and may make it less likely that the international trading system develops into an excessively discriminatory system of regional trading blocs that excludes non-members. Plurilateral agreements may also represent an opportunity to consolidate existing and future bilateral and regional agreements, thereby reducing the fragmentation of the international trading system.

However, it is essential to ensure that agreements of this kind do not weaken the WTO. It is therefore important that the focus on plurilateral agreements reflects our broader interest in open, inclusive and rule-based international trade policy cooperation.

- The Government will seek solutions that promote the conclusion of the Doha Round, and will give priority to the lowering of trade barriers in other developed countries and emerging economies. Norway will give priority to market access for industrial goods (particularly seafood) and services, strengthening of the rules for trade (anti-dumping and fishery subsidies), and a well-balanced solution for agriculture that also safeguards Norway's interests.
- Further, Norway will seek to ensure that the least developed countries (LDCs) are not required to make additional concessions of and to uphold the development dimension of the negotiations.
- The Government will seek to ensure that plurilateral agreements that are closely linked to the WTO are developed so that they can serve as an effective and constructive contribution to achieving multilateral solutions that involve as many countries as possible.

Chapter 7 sets out the Government's priorities and the considerations it is taking into account with regard to the opening of markets. The number of regional and bilateral free trade agreements has increased significantly in recent decades, and plurilateral agreements have become more important. Norway too needs to make strategic and active use of the opportunities offered by negotiating more and better agreements, including agreements along multiple tracks.

Modern trade agreements cover far more than traditional issues of market access because the framework for international trade today is far greater in scope and more complex than merely tariffs and border restrictions. It is in Norway's interests to be at the forefront of efforts to develop modern trade agreements that cover the full range of trade and trade-related measures. Norway continues to have important trade policy interests to pursue within well-established frameworks. This applies not least to exports of seafood to the EU. The Government therefore gives high priority to achieving free trade in seafood on the EU market, which can be seen as the Norwegian seafood industry's extended domestic market.

Bilateral free trade agreements and free trade agreements through EFTA are important tools for promoting Norwegian trade policy interests, as a supplement to multilateral agreements. Through

free trade agreements, the Norwegian business sector achieves greater market access and a more predictable framework for exports of goods and services and for foreign investments.

The emergence of regional and intercontinental free trade agreements means that Norway and EFTA should consider entering into free trade agreements with regional groupings to a greater extent than before. For the Norwegian business sector, the main advantage of taking a regional approach is that a single agreement opens a significantly larger market, and Norwegian companies will be able to serve the whole market using a single set of rules.

- The Government will pursue a proactive trade policy that safeguards Norway's interests. This entails, for example, seeking to ensure greater market access for Norwegian companies and more predictability for exports of goods and services and investments, and promoting a stable economic and political framework for economic growth and development at the global level.
- The Government will give greater priority to ensuring free trade in seafood on the EU market.
- The Government will seek to initiate negotiations with important trade partners that we do not currently have agreements with, and examine the opportunities for entering into free trade agreements with regional groupings.

Chapter 8 presents trade policy considerations in the agricultural sector. The international trading regime has a major impact on the Norwegian agricultural sector and the achievement of agricultural policy goals. In Norway's trade policy profile, the agricultural sector differs from other sectors due to the high tariffs and extensive subsidies. A number of factors make agricultural production in Norway challenging, and the Government will maintain a certain amount of flexibility in agricultural trade policy in order to compensate for the disadvantages agriculture faces in Norway.

Norway will continue to play a constructive role in further developing global agricultural trade policy. A more open trade regime for agricultural goods internationally would contribute significantly to global food security and would provide opportunities for many developing

countries to lift themselves out of poverty. This is in line with Norway's broader interests.

We must be prepared for the fact that future international trade agreements may mean significant reductions in tariff protection. Increased competitiveness is crucial for reaching the Government's goal of increased agricultural production in Norway. However, the Norwegian agricultural sector must be prepared to face difficult requests for market openings in the WTO, in the Article 19 negotiations with the EU, and in free trade negotiations. We will continue to emphasise the need for protection and predictability for the Norwegian agricultural sector.

While maintaining predictability for the agricultural sector, Norway will implement the decision from the WTO Ministerial Conference in Hong Kong in 2005 on the elimination of export subsidies. The fact that Norway has undertaken to eliminate export subsidies, considered the most trade-distorting and controversial agricultural and trade policy instrument, is a significant political commitment.

In addition, it is important to develop a set of rules in the WTO to limit the use of export restrictions and other trade barriers, which serve to undermine confidence in trade as a tool for ensuring an effective global food supply, and which exacerbate serious food crises.

- In future trade negotiations, the Government will continue to place emphasis on the Norwegian agricultural sector's need for protection. Defensive interests in the agricultural sector will be weighed against Norway's general trade policy interests and its offensive interests in other areas.
- The Government will promote freer trade in agricultural products with a view to furthering global welfare and food security, out of consideration for Norwegian consumers, and to achieve greater diversity in the Norwegian food market. The necessary emphasis will be placed on agricultural interests, but defensive agricultural interests will not in themselves be sufficient grounds for preventing Norway from entering into agricultural trade negotiations.
- The Government will phase out all export subsidies, at the latest by the end of 2019.

- The Government will support international initiatives to limit the use of export restrictions.

Chapter 9 concerns trade in services. Eight out of ten employees in Norway today work in the services sector. Negotiations on liberalising markets for services are a key element of Norwegian trade policy because of the services sector's increased importance to the Norwegian economy and because there are a number of trade barriers to address in this area.

In order for Norway to be able to participate in negotiations to improve the framework for trade in services, Norway must show a willingness to make the already open market access foreign services providers have to our services market into a binding commitment. Under the EEA Agreement, there is already a significant degree of openness for trade in services. In many cases, extending this market openness to include providers of services from non-EEA countries, through new trade agreements, will require little or no adjustment.

It is through the multilateral trading system that the greatest potential gains are to be achieved by liberalising trade in services. Moreover, the WTO is the most appropriate forum for further developing a framework for international trade in services that will benefit the poorest countries, and for achieving a further opening of the rapidly growing services markets in emerging economies. It is therefore important to continue multilateral efforts to bring about a further opening of markets for services. However, it is likely that WTO members will continue to have strongly diverging views as to how fast and how ambitious the further opening of markets for services should be in the medium term.

The negotiations on a plurilateral Trade in Services Agreement (TiSA) are therefore a highly promising development. TiSA will give Norwegian companies greater predictability and make it easier to export services to other countries, which in turn will have a positive impact on economic growth and employment. Norway supports the broadest possible participation in TiSA, and considers it important that the agreement is built on WTO principles, to make it as simple as possible for non-members to join, and so that it can be developed into

a modernised General Agreement of Trade in Services (GATS) under the WTO umbrella at a later stage.

- The Government will give priority to revitalising the WTO services negotiations and will attach importance to these negotiations taking place in parallel with ongoing regional and multilateral negotiating processes on services.
- The Government will promote the conclusion of an ambitious TiSA that provides a stable and predictable framework for trade in services, while focusing on services sectors where the ability to compete on equal terms in global markets is particularly important for Norwegian companies.
- As part of our continued preparations for the TiSA negotiations, the Government will review the need to uphold trade policy restrictions in the area of services.
- The Government will seek to extend TiSA so that it includes key emerging economies and ensure that is designed in such a way that it may be multilateralised in the WTO in the future.

Chapter 10 presents the Government's policy on economic diplomacy and transparency in trade policy. Open foreign trade, a well-functioning global economy and promotion of Norwegian commercial interests are cornerstones of Norwegian foreign policy.

The success of Norwegian companies in the global market is important for the Norwegian economy. Supporting the Norwegian business sector in its operations abroad is a priority for the Foreign Service. This is the case for all diplomatic and consular missions, although the needs vary in different countries and regions. Trade policy has a key place in economic diplomacy. Trade policy is not just about creating the right framework, but also about knowing how to use it. In addition to facilitating trade, trade agreements also create forums, sets of rules and opportunities that can be used actively when individual companies encounter difficulties abroad.

The Norwegian public administration and government bodies have various channels and tools at their disposal. Cooperation, the exchange of information and coordination are all important in order to make the best possible use of the available opportunities. Experience

has shown that the parallel use of the various tools and mechanisms in global, regional and bilateral processes strengthens Norway's position.

As trade agreements become more far-reaching, the points of contact between domestic policy and trade policy are becoming clearer and more numerous. Openness and dialogue with the business sector, civil society and affected stakeholders are therefore more important than ever to ensure that trade policy reflects Norway's overall interests, and is in line with other policy areas.

- The Government will intensify its efforts to make active use of trade policy in its strengthened economic diplomacy work.
- The Government will seek to achieve as much transparency as possible and will encourage national debate on negotiation processes.
